

## CHANGING PATTERNS IN THE WORLD OF WORK

REPORT OF THE DIRECTOR-GENERAL

# CHANGING PATTERNS IN THE WORLD OF WORK

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## **Preface**

As we all know, work is central to our lives: it gives us a sense of purpose and identity as well as providing an income to meet our material needs. Work is one of the main ways we relate to others. It is both an individual responsibility and a social activity, frequently involving collaboration in a team. It can be a source of dignity and fulfilment. But it can also be a source of exploitation and frustration. For families and communities, the availability of decent work is a foundation for stability and social advancement.

The world of work is enormously diverse. But one of the unifying elements of the experience of women and men from all over the world is the simple reality of working for a living. One of the first pieces of information we are interested in when we meet a stranger is “what do you do?” It provides a shared point of reference around which we get to know each other.

This Report aims to help us all put our own experiences and knowledge about work in the global perspective of today. It describes a time of opportunity and uncertainty in which some of the barriers that have prevented women and men from fully realizing their capabilities are coming down, but in which good jobs that provide the foundation of security to build better lives are increasingly difficult to find.

There is a growing feeling that the dignity of work has been devalued; that it is seen by prevailing economic thinking as simply a factor of production – a commodity – forgetting the individual, family, community and national significance of human work. And people are reacting in conversations at home, in the secrecy of the voting booth and, when necessary, by forcefully voicing their complaints on the streets.

The absence of work, the quality of work, voice at work, continued gender discrimination and unacceptably high youth unemployment are all at the heart of politics today. Those in public and private authority with the power to change things are increasingly criticized for not delivering the right solutions.

The ILO’s mandate connects with that reality. My previous Reports to the International Labour Conference<sup>1</sup> have stimulated a discussion amongst constituents that formulated and subsequently deepened the Decent Work

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<sup>1</sup> *Decent work*, 87th Session (1999), *Reducing the decent work deficit: A global challenge*, 89th Session (2001), *Working out of poverty*, 91st Session (2003), *A fair globalization: The role of the ILO*, 92nd Session (2004).

Agenda for a fair globalization. This approach has received regional and global endorsement and is now the foundation of the progressive development of our decent work country programmes.

This Report is different. It is an inquiry into the knowledge base of the ILO to address the increasing demand on our services. It is a product of an effort by ILO staff to pull together the range of knowledge their international experience has accumulated. As the secretariat of the world's only tripartite international organization, ILO staff have the privilege of regular exchange with government representatives, employers, workers and other social actors who know most about work in their countries. This yields a great deal of varied insights into what is happening and why in the world of work. The discussion generated among ILO staff in pooling this knowledge is an important tool in the continuous professional development of the Office and has facilitated a convergence of experience that we believe will strengthen our capacity to serve constituents.<sup>2</sup> In the process, it enables us to know better where to reinforce our capacities.

I hope that this advance Report will prove useful to the ILO's constituents in the ongoing discussions about how to achieve our strategic objective of making decent work a global goal and a national reality, thus contributing to a fair globalization. I expect that this Report will raise as many questions as it answers.

By way of encouragement to the discussions at the International Labour Conference and subsequently, let me highlight just a few of the questions and messages I have drawn from the Report.

First, in this Report we include in our understanding of the term "work", the unpaid work in the family and in the community that is often ignored in current thinking about the economy and society. Information sources to quantify and value such work are extremely thin, but we know that much of this sort of work is done by women and is essential to the welfare not just of the young or elderly or sick but also to those in paid work. It is also often carried out alongside paid work. One of the messages I think we need to take away from reading this Report is that we must do much better in valuing and analysing the contribution to our well-being of work that is not paid and is motivated by the commitment to raising a family, or helping people to age with dignity and respect or organizing voluntary community associations. Such an effort is essential if we are to make it easier for women and men to reconcile the pressures to earn a living and to fulfil responsibilities to the family and community. It is also important in order to understand that what we call economic productivity is in fact indirectly subsidized by the social productivity of unpaid work.

In part because our information sources are much better on paid work, the world of work discussed in this Report is primarily that of the emerging global labour market in which two-thirds of all adult women and men are engaged.

Another question is can we really speak of a single global labour market? Or is it still simply the sum of many separate national labour markets? After all, despite the steady increase in labour migration, women and men are in general not free to move to a job anywhere in the world. Furthermore, half of the world's workforce, who work in rural areas in subsistence farming or in the informal economies of the developing world's cities, does not earn

<sup>2</sup> The methodology was new. I invited comments by all interested staff on a first draft. Everybody had the possibility of putting their ideas forward. On this basis, a second draft was prepared for a more formal consultation with our different sectors and regions. This resulted in a wide-ranging Report. This Report to the International Labour Conference is a synthesis to facilitate your discussions. The final text of the longer version will be available in a few months.

enough to lift themselves and their families above the \$US2 a day poverty line. They are potential “global” workers, but at present are effectively excluded from the benefits of globalization or the possibility of participating in global markets as consumers.

However, the liberalization of trade and capital flows, together with enormous improvements in communications and transportation, does mean that more and more workers and employers are increasingly competing on a global market to sell the output of their labour. If we look back as little as 25 years ago and compare the period prior to the major waves of democratization in Africa, Latin America, Central and Eastern Europe and Asia to the interdependent world of work today, there is no doubt a change. The current rules of globalization following the logic of increased liberalization in all spheres of economic and social policies push towards a global labour market, even if it still remains highly segmented.

For the ILO, this raises the issue of developing the appropriate norms for a global labour market. The recent Maritime Labour Convention, 2006, shows our capacity to be creative and consensual in modern standard setting.

The third issue I would highlight is that four out of every ten of the world’s working women and men are trying to make a living off the land and in some of the lowest income countries three-quarters and more of workers, especially women, are engaged in agriculture. Most are very poor and there is a deep and powerful current of migration from the villages to urban areas of developing countries in search of better paid work. And many working women and men from lower income countries are moving across boundaries in search of job opportunities that they cannot find at home. Nonetheless, work and life in the informal economies of the rapidly growing cities of the developing world is often poorly paid, hazardous and insecure. The entrepreneurial spirit that is essential for social and economic development is too often sapped in a struggle for survival. Making the creation of decent work opportunities an integral part of local, national, regional and global development strategies is essential. Giving people a fair chance at real opportunities through education, health, shelter and a decent job is what development and democracy are all about.

We must also be clear as to what is not decent work: child labour, forced labour, bonded labour, work without voice or freedom to organize, diverse forms of exploitation and discrimination, work for subsistence and the many ways in which human dignity can be crushed by the need simply to survive.

The fourth question, which underlies much of the Report, is how can we create an institutional framework for labour markets that enables working women and men to see change more as an opportunity and less as a risk? The title of this Report, “Changing patterns in the world of work”, tries to convey an image somewhat like the shapes viewed in a kaleidoscope. There is always a pattern, different but related to the one that comes before, which will change again with another twist of the barrel. A number of powerful drivers of change mean that all actors in the global labour market must plan for constant adaptation and aim to shape the process to increase opportunities for decent work. But for many working women and men, in both developed and developing countries, change is threatening. The limited security they have achieved is fragile and losing a job poses a high risk of not being able to find anything comparable.

The issue is not how much more structural reform and uncertainty can people take but rather how can we develop fair and adaptable economies where decent work creation is at the heart of economic, social and environmental policies. This, we all know, is one of the biggest democratic demands worldwide. But it also faces great obstacles. Progressing towards the goal of

decent work for all requires change in a status quo that is morally, socially, economically and politically unsustainable.

The fifth issue is the significance of human rights at work as an anchor of values in the turmoil of rapid economic and social change. Managing change in millions of workplaces and workstations, large and small, around the world – farms, factories, shops, offices and the world of services – will ultimately depend on the quality of work organization from micro businesses to the largest multinational enterprises and public services. In one way or another, virtually all work is a collaborative activity requiring coordination within a team and thus a good understanding of roles, responsibilities and rewards. The foundation for decent work is thus a framework of rights at work that encourages mutual respect and dialogue and restrains coercion and discrimination. The ILO has a rich resource of internationally agreed labour standards, developed through extensive tripartite discussion, to underpin the diversity of national institutions and forms of social dialogue. Balancing the need for flexibility and security in a period of opportunity and uncertainty requires a strong rights-based approach to the governance of labour markets that fosters social dialogue.

The sixth and final issue I wish to raise in this brief Preface is the fact that there are no rights at work if there is no work. Thus, work creation is at the heart of the ILO's agenda. The road to decent work goes through growth, investment and enterprise development. A greater effort on skill development for workers and managers is vital to garner and share the benefits of new technologies. Promoting a conducive and competitive environment for private initiative, in the wide arc of entrepreneurship that covers helping people organize to move progressively out of the informal economy to the best way of combining national interests with foreign investments, is key to the future of work.

The background to this Report is the growing global jobs crisis. Progress is painfully slow in creating decent work opportunities for the half of all the workers in the world who are living in families that survive on less than \$US2 a day. The vast informal sector where they work without benefits, social security or health care is growing in many countries. Unemployment in terms of people with no work at all is at its highest point ever and stands at nearly 192 million worldwide, or about 6 per cent of the global workforce. Of these unemployed, the ILO estimates that 86 million, or about half the global total, are young people aged 15 to 24. When people cannot find work at home in their communities and societies, they look elsewhere. In the present environment, labour migration easily becomes a source of tension, not to speak of human trafficking and other similar activities.

Despite robust economic growth of 4.3 per cent in 2005 that increased world output by some US\$2.5 trillion, the global economy is failing to deliver enough new jobs for those entering the job markets.

These trends are having important political consequences. Among them:

- Given that the global economy is not generating enough jobs, those that are available are increasingly the object of a “tug of war” between countries.
- The demand for equity in the functioning of global markets and fair rules for globalization is rapidly rising.
- A creeping growth of protectionist tendencies is appearing. The momentum for trade and capital liberalization has weakened.
- Normal business operations like outsourcing, delocalization, or foreign investments are increasingly criticized for creating jobs “abroad”.
- There are strong demands for greater migration control, sometimes with growing xenophobic undertones.

- Elections are won and lost on “more and better jobs” issues, but the credibility of governments to deliver on promises made is going down, irrespective of their ideological inclinations.
- Different forms of passive and active violence are on the rise reducing the spaces for dialogue, conflict resolution and consensus building.

Responding to the need to make decent work a global goal is rising up the national, regional and global political agenda. And we need to have a good understanding of how the world of work is changing and could be shaped to answer the worldwide popular demand for decent work. I hope this Report and the longer version we will publish subsequently will help provide this global picture.

I am sure each reader of this Report will be able to pick out their own priority questions or issues for reflection and discussion. Furthermore, this advance Report is by no means exhaustive. We have tried to offer the global perspective that often seems to be missing in the debates about what is happening to work. But this inevitably means that many issues are either omitted or touched upon briefly. So, many of the reactions to the Report may be to request more study and research. I welcome this. In so far as our resources permit, we will try to respond to the evident need to enlarge and deepen our knowledge. We will also develop our contacts with the many networks of researchers around the world to foster more and better studies of the challenges employers’ and workers’ organizations and governments are facing.

Taking a “knowledge” prism to look at ILO capacities is essential because knowledge is obviously not static. We must be and prove to be leading the way in terms of our understanding of the world of work and how it is affected by globalization. In this regard, we are in the process of assembling a new development tool: an integrated policy advice framework for implementation of decent work country programmes according to each country’s reality. It will combine the interaction between our four strategic objectives in a policy package from which countries can organize their own priorities.

What is clear from this advance Report is the overall lack of a regular flow of data, indicators and statistics for many countries and dimensions of the world of work. Data collection is extremely patchy and we must remedy this. Working out of the same fact sheet by all actors involved is essential for a sound governance of the labour market. We not only need more statistics – we also need better ones. For example, there is no doubt that the present definition of unemployment<sup>3</sup> developed by the International Conference of Labour Statisticians clearly leads to an underestimate of the real dimension of joblessness in the world today. We can certainly do better.

All of this is particularly important because we are rapidly approaching the ILO’s 90th anniversary. We must begin preparing now for that major event in the life of an institution. The year 2009 should be the time when we reassert with great confidence the contemporary validity of our mandate; the renewed capacity to carry it forward based on the reform process we have undertaken; our strong internal consensus on the ILO Decent Work Agenda; and the special role that social dialogue and tripartism plays in the governance of the labour market and, more generally, in fostering social stability. Your opinions

<sup>3</sup> The “unemployed” comprise all persons above a specified age who during a recent brief reference period were without work, currently available for work and seeking work. The recent brief reference period is often interpreted as a week or two, and “seeking work” as work for at least one hour. This strict definition of unemployment does not measure the underemployment typical in the informal economies of many developing countries where most women and men have to find some work to survive. Few developing countries have been able to collect data measuring underemployment that could present a picture of the extent of such joblessness. (See resolutions adopted by the Thirteenth and Sixteenth International Conference of Labour Statisticians <http://www.ilo.org/public/english/bureau/stat/download/res/ecacpop.pdf>).



on how best to highlight this great moment in the ILO's history would be highly welcome.

The Summit of World Leaders at the United Nations in September 2005 gave a ringing endorsement to the ILO's vision of decent work as a global goal when it stated "we strongly support fair globalization and resolve to make the goals of full and productive employment and decent work for all, including for women and young people, a central objective of our relevant national and international policies as well as national development strategies, including poverty reduction strategies, as part of our efforts to achieve the Millennium Development Goals. These measures should also encompass the elimination of the worst forms of child labour, as defined in ILO Convention No. 182, and forced labour. We also resolve to ensure full respect for the fundamental principles and rights at work".<sup>4</sup>

We are moving ahead with decent work country programmes as the main operational means of achieving this goal. The reactions to this Report will provide invaluable guidance to the Office as we implement our current Programme and begin to plan for the next. Tripartism has repeatedly shown its value as a means of building consensus and committing to action. The challenge now before the ILO is to demonstrate once more tripartism's innovative strength in a rapidly changing world of work.

Juan Somavia,  
Director-General

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<sup>4</sup> United Nations: *World Summit Outcome*, General Assembly, 60th Session, Sep. 2005.

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## ***A time of opportunity and uncertainty***

1. Work is at the centre of people's lives. It determines the stability and well-being of families and communities. It is at the heart of local and national politics. But as a result of unprecedented social and economic changes affecting all sectors of economic activity and all countries, uncertainty about the future of work is widespread. For many people, change provides welcome opportunities for more rewarding and satisfying work and a better life. For others it is worrisome, closing off rather than opening up chances for improved living and working conditions.

***What is happening to the world of work?***

2. This Report provides a global perspective on the main features of the transformation of work. It identifies the major driving forces affecting the world of work, the way patterns of work are adapting, and the challenges these present for the goal of decent work for all. More than ever before the pace and scale of changes in one part of the world have consequences for women and men in other countries. Interdependency is widely felt but not always easy to measure.

***Growing uncertainty***

3. Most of us rely on work to earn a living for ourselves and our families. Work is the link between the processes of production and consumption that characterize both the local and global economy. On the one hand work is the core activity of global commerce, while on the other it is a source of dignity, self-fulfilment, identity and recognition, as well as material well-being. These vital social and economic roles are the basic reason why all societies have a range of different institutions to govern the many facets of work.

***Work plays a central social and economic role***

4. The International Labour Organization (ILO) – with its experts from different countries and backgrounds, a history of continuous engagement in labour policy since 1919 and role as an international forum for representatives of ministries of labour, employment and social affairs, employers and workers to exchange their knowledge and experience – is well placed to review what we know about the broad contours of global change.

***ILO brings together key actors in the world of work ...***

5. The ILO, however, is not a neutral observer. The Organization has a mission to promote decent work. The analysis of change is vital to understanding what is driving the process so that it can be shaped to yield more and better jobs for working women and men everywhere.

***... to promote the goal of decent work for all***

6. This Report is an effort by the International Labour Office, the secretariat of the Organization, to understand better the strength and direction of the global trends that are shaping working lives. It is by no means definitive,

***Need for a global perspective***

as much because of the complexities of the world of work as the lack of information and data. By setting out in summary form the scale and pace of the global transformation under way, it aims to provide a context for debates about the policies and institutions needed to grasp opportunities for creating decent work for all and to lessen the uncertainties that rapid change provokes.

7. Dialogue between employers, workers and governments about these trends at the International Labour Conference and on other occasions will further enrich the Organization's knowledge and guide its research, policy agenda and technical services in the coming period. This, in turn, will provide a resource base of information and analysis to support the implementation of the ILO's Programme and Budget for 2006-07 and beyond.

8. The Report is structured in five parts. The opening section identifies the main forces driving change. The second describes some of the main shifts in the structure of employment and working conditions. The third section reviews the challenges facing the development of social security systems. The fourth looks at the institutions of governance of labour markets and how they are adapting to the new social and economic environment. Finally, a concluding section looks ahead and outlines some of the emerging issues that the ILO and its constituents are likely to face in the next decade.<sup>1</sup>

#### Decent work as a global goal

Decent work sums up the aspirations of people in their working lives – their aspirations for opportunity and income; rights, voice and recognition; family stability and personal development; and fairness and gender equality. Ultimately these various dimensions of decent work underpin peace in communities and society. Decent work reflects the concerns of governments, workers and employers, who together provide the ILO with its unique tripartite identity. In the ILO's action, decent work is captured in four strategic objectives: fundamental principles and rights at work and international labour standards; employment and income opportunities; social protection and social security; and social dialogue and tripartism. These objectives hold for all workers, women and men, in both formal and informal economies; in wage employment or working on their own account; in the fields, factories and offices; in their home or in the community. The primary goal of the ILO today is therefore to promote opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and human dignity.

<sup>1</sup> This Report is a shortened version of a larger study that will be published separately by the ILO.

## A. Drivers of change

9. Viewed from a global perspective, four powerful and connected forces are interacting to drive change in workplaces and labour markets. These can be described as:

- the development imperative, stemming from the urgent need to reduce poverty and inequality within and among nations;
- a technological transformation imparted by the diffusion of new means of information processing and communications;
- an intensification of global competition following trade and financial liberalization as well as a dramatic reduction of transport and communication costs; and
- a shift in political thinking towards greater reliance on markets and a reduced role for the State, accompanied by, and sometimes at odds with, increased political pressure for improved living and working conditions released by the spread of democratic mechanisms of representation and accountability.

10. These drivers are exerting a strong influence on employment patterns, working conditions, social security systems and the adaptation of governance mechanisms. However, it would be a mistake to treat this sequence of presentation as a statement of causality. The “drivers of change” we identify are to a certain extent also shaped by the way work is organized. In this Report the term “work” embraces both paid work and the unpaid productive and reproductive work mostly carried out by women. The interaction or feedback between the world of work and the social, technological, economic and political environment that surrounds work is complex and varied.

***Forces that are reshaping the world of work***

### 1. The development imperative

11. The need to reduce absolute poverty and narrow income gaps is widely accepted in both developed and developing countries as essential on moral grounds, as well as from the *real politik* view of the underlying causes of social, economic and political instability. The retreat of authoritarian systems of government has also widened the scope for the expression of the democratic demand by women and men all over the world for a fair chance at a decent job. Elections in all parts of the world are frequently won and lost on the issue of jobs. Narrowing inequalities in the distribution of income within

***Need for a more equitable global development path***

countries, as well as the need to bring about a faster pace of convergence between poor and rich countries represent a development imperative that is – and will continue for decades to be – a powerful engine for change in many aspects of the world of work.

***Mixed progress  
in reducing extreme  
poverty***

12. In some areas the incidence of global poverty has fallen in recent years. Between 1981 and 2001, the number of people living on \$US1 a day or less fell from nearly 1.5 billion to just under 1.1 billion. Almost all of this aggregate fall was a result of a large decline in the numbers of the extremely poor (\$US1 a day or less) in China between 1981 and 1996. There were also smaller falls in other East and South Asian countries; but increases were registered in Africa, Latin America and the Caribbean, Eastern and Central Europe and the former Soviet Union. The extremely poor now represent a smaller share of the world population, a drop from 40 per cent in 1981 to 21 per cent in 2001. However, in Africa this ratio is up from 42 per cent to nearly 47 per cent. If a poverty line of \$US2 a day is used, absolute numbers actually increased from around 2.5 billion to nearly 2.7 billion over this period, although as a share of developing countries' population it decreased from 67 per cent to 53 per cent.<sup>2</sup>

***Income gaps between  
richest and poorest  
countries widening***

13. Reducing absolute poverty is imperative for most developing countries and a commitment made by world leaders at the Millennium World Summit. Furthermore, narrowing disparities in income levels between poorer countries and the developed world would provide an impetus to developing countries' efforts to achieve a faster rate of growth. However, the gap between average incomes in poorer and richer countries is wide and, by some measures, growing. For example, in 2004, average incomes per head in North America, Western Europe and Japan were above \$US25,000 a year, whereas in 61 low-income countries and territories average incomes were \$US765 or less. In 1990 the average US citizen was 38 times richer than the average Tanzanian. Today the average American is 61 times richer.<sup>3</sup> On the (conservative) assumption that the world's 500 richest people listed by *Forbes* magazine have an income equivalent to no more than 5 per cent of their assets, their income exceeds that of the poorest 416 million people.<sup>4</sup>

***But poverty reduction  
in China narrowed  
population-weighted  
measures of global  
inequality***

14. Nevertheless, an increase in the incomes of the poorest in China, the world's most populous country – and a less spectacular rise in India, the second most populous – has narrowed a population-weighted measure of the gap between the richest and poorest countries. This is welcome progress but, for example, even if India's strong growth and poverty reduction performance in 2000-05 continues, it will still take a century to catch up with today's high-income countries.<sup>5</sup>

***Within-country income  
inequality increasing***

15. Within-country inequality is however increasing. In a large majority of countries, the Gini Index (a measure of income inequality on a scale ranging from 0, where everybody would have the same income, to 100, where one person would receive all a country's income) has increased. Over the past two decades, there has been a clear trend towards rising within-country inequality. Of the 73 countries for which data are available, 53 (with more than 80 per cent of the world's population) have seen inequality rise, while only nine (with 4 per cent of the population) have seen it narrow. This holds true in both high- and low-growth situations (such as China in the first case and Bolivia in the second) and across all regions. As measured by the Gini Index, income inequality in Latin America (57.1) and sub-Saharan Africa (72.2) is

<sup>2</sup> S. Chen and M. Ravallion: *How have the world's poorest fared since the early 1980s?* (Washington, DC, World Bank, Development Research Group, 2004) table 2.

<sup>3</sup> UNDP: *Human Development Report, 2005* (New York, 2005), p. 37.

<sup>4</sup> *ibid.*, p. 37.

<sup>5</sup> *ibid.*

higher than in East Asia and the Pacific (52.0), South Asia (33.4) and in high-income developed countries (36.8). In Brazil the poorest 10 per cent of the population account for 0.7 per cent of national income, and the richest 10 per cent for 47 per cent. In Zambia, for example, the ratio of the income of the richest to the poorest 10 per cent is 42:1.<sup>6</sup>

16. From 1995 to 2005, the global working-age population expanded from 3.90 to over 4.64 billion. Much of this increase took place in the developing world, where the working-age population grew by 2 per cent each year during this period to reach 3.85 billion, up from 3.16 billion in 1995. In industrialized countries, the working-age population grew by 0.8 per cent annually between 1995 and 2005 – largely as a result of an increase in the United States which, in turn, was partly a result of immigration. It was estimated that from 2005 onwards, the working-age population would cease expanding in most of Europe and Japan.<sup>7</sup>

17. One of the most dramatic aspects of demographic trends has been the rapid decline in average world fertility rates which decreased from 4.49 children per woman in 1970-75 to 2.69 children per woman in 2000-05.<sup>8</sup> This decline applies to both developed and developing countries. In addition, increased life expectancy in many developing countries, leading to a rise in the share of the elderly in total population, is adding more to population growth than the decline in fertility is taking away. In some countries, however, the HIV/AIDS pandemic is causing a dramatic drop in life expectancy. The relative share of the working-age population to the young and elderly non-working-age population is known as the dependency ratio.<sup>9</sup> It indicates how many people, who are not engaged in paid work, workers have to support. For most of recent history, dependency ratios have been falling and will continue to do so in most of the developing world for some time to come. Nonetheless, the phenomenon of rising dependency ratios is beginning to emerge in a number of industrialized countries and will, over the coming decades, gradually spread to the developing world. China for example had an estimated dependency ratio of 48 per cent in 2000, which is expected to fall to 40 per cent by 2015 before increasing to 50 per cent by 2030.<sup>10</sup>

18. In the near term, developing countries are facing increasing numbers of young women and men (aged between 15 and 24 years) entering the job market. Youth unemployment is particularly high in many developing countries, and is often two to three times higher than the adult rate, with young women hardest hit. This raises questions about how to increase employment opportunities for youth and equip them with the skills necessary for a rapidly changing labour market.

19. By contrast, developed countries have to meet the challenge of a rising share of people over 60 years of age in the total population. In developed countries, early retirement was, until recently, seen as one way of easing

***Background to global inequality is continued growth of developing world labour force***

***Developing world young and growing, while richer countries' population stabilizes and ages***

***Youth employment top of global jobs agenda***

***Richer countries facing up to "greying" of workforce***

<sup>6</sup> *ibid.*, p. 56.

<sup>7</sup> ILO: *Economically active population estimates and projections* (<http://laborsta.ilo.org/eapep.html>); and United Nations: *World Population Prospects: The 2004 Revision Population Database* (New York, 2005).

<sup>8</sup> United Nations: *The World Fertility Report 2003* (New York, United Nations Department of Economic and Social Affairs, Population Division, 2004); and UNFPA: *State of the World Population 2004* (New York, 2004).

<sup>9</sup> The key indicators for the demographic stress on national social transfer systems are the dependency rates. The demographic environment of a social protection system, which includes the morbidity structure of the population with which the health system has to cope, co-determines the system dependency ratio; it influences the ratio of the number of beneficiaries (i.e. transfer recipients) in the system to the number of people financing these transfers or earning the national income out of which the transfers have to be financed.

<sup>10</sup> World Bank Health, Nutrition and Population Statistics Database (HNPSStats). <http://devdata.worldbank.org/hnpstats/HNPDemographic/dependency.pdf>.



employment adjustment; this solution is now out of favour as pressures on pension schemes mount. Many countries have started to discuss whether long-established retirement ages should be raised or immigration policies eased to try to slow the increase in dependency ratios.

## 2. A technological transformation

### ***Rise of ICTs powers global technological transformation***

20. The process of innovation and diffusion of new information and communication technologies (ICTs) that took off in the 1990s constitutes a radical transformation of the means of production, distribution and exchange (see figure 1). It has already profoundly affected international trade and investment, the movement of capital and labour, and many work processes and products. It has also accelerated the shift towards services and their outsourcing internationally. In turn, these factors have fed back into the further development of ICTs in a continuing circle of incremental innovations built on the breakthrough of the miniaturization of electronic circuits. The rapid spread, ongoing development and pervasiveness of this flow of innovation is driving a massive reconfiguration of world production and distribution, as well as the management systems of enterprises and public agencies – with major consequences for employment patterns.<sup>11</sup>

### ***Indirect effects of ICTs take time to boost aggregate economic performance***

21. The direct employment effects of ICTs are, on the one hand, new jobs created in producing and delivering new products and services and, on the other, the loss of jobs in redundant technologies or in firms that fail to keep up with competitors' rate of innovation.<sup>12</sup> Indirect effects include the impact of technological change on productivity, skill requirements and associated organizational adaptation.<sup>13</sup> The process of structural change driven by competition and new technologies is often described as "creative destruction".<sup>14</sup>

### ***Organizational changes lag pace and reach of new technologies***

22. Measuring the overall economic impact of ICTs has proved controversial. For many years, economists were troubled by the "Solow Paradox", named after the famous economist who pointed out that computers were everywhere but that no impact was visible in productivity statistics! Economic history suggests that major technological shifts take years to spread widely enough to clearly affect aggregate economic performance. However, the accumulation of useful knowledge in the form of human and physical capital can eventually yield a substantial increase in per capita incomes.<sup>15</sup> The pace and reach of diffusion of ICTs are unprecedented but economies and societies are still at an early stage in learning how to make full use of their potential.

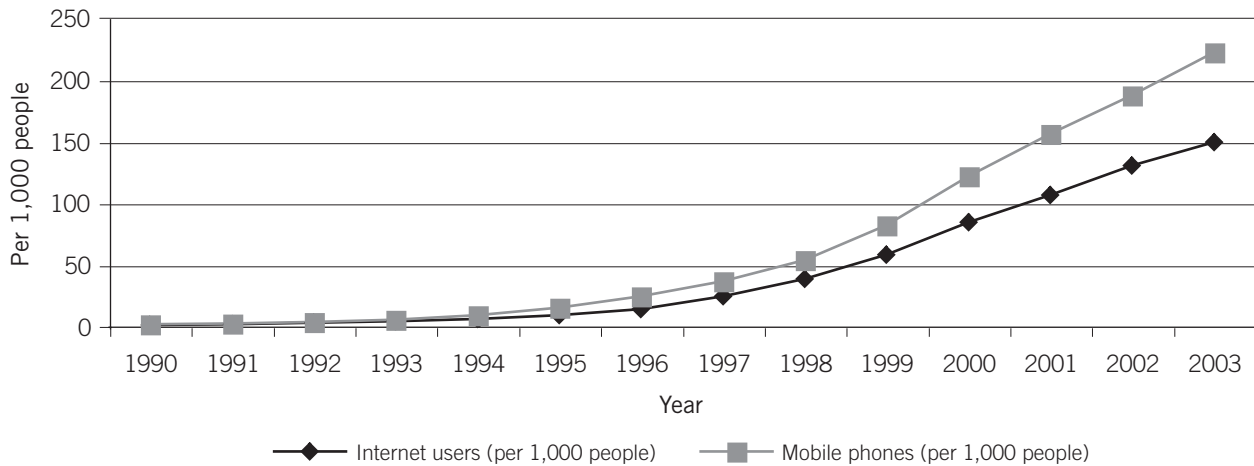
<sup>11</sup> The notion of the change of "techno-economic paradigms" developed by Freeman and Perez is invaluable in understanding the link between the diffusion of ICTs, on the one hand, and growth and employment on the other. The change of "techno-economic paradigm" approach incorporates and stresses both the direct and indirect effects of ICTs. C. Freeman and C. Perez: "Structural crises of adjustment, business cycles and investment behaviour", in G. Dosi et al. (eds.): *Technical change and economic theory* (London, Pinter, 1988).

<sup>12</sup> For a fuller discussion of the interaction between productivity growth and employment, see ILO: *World Employment Report 2004-05* (Geneva, 2004), Ch. 2.

<sup>13</sup> An example would be personal computers. The computer industry itself has created many jobs, while the use of computers in many other industries has substituted to some extent for labour (e.g., financial services), thereby destroying jobs. See: C. Freeman, L. Soete and U. Efendioglu: "Diffusion and the employment effects of information and communication technology", in *International Labour Review* (Geneva, ILO), 134(4-5), 1995, pp. 587-603.

<sup>14</sup> The phrase comes originally from J. Schumpeter: *Capitalism, Socialism and Democracy* (New York, Harper, 1975) [orig. pub. 1942], pp. 82-85.

<sup>15</sup> A. Maddison: *The world economy: A millennial perspective* (Paris, OECD, 2001).

**Figure 1. Rapid growth of ICTs since the 1990s: Internet and mobile phone penetration**

Source: World Bank, World Development Indicators 2005.

23. Realizing the benefits of the rapid and wide diffusion of radical technological advances in the form of cumulative gains in productivity, growth and employment depends on three conditions:

- First, the potential increase in supply of goods and services must be balanced with sufficient growth in aggregate demand. If not, this will result in surplus productive capacity and deflation as falling prices and employment induce a downward economic spiral.
- Second, ICTs must be utilized efficiently. Extracting the full value of new technologies is a collective learning process that can be held back by lack of investment in the skills of management and the workforce as well as in organizational adjustment. This is especially true for female workers who are under-represented in the information economy and tend to hold lower skilled positions.
- Third, investments in ICTs pay off most when network effects set in. The more firms and consumers that are part of the network the more profound the economic benefits to investors and consumers. To fully realize network benefits, public policies are needed to facilitate infrastructure investment and help ensure that low-income countries and communities are not excluded.

***Productive potential of ICTs depends on buoyant demand, human resource development and realizing network benefits***

24. In the short term, the introduction of new technologies can lead to increases in productivity in certain sectors that exceed the growth of demand for the output of those sectors, thus causing firms to reduce employment. In the longer run, increased productivity – when it is spread across an economy, whether that be a country or the world – leads to rising incomes, increased demand and higher employment. Mechanisms to redistribute income from those parts of society benefiting most from technological change to the less advantaged are also important.<sup>16</sup>

***Short-term adjustment but potential long-term gains***

### **3. Intensified global competition**

25. The reduction of barriers that first took place between local and national, then regional, and now intercontinental markets, is a dominant theme in recent economic history. Liberalization of trade controls on manufactures, an

***An increasingly open global market for products and finance***

<sup>16</sup> B. van Ark, E. Frankema and H. Duteweerd: *Productivity and employment growth: An empirical review of long and medium run evidence*, Research Memorandum GD-71 (Groningen Growth and Development Centre, 2004).

easing of restrictions on foreign direct investment and other capital movements, as well as sharply reduced costs of transportation and telecommunications, have fostered the emergence of a global market economy. As a result of these changes more businesses face fiercer competition in their domestic and export markets. Intensified global competition for products and services feeds through into pressures to adapt workplaces and match the efficiency and quality of market leaders – or close down.

***An emerging but still fragmented global market for labour***

26. Since 1990, 1.47 billion economically active persons from the previously closed economies of the former Soviet Union and its allies, as well as from developing countries such as China and India, have doubled the workforce available to the global market economy – also presaging the emergence of a global labour market.<sup>17</sup> It remains, however, a market that is segmented in many ways. Half of the world's labour force is working in poverty, socially and economically excluded from globalization except that their meagre earnings serve as a brake on the market wage for unskilled labour in developing countries. Gender and other forms of discrimination remain widespread. And while skilled workers have greater opportunities to move within and between countries in search of better rewards, their mobility is also restricted. The interaction between this emerging but highly fragmented global labour market and the increasingly open markets for products and finance is a major driver of change in the world of work.

***Trade liberalization and a new international division of labour***

***Growing share of trade in world GDP***

27. The progressive easing of barriers to world trade encouraged a doubling of the share of imports and exports in world GDP from 24 to 48 per cent between 1960 and 2002 (see figure 2).<sup>18</sup> As a result economies are now much more interdependent. A decline in trade barriers induces shifts in comparative advantage, introduces new sources of competition into the multilateral system and poses adjustment challenges that vary according to countries' level of development.<sup>19</sup> A major consequence of this intensified competition for global markets is a change in the international division of labour.

***Manufacturing outpaces commodities***

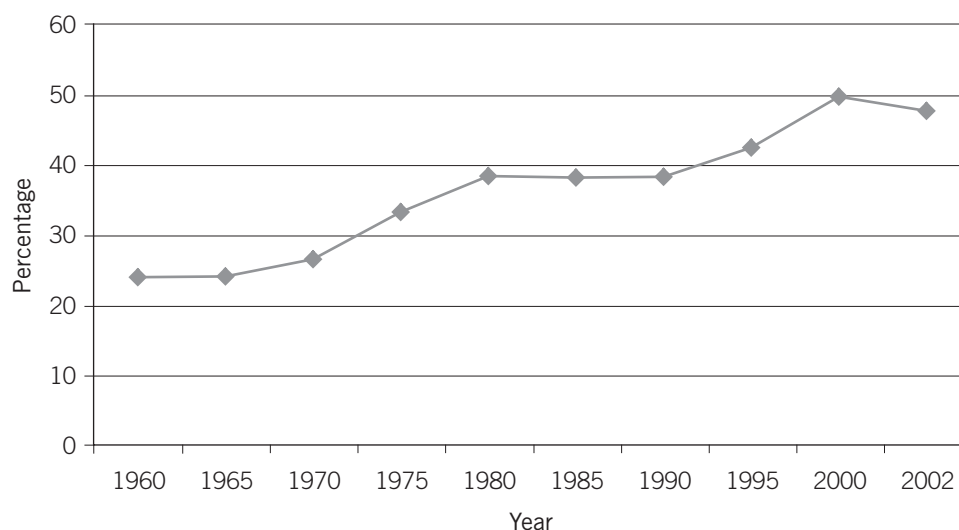
28. Over the last 40 years, trade in manufactures has grown much faster than in primary goods. In 2003, manufactured goods accounted for nearly 77 per cent of world merchandise exports, fuels accounted for 8 per cent and food and agriculture for 9.5 per cent – compared to 64 per cent, 12.4 per cent and 16.5 per cent, respectively, in 1980.<sup>20</sup> This has naturally favoured employment in countries that are able to compete in the markets for manufactures. This group consists mainly of countries that were already industrialized before the recent era of liberalization, but has expanded to include some developing countries, most recently China. By contrast, most countries dependent on commodities for foreign currency earnings fared less well during the past two decades. Growth in this trade was slower, prices were volatile and – especially in the case of raw materials and fuel – the linkages to the domestic economy weak. The recent surge in commodity prices, particularly for oil and gas, has boosted growth in some countries still dependent on exports of primary goods.

<sup>17</sup> See R.B. Freeman: *The Great Doubling: Labor in the new global economy*, Usury lecture, Georgia State University, 8 Apr. 2005.

<sup>18</sup> World Bank: *World Development Indicators 2005* (Washington, DC, 2005).

<sup>19</sup> OECD: *Trade and structural adjustment: Embracing globalisation* (Paris, 2005).

<sup>20</sup> World Bank: *World Development Indicators 2005*, op. cit. The share of fuels is likely to be higher following the price rises in 2004 when new comparable statistics are released.

**Figure 2. Trade as a share of world GDP doubles between 1960 and 2002**

Source: World Bank, World Development Indicators 2005.

29. Beginning in the 1980s, a period of increased international integration and connectivity saw many developing countries shift away from inward-looking import substitution strategies to an export-oriented approach. From 1994 to 2004, developing country exports rose from 28 per cent to 33 per cent of world exports.<sup>21</sup> However, only 22 developing countries succeeded in significantly shifting their export base from primary commodities to manufactures. Exports in other countries either stagnated or declined, leading to the marginalization of a large group of developing countries from the global economy.<sup>22</sup>

30. The uneven character of developing country export growth is mirrored in its employment impact. In several Asian countries, such as China, India and Malaysia, trade has generally had a favourable effect on employment and wages in manufacturing. Unskilled (or low-skilled) workers have benefited from the growth of export-oriented industries such as textiles and clothing.<sup>23</sup> Many of the women and men employed in these new factories were drawn from rural areas characterized by low productivity farming. Real wages of workers in manufacturing have gradually risen as a result of this so-called “surplus” rural labour force migrating to the cities.<sup>24</sup> But in many countries this pool of unskilled labour remains very large, acting as a brake on improvements in wages and working conditions, including safety. In contrast, skilled workers are often hard to recruit and have generally seen their wages rise.<sup>25</sup> In some countries, workers in the new manufacturing industries have faced difficulties in exercising the right to join trade unions, partly as a result of weaknesses in laws or their enforcement, but also because of the

***Trade liberalization produces mixed results in developing countries***

***Growth of manufacturing exports boosts employment and wages in Asia***

<sup>21</sup> UNCTAD: *Trade and Development Report 2005* (Geneva, 2005), p. 11.

<sup>22</sup> A. Ghose: *Jobs and incomes in a globalizing world* (Geneva, ILO, 2003). The 22 developing country manufacturing exporters are Argentina, Bangladesh, Brazil, China (including Hong Kong), Egypt, India, Indonesia, Israel, Korea (Republic of), Malaysia, Mauritius, Mexico, Morocco, Pakistan, Philippines, Singapore, South Africa, Sri Lanka, Taiwan (China), Thailand, Tunisia, Turkey.

<sup>23</sup> ILO: *Trade, foreign investment and productive employment in developing countries*, Governing Body, 291st Session, Geneva, November 2004, GB.291/ESP/2.

<sup>24</sup> Surplus labour refers to the comparative advantage of developing countries in the supply of low-wage labour, much of which however consists of individuals that are underemployed or unemployed. This form of surplus labour has a depressing effect on the wages of those in low-skilled occupations.

<sup>25</sup> A. Ghose: *Trade liberalization and manufacturing employment*, Employment Paper 2000/3 (Geneva, ILO, 2000).

risk of replacement from the massive pool of rural and informal economy workers.

***Africa and Latin America miss out on opportunities for manufactured exports***

31. Exports of manufactures from African and Latin American countries have not, with a few exceptions, taken off.<sup>26</sup> Real wages of unskilled workers have tended to decline and the wage differential between skilled and unskilled workers has increased sharply.<sup>27</sup>

***Ending of textile and clothing quotas impacts employment in developing and developed countries***

32. The phasing out of quotas by 2005 under the Agreement on Textiles and Clothing (ATC) is likely to bring significant shifts in employment patterns within and among developing and developed countries.<sup>28</sup> Clothing and textiles are generally low-value goods and their production is labour-intensive – often employing unskilled workers, including a high share of women. ILO analysis suggests that following this phase-out of the Multifibre Arrangement (MFA) quotas, the industry will consolidate in a fewer number of well-placed sourcing countries; furthermore, within these countries there is likely to be a consolidation around larger and more efficient enterprises.<sup>29</sup>

***Trade liberalization and gender pay gaps***

33. Evidence from developing economies where analyses have taken account of factors that may affect male and female wages in the manufacturing sector, such as differences in education and skill levels, has shown that the liberalization of trade and investment has led to wider gender pay gaps.<sup>30</sup> Possible factors related to this phenomenon include women's weaker ability to negotiate terms and conditions of employment; the excess supply of low-skilled women in rural areas willing to work for low wages; the more rapid decline of women's wages compared to men's, due to increasing demand for high-skilled labour; and downward pressure from highly mobile labour-intensive firms.

***Trade liberalization raises anxieties for some in OECD countries***

34. The question of whether increased openness to trade – especially in manufactures – is responsible for the weakening of the jobs market in industrialized countries, is much debated. The average growth in the trade-to-GDP ratio between 1990 and 2002 for the OECD group was about 2.5 per cent per year. During this period, the unemployment rate in the OECD area rose from 6.1 per cent in 1990 to 6.9 per cent in 2004 (a decline from the 7.1 per cent recorded in 2003).<sup>31</sup> The share of OECD imports from developing countries is rising, mainly as a result of exports by China. However, 71 per cent of imports into industrialized countries were still from other OECD members in 2003, compared to 78 per cent in 1990.<sup>32</sup> Trade in services as a share of GDP grew faster than trade in goods in the 1990s.<sup>33</sup> The employment effects of low-cost imports, as opposed to imports from countries of a similar level of development, are also difficult to disentangle from productivity growth, which is in part a response to heightened competition. Most analyses do not find that low-cost imports have a large effect on aggre-

<sup>26</sup> S.M. Shafaeddin: *Trade liberalization and economic reform in developing countries: Structural change or de-industrialization?* (Geneva, UNCTAD, 2005).

<sup>27</sup> A. Ghose, op. cit.

<sup>28</sup> The MFA restricted the volume of imports into industrialized country markets by product category and country of origin. It thus had the effect of forcing low-cost producers to diversify their production locations as quotas filled up for the main East and South-East Asian exporters. The global centre for the textile and clothing industries in 2004 was China (including Hong Kong) with 22.9 per cent of textile and 38 per cent of clothing exports.

<sup>29</sup> ILO: *Note on the proceedings*, Tripartite Meeting on Promoting Fair Globalization in Textiles and Clothing in a Post-MFA Environment, Geneva, 24-26 October 2005 (document TMTC-PMFA/2005/8); and C. Ernst, et al.: *The end of the multi-fibre arrangement and its implication for trade and employment* (Geneva, ILO, 2005).

<sup>30</sup> UNRISD: *Gender equality: Striving for justice in an unequal world* (Geneva, 2005), p. 40.

<sup>31</sup> OECD: *OECD Employment Outlook*, (Paris, 2005).

<sup>32</sup> OECD: *International Trade by Commodity Statistics (ITCS)* (Paris, 2004).

<sup>33</sup> OECD: *National Accounts and Historical Statistics* (Paris, 2004).

gate employment. This has not nonetheless diminished the anxieties felt by many workers, especially those in the most vulnerable sectors.

35. An additional factor in the debate is that improved communications and cheaper freight costs have encouraged some companies in industrialized countries to subcontract the production of components and some finished products to developing countries, especially China. Such offshoring has had less impact on higher value added core functions such as product design.<sup>34</sup> With the spread of cheap, reliable and fast broadband connections, outsourcing of a number of service functions is now also feasible and has led to the growth of back-office processing, call centres and other IT services in some developing countries, notably India. Many Chinese, Indian and other developing country firms are moving up the value added ladder and are beginning to compete in the higher-skilled stages of design and production.

***Increased scope for offshoring***

36. The scale of offshoring or global sourcing in both manufacturing and services nevertheless remains modest and is likely to grow at a gradual pace that will not have a sudden overall impact on developed country labour markets.<sup>35</sup> In 2004, approximately 565,000 women and men in developing countries were in jobs that delivered services to developed country customers. This figure is likely to increase, perhaps doubling by 2008, but will still represent a small fraction of total service sector employment in developed countries.<sup>36</sup> Those manufacturing industries most vulnerable to low-cost competition account for only 4 per cent of total OECD employment on average. This is not to say that there is no displacement effect from developing country competition. In particular, workers and employers in labour-intensive manufacturing industries, and the communities in which they are located, face the difficult choice of adapting with better products or processes or finding new sources of employment. Neither strategy is easy nor guarantees success.<sup>37</sup>

***Impact of global sourcing on industrial country employment modest so far***

37. Reducing industrial countries' protection of agriculture to allow more access to developing countries and the Cairns Group<sup>38</sup> is a major goal of the Doha Round. Less than 4 per cent of the workforce in the European Union (EU) and United States work in agriculture, whereas in developing countries around 50 per cent of those employed work in agriculture; the shares are even higher in the least developed countries where agriculture accounts for about a quarter of GDP.<sup>39</sup> Agriculture in most industrialized countries operates as a commercial industry with high yields per acre; in large parts of the developing world, however, farming remains a semi-subsistence family activity. Women represent a higher share of agricultural workers and predominate as unpaid workers in household farms, often with little control over the income they generate. Despite having a tiny fraction of the world's agricultural labour force, the EU25 and the United States were the leading exporters and importers of agricultural products in 2004.<sup>40</sup>

***EU25 and United States dominate production and trade of agricultural products***

<sup>34</sup> Increasingly, however, developing countries are expanding their activities playing a greater role in product design and spending more on research and development to expand innovation beyond mere assembly work.

<sup>35</sup> McKinsey Global Institute: *Emerging global labour market* (2005), pp. 27-28; M. Lübker: "International outsourcing, employment and inequality: Some issues", in P. Auer, G. Besse, and D. Méda (eds.): *Offshoring and the internationalization of employment* (Geneva, ILO, International Institute for Labour Studies, 2006).

<sup>36</sup> McKinsey Global Institute, op. cit.

<sup>37</sup> OECD: *OECD Employment Outlook*, op. cit. (Editorial).

<sup>38</sup> Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Philippines, South Africa, Thailand and Uruguay.

<sup>39</sup> ILO: *Key Indicators of the Labour Market (KILM)* (Geneva, 2005).

<sup>40</sup> In 2004, EU25 share of world exports/imports in agricultural products was 44 and 44.6 per cent, respectively; in the United States, the share was 10.2 and 10.5 per cent, respectively. See: WTO: *International Trade Statistics 2005* (Geneva, 2005), table IV.8, p. 116.

**Rural employment strategies needed alongside lower farm protection**

38. The global employment impact of agricultural liberalization depends greatly on which products are allowed easier access. Many of the most protected products are not produced by the poorest farmers in the poorest regions of the least developed countries. To boost their prospects, lower trade barriers would need to be accompanied by measures to: improve farm yields and storage facilities; ensure that products reach domestic markets and transport hubs for export; and increase bargaining power with intermediate traders and the major supermarket chains that dominate food retailing.<sup>41</sup>

**Impact of increased investment by multinational enterprises on jobs**

**FDI flows spread to emerging exporting countries**

39. Foreign direct investment (FDI) has grown faster than trade in most years since 1990. Changes in trade patterns described above mirror trends in FDI.<sup>42</sup> Most FDI continues to go into the large markets of developed countries,<sup>43</sup> but since the 1990s there has been a marked rise in FDI flows to the group of developing countries that has successfully focused on exports. This followed measures by a number of countries to attract FDI, such as the easing of controls on inward flows and repatriation of profits, as well as the establishment of export processing zones. Mergers and acquisitions (M&A) of existing assets also grew much faster than investment in new assets (greenfield FDI), especially in countries that carried out extensive privatization of their public enterprises.

**Bulk of FDI goes to industrial countries and a few developing countries**

40. Annual flows of FDI vary with the business cycle but over the past 15 years, about two-thirds of all inflows on average went to developed countries – mostly from other developed countries. Developing countries account for about one-third of all inflows but only around 10 per cent of outflows. These shares were up to 36 per cent and 13 per cent, respectively, in 2004. Increasingly China has come to dominate inflows of FDI to developing countries, while the United States remains the main source of outward investment. One of the most striking features of world FDI is the concentration on a relatively small number of home and host countries. In the 2002-04 period, 15 of the top 20 countries for FDI outflows were also in the top 20 for inflows.<sup>44</sup> The top five developing economy recipients – China, Hong Kong (China), Brazil, Mexico and Singapore – accounted for over 60 per cent of total flows to developing countries.<sup>45</sup>

**Multinationals' foreign employment increasing but makes modest contribution to global jobs growth**

41. By 2004, the 690,000 foreign affiliates of at least 70,000 multinational enterprises (MNEs) accounted for 10 per cent of world output, one-third of world exports and around 10 per cent of investment (gross capital formation (GCF)). The growth of the sales of foreign affiliates of MNEs outpaced world exports markedly over the period between 1982 and 2004.<sup>46</sup> The ILO estimated that direct employment by MNEs was approaching 100 million in 2000 – an increase from about 40 million in the mid-1970s. At approximately 3.4 per cent, this represents a relatively modest contribution to total world employment. The estimate probably errs on the lower side due to under-

<sup>41</sup> S. Polaski: *Winners and losers: Impact of Doha Round on developing countries* (Washington, DC, Carnegie Endowment for International Peace, 2006).

<sup>42</sup> UNCTAD: FDI statistics online, <http://www.unctad.org/fdistatistics>.

<sup>43</sup> J.R. Markusen and K.E. Maskus: *General-equilibrium approaches to the multinational firm: A review of theory and evidence*, NBER Working Paper 8334, <http://www.nber.org/papers/w8334> (accessed 11 Apr. 2006).

<sup>44</sup> These were United States, United Kingdom, Luxembourg, Spain, France, Canada, Hong Kong (China), Japan, Belgium, Italy, Australia, Singapore, Russian Federation, Brazil and Korea (Republic of). See UNCTAD: *World Investment Report 2005: Transnational corporations and the internationalization of R&D* (New York and Geneva, 2005), Annex Table BI.

<sup>45</sup> *ibid.*

<sup>46</sup> *ibid.*

counting of employment in smaller MNEs, the fact that employment statistics often do not identify establishment ownership and the difficulty of measuring employment in non-equity forms of investment such as franchising and licensing.<sup>47</sup> It also does not include indirect employment generated in local businesses by the presence of foreign companies. Both can be substantial – although variable.

42. The job-creating potential of FDI is one of the main reasons cited by governments for policy changes to attract MNEs. This has led to concern that countries may weaken labour protections as an incentive to inward investors. An OECD study on policy competition for FDI suggests that the danger of increasing downward pressure on labour standards always exists. Nonetheless, it concludes that there is “no robust evidence that low-standard countries provide a haven for foreign firms”.<sup>48</sup> This finding is confirmed by a detailed ILO analysis of the possible links between FDI flows and stronger freedom of association, collective bargaining rights and democracy. Despite some evidence that these rights are associated with higher labour costs even after accounting for productivity gains, it would seem that the economic and social stability that freedom of association as a basic building block of democracy engenders is attractive to foreign investors.<sup>49</sup>

***No evidence that freedom of association deters FDI***

43. As described above, the job-creating potential of FDI can be overstated. Empirical research in developing countries does not show strong employment and labour market effects. A rising share of FDI in total investment tends to reduce the overall employment elasticity while shifting the pattern of labour demand in favour of high-skilled labour. Rising wage inequality is a consequence. On the positive side, a rising share of FDI in total investment leads to an improvement in the average quality of employment for both high-skilled and low-skilled labour.<sup>50</sup> Analysis of the comparative impact of “greenfield” investments and mergers and acquisitions on employment has so far proved inconclusive.<sup>51</sup>

***FDI creates skilled employment but overall impact on jobs weak***

### ***Financial openness and employment***

44. Until the 1970s most countries controlled the inflow of portfolio capital more tightly than capital for direct investments. Free movement of capital posed a risk to the fixed exchange rate system that lasted until the early 1970s. Industrial countries began to liberalize capital controls in the second half of the 1970s with a strong wave in the 1980s. Over the last decade, in addition to adopting policy measures to encourage FDI, many developing countries liberalized their capital accounts, by eliminating various forms of capital controls. This has led to the emergence of an essentially global market for capital and an acceleration of international capital flows. Worldwide gross private capital flows – the sum of the absolute values of foreign direct, portfolio, and other investment inflows and outflows – have been more than 20 per cent of world

***Global market for capital emerges from liberalization ...***

<sup>47</sup> K.B. Kim: *Direct employment in multinational enterprises: Trends and implications* (Geneva, ILO, forthcoming).

<sup>48</sup> OECD: *International trade and core labour standards* (Paris, 2000), p. 34. See also D. Kucera: *The effects of core workers' rights on labour costs and foreign direct investment: Evaluating the conventional wisdom* (ILO, Decent Work Research Programme DP/130/2001).

<sup>49</sup> D. Kucera and R. Sarna: *How do trade union rights affect trade competitiveness?*, Working Paper No. 39, Policy Integration Department (Geneva, ILO, 2004).

<sup>50</sup> ILO: *Trade, foreign investment and productive employment in developing countries*, Governing Body, 291st Session, Geneva, November 2004, GB.291/ESP/2, para. 35.

<sup>51</sup> C. Calderón, N. Loayza and L. Servén: *Greenfield FDI vs. mergers and acquisitions: Does the distinction matter?* Working Paper No. 173 (Chile: Central Bank of Chile).



GDP for the past seven years, compared to less than 10 per cent of world GDP before 1990.<sup>52</sup>

**... but does not lead to more investment in infrastructure and productive capacity**

45. Despite an increase in total foreign capital flows in the 1990s, investments in new infrastructure and productive capacity – gross fixed capital formation (GFCF) – remained at around 22 per cent of world GDP throughout the 1990s (see figure 3). Private capital also flows mainly to richer countries. In 2002 (the latest year for which data are available for all regions), gross private capital flows equalled 23.2 per cent of GDP in high-income countries, but only 12.3 per cent of GDP in middle-income countries and 4.6 per cent of GDP in low-income countries. Furthermore, foreign capital flows to developing countries remained imbalanced, concentrated on 12 middle-income economies.<sup>53</sup>

**Financial crises lead to large economic downturns**

46. Portfolio investments, which account for a large part of the increase in capital flows, are more volatile than FDI. This volatility in international financial markets has contributed to financial crises that often have a large impact on the economy and the labour market, particularly in developing countries. In the five countries most affected by the East Asian crisis of 1997-98, GDP per capita fell between 2.8 per cent (Philippines) and 14.8 per cent (Indonesia). In Latin America, the Mexican crisis of 1994-95 led to a decline in incomes by 7.8 per cent, and the Argentinean financial crisis of 2001-02 reduced the country's per capita incomes by 16.3 per cent.<sup>54</sup> So-called “sudden stop” crises (a reversal in capital flows and a simultaneous currency crisis) have a particularly harmful effect on output – over and above that of “normal” currency crises. On average, they cause a cumulative output loss of 13-15 per cent of GDP over a three-year period.<sup>55</sup>

**Impact of international financial crises**

47. Financial crises have detrimental long-term implications for labour and enterprises, particularly in developing countries.<sup>56</sup> Exchange rate depreciation, in conjunction with exposure to increased costs of loans in foreign currency, falling domestic demand and lower capacity utilization, and higher interest rates, have a substantial impact on enterprises and can force developing countries off their growth trajectory. This in turn leads to falling real wages, rising open unemployment, and shifts from formal employment to informal work and farming.<sup>57</sup>

**Recovery from substantial job losses slow**

48. During the East Asian crisis of 1997-98, real wages declined in the crisis-affected countries and by as much as 41 per cent in the case of Indonesia. About 2.1 million non-agricultural jobs were lost in the Republic of Korea, about 2.5 million in Indonesia and some 1.4 million in Thailand.<sup>58</sup> As Argentina went through two financial crises within ten years, unemployment rose from a moderate 6.7 per cent (1992) to almost 20 per cent (2002). Moreover, the harm was not limited to the short term. Survey data from five countries

<sup>52</sup> R. van der Hoeven and M. Lübker: *Financial openness and employment: The need for coherent international and national policies*, Working Paper No. 75, Policy Integration Department (Geneva, ILO, 2006).

<sup>53</sup> China, Brazil, Mexico, Hong Kong (China), Singapore, Argentina, Malaysia, Bermuda, Chile, Thailand, Republic of Korea and Venezuela. See: UNCTAD: *Handbook of Statistics 2004* cited in R. van der Hoeven and M. Lübker. *ibid.*

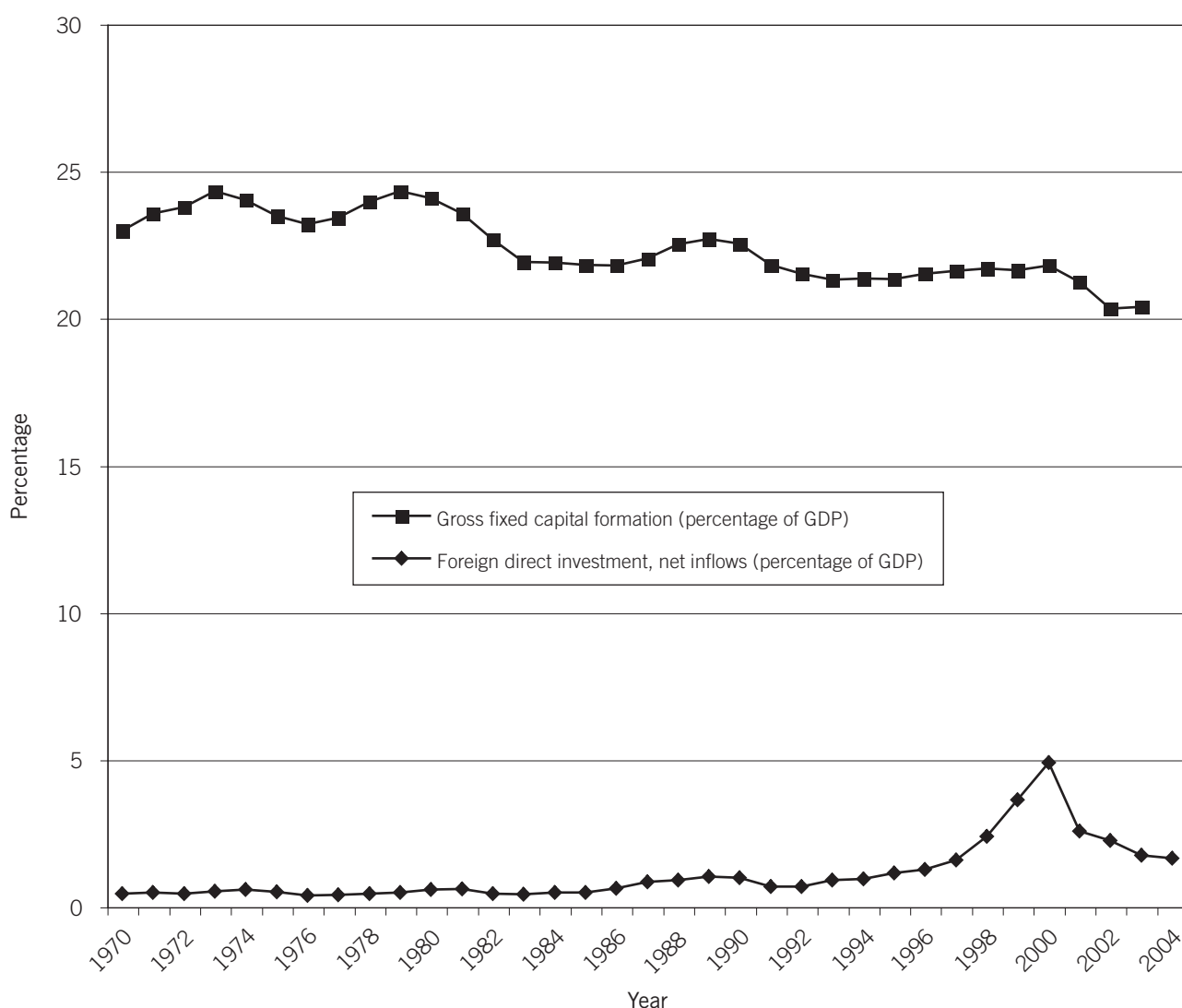
<sup>54</sup> World Bank: *World Development Indicators 2005*, *op. cit.*, and ILO: *KILM*, 4th ed., *op. cit.*

<sup>55</sup> M.M. Hutchison and I. Noy: “Sudden stops and the Mexican wave: Currency crises, capital flow reversals and output loss in emerging markets”, in *Journal of Development Economics* (Elsevier), Vol. 79, No. 1, Feb. 2006.

<sup>56</sup> V. Cerra and S. Chaman Saxena: *Growth dynamics: The myth of economic recovery*, IMF Working Paper 05/147 (Washington, DC, IMF, 2005).

<sup>57</sup> E. Lee: *The Asian financial crisis. The challenge for social policy* (Geneva, ILO, 1998); see also R. van der Hoeven and M. Lübker, *op. cit.*

<sup>58</sup> G. Betcherman and R. Islam (eds.): *East Asian labour markets and the economic crisis* (Washington, DC and Geneva, World Bank and ILO, 2001).

**Figure 3. FDI and investment as a share of world GDP, 1970-2004**

Source: World Bank, World Development Indicators 2005.

worst affected by the East Asian crisis (Indonesia, Republic of Korea, Malaysia, Philippines, Thailand) show that about 50 per cent of firms reduced their workforce in 1998, while only a small fraction hired more staff.<sup>59</sup> Dismissals inevitably mean that firm-specific human capital is lost. Even when GDP per capita has regained pre-crisis level, the consequences of the crisis are still evident in the employment indicators. For the worst-affected countries, such as Indonesia, the 2005 data showed that unemployment levels had not yet recovered to pre-crisis levels.<sup>60</sup>

49. This lag in labour market recovery means that labour pays a disproportionate cost for financial crises. Furthermore, tracking the evolution of the labour share in national income shows that crises are particularly harmful for labour. As recent research indicates, financial crises have a permanent negative effect on the share of labour compensation in GDP. They are thus a factor behind a long-term decline in the labour share apparent from the early

### ***Wage shares down in crisis-hit countries***

<sup>59</sup> D. Dwor-Frécaut et al. (eds.): *Asian corporate recovery. Findings from firm-level surveys in five countries* (Washington DC, World Bank, 2001), Ch. I.

<sup>60</sup> ILO: *KILM*, 4th ed., op. cit.

1990s onwards. One such study uses the share of wages in GDP as an indicator and reports, based on a large sample of countries, an average drop in the wage share of 5 percentage points per crisis and a modest catch up thereafter. In the three years after the crisis, average wage shares were still 2.6 percentage points below their pre-crisis average.<sup>61</sup> This phenomenon has led to a “ratchet effect” because many countries undergo more than one crisis, with the decline of the wage share during a crisis and the partial recovery afterwards leading to a secular decline in the wage share.<sup>62</sup>

#### 4. *Politics and policies: The roles of the State and markets*

##### *Shifting balance in the role of the State and the market*

50. Politics and policies – and the ideas that provoke political discourse – provide the context in which transformations around the world of work are taking place. A central and long-standing issue of political and academic debate revolves around what is the best balance between the roles of the State and markets in the coordination of economic activity in general and work in particular. In the 1970s and 1980s a more pro-market view came to dominate policy thinking, especially in the world of finance ministries and international financial institutions.

##### *Questioning of the efficacy of intervention in the economy*

51. Tracing the origins of this shift are beyond the remit of this Report. However, the stagflation of the mid-1970s that followed the ending of the fixed exchange rate regime and the first OPEC oil price hikes clearly had a major impact both on political parties in the major industrialized countries and on policy advisers in universities and government. In many countries government intervention was felt to be holding back innovation and adaptation and compounding rather than solving problems. The policy shift in the OECD countries spread to many developing countries in the 1980s as they adopted stabilization and structural adjustment programmes to cope with the debt crisis. These initiatives, largely carried out under the auspices of the World Bank and the IMF, often incorporated programmes of liberalization of trade and foreign investment regimes.<sup>63</sup>

##### *Renewed concern over poverty and social inequities*

52. From the mid-1990s onwards, confidence in the view that markets would adjust better and faster with minimal state involvement started to diminish. This was prompted by the depth and length of the transition recession of the Eastern European countries, the Asian and Latin American financial crises, and the failure to stimulate growth in Africa. Increasing concern about social inequality within and among countries also re-emerged. At the global level, poverty reduction, the fostering of social cohesion and job creation made their way back up the political agenda, given fresh impetus by the Copenhagen World Summit for Social Development of 1995. The follow-up to this Social Summit and other major United Nations summits in the 1990s, culminated in the Millennium Summit and World Summit in 2005 that marked the 60th anniversary of the United Nations.

<sup>61</sup> D. Diwan: *Debt as sweat: Labour, financial crisis, and the globalization of capital*. Draft as of July 2001 (Washington, DC, World Bank, mimeo, p. 6). The cumulative drop in the wage share over the last 30 years is estimated at 4.1 per cent of GDP, and is especially large for Latin America where the figure reached 6.7 per cent of GDP over the period 1970-90. See also A. Harrison: *Has globalization eroded labor's share? Some cross-country evidence* (Cambridge, MA, National Bureau of Economic Research, 2002, mimeo).

<sup>62</sup> R. van der Hoeven and C. Saget: “Labour market institutions and income inequality: What are the new insights after the Washington Consensus?”, in G.A. Cornia (ed.): *Inequality, growth and poverty in an era of liberalization and globalization* (Oxford, Oxford University Press, 2004).

<sup>63</sup> ILO: Governing Body document GB.291/ESP/2, op. cit.

53. Alongside the policy debate about the respective roles of the State and the market over the last two or three decades, many countries have undergone pronounced political change. Authoritarian and dictatorial systems have given way to more democratic forms of government in many countries. In addition to elections for legislatures and administrations, other mechanisms of accountability have increased with the emergence of vibrant – and often internationally connected – civil society organizations and new outlets for the exercise of freedom of expression. Political debate and policy action are increasingly influenced by discourse around civil and political rights, as well as economic and social rights, often drawing on international instruments as points of reference. These trends are mirrored in increased awareness of – and action to assert – fundamental principles and rights at work.

***Democratization affects work relations***

54. Although some have suggested that the debates about the respective roles of the State and the market have been resolved in favour of a modernized liberalism, many others argue that a new balance is far from being realized. Against this shifting background, discussions on employment policies, social security and labour market regulation have shown more concern for competitiveness and the stimulation of change than for social cohesion or the reconciliation of conflicting interests. Nevertheless, economic and social tensions often become focused on and around the world of work, mainly because it plays such a significant role in people's lives. The functions of the State as a regulator of markets and as the guarantor of citizens' rights are central issues in a continuing search for a balance in which greater importance is given to the organization of work and employment growth.

***Market/state balance not yet settled***

## **B. Trends in the global labour market**

*How are patterns of work evolving in reaction to the drivers of change?*

55. Patterns in the structure of employment, conditions of work and social security systems are adapting to – but also themselves shaping – the drivers of change. Demographic changes, innovation and diffusion of ICTs, as well as the emergence of a larger global market economy, are forces that come together and interact, inducing major changes in the workplace and the labour market. This section looks at the information we have on the main changes in patterns of work:

- size and structure of the world's labour force;
- emergence of global production systems and changes in the international division of labour;
- shift away from agricultural work and the growth of informal economies in developing countries;
- poverty and incomes from work;
- equality of opportunity in employment;
- diversity in conditions of work; and
- new challenges for social security.

### **1. Changes in the world labour force**

*Vast majority of world labour force lives in developing countries*

56. In 2005, of the 4.6 billion people of working age in the world, over 3 billion, around two-thirds, were either working or looking for work.<sup>64</sup> Of these, 84 per cent live in the developing countries of Asia and the Pacific, Africa, Latin America and the Caribbean, as well as the transition countries of the Confederation of Independent States (CIS) and South Eastern Europe. The remain-

<sup>64</sup> The working-age population includes all persons aged 15 and above. The labour force (or economically active population) is the portion of the working-age population that is either working (employed) or looking for work (unemployed). Employment is defined in the resolution adopted by the Thirteenth International Conference of Labour Statisticians (1982) as persons above a specified age who performed any work at all, in the reference period, for pay (or pay in kind), profit or family income, or were temporarily absent from a job. The total employed population includes: (1) wage and salaried workers (also known as employees); (2) self-employed workers; and (3) contributing family workers (also known as unpaid family workers). Self-employed workers can be broken down further into self-employed workers with employees (employers), self-employed workers without employees (own-account workers) and members of producers' cooperatives.

ing 16 per cent live in the EU and other Western European countries, North America, Japan, Australia and New Zealand.<sup>65</sup>

57. Within the developing world, the populous Asia and Pacific region dominates, accounting for more than 57 per cent of all employment. The two giants, China and India, have 26.0 per cent and 14.8 per cent of world employment, respectively. Africa, south of the Sahara, has 9.3 per cent; North Africa and the Middle East 4.1 per cent; and Latin America and the Caribbean 8.4 per cent. The non-EU South Eastern Europe and CIS countries account for 5.9 per cent (see figure 4).<sup>66</sup>

58. From 1995 to 2005, the number of unemployed – those wanting to work but who could not find regular employment – rose from 157.3 million to 191.8 million, an increase of 21.9 per cent.<sup>67</sup> This pushed up the unemployment rate from 6 to 6.3 per cent. The East Asian and Latin American crises, the ensuing recessions, as well as the Central and Eastern European and CIS countries in transition are the major factors contributing to this rise in global unemployment. Despite relatively brisk growth of the global economy between 2002 and 2005, the global unemployment rate only declined from 6.6 to 6.3 per cent. Although the unemployment rate is widely used as an indicator of labour market tightness and vulnerability, the poor have no choice but to work in many developing countries with high poverty and an absence of safety nets. Their work is often of an irregular nature, unproductive and poorly rewarded but does not fall within a strict definition of unemployment.<sup>68</sup>

59. Labour force participation, i.e. the share of the working-age population either in work or actively seeking work, varies considerably between countries and regions.<sup>69</sup> It tends to be higher in countries with lower income and little or no social security coverage since poverty compels people to work to subsist. East and South-East Asia and sub-Saharan Africa have had the highest participation rates every year since 1991. However, female participation also affects overall participation rates. The Middle East and North Africa have traditionally had the lowest participation rates, primarily due to low female participation (see figure 5). Labour force participation in most industrialized countries has increased over the last decade but varies between 50 per cent in Turkey and 75 per cent in Iceland.<sup>70</sup>

60. In addition to levels of per capita income, the main factors explaining variations in labour force participation are: the issue of whether women work outside the home; the number of young people who stay, and for how long, in full-time education; and the effective age at which older people withdraw from the workforce. Public policy, often reflecting social and cultural values that among other things attribute unequal roles to women and men, affect all these variables. An additional influence on these issues is the health status of workers.

***China and India constitute more than 40 per cent of the world's workers***

***Unemployment on the rise***

***Rate of labour force participation varies***

***Educational opportunities, health and social position of women affect numbers in work***

<sup>65</sup> ILO: Global Employment Trends Model database (Geneva, 2006). See <http://www.ilo.org/public/english/employment/strat/wrest.htm>.

<sup>66</sup> *ibid.*

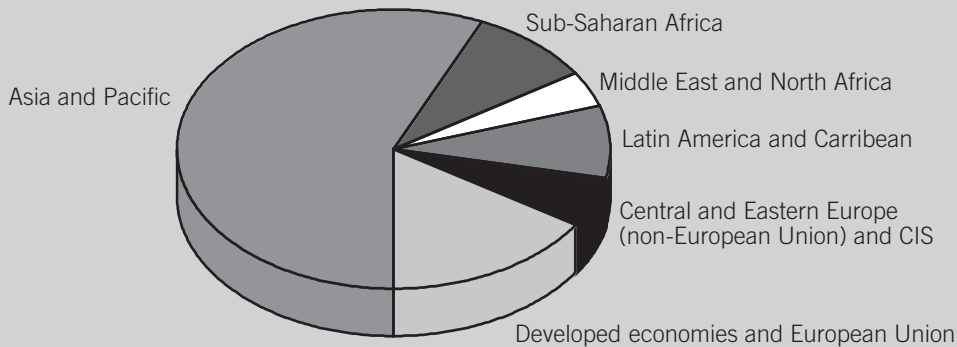
<sup>67</sup> According to the resolution adopted by the Thirteenth International Conference of Labour Statisticians (1982), the standard definition of unemployed persons is those individuals without work, seeking work in a recent past period, and currently available for work. The unemployment rate is defined mathematically as the quotient resulting from dividing the total number of unemployed (for a country or a specific group of workers) by the corresponding labour force.

<sup>68</sup> The Sixteenth International Conference of Labour Statisticians (1998) adopted a resolution concerning the measurement of underemployment and inadequate employment situations which aimed to stimulate ways of measuring underemployment. However few developing countries collect data that would enable estimations of the numbers of people who, for example, have casual jobs that do not amount to being fully employed but are above the threshold for unemployment.

<sup>69</sup> ILO: *World Employment Report 2004-05*, op. cit., table 1.3.

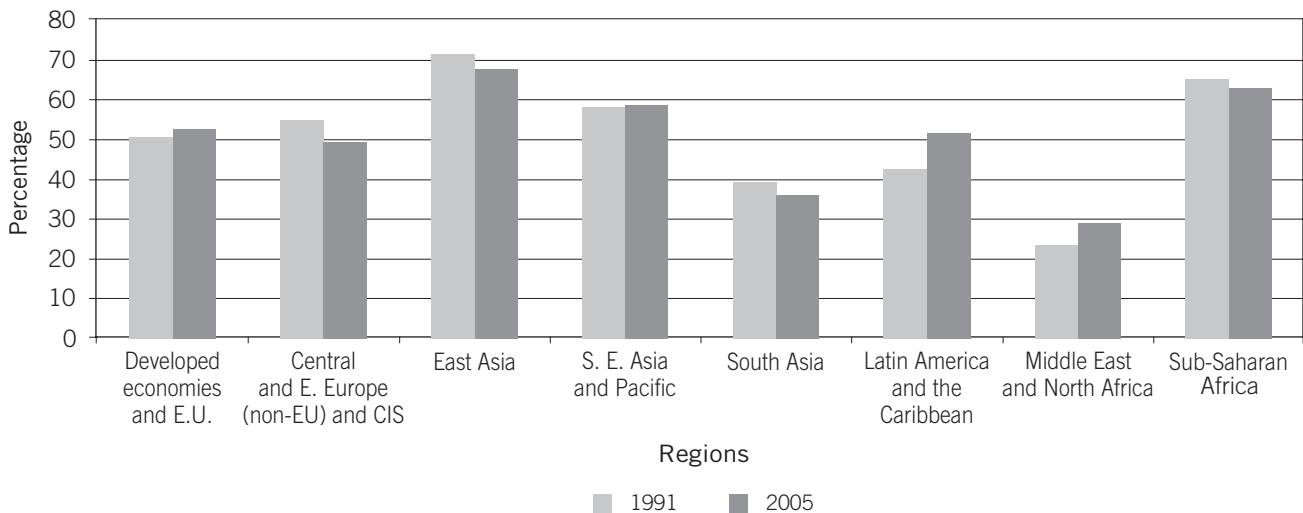
<sup>70</sup> ILO: *KILM*, 4th ed., op. cit.

**Figure 4. Asia and the Pacific has more than half of world employment**  
Regional shares of global employment in 2005



Source: ILO: *Global employment trends*, estimation model, 2005.

**Figure 5. Variation in female labour force participation rate across regions, 1991 and 2005**

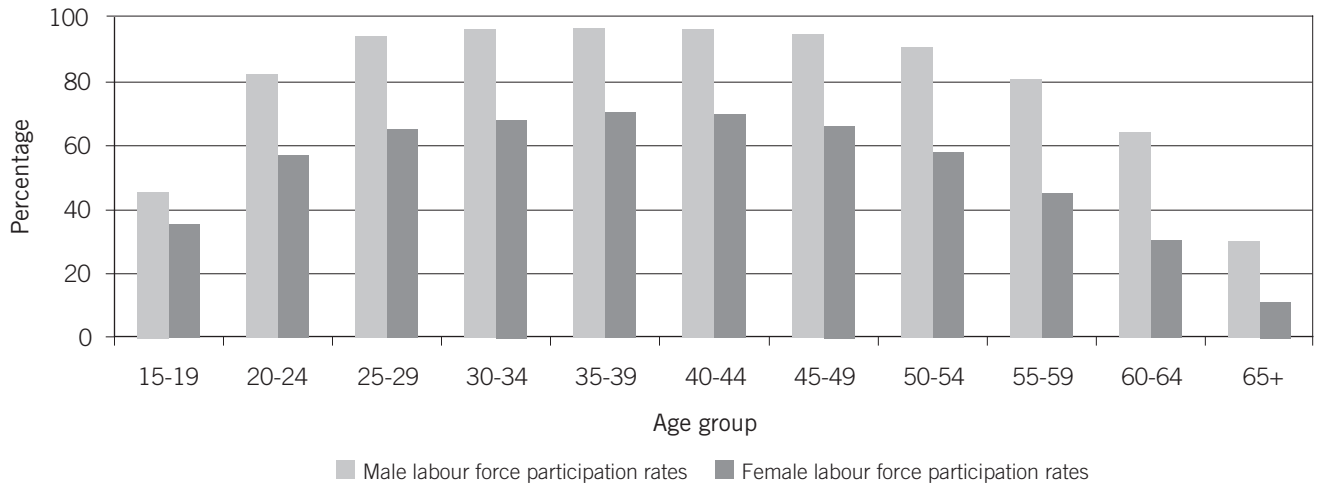


Source: EAPEP Database, 5th edition (for 2005), and, for 1991 data, see ILO: *Global employment trends*, estimation model, 2005.

**Total number of women in employment increasing**

61. Women constitute 40 per cent of the world's labour force. From 1991 to 2005, the global female workforce increased from below 1 billion to 1.22 billion, mainly as a result of growth in the developing world. This represents 52.5 per cent of women of working age. Although the labour force participation of women has increased, women continue to be disproportionately involved in housework and care work. Of the women in the labour force, employment of women aged between 25 and 54 years increased, while that of younger women fell mainly as a result of increases in the numbers engaged in education (see figure 6).<sup>71</sup> However, women still face many obstacles to equal integration in the labour market. Working women continue to contribute more to the care economy and are over-represented in the informal economy, agricultural sector and in particular kinds of employment occupations. Compared to men, this leaves them with lower earnings, insecure jobs and without opportunities for advancement. Although gender gaps in education have narrowed, including at university level, this development has not

<sup>71</sup> ILO: *Economically Active Population Estimates and Projections (EAPEP)* database, 5th ed., <http://laborsta.ilo.org>.

**Figure 6. Male and female labour force participation rates by age group, 2005**

Source: EAPEP Database, 5th edition.

been matched by similar increases in the shares of women in professional and managerial jobs.

62. In 2005, the unemployment rate for females was slightly higher than for males in the world as a whole, with 79 million women looking for work. Amongst vulnerable groups, such as migrants, young people, the elderly, people in rural areas and the disabled, unemployment was generally higher for women than for men.

***Unemployment higher among women***

63. Between 1995 and 2005, youth unemployment rates increased globally from 12.1 to 13.7 per cent.<sup>72</sup> The youth-to-adult unemployment ratio worsened slightly over the same period for the world as a whole (from 2.9 to 1 in 1995 to 3.1 to 1 in 2005). Overall, young people in developing regions in 2005 were 3.3 times more likely to find themselves unemployed when compared with adult workers, while in developed economies, youth were 2.3 times more likely to be unemployed than adults.<sup>73</sup>

***Youth unemployment increasing***

64. The labour force participation rate of young people aged 15-24 years decreased in the world as a whole between 1995 and 2005. Specifically, there were large drops in youth participation rates in Central and Eastern Europe (non-EU) (-11 per cent), the CIS (-6.4 per cent), East Asia (-9.7 per cent) and Southern Africa (-5.6 per cent). Youth labour force participation rates remained significantly higher in low-income regions of the world (although they declined slightly). In 2005, the average rate among the sub-Saharan African subregions was 64.8 per cent (compared to 44.1 per cent in the EU). Only Western Europe (non-EU) and the Middle East saw an increase in the overall youth participation rate.<sup>74</sup>

***Declining youth labour force participation***

65. The declining labour force participation of youth is typically attributed to one “good” and one “bad” influence. The “good” influence is that more young people are staying in the education system for longer periods of time. The “bad” factor is that more young people are discouraged, believing that as there are few suitable employment opportunities available to them, a job search would be futile.

***Increasing number of youth neither in work nor education***

<sup>72</sup> ILO: *KILM*, 4th ed., op. cit.

<sup>73</sup> ILO: Global Employment Trends Model database, op. cit.

<sup>74</sup> ILO: EAPEP database, 5th ed., op. cit.



### Young persons neither in employment nor education (NEETs)

Data for OECD countries show increasing levels of discouragement among youth from 1993 to 2004, particularly among young women. The number of young discouraged workers as a percentage of youth population increased by 150 per cent over the period (a 130 per cent increase for young men and 180 per cent increase for young women).<sup>1</sup> The number of discouraged youth is particularly high in countries of South-East Europe, according to a recent study.<sup>2</sup>

In the early 2000s, about one in three teenagers (aged 15-19 years) was neither in education nor in employment in the South-East European countries of Albania, Bosnia and Herzegovina, Bulgaria and Kosovo.<sup>3</sup> A person “neither in education nor in employment” (NEET) would only qualify as discouraged in the strict sense of the term if they claimed to have wanted to work; however, in the absence of information on desire to work, a measure of young NEETs is a useful proxy in itself as a measure of underutilized resources, since it includes both the number of unemployed, the number of discouraged workers and the number of persons who have no desire to work for whatever reason. The so-called “NEETness” phenomenon, especially among young people, is becoming an increasing challenge for governments that aim to improve the integration of young people into society. Especially in low-income countries, most young people do not have the choice of staying in education due to lack of education infrastructure or unaffordable education fees. Young people must take on any job in order to maintain a subsistence level of support for themselves and their families.

<sup>1</sup> OECD, Labour Force Statistics database, (“discouraged workers” dataset). <sup>2</sup> A. Kolev and C. Saget: “Understanding youth labour market disadvantage: Evidence from south-east Europe”, in *International Labour Review* (Geneva, 2005), Vol. 144, No. 2, pp. 161-187. <sup>3</sup> *ibid.*

### ***First signs of a fall in numbers of children working***

66. In 2004 there were 218 million children trapped in child labour, of which 126 million were in hazardous work. Though the participation of girls in child labour and hazardous work is on a par with boys in the youngest age group (5-11 years), boys predominate considerably at older ages in both categories. However, the number of child labourers globally fell by 11 per cent over the last four years, while those engaged in hazardous work decreased by 26 per cent. In the 5-14 years age group, the decline in hazardous work was even steeper – 33 per cent. The global picture that emerges is that child work is declining, and the more harmful the work and the more vulnerable the children involved, the faster the decline.<sup>75</sup>

### ***Older men working less and older women more***

67. Globally, the number of people aged 60 years and over is growing faster than all other age groups; increasing life expectancy coupled with low fertility levels are contributing factors. Labour force participation rates for all workers above 50 years of age have increased worldwide and forecasts show that this trend will continue; but there are major differences between men and women. Previously high participation rates for men are declining, especially for the over-55 years range, but this is counterbalanced by an increase in the lower participation rates of women. Participation rates of older workers in Asia and Africa are the highest in the world for both older men and older women. About 49 per cent of people above the age of 64 in Africa and about 25 per cent in Asia are still in the labour force, mostly in the agricultural sector, whereas in the more developed parts of the world this rate is less than 10 per cent.<sup>76</sup> In Latin America, participation rates of older men are high and have not experienced a substantial decline. The participation rates of older women, on the other hand, are much lower. As the average age of

<sup>75</sup> ILO: *The end of child labour: Within reach*, Global Report I (B), International Labour Conference, 95th Session, Geneva, 2006.

<sup>76</sup> ILO: EAPEP database, 5th ed., op. cit.

the world's population rises, the age of effective withdrawal from work has an increasing impact on the financing of pension systems.

## 2. *Global production systems and shifts in employment*

68. From the mid-1980s onwards, falling barriers to trade and investment, cheaper transport and rapid technological advances made it increasingly possible to break up production processes and locate them in different countries in order to take advantage of lower costs, the availability of raw materials, and/or more favourable policy environments. Global production systems evolved, connecting developed and developing country product and labour markets.<sup>77</sup> These may be categorized as buyer-driven, producer-driven, and – increasingly since the mid-1990s – Internet-oriented. Buyer-driven chains are those involving large retailers, marketers and branded manufacturers that are key actors in setting up decentralized production in a number of exporting countries – often in the developing world (e.g. garments, toys, electronics). Producer-driven chains involve large, usually transnational, manufacturers that play a major role in coordinating production networks – often characteristic of capital- and technology-intensive industries such as automobiles. Finally, Internet-oriented networks are based on the “build-to-order” model and can create markets of a scale and level of efficiency that was not previously possible.<sup>78</sup>

### *The rise of global production systems*

69. In the last decade or so, a greater number of developing countries have acquired the ability to produce complex manufactured goods and are increasingly competing to capture the higher value added activities in global production chains. Buyer-driven production systems are a key channel in export-oriented industrialization. Over time, local firms in developing countries can establish closer relationships with lead firms in developed countries. This potentially allows for technology and knowledge transfer, as well as the consistent sourcing of material inputs, that enable local firms to upgrade their operations. As local entrepreneurs learn about consumer preferences in foreign markets, international standards for pricing and the quality and delivery of export merchandise, they can gradually shift from mere assembly work to full package supply and move on to original brand name manufacturing that involves product design and marketing.<sup>79</sup>

### *Moving up the ladder*

70. While some companies in a few developing countries have managed to move up the technology and skills ladder, the competitive advantage that businesses in already industrialized countries enjoy in terms of technology and investment finance makes it extremely difficult for new developing country entrants to break into many global markets. The failure to acknowledge that the “playing field” is not level for many developing countries is a major source of tension in trade relations. For instance, industrialized countries may threaten the use of anti-dumping measures to protect against low labour cost imports – but a similar case against low-cost technology imports is impossible. For developing country firms, access to global production systems is one of the main ways to start a process of product and process upgrading that can play a crucial role in economic and social development.

### *Technology threshold to enter global markets remains high*

<sup>77</sup> S. Hayter: *The social dimension of global production systems: A review of the issues*, Working Paper No. 25, Policy Integration Department (Geneva, ILO, 2005).

<sup>78</sup> G. Gereffi: *The new offshoring of jobs and global development: An overview of the contemporary global labour market*, lecture given at the ILO 7th Nobel Peace Prize Social Policy Lectures, Kingston, Jamaica, December 2005.

<sup>79</sup> *ibid.*

***Increased international competition leads to comparison of labour conditions***

71. These networked forms of organization and coordination attract workers from rural to urban areas in developing countries and provide employment for low-skilled workers, including women who may otherwise have few opportunities for paid employment. However, there is some evidence that as export firms in developing countries upgrade technologically, women's share in manufacturing declines, with their low-skill jobs being replaced by higher-skill jobs performed by men.<sup>80</sup> Although wages and working conditions are often much lower in developing countries, unit labour costs are often comparable because of higher productivity levels in the more developed countries. Nevertheless, comparisons are inevitably made, leading to questions about whether it is possible to envisage a floor for employment standards in global production systems.

***Share of global employment in industry declines***

72. One way of assessing the impact of increased competition for some types of manufacturing jobs is through the global figures on employment in industry, of which manufacturing is the largest component.<sup>81</sup> As a share of total employment, industry stood at approximately 21.0 per cent in both 1995 and 2005. The flat trend masks a decline in the share of industrial employment in total employment from 28.7 per cent in 1995 to 24.8 per cent in 2005 in a number of industrial countries and a rise in the share in some large developing countries. In all developing countries, the share of industrial employment in total employment rose from 19.4 per cent in 1995 to 20.2 per cent in 2005. A small number of countries experienced both a significant increase in total employment in industry and an increase in the share of industry employment in total employment during the same period. These included Brazil, China, Indonesia, Mexico, Pakistan, Russian Federation, South Africa, Thailand, Turkey and Viet Nam. Total global employment in industry increased by 83 million between 1995 and 2005. Half of this net growth was in East and South-East Asia, a region that is fast becoming the assembly hub of global production systems.<sup>82</sup>

***Services employment increasing worldwide***

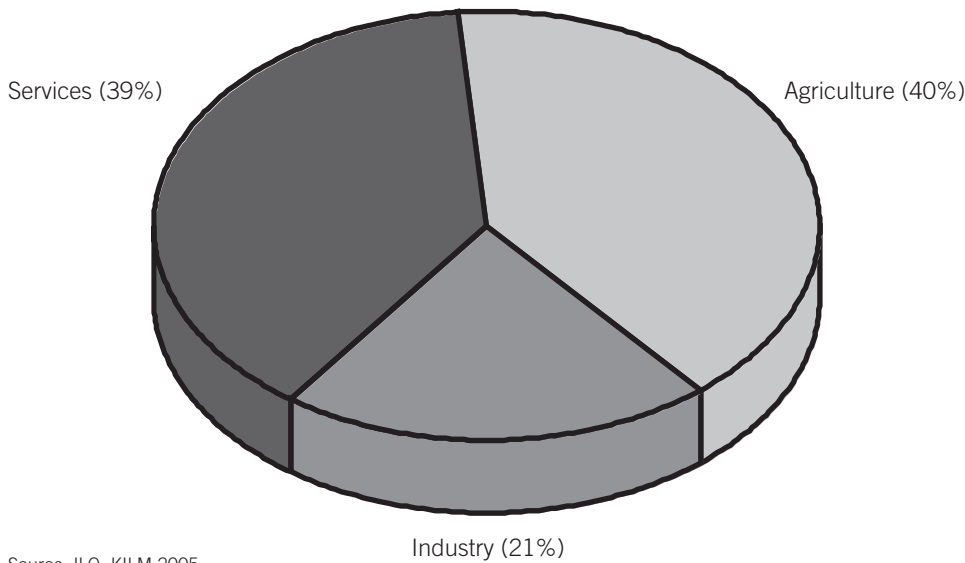
73. In contrast to industrial employment, services went up as a share of global employment from 34.4 per cent in 1995 to nearly 39 per cent in 2005 (see figure 7). In developed countries, employment in services as a percentage of the total increased by 5.3 percentage points in ten years to equal 71.4 per cent in 2005.<sup>83</sup> Services include wholesale and retail trade; hotels and restaurants; transport; storage and communications; finance; property and business activities – including research and development; public administration; education; health and social work; community and personal services; and domestic service. This is an extremely varied group of industries and may include some services that, before the trend towards outsourcing, might have been counted within the totals of manufacturing firms (e.g., catering or cleaning). International competition in many service industries is limited, either because delivery across borders is not feasible or because of commercial restrictions. However, trade is gradually opening up as a consequence of technological changes that affect some services and liberalization measures. From 1995 to 2005, one of the fastest growing subsectors of services in industrialized countries was business services. Furthermore, education and health are amongst the largest employers and are continuing to grow in most countries.

<sup>80</sup> M. Carr and M. Chen: *Globalization, social exclusion and work: With special reference to informal employment and gender*, Working Paper No. 20, Policy Integration Department (Geneva, ILO, 2004).

<sup>81</sup> The agriculture, industry and services sectors are defined by the International Standard Industrial Classification (ISIC) System (Revision 2 and Revision 3). The agriculture sector comprises activities in agriculture, hunting, forestry and fishing. The industry sector comprises mining and quarrying, manufacturing, construction and public utilities (electricity, gas and water). The services sector consists of wholesale and retail trade, restaurants and hotels, transport, storage and communications, finance, insurance, real estate and business services, and community, social and personal services.

<sup>82</sup> ILO: Global Employment Trends Model database, op. cit.

<sup>83</sup> *ibid.*

**Figure 7. Shares of world employment by sector, 2005**

### 3. Skills shortages emerge worldwide

74. The current process of economic and technological transformation requires a constant renewal of skills on the part of workers, employers and managers, and it favours those countries best able to meet this demand for enhanced skills. Put another way, current growth is skill-biased – and not only in developed but also developing countries.<sup>84</sup> Worldwide, firms increasingly require workforces that are more flexible, more skilled (especially in terms of computer literacy) and more adaptable to rapid changes in the business environment. What is more, firms need to reorganize their management methods to exploit fully the potential of new technologies that can provide frontline production and service workers with vastly increased information – thereby giving them considerable scope to decide how to perform their work.<sup>85</sup>

***New skills in short supply***

75. In industrialized countries, high-skilled occupations, including professional, technical, and administration categories,<sup>86</sup> recorded the highest growth of all occupations in the 1980s and 1990s; this trend was accompanied by slower growth in some lower-skilled industrial occupations and increased employment in some lower-skilled service sector jobs.

***Higher-skilled jobs growing fastest in industrial world***

76. The scenario in developing countries is mixed. ICTs and integration of the global market economy have allowed some countries to take advantage of technology and knowledge transfers and acquire the necessary skills to upgrade their activities from standard assembly work to complex manufacturing and higher value added activities. High-skilled manufacturing has grown rapidly in a number of East Asian and South-East Asian economies (Hong Kong (China), Republic of Korea, Malaysia, Singapore and Taiwan (China))

***Skill shortages in some fast-growing developing countries***

<sup>84</sup> E. Berman and S. Machin: “Globalization, skill-biased technological change and labour demand”, in E. Lee and M. Vivarelli (eds.): *Understanding globalization, employment and poverty reduction* (New York, Palgrave, 2004), pp. 39-63.

<sup>85</sup> D.N. Ashton and J. Sung: *Supporting workplace learning for high performance working* (Geneva, ILO, 2002).

<sup>86</sup> See ISCO-68 and ISCO-88 for the classification of occupations. <http://www.ilo.org/public/english/bureau/stat/isco/docs/introl.htm>.

over the past two decades. In other countries in South Asia and Africa (e.g., Bangladesh, Kenya, Mauritius, Pakistan, Sri Lanka) a fall in the share of high-skilled employment within manufacturing indicates a specialization in lower-skilled assembly work with the risk they might become trapped in the relatively low-skilled, low value added and poorly rewarded end of global production chains.<sup>87</sup>

***Schools and training systems need to adapt to new skill demands***

77. Given the skill-biased nature of the current economic and technological transformation, worker training (formal education, vocational training and training in firm-specific activities) assumes an increasingly crucial role. Public and private institutions, including educational institutions, employment agencies, counselling and community organizations, are all instruments intended to assist individuals develop skills to find and retain formal employment. However, these institutions and formal training systems face a number of challenges, particularly in developing countries. Currently, vocational training options are often oriented to rigidly defined occupations, and focus on narrowly defined technical skills at a time when there are enormous shifts in employer needs.<sup>88</sup> In both developed and developing countries, considerable effort is required to rapidly improve literacy rates and general education levels, as well as to equip those in the informal economy with skills for which there is a demand – or to create demand for the skills that informal workers have to offer.<sup>89</sup>

#### ***4. Increasing international labour migration***

***Numbers of migrant workers increasing***

78. As well as changes in trade and investment leading to the movement of certain types of work between countries, workers themselves are also on the move internationally. Migrant workers, of whom women now represent nearly half, constitute a growing share of the world's workforce. In 2000 there were more than 86 million migrant workers throughout the world, with 34 million of these in developing regions. Taking into account those not economically active, about 175 million people were residing outside their country of birth or citizenship, accounting for about 3 per cent of the world's population. From 1985 to 1995, the number of international migrants increased by nearly 6 million a year, a faster rate of growth than that of the world's population.<sup>90</sup>

***Differences in skills and gender stereotyping mark migrants' work experiences***

79. Migrant workers include two major categories: the highly skilled, much sought-after and usually able to obtain the necessary papers to live and work in the host country; and the unskilled who are often equally in demand but for low-status/low-paid jobs that few nationals want to do. The unskilled often have difficulty in obtaining visas and work permits. Information obtained from regularization programmes and other sources suggest that 10 to 15 per cent of migrants are irregular.<sup>91</sup> Both developing and developed countries have irregular migrant workers. At the worst extreme are irregular workers who have fallen into the hands of traffickers to take them across borders. The ILO estimated in 2004 that 2.45 million people in forced labour

<sup>87</sup> Calculated from *UNIDO Industrial Statistics database 2005*.

<sup>88</sup> ILO: *Youth: Pathways to decent work*, Report VI, International Labour Conference, 93rd Session, Geneva, 2005, para. 55.

<sup>89</sup> ILO: *Learning and training for work in the knowledge society*, Report IV(1), International Labour Conference, 91st Session, Geneva, 2003.

<sup>90</sup> ILO: *Towards a fair deal for migrant workers in the global economy*, Report VI, International Labour Conference, 92nd Session, Geneva, 2004.

<sup>91</sup> An important facet of migration involves workers in an "irregular status." The term covers a variety of situations, ranging from those who arrive in a country without valid immigration documents to those who work while on a tourist visa or remain after their visa has expired.

had been trafficked across international boundaries. Of these, about 43 per cent had been destined for commercial sexual exploitation and a third for economic exploitation. Of those trafficked for sexual exploitation, 98 per cent were women and girls.<sup>92</sup>

#### Women migrant workers risk exploitation to help families back home

Women's migration can be positive as increased earnings may enhance their role in decision-making and reduce the poverty of their families in their home countries. At the same time, women tend to be restricted to jobs associated with their traditional "female roles", such as caregivers, nurses and domestics.<sup>1</sup> Similarly, migrant women are more vulnerable to particular forms of gender-specific violence and sexual abuse, especially when working as domestics and sex workers.<sup>2</sup> Furthermore, gender-blind migration policies of destination countries can have disproportionately negative impacts on women and leave them at a higher risk of irregular forms of employment and deportation.<sup>3</sup>

<sup>1</sup> M. Chen et al.: *Progress of the world's women 2005: Women, work and poverty* (New York, UNIFEM, 2005). <sup>2</sup> G. Chammartin: "The feminization of international migration", in *Labour Education 2002/4*, No. 129 (Geneva, 2002). <sup>3</sup> I. Omelaniuk: *Gender, poverty reduction and migration* (Washington, DC, World Bank, 2005).

## 5. Rural-urban migration and the growth of the informal economy

80. By the onset of the twentieth century, industrialization in developed countries had led to a concentration of people in urban centres. A similar process has been under way in developing countries over the last century.<sup>93</sup> The movement of people from rural to urban areas and a rise in the number of urban dwellers is part of a general development pattern that characterizes the transformation of economies and societies based on agriculture to more diversified systems of production. It is estimated that in 1960, 58 per cent of all those employed worldwide worked in agriculture, varying between approximately one-third in developed countries and more than 73 per cent in developing countries.<sup>94</sup>

81. By 2005 the share of agricultural employment in total world employment was down to 40.1 per cent, a fall of nearly three percentage points – or around 90 million working women and men – compared to ten years earlier. In developed countries the share of agricultural employment in total employment was below 4 per cent but remained at 48 per cent in developing countries.<sup>95</sup> Despite the declining share of agricultural workers in total employment, the absolute numbers of those engaged in agriculture are still rising, most notably in South Asia, East Asia, and sub-Saharan Africa.

### *Moving off the land*

### *Large-scale migration to cities but rural workforce still very large in developing world*

<sup>92</sup> ILO: *A global alliance against forced labour*, Global Report under the follow-up to the ILO Declaration, Report I(B), International Labour Conference, 93rd Session, Geneva, 2004, para. 60.

<sup>93</sup> H. Zlotnik: "World urbanization: Trends and prospects", in T. Champion and G. Hugo (eds.): *New forms of urbanization* (United Kingdom, Ashgate Publishers, 2003).

<sup>94</sup> P. Bairoch and J.M. Limbor: "Changes in the industrial distribution of the world labour force, by region, 1880-1960", in *International Labour Review* (Geneva, ILO), Oct. 1968, pp. 311-336.

<sup>95</sup> ILO: *KILM*, 4th ed. op. cit.

***Rural exodus pushed by poverty and pulled by dream of better jobs in cities***

82. Three-quarters of the world's poorest people live in rural areas of developing countries and are directly or indirectly dependent on earnings from agriculture.<sup>96</sup> Improving agricultural productivity and earnings is therefore critical to poverty reduction. Development policies are largely founded on a "dual-economy model" that identifies shifts out of a low-productivity agricultural sector, in which most women and men work in household units, to higher-productivity wage labour in manufacturing and service firms located primarily in urban areas. Higher-productivity – and therefore better-paid-jobs in manufacturing and services pull workers from agricultural occupations. However, rural poverty may also push workers to migrate to urban areas in the hope of a better job – a hope that is not always realized.

***Families dispersed by rural migration***

83. In many cases women are left behind to do the farm work while the men go to work wherever they can, sending part of their earnings home. But increasingly women are also leaving rural areas to help supplement family incomes with remittances. Migration has accelerated the spread of HIV/AIDS which is a major threat to efforts to improve productivity and reduce poverty in many predominantly rural countries, especially those in Africa.

***Employment in services as a percentage of total employment shows a rise***

84. The "dual economy" model, drawing on the experience of the early industrializing countries, expected most agricultural workers to move into factories in urban areas. However, in the late twentieth century, manufacturing ceased being a major sector of employment growth, except in East and South-East Asia. In developing economies, the declining shares of agricultural employment thus coincided with a rise in services from 28.0 in 1995 to 32.6 per cent of employment in the 1995-2005 period.<sup>97</sup> Within the several categories of services, the fastest growing in employment is commerce, which includes the petty trading informal activities that dominate developing country towns and cities.<sup>98</sup>

***Informal economy grows where development lags***

85. Countries have different definitions for the informal economy, making it difficult to accurately gauge its size.<sup>99</sup> However, the ILO has estimated that informal employment as a share of non-agricultural employment in the second half of the 1990s was 48 per cent in North Africa, 72 per cent in sub-Saharan Africa, 51 per cent in Latin America and 65 per cent in Asia.<sup>100</sup> Recent research by the ILO shows some evidence of the informal economy gradually shrinking in the faster growing economies of East and South-East Asia where the rise of the manufacturing industry is powering development. In other slower growing countries, notably in Africa and Latin America, the main increases in employment are in services – especially informal petty trading. Poverty trends mirror this pattern. In the countries where informality is retreating, the numbers of working poor are also declining. In countries where informality is on the rise, the numbers of working poor are increasing or remain the same.<sup>101</sup>

***Informal economy is only means of survival for many of the poorest workers and their families***

86. In countries with little or no social security coverage, the informal economy provides a means of livelihood for women and men with few other options for survival, such as older people, migrants, ethnic minorities and other vulnerable groups.<sup>102</sup> Insecurity and poverty also contribute to the problem of child labour. ILO research in seven developing countries found

<sup>96</sup> IFAD: *Rural Poverty Report 2001* (Oxford, Oxford University Press, 2001).

<sup>97</sup> ILO: Global Employment Trends Model database, op. cit.

<sup>98</sup> N. Majid: *On the evolution of employment structure in developing countries*, Employment Strategy Paper 2005/18 (Geneva, ILO, 2005).

<sup>99</sup> R. Hussmanns: *Measuring the informal economy: From employment in the informal sector to informal employment*, Working Paper No. 53, Policy Integration Department (Geneva, ILO, 2005).

<sup>100</sup> ILO: *Women and men in the informal economy: A statistical picture* (Geneva, 2002), p. 7.

<sup>101</sup> N. Majid, op. cit.

<sup>102</sup> See the conclusions concerning decent work and the informal economy, adopted by the 90th Session of the International Labour Conference (2002); and ILO: *Decent work and the informal economy*, Report VI, International Labour Conference, 90th Session, Geneva, 2002.

that the share of employment in micro- and small enterprises, many of which operated at least in part informally, rose in economic downturns and when jobs were being shed in large enterprises or the public sector. Many such enterprises, often headed by women, were survivalist in nature and offered poor-quality employment. The research also found a sharp distinction between these forms of micro businesses and more dynamic and prosperous small businesses which tended to expand employment in upswings and were more prevalent in countries with a stronger overall growth performance.<sup>103</sup>

87. Women make up a substantial proportion of informal workers, in part because of the continuing burden of family responsibilities or as a result of discrimination. This puts strong pressure on women to take up insecure jobs in the informal economy as self-employed and wage workers. In developing economies, informal self-employment includes unregistered employers, own-account workers and unpaid contributing family workers, whereas informal wage employment covers casual labourers, domestic workers and unregistered employees – among others. In fact, low unemployment rates for women are often misleading indicators of women's working conditions since female unemployment may be masked as employment in the informal economy.

***Women make up most informal economy workers***

88. Excluding North Africa where women account for just over 40 per cent of informal workers, 60 per cent or more of the developing world's working women are in informal employment outside agriculture. In sub-Saharan Africa, women's participation in this form of informal employment is nearly 85 per cent; in Latin America the share is nearly 60 per cent; and in Asia the figure is 65 per cent, compared with 63 per cent, 48 per cent, and 65 per cent of men, respectively. Moreover, country data for six developing economies have also revealed that women working informally outside agriculture are most likely to be working as own-account workers, unpaid contributing family workers and domestic employees. By contrast, men are more often working as informal employers and wage labourers. This may suggest that more women than men are taking up insecure and lower-quality jobs in the informal economy outside agriculture. When the same country analysis was narrowed down to five economies, findings revealed that workers in informal own-account employment and domestic work, where jobs are taken up by large numbers of women, received lower hourly earnings relative to earnings under all other forms of formal and informal work.<sup>104</sup>

***Women mainly engaged in family micro businesses or as domestics***

## **6. Poverty trends and wages**

89. Nearly half of the world's 2.8 billion workers are unable to earn enough to lift themselves and their family members above the \$US2 a day poverty line. This is roughly the same total as in 1994 – but it now accounts for just under half of the world's labour force, compared to 57 per cent at that time. Of that total, 535 million working women and men are surviving on \$US1 a day or less.<sup>105</sup> With the exception of sub-Saharan Africa, all other developing regions have seen a decline in the share of working poverty in total employment. China and its East Asian neighbours show the most dramatic decline. It would appear that many of those who have escaped \$US1 a day extreme poverty are now in the less than \$US2 a day band.

***1.4 billion working poor below the \$US2 a day poverty line, down from 57 per cent to 49 per cent of global labour force between 1994 and 2004***

<sup>103</sup> G. Reinecke and S. White: *Policies for small enterprises: Creating the right environment for good jobs* (Geneva, ILO, 2004).

<sup>104</sup> Chen et al., op. cit., p. 39, pp. 44-45, tables 3.2 and 3.4.

<sup>105</sup> ILO: *Global Employment Trends Brief* (Geneva, Feb. 2005).



- Sharp rise in working poverty in early years of transition** 90. In the early years of transition in Central and Eastern Europe when the old state-owned enterprise-based system of employment and social security was breaking down, there was a big surge in working poor starting in 1990-91. Since then, however, non-EU Central and Eastern European countries have seen a reduction in the share of working poor in total employment.
- Poverty increasing in many developed countries** 91. As the most severe problems of subsistence-level poverty have ebbed in most industrialized countries, a relative concept of poverty that moves with increases in the standard of living of the non-poor – often set at half of the median income of the population – has become a widely used measurement method. On this basis the average poverty rate for 20 OECD countries in 2000 was 10.6 per cent. This is higher than the level in the mid-1990s when the average was 10 per cent. Poverty rates were above 15 per cent in Ireland, Japan, United States and Turkey, and above 20 per cent in Mexico. Child poverty was rising in the 1990s and progress in reducing old-age poverty slowed.<sup>106</sup>
- Work and family circumstances determine risk of in-work poverty** 92. The main sources of information on poverty come from household surveys of income and expenditure. These do not always enable researchers to establish the relationship between individuals' incomes from work, based on labour force surveys, and levels of per capita income or consumption of family members. A household may be poor because there are many non-working members dependent on the income of a single worker with earnings that are not low. Similarly, two low wage earners with no dependants are not likely to constitute a family living in poverty. A study of in-work poverty in the EU25 has concluded that about 14 million workers, or 7 per cent of the labour force, live in households with incomes below national poverty lines. As well as the number of dependants workers have to support, irregular and/or part-time work, together with low earnings, were the main factors linked to in-work poverty. Single parents or the sole earners of households with several dependants were most vulnerable. The study also finds that having a regular job substantially reduces the risk of poverty.<sup>107</sup>
- Average wages in some developing countries are catching up with those in industrialized countries** 93. A trend towards “catching-up” real wage increases in those developing countries that have become major exporters appears to have emerged in the 1990s. Although this was interrupted for many Asian countries by the financial crisis of 1997-98, there are signs of the trend resuming. The average annual rate of growth of real wages per worker over the period 1985-97 for India, Malaysia and China (1984-95) was 1.17, 3.52 and 5.40 per cent, respectively.<sup>108</sup> More recent figures show that real wages in the manufacturing sector in China almost doubled between 1990 and 2000.<sup>109</sup> In Latin America, the situation is more mixed, but on the whole real wages in the sector increased on average by more than 15 per cent between 1990 and 2003, with much higher increases in Ecuador and Chile (61 and 46.6 per cent, respectively).<sup>110</sup> It appears that the effect of globalization or trade openness on income inequality depends mainly on wage setting and redistribution institutions.<sup>111</sup>

<sup>106</sup> M. Förster and M. Mira d'Ercole: *Income distribution and poverty in OECD countries in the second half of the 1990s* (Paris, OECD, 2005).

<sup>107</sup> L. Bardone and A.C. Guio: “In-work poverty”, in *Statistics in focus* (European Communities, 2005) 5/2005.

<sup>108</sup> Ghose, op. cit.

<sup>109</sup> D. Kucera and A. Chataignier: *Labour developments in dynamic Asia: What do the data show?*, Statistical Development and Analysis Group, Working Paper No. 61 (Geneva, ILO, 2005) table 9.

<sup>110</sup> ILO: *Labour Overview: Latin America and the Caribbean* (Geneva, 2005).

<sup>111</sup> M. Slaughter: *Globalisation and wages: A tale of two perspectives* (University of Nottingham, Centre for Research on Globalisation and Labour Markets, 1999); Majid, op. cit.; and European Commission: *Employment in Europe, 2005* (Brussels, 2005).

94. The increase in average real wages in several developing countries has, however, gone hand in hand with an increase in income inequality. Those at the top end of the earnings spectrum have done better than those at the bottom, pulling the average (mean) up. Inequality has risen dramatically in most transition economies and has also grown sizeably in some Latin American countries. The picture is mixed in Asia, where some countries have managed to reduce income inequality; but others, such as China and Sri Lanka, have witnessed sharp increases.<sup>112</sup> Gross earnings inequality – measured over the employed population – has increased on average in OECD countries, for which data are available.<sup>113</sup>

***Wage inequality rising***

95. The widening dispersion of wages and concerns over poverty amongst more vulnerable workers has focused attention on minimum wage systems. A number of countries have made remarkable efforts to extend minimum wage protection to workers that were previously not covered. These include: South Africa's inclusion of domestic and farm workers in 2000-01; Bolivia's extension of the minimum wage to agricultural workers in 2005; and China's inclusion of domestic workers in 2003. Furthermore, there is some evidence that wages in the informal economy often adjust with changes in the minimum wage, even though they are unlikely to be legally enforced.<sup>114</sup> Nonetheless, minimum wage laws do face limitations in their attempts to reduce inequality and poverty. Minimum wages are often set by hourly rates – but for many of the poorest whose work is casual or part time, the total hours may be insufficient to yield an income above the poverty threshold. In a number of countries the minimum wage is very low with respect to the level of average wages and even market rates for unskilled work. In addition, minimum wages by definition do not apply to self-employed workers who may also have very low earnings.

***Minimum wage systems and the reduction of poverty and inequality***

## **7. Discrimination in employment and occupation**

96. Discrimination in employment and occupation often exacerbates or perpetuates poverty, while poverty furthers discrimination at work in a vicious cycle. Lack of work or work that is unproductive, insecure and unprotected are the main causes of the material deprivation and vulnerability that poor people experience. Discrimination in the labour market, by excluding members of certain groups from work or by impairing their chances of developing market-relevant capabilities, lowers the quality of jobs to which they can aspire. This, in turn, enhances their risk of becoming or remaining poor, which further reduces their ability to obtain jobs that can lift them out of poverty.<sup>115</sup>

***Poverty and discrimination: A vicious cycle***

97. Discrimination in the world of work not only constitutes an abuse of fundamental principles and rights at work but is of huge cost to society. It deprives not just the individuals and communities concerned of the full benefits of their capabilities but also society as a whole. A global assessment of whether discrimination is increasing or decreasing is well beyond the scope of this Report and would in any case be very difficult to measure. However,

***Awareness increasing of discrimination as an abuse of rights and a waste of human capabilities***

<sup>112</sup> N. Majid: *What is the effect of trade openness on wages?* (Geneva, ILO, 2004); Ghose, op. cit.; G.A. Cornia: *Inequality, growth and poverty in an era of liberalization and globalization* (Oxford University Press, 2004); W. Milberg: "The changing structure of trade linked to global production systems: What are the policy implications", in: *International Labour Review* (Geneva, 2004), Vol. 143, No. 1-2.

<sup>113</sup> OECD: *OECD Employment Outlook 2004* (Paris, 2004) Ch. 3.

<sup>114</sup> S. Devereux: "Can minimum wages contribute to poverty reduction in poor countries?", in *Journal of International Development* (John Wiley and Sons, 2005), Vol. 17.

<sup>115</sup> The following section draws heavily on ILO: *Time for equality at work*, Global Report under follow-up to the ILO Declaration, Report I(B), International Labour Conference, 91st Session, Geneva, 2003.

it is perhaps possible to say that awareness of discrimination and the damage it does is increasing along with action to counter it.

***Some signs of progress  
in the long struggle  
against gender  
discrimination  
in the world of work ...***

98. Throughout this Report, the gender dimensions of trends in the world of work have been identified. While the last 15 years have seen increasing female labour force participation rates and economic activity, a look at female employment by status, sector and wages or earnings reveals that: women are still less likely than men to be in regular wage and salaried employment; women continue to contribute more to household work than men; and women are more likely to earn less than men for the same type of work, even in occupations that are “traditionally female”.<sup>116</sup> Although the gender pay gap in manufacturing is still high in practically all countries, it has been narrowing in a number of countries.<sup>117</sup> Some of the countries with the largest differences in female and male earnings are also those where the growth in female employment has been the fastest, such as Chile, China, Republic of Korea and Singapore. In a number of countries, the key ILO Conventions – the Equal Remuneration Convention, 1951 (No. 100), the Discrimination (Employment and Occupation) Convention, 1958 (No. 111), the Workers with Family Responsibilities Convention, 1981 (No. 156), and the Maternity Protection Convention, 2000 (No. 183) – have influenced legislative measures to promote gender equality.

***... but it remains deeply  
entrenched***

99. But women still face many obstacles to equal integration in the labour market. Across nearly all occupations they still do not get equal pay for work of equal value or balanced benefits that would ensure equality with men. An overview of women in the world of work shows that they are still overwhelmingly segregated in occupations that tend to be at the lower end of the wage scale. In the United Kingdom, 60 per cent of women workers are employed in ten occupations, with the majority concentrated in “the five ‘Cs’: caring, cashiering, catering, cleaning and clerical. Women still also generally receive lower levels of education, making it much more difficult for them to get more productive and better-paid jobs. A further struggle for women today is to break through the “glass ceiling”; that is to gain access to opportunities for positions with decision-making authority and power.<sup>118</sup> Women are also more likely to be engaged in the informal economy than are men and now represent nearly half of all international migrants.

***Racial discrimination  
widespread***

100. In the world of work, “racial discrimination” refers to arbitrary barriers to the advancement of members of linguistic communities or minorities whose identity is based on religious or cultural characteristics or even national origin. Ethnic minorities, indigenous and tribal peoples, “coloured” people and migrant workers are common victims of racial discrimination in employment and occupation. Patterns of racial discrimination against migrant workers, second and third generations of migrants and citizens of foreign origin have changed considerably with the intensification of global migration. Although nationality is what often leads to discrimination against non-nationals, race, colour and perceived religion are also factors. It is the perception of these workers as foreigners that may explain discriminatory behaviour against them. Throughout the world, migrant labour today is a vital asset in many sectors, including agriculture, construction, labour-intensive

<sup>116</sup> ILO: *Women’s employment: Global trends and ILO responses*, ILO contribution to the 49th Session of the Commission on the Status of Women, United Nations, New York, 28 February-11 March 2005.

<sup>117</sup> M. Corley, Y. Peradel and K. Popova: *Wage inequality by gender and occupation: A cross-country analysis*, Employment Strategy Paper No. 20 (Geneva, ILO, 2005).

<sup>118</sup> Looking at the extent to which legislators, senior officials in government and managers in private establishments are women is a typical way, at the international level, to measure women’s opportunities for positions with decision-making authority and power.

manufacturing, domestic work and the sex sector. This has, in some cases, led to competition between nationals – particularly in the marginal segments of the labour force – and migrant workers who are willing to work under inferior conditions. This, in turn, has reinforced sentiments of racism against the newcomers. Often, however, migrants take jobs that the locals refuse.

101. The intensification of domestic and international migration has revealed the difficulty of reconciling social cohesion and inclusion with respect for religious and cultural diversity. Particularly in the past decade, discrimination based on religion appears to have acquired greater significance. The present urgency of countering and preventing terrorism has fuelled sentiments of mutual fear and discrimination between Muslims and non-Muslims. It is clear, however, that any strategy aimed at tackling conflicts of interest should respect religious freedom; denying the basic right to follow a religion of one's choice can destabilize societies and generate violence. The fight against religious discrimination in employment and occupation, and concrete demonstrations that religious discrimination can be eliminated in the workplace, constitute a useful pathway to encourage religious tolerance in society. The dynamics and manifestations of religious discrimination in the workplace have not been researched as much, and as well, as other forms of discrimination. This is related in part to the difficulty of discussing a topic that is seen as pertaining to the private sphere and to the broader question of freedom of conscience. Another constraint, as in the case of national origin or political opinion, deals with the legal prohibition in many countries on requesting or gathering information about religion. In practice, detecting and distinguishing religious discrimination from discrimination based on race or national extraction is often problematic because religion, race and national extraction are closely intertwined; indeed, they are frequently perceived as together defining distinct cultural or ethnic identities.

***Risks of religious and cultural discrimination***

102. People experience discrimination in the labour market differently. The intensity or severity of the disadvantages they may confront depends on the number and interplay of the personal characteristics that generate discrimination against them. For example, a person may be different in race/colour, e.g., black; a black person may be a woman; a woman may have a physical disability; a person with a disability may be old; and one person can have all these characteristics, e.g., be an older, disabled, black woman, and therefore experience very complex forms of discrimination. Furthermore, discrimination has clear life-cycle dimensions. If no remedial action is taken, disadvantages tend to accumulate and intensify over time, with negative repercussions on life after work – and on society more generally. For example, gender inequalities in social protection reveal the perverse consequences of direct and indirect forms of discrimination against women throughout working life. Women's interrupted careers, lower pay and fewer contributions, as well as earlier retirement records, mean that social protection benefits are, on average, lower for women than they are for men.

***Multiple discrimination highlights importance of a life-cycle approach to equality of opportunity***

## **8. Conditions of work: Rebalancing flexibility and security**

103. Employment structures are changing, as are working conditions. Detecting a pattern of change in key elements of the terms and conditions for work is, however, particularly difficult as the main feature revealed by labour market researchers is increasing diversity. Underlying the observed changes are the twin pressures for flexibility and security and the search for new ways of balancing them.

***Increasing diversity***

### ***Stable employment relations with flexible working time***

#### ***Continuing value of employment stability***

104. While there are some signs of an increase in self-employment in a number of countries, the bulk of work in industrial countries is done within an employment relationship, usually of indeterminate length. The value of a stable employment relationship for employers is that workers are available when required, skills learned are retained and tasks can be adapted as needed. From the workers' side an employment relationship, as opposed to the status of self-employed independent worker, offers greater security of income and does not require investment in tools, materials and premises. A study of 13 European countries between 1992 and 2002 reveals that employment stability of the workforce is beneficial to productivity levels, human capital investment and worker motivation.<sup>119</sup> In developing countries, one of the most pressing problems is that the majority of employment relationships are informal and insecure, hampering the developmental transition from the household-based economy to more complex and productive systems for organizing productive work.<sup>120</sup>

#### ***Increased pressures for flexible working time***

105. The pressure for flexibility is focused both on the ease of hiring and firing and on working time (see below), with many employers seeking ways to lengthen the time in which capital is fully utilized. This can involve shift or on-call work and other flexible-time arrangements. In many industrialized countries more people are working longer hours than the standard 35 to 40-hour week, while an increasing number work shorter hours. In consequence, the middle group, whose hours are grouped around the standard week, is shrinking.<sup>121</sup> Temporary contract workers are more likely to work at unconventional times. In a number of developing countries the average work week, although declining, remains longer than in developed countries, ranging from 40 to 50 hours per week.

#### ***Part-time work increasing in some industrial countries***

106. Although by no means a universal trend, part-time work is increasing in some industrial countries. For many women, a substantial portion of their income comes from part-time work as they attempt to balance the need for income with their family and other personal responsibilities.<sup>122</sup> In industrialized countries, part-time work can reflect workers' genuine needs and preferences, whereas in developing countries, many part-time jobs fall into the category of "time-related underemployment" consisting of individuals who would like to work more but cannot find sufficient work.<sup>123</sup>

### ***Changing hazards at work require constant vigilance***

#### ***Heavy toll of occupational accidents and diseases***

107. The ILO has estimated that, globally, about 2.2 million people die every year from occupational accidents and diseases, while some 270 million suffer serious non-fatal injuries and a further 160 million women and men fall ill for shorter or longer periods from work-related causes. This represents an enormous toll of suffering for workers and their families. Further-

<sup>119</sup> P. Auer, J. Berg and I. Coulibaly: *Is a stable workforce good for the economy? Insights into the tenure-productivity-employment relationship* (Geneva, ILO, 2004).

<sup>120</sup> A. Trebilcock, S. Davidov and B. Langille (eds.): *Boundaries and Frontiers of Labour Law: Goals and Means in the Regulation of Work* (Hart, 2006, forthcoming).

<sup>121</sup> J.C. Messenger (ed.): *Working time and workers' preferences in industrialized countries: Finding the balance* (London, Routledge, 2004).

<sup>122</sup> C. Hein: *Reconciling work and family responsibilities: Practical ideas from global experience*, (Geneva, ILO, 2005).

<sup>123</sup> See resolution I concerning the measurement of underemployment and inadequate employment situations adopted by the Thirteenth Conference of Labour Statisticians, Geneva, 6-15 October 1998, in *Report of the Conference* (Geneva, ILO) Appendix I.

more, the ILO has estimated that the total costs of such accidents and ill health amount to approximately 4 per cent of the world's GDP.<sup>124</sup>

108. The changing occupational and sectoral structure of employment is altering the pattern of work hazards. Some of the most dirty and dangerous jobs have been disappearing from industrialized countries. This trend reflects both a shift from mining, manufacturing and agriculture towards services and the redesign of production processes, accompanied by technological change, in favour of safer work environments. However, other hazards are emerging. Stress and violence at work are also becoming recognized as significant hazards to health and safety in the world of work. While the increase in electronic surveillance and monitoring of workplaces and workers may contribute to health and safety standards, it can also reduce privacy and lead to the possibility of discrimination in the case of an illness.

***Work-related hazards changing in developed countries***

109. In some developing countries, many occupational diseases and accidents go undiagnosed or unreported, especially in the informal economy. The quantification of trends is thus difficult. In agriculture, which is the largest employer in most countries, the increased use of chemicals and machinery can exacerbate risks. The transfer of processes from industrialized to developing countries can nevertheless have a positive effect on safety and health if adequate technical support, monitoring and, most importantly, worker and manager training is provided. For example, written health and safety notices are important but ineffective if they are not in a language workers can read or if literacy levels are weak.

***Information and knowledge vital to reducing work hazards***

### ***Workers living with disability and sickness***

110. There are approximately 417 million people with disabilities of working age around the world,<sup>125</sup> with 335 million living in less-developed regions.<sup>126</sup> Sources of information on employment of people with disabilities are patchy but in many countries a very high proportion, including those most able to work, cannot get a job. The costs of having so many people with disabilities of working age out of the active labour force are enormous. The annual loss to GDP globally resulting from this has been estimated at between US\$1.37 trillion and US\$1.94 trillion. This arises from the lost productivity, the foregone tax income, the cost of income support, as well as the dampening effect on consumer spending.<sup>127</sup>

***About one in ten adults are disabled to some degree***

111. A fundamental transformation in the way in which disability is understood is under way. Gradually, a medical or welfare model of disability, in which the focus is on the individual's disability as a personal issue, is being displaced by a social and rights-based model, in which barriers in society are seen as a major source of disadvantage. This is leading to a focus on the sources of disadvantage women and men with disabilities face at every level of society, down to the organization of jobs in individual workplaces, including mistaken assumptions about the abilities and working capacity of disabled persons. The new approach, based on expanding the opportunities for the abilities that disabled people have, is by no means universally accepted and applied in richer countries; it faces even greater challenges in the developing world.

***A new social and rights-based approach to disability is gradually replacing the old welfare model***

<sup>124</sup> "Decent work – Safe work", introductory report to the XVIIth World Congress on Safety and Health at Work, 2005 – [www.ilo.org/public/english/protection/safework/wdcongrs17/intrep.pdf](http://www.ilo.org/public/english/protection/safework/wdcongrs17/intrep.pdf).

<sup>125</sup> United Nations: *World Population Prospects*, op. cit.

<sup>126</sup> Less-developed regions refers to Africa, South and Central America, the Middle East and Asia – except for Japan.

<sup>127</sup> R.L. Metts: *Disability issues, trends and recommendations for the World Bank*, (Washington, DC, World Bank, 2000).

**Employment impact of major diseases**

112. HIV/AIDS, malaria, tuberculosis – all of which are aggravated by malnutrition – are responsible for around 14 million deaths a year in people under 60. Most of these deaths occur in developing countries, which spend the least on health care, and where the poorest people are worst affected. However, the high death toll from major diseases is only part of the story. Hundreds of millions of adults – mainly in developing countries – are sick and unable to work at all, or only at a low level of productivity.<sup>128</sup> This constitutes a major economic loss as healthy workers are physically and mentally more active and vigorous, are likely to be better educated, and are more productive and less likely to be absent from work.

**HIV/AIDS and work**

113. HIV/AIDS is a disease that has a particularly damaging effect on the world of work because it mainly affects working-age persons. The number of people living with HIV globally reached its highest level in 2005, with an estimated 40.3 million people – up from an estimated 37.5 million in 2003. More than 3 million people died of HIV/AIDS-related illnesses in 2005; of these, more than 500,000 were children. In addition, there were 5 million new infections that year. Aside from the misery that this inflicts on individuals, the loss of large numbers of workers and damage to the labour productivity of untreated HIV sufferers is hitting many economies hard. The incidence and patterns of spread of the disease are connected to the movement of persons in search of work, and poverty. Migrants, transport workers and people involved in sex services are at high risk of infection.

**Severe impact on labour market and workplaces**

114. Labour productivity is diminished by the HIV/AIDS pandemic in several ways. Persons who become ill are increasingly less able to work at advanced stages of the disease. There are at present more than 2 million workers who are partially or fully unable to work as a result of HIV/AIDS. When skilled workers are lost, they may be replaced by less-skilled workers, or new workers who need the time to acquire skills; replacement workers may be brought in only sporadically to keep labour costs down. On the basis of the UNAIDS HIV prevalence estimates, United Nations population data, and ILO data on the economically active population, the ILO has estimated that 26 million persons in the labour force are HIV-positive. The vast majority of persons in the labour force who are HIV-positive (over 70 per cent) live in Africa. Furthermore, the supply of labour is reduced by HIV/AIDS as by now, a generation of workers has become ill and died. The ILO has estimated that a cumulative total of 28 million labour force participants had been lost to the global workforce by 2005, and that 48 million will be lost by 2010 and 74 million by 2015 if nothing changes. The biggest losses are in Africa.<sup>129</sup>

**Action at the workplace against HIV/AIDS**

115. Discrimination at work against people with known or suspected HIV/AIDS can take many forms. Pre-employment testing, which results in a refusal to hire, is widespread, even where national and workplace policies against discrimination based on HIV/AIDS are in place, including in southern Africa. A growing number of countries require mandatory HIV/AIDS testing from long-term foreign visitors (i.e. students and workers) prior to entry. In some Asian countries, migrant women workers are subjected to compulsory HIV/AIDS tests. The ILO code of practice on HIV/AIDS and the world of work<sup>130</sup> provides a set of guidelines to address the HIV/AIDS epidemic in the world of work and within the framework of the promotion of decent work. The guidelines cover the following key areas of action:

<sup>128</sup> WHO: *Macroeconomics and health: Investing in health for economic development*, Report of the Commission on Macroeconomics and Health (Geneva, 2002).

<sup>129</sup> ILO: *HIV/AIDS and work: Global estimates, impact and response* (Geneva, 2004).

<sup>130</sup> ILO: *An ILO code of practice on HIV/AIDS and the world of work* (Geneva, 2001).

- prevention of HIV/AIDS;
- management and mitigation of the impact of HIV/AIDS on the world of work;
- care and support of workers infected and affected by HIV/AIDS;
- elimination of stigma and discrimination on the basis of real or perceived HIV status.



## **C. Challenges for the future of social security**

***Social security embraces traditional informal systems and the modern welfare state***

116. Social security systems aim to support individuals at times in their life when income from work is inadequate or if they are not able to work at all. As the name implies, it is a way for individuals to share with a wider social group the costs of meeting these contingencies. All societies have some form of social security system. In traditional farming communities, the basis for group security is the family, a larger kinship group or neighbours. In most industrialized societies, where such group identities are weaker, the State has taken on a major role of providing a framework for social security.

***Social security institutions have evolved as part of the development process***

117. A key consideration in the evolution of formal systems was the need to ensure that society and the economy were not weakened by poverty and social dislocation. A further important factor was the identification of the appropriate group for the pooling of risks. Smaller groups tend to have a stronger sense of identity and mutual trust, but larger groups are able to apply more resources to cover more risks. Formal social security can be understood as a set of institutions, measures, rights, obligations and transfers whose primary goal is to guarantee access to health and social services and to provide income security to help cope with certain significant risks (such as loss of income due to invalidity, old age or unemployment) and to help prevent or alleviate poverty.

***Drivers of labour market change also affecting social security***

118. Social security systems now face new demands triggered by factors such as the need to extend coverage to the world's poorest people, shifting patterns in employment, pressures for greater mobility in labour markets, changing family arrangements, ageing populations and new health hazards.

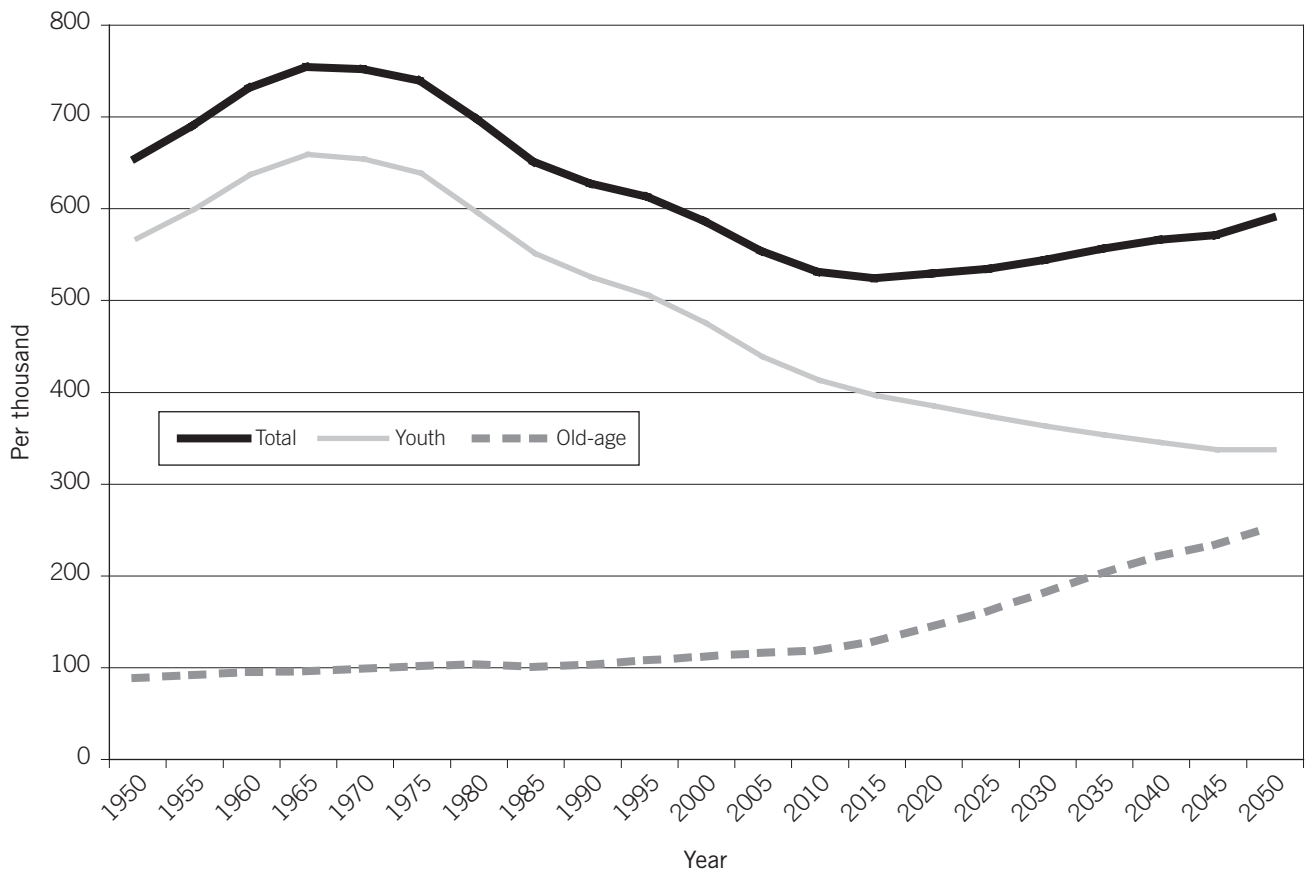
***Demographic profiles are foundation for system design***

119. A key concept in designing and operating all systems is the dependency ratio; i.e., the ratio of the economically active part of the population to the dependent part. The demographic environment of a social protection system, which includes the morbidity structure of the population with which the health system has to cope, co-determines the system dependency ratio (see figure 8).

***Intensified global competition creates new environment for social security***

120. While, on the one hand, the need for social security is arguably greater in an era of far-reaching change, on the other hand, social security systems are threatened by a weakening of informal mechanisms of protection<sup>131</sup> and concerns that their overall cost to society can reduce national competitiveness.

<sup>131</sup> J. Morduch and M. Sharma: "Strengthening public safety nets from the bottom up", in *Development Policy Review*, Vol. 20 (London, Blackwell Publishing, 2002), pp. 569-588.

**Figure 8. World youth, old-age and total dependency ratios**

Note: Youth refers to the number of people aged 0-14 years of age, per thousand. Old age refers to the number of people aged 65+, per thousand.

Source: United Nations, World Population Prospects, The 2000 Revision, Volume II: The sex and age distribution of the world population, United Nations, New York, 2001.

### Social security: A new consensus

Social security is very important for the well-being of workers, their families and the entire community. It is a basic human right and a fundamental means for creating social cohesion, thereby helping to ensure social peace and social inclusion. It is an indispensable part of government social policy and an important tool to prevent and alleviate poverty. It can, through national solidarity and fair burden sharing, contribute to human dignity, equity and social justice. It is also important for political inclusion, empowerment and the development of democracy.

Social security, if properly managed, enhances productivity by providing health care, income security and social services. In conjunction with a growing economy and active labour market policies, it is an instrument for sustainable social and economic development. It facilitates structural and technological changes which require an adaptable and mobile labour force. It is noted that while social security is a cost for enterprises, it is also an investment in, or support for, people. With globalization and structural adjustment policies, social security becomes more necessary than ever.

There is no single right model of social security. It grows and evolves over time. There are schemes of social assistance, universal schemes, social insurance and public or private provisions. Each society must determine how best to ensure income security and access to health care. These choices will reflect their social and cultural values, their history, their institutions and their level of economic development. The State has a priority role in the facilitation, promotion and extension of coverage of social security. All systems should conform to certain basic principles. In particular, benefits should be secure and non-discriminatory; schemes should be managed in a sound and transparent manner, with administrative costs as low as practicable and a strong role for the social partners. Public confidence in social security systems is a key factor for their success. For confidence to exist, good governance is essential.<sup>1</sup>

<sup>1</sup> Paras. 2-4 of the conclusions concerning social security, adopted at the 89th Session of the International Labour Conference, Geneva, 2001; see also ILO: *Social security: A new consensus* (Geneva, 2001).

Furthermore, adaptation is often contentious because confidence in the long-term availability of social security is very important to many people's lives.

***Reforming and extending: Two facets of the global social security challenge***

121. Taking a global perspective, there are two groups of countries at different stages in the development of social security systems. The first consists of industrialized countries and a group of middle-income developing countries that have national frameworks covering a reasonably large – or in the case of the emerging economies increasing – proportion of the population. The second comprises most developing countries that have a thin formal system covering rather few people and continue to rely on informal systems. While there are important differences in national systems, the former group are confronting the need for reform and the latter the need to establish and extend systems. A running thread in the policy debates in both groups of countries is whether social security systems are a “cost” to society and the economy or an “investment”. The ILO made a major contribution to the resolution of this often controversial confrontation of ideas at the 89th Session of the International Labour Conference (2001) when it adopted conclusions on social security pointing the way to a new consensus.

## ***1. Reducing poverty and inequality***

***Social transfers are substantial in all societies***

122. Empirical research and social expenditure modelling suggests that in most countries, regardless of the level of development, up to a third of national income is transferred between the earning and dependent populations.<sup>132</sup> In developing countries the bulk of this transfer is through informal mechanisms, whereas in Western Europe it is through formal systems. In North America, this formal/informal split is about even. The main question is therefore to determine what methods of organizing these transfers are most efficient in terms of reducing poverty and inequality, meeting the support needs of those unable to work, and of contributing to the overall performance of the economy.

***Foundation for social security systems is decent formal sector jobs***

123. A decent formal sector job remains the greatest source of income security. Such jobs not only provide relatively reliable income that can be shared with other family or household members, but also provide an earnings pool for contributions to national social security schemes. These contributions provide the finance that guarantees access to health services and replacement for work income in the case of old age, invalidity, the loss of the breadwinner, unemployment, sickness, or maternity – and in the event of employment injury or an employment-related disease. However, only a minority of the global labour force enjoys the security of a formal sector job. Even in those countries where a regular formal sector job is the norm, some groups, especially women, have less employment and income security. In developing countries, high and rising informality means that coverage through formal systems remains low (e.g., 10 per cent in Bangladesh and Nepal and 35 per cent in Indonesia).<sup>133</sup>

***Informal transfer mechanisms tend to exclude chronically poor***

124. One of the main differences in social impact between informal and formal systems of social security is that most informal mechanisms operate within kinship networks. Wealthier family members support the less well-off. Transfers between relatively well-off families and poor families are less likely. The risk of low-income families having little or no support in times of need and becoming trapped in chronic poverty with no support mechanism

<sup>132</sup> ILO: *Social security: A new consensus* (Geneva, 2001), Ch. 5.

<sup>133</sup> Asian Development Bank: *Social protection index for committed poverty reduction*, Multi-Country Report (Manila, 2005), table 4.6.

or escape route is thus high. Informal systems are also unlikely to produce transfers between ethnic groups, compounding problems of disadvantage and discrimination.

125. By contrast the efficacy of comprehensive rights-based tax and transfer systems in reducing initial or market poverty in a number of industrialized countries is well demonstrated. Such systems have reduced pre-tax and transfer poverty rates by about 10 percentage points in the United States to a high of around 30 percentage points in Sweden. These systems also reduce income inequality. Evidence from the mid-1990s showed that the combined tax and transfer systems in OECD countries had reduced income inequality by between 40 and 50 per cent in countries including Belgium, France, Germany and Sweden, and by between 20 and 30 per cent in countries such as Australia, Canada, the United Kingdom and the United States.<sup>134</sup> The redistributive impact of tax and transfer systems seems to have waned since this period as a result of social expenditure containment policies in many countries.<sup>135</sup>

126. Comprehensive tax and transfer systems require effective public sector institutions. The least-developed countries in particular are still beginning to build up the public institutions needed to manage both contributions to the social expenditure pool and their distribution to those in need. However, a number of developing countries have in recent years introduced basic pensions or child benefit schemes financed from the general exchequer which are proving to be a powerful means of combating poverty. Strong evidence of positive experience comes from countries as diverse as Brazil, Mauritius, Namibia, Nepal and South Africa.<sup>136</sup> The ILO has calculated that even in some of the poorer African countries, such a package of benefits consisting of basic pensions for the elderly and disabled and child benefits (that could be made contingent on school attendance) would cost between 1 and 2 per cent of GDP, equating to roughly between 5 and 10 per cent of national budgets. Implementing such a package in many countries could represent a major first step in a broader attack on deep-rooted and chronic poverty.

127. In health care, community-based schemes are springing up in the informal economies of the developing world, most frequently in Africa and in parts of Asia. These mostly small-scale schemes at present provide coverage to about 40 million persons. While there is certainly room for further growth in these schemes, they cannot become a substitute for a universal basic layer of security based on national solidarity. A possible way forward is to link up small-scale local initiatives, through subsidized supplementary contributions or underwriting of major risks to national or international agencies in a position to help ensure the long-term viability of such schemes. A 2004 health insurance law in Ghana was the first to put these concepts into a legal framework and the fund it established made its first payments in 2005. Community-based insurance schemes have the potential to increase the overall resource base for social security and hence the fiscal space of the government – not least by bringing informal economy operators into the social security pool.

***Tax and transfer systems reduce poverty and inequality***

***Basic pensions and child benefits are a viable first step towards national schemes***

***Scaling-up micro-insurance for health care***

<sup>134</sup> J. Ruiz-Rueta et al.: *Earnings inequality, unemployment and income distribution in the OECD* (Syracuse University, New York, 1999).

<sup>135</sup> A.B. Atkinson: *Income inequality and the welfare state in a global era*, Douglas Gibson Lecture, 2 Oct. 2002 (Ontario, Queen's University, 2002).

<sup>136</sup> HelpAge International: *Age and security: How social pensions can deliver effective aid to poor older people and their families* (London, 2004); and K. Pal et al.: *Can low income countries afford basic social protection? First results of a modelling exercise* (Geneva, ILO, 2005).

## 2. Social security and international competitiveness

### *Economic efficiency and social security*

128. The post-Second World War climate of high economic growth rates in many industrialized countries was conducive to the development of extensive systems of health security and social transfers. However, under more recent conditions of reduced growth and high unemployment rates, particularly in some European countries with extensive welfare states, increases in taxes have hit a political barrier and social expenditure has been criticized by some economists and politicians as a drag on economic efficiency.<sup>137</sup> In developing countries, a lack of resources, capacity, and the alleged trade-off between social transfers and growth have similarly played a role in constraining the development of welfare regimes.

### *Social security provision positively related to productivity growth*

129. Although the size of social security systems varies considerably between industrial countries, growth performance and shares of social security budgets in GDP levels show no strong correlation.<sup>138</sup> Indeed, the coexistence in a close trading relationship of the Canadian public health care system and the largely private United States system suggests that the society-wide costs of comprehensive schemes are not more – and maybe less – than those of more fragmented systems. The total cost of all health expenditure from public, private insurance, other private and “out-of-pocket” sources is about 10 per cent of GDP in Canada and 15 per cent in the United States.<sup>139</sup> A recent ILO study showed that there is a strong correlation between social expenditure per capita and productivity measured in GDP per hour worked,<sup>140</sup> demonstrating that a productive and competitive economy and a decent social transfer system can coexist. The actual size of social security budgets is more a consequence of social attitudes, policy preferences with regard to redistribution and trust in the efficiency and effectiveness of the system rather than of alleged economic trade-offs between the size of the social sector and economic performance.

### *Competition and ageing nevertheless provoke rethink*

130. An additional factor that may affect economic performance is the design of financing mechanisms and benefit delivery. In many industrialized countries, a substantial part of contributions is in the form of a deduction from workers’ wages and/or a wage-related payment by employers. With intensified international competition, high social security contributions from earnings may reduce the trade competitiveness of countries and deter foreign investors. On the benefit side, some countries have attempted to target payments from state schemes onto the poorest members of society through various forms of means testing, with a view to reducing expenditure “wasted” on those able to support themselves. In other countries, the focus has been on unemployment benefit, with efforts to increase the incentives for active job search and reduce the duration and level of payments. Targeting, however, involves high administrative costs and can create disincentives for benefits recipients to return to the labour market. Tighter qualifications for unemployment benefits function best in tandem with active support for job search, for example through counselling.

<sup>137</sup> IMF: “Unemployment and Labour Market Institutions: Why Reforms Pay Off”, in *World Economic Outlook* (Washington, DC, 2003), Ch. IV.

<sup>138</sup> For several years, Nordic countries with high levels of social spending have dominated the top echelons of the World Economic Forum’s Global Competitiveness Index. See *Global Competitiveness Report 2005-6* (Palgrave Macmillan, 2005).

<sup>139</sup> *OECD Health Data 2005: Statistics and indicators for 30 countries* (online: <http://www.oecd.org/document/30/0>).

<sup>140</sup> ILO: “Social protection as a productive factor”, Governing Body, 294th Session, Geneva, November 2005, GB.294/ESP/4.

### 3. *Demographic change and coping with increased dependency ratios*

131. Over more than a decade, the global pension reform debate has been focusing on two issues. The first, concerning mainly – but not only – developed economies has been the need to adjust pension systems so they are able to face the challenges of ageing populations. The second, concerning mainly – but not only – developing countries has been the need to reform pension systems in such a way that they provide adequate income security in old age to the currently uncovered majority. It was strongly advocated that an answer to the problems of availability and affordability of pension schemes would be to convert defined-benefit pension schemes, financed on a pay-as-you-go basis, into pre-funded defined contribution schemes.

*Defined benefits versus defined contributions*

132. Such reforms were expected to prevent contribution rates and other costs of the pension systems rising as a result of ageing populations by encouraging people to retire later and thus contribute longer. There was also a strong belief that such reformed systems, closely linking amounts contributed with future benefits and relegating redistributive components to social assistance schemes, would provide strong incentives to individuals to save for their retirement. Such systems were thus seen as a major instrument to increase the coverage of all those uncovered, particularly the self-employed. Privatization of the management of the funds was furthermore supposed to strengthen these incentives: through providing higher rates of return and also through regaining higher public confidence lost from allegedly bankrupt public schemes. Overall the reforms were expected to improve economic performance through higher and more productively invested savings.<sup>141</sup>

*More incentives and less redistribution*

133. From the earliest days of these new pension schemes, the ILO raised warnings that they would significantly reduce income security in old age, make future benefits less predictable, incur high administrative costs of the privately managed pension funds, and reduce effective coverage of those disadvantaged in the labour market such as women and others with shorter, incomplete careers and low earnings.<sup>142</sup> Numerous studies of the performance-reformed pension systems, particularly of those in Latin America<sup>143</sup> and in transition countries of Central and Eastern Europe,<sup>144</sup> have confirmed these drawbacks to pension reform.

*New schemes costly to run and reduce coverage*

134. The ILO's early concerns are echoed in a report by the World Bank's Independent Evaluation Group (IEG).<sup>145</sup> The Group's report on the World Bank's assistance to pension reforms concluded, inter alia: "There is little evidence that privately funded pillars have succeeded in increasing national savings or in developing capital markets ..." and "... the Bank's preoccupation with fiscal sustainability tended to obscure the broader goal of pension policy, that is, to reduce poverty and improve retirement income adequacy

*Tide of pension reform turns*

<sup>141</sup> World Bank: *Averting the old-age crisis: Policies to protect the old and pro growth* (Washington, DC, 1994).

<sup>142</sup> C. Gillion and A. Bonilla: "Analysis of a national private pension scheme: The case of Chile". *International Labour Review* (Geneva, ILO), Vol. 131, No. 2, 1993, pp. 171-195. See also ILO: *World Labour Report 2000 – Income security and social protection in a changing world* (Geneva, 2000).

<sup>143</sup> F. M. Bertranou, A. Arenas de Mesa (eds.): *Protección social, pensiones y género en Argentina, Brasil y Chile* (Oficina Internacional Del Trabajo, 2003), ISBN 92-2-313562-1; *El sistema de pensiones en Chile en el contexto mundial y de América Latina: Evaluación y desafíos, Ponencias del Seminario Internacional Oficina Internacional del Trabajo, Ministerio del Trabajo y Seguridad, Social Fundación Chile* 21, Santiago, 2004; M. Nitsch, H. Schwarzer: *Recent developments in financing social security in Latin America: Issues in social protection*, Discussion Paper 1, ILO, Geneva, 1996.

<sup>144</sup> E. Fultz: "Pension reform in the EU accession countries: Challenges, achievements and pitfalls", in *International Social Security Review*, Geneva, Vol. 57, No. 2, Apr. 2004, pp. 3-24.

<sup>145</sup> World Bank: *Pension reforms and the development of pension systems: An evaluation of World Bank assistance* (Washington, DC, 2005), pp. xvi and xvii.

within a fiscal constraint". High administrative charges have been a persistent complaint since the earliest days of reform. In other cases, the enforcement of compliance might have remained deficient. And even privatized pensions have remained subject to political risk. In some countries, pension funds have been directed to invest heavily in government bonds, and severe restrictions have been put on investments in foreign securities.

***Private schemes facing financial difficulties***

135. Defined contribution systems thus have a number of weaknesses and do not provide an easy escape from the need to design national schemes for a population with an older profile. Chile, a pioneer in these reforms, has now embarked on a major policy review. An additional emerging issue is that in countries where employers provide private pension schemes to supplement basic coverage in national schemes, increasing life expectancy, falling investment returns and rising health-care costs are making many defined benefit schemes unviable. They are also switching to a defined contribution formula, substantially reducing the expected coverage of future retirees. One consequence of this is likely to be an increasing pressure on the State to make up for the shortfall in schemes by improving national systems.

***No escape from reality of transfer from working to dependent population***

136. The economic reality is that the current working population essentially pays from their earnings for retirees' pensions and health care, whether through taxes on wages and a state transfer mechanism or through the dividends paid on investments in the companies for which they work. Up to now, these intergenerational transfers were made within national frameworks – but in a global market, it is increasingly the global workforce that supports the global population of dependents. Migrant workers from developing countries remit a substantial part of their earnings to dependents back home, while industrial country pensions are in part earned from dividends on investments in emerging markets.

***Ageing in industrial countries manageable***

137. The first group of countries to experience an increase in the dependency ratio is in Europe and Japan. The shift is nevertheless gradual and current systems could retain their actuarial viability if the effective age of retirement were raised to nearer the age of 65 years than is currently the case. Although a number of countries are debating raising the retirement age, a substantial increase in contributions could be made by reducing premature withdrawal from work. Similarly a lower level of unemployment would reduce calls on the system. Increased immigration could also have the effect of reducing dependency ratios – but only temporarily as migrant workers themselves have increasing social security needs, especially as they approach retirement age. Although no new general pattern has emerged for social security, it seems likely that many countries will end up with a mix of compulsory state schemes providing a minimum universal coverage and supplementary private schemes for those who want and can afford to pay extra.

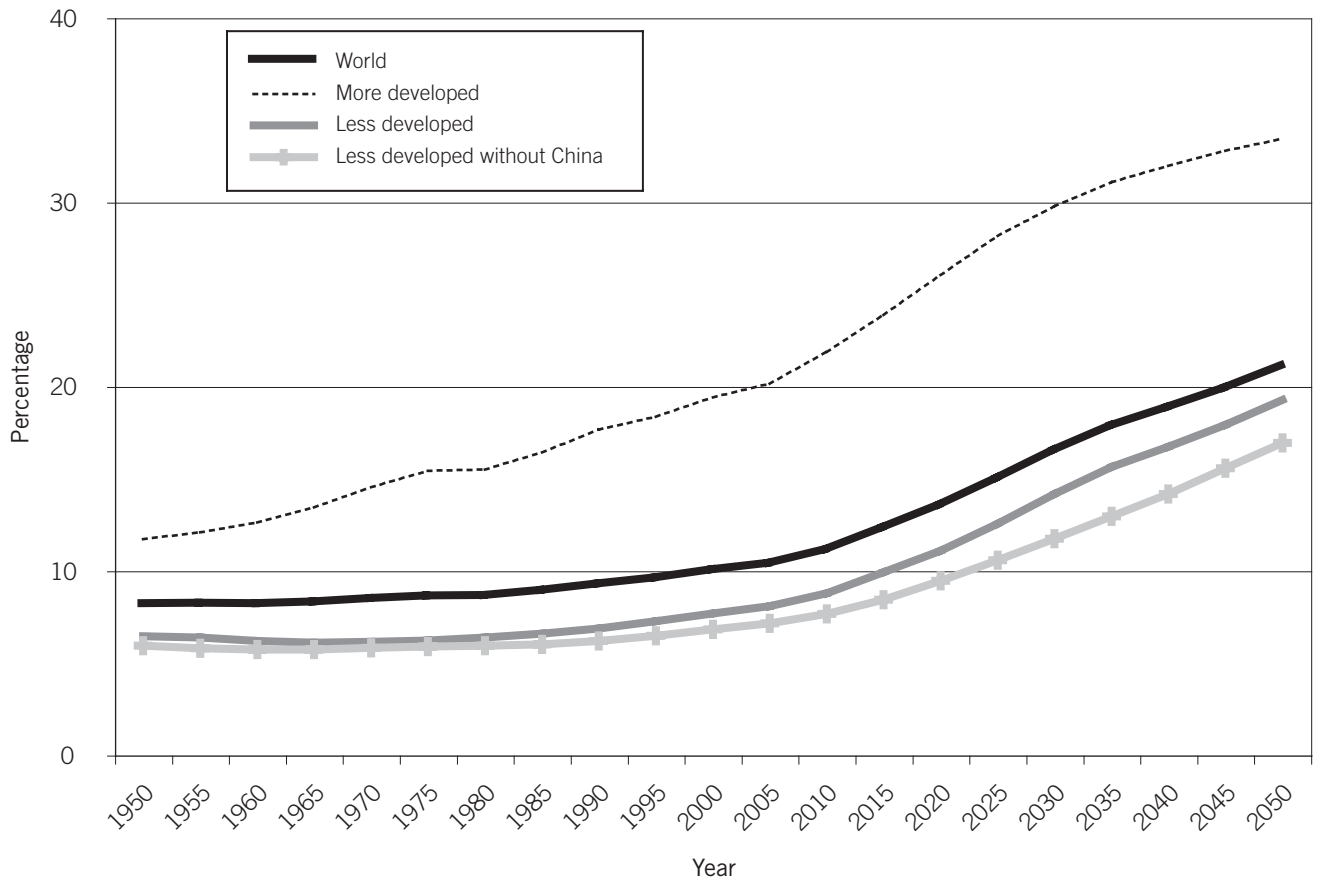
***Middle-income developing countries need to anticipate a fast pace of ageing***

138. A second group of middle-income countries including China will start experiencing rising dependency ratios between 2015 and 2025.<sup>146</sup> They will, however, experience a much faster rise in these ratios. It is important for this group to establish viable systems now so that the social strain of ageing is anticipated and addressed (see figure 9).

***Social security extension in poorest countries needs an international approach***

139. The poorest countries will be the last to age, but there is a danger that they will reach the turning point towards increased dependency ratios with a still very low per capita income. The effects of this shift are compounded by the workforce loss caused by the HIV/AIDS pandemic, especially in Africa.

<sup>146</sup> World Bank dependency ratios table from health, nutrition and population online database. <http://devdata.worldbank.org/hnpstats/HNPDemographic/dependency.pdf>.

**Figure 9. Rate of increase in share of population aged 60+**

Source: United Nations, World Population Prospects, The 2000 Revision, Volume II: The sex and age distribution of the world population, United Nations, New York, 2001.

While national social security systems for low-income countries can be envisaged, a major reduction in poverty and acceleration in development is likely to require external support, including assistance in starting up social security systems. In some ways the massive increase in migrant workers' remittances constitutes the beginnings of a global social security system, albeit of an informal nature. Evidence suggests that migrant workers' remittances to poor rural villages in many developing countries are reducing poverty and insecurity especially in the case of the young and old.



## **D. Adapting and modernizing labour market governance**

- Pressures to modernize*** 140. The far-reaching changes in technology and the integration of hundreds of millions of working women and men from previously closed societies into the global economy are exerting a powerful influence over work organization and labour markets worldwide. They are also affecting how work is regulated. The extent of such changes is hard to quantify and often incremental rather than revolutionary. There are also strong elements of continuity in the foundations of labour market governance.
- Work institutions constantly adapting*** 141. Employers, workers and governments in all countries are constantly reviewing the many and varied institutions that underlie work organization and the way in which rules for collaborative productive activities are determined and applied. The term “governance” is used in this report to describe the public and private institutions, structures of authority and means of collaboration that coordinate or control activity at work and in the labour market.
- Influences on governance wide and varied*** 142. These mechanisms of governance embrace informal but often powerful social norms, private contracts, laws and regulations, collective agreements and international standards. They are likely to have an important influence on productivity performance – and by extension economic growth, income distribution and social cohesion – and thus political stability. Many factors influence these governance mechanisms – respect for human rights at work, perceptions of fairness, the state of the markets in which the products of labour are sold, the technologies in use, the way firms are organized, decision-making processes and the extent to which working women and men are represented and heard.
- Impact of globalization on national governance systems*** 143. Labour market governance systems have strong national characteristics reflecting different social, economic and political paths of development. However, as with many other mechanisms for governance of markets, there may be a tendency for systems to converge around a dominant model or models.
- The ILO’s global normative framework*** 144. The ILO, through its international labour standards, provides a global normative framework for labour market governance and employment and social policies. Many countries have been guided by this when developing their national laws and practice. While pressures in the direction of convergence are much discussed, most expert observers see great diversity, not only between countries at different levels of development and in different regions

of the world but also at similar levels of development and in close geographic proximity.

145. This review of how systems are adapting and modernizing identifies some common patterns in continuing diversity. It suggests that the enormous variety of work requires mechanisms for decentralized governance anchored within a framework of broadly accepted principles that are the foundations for laws, regulations and contracts. In some countries the focus is on rethinking existing arrangements built up over many years, including systems of regulation and collective bargaining, to usher in a new environment of increased competition, technological change and international interdependence.

***Continuing diversity with some common patterns***

146. But for most of the world's working women and men and their employers, it is a matter of laying the foundations for governance mechanisms that foster opportunities to earn a decent income and develop enterprises, respect human rights and provide a basis for competing in an increasingly complex and global open market system. Informal customs that often entrench the arbitrary exercise of power while holding back investment and innovation need to give way to systems in which rights and duties are clear, fair and promote development. Moving from informal to formal labour market governance mechanisms is a vital stage in the development process, holding the key to prospects for decent work. From the smallest micro businesses up to – and including – the largest transnational corporations, employers and workers must resolve a variety of coordination issues in the organization of work. The institutions of labour market governance provide the framework for this process to function fairly and efficiently.

***Strengthening rights-based governance***

## **1. Reducing informality**

147. Arresting and reversing the growth of the informal economy is a priority for many developing countries. Both businesses and workers operating in the informal economy suffer from the insecurities that stem from a lack of fair and enforceable rules. Weak property rights regimes hold back investment. Inadequate enforcement of labour laws allows dangerous working practices, long hours and low wages to proliferate. Private contracts, including labour contracts, are not enforceable by public courts in an open and fair manner, leading to inefficiency and exploitation.

***Informality weakens efficiency and security***

148. Overall, the productivity growth essential for business development and the improvement of living and working conditions is stymied. Businesses that do try to meet minimum legal obligations are undercut. With between a half and two-thirds of the world's working women and men outside the formal economy, breaking out of informality onto a development trajectory in which increased private and public sector investment feeds into the creation of decent work opportunities is the single biggest challenge for labour market governance worldwide.<sup>147</sup>

***Breaking out of informality biggest governance challenge***

149. A starting point for coherent national strategies to overcome the trap of informality is the increasingly widespread recognition that the “regulatory” costs of working informally are high to businesses, workers and the community.<sup>148</sup> The absence of law does not mean the absence of rules and rule enforcers. Private means of imposing some order in the informal economy are often very costly to businesses and to workers and sometimes rest

***Recognizing the costs of informality ...***

<sup>147</sup> Resolution concerning decent work and the informal economy, International Labour Conference, 90th Session, 2002.

<sup>148</sup> J. Capp, et al.: “Reining in Brazil’s informal economy”, Geneva, in *The McKinsey Quarterly*, (McKinsey Global Institute), Jan. 2005.

on the threat of violence. If the costs of moving into formality can be eased, many businesses may volunteer to come above ground, pay their taxes, observe labour laws and benefit from the security that access to the judicial system can give to property and contracts.<sup>149</sup> ILO research in seven developing countries has found that micro- and small enterprises that complied with basic registration requirements had better access to financial services and provided better social security coverage to their workers. Enterprises that complied with registration requirements were found to create more employment over time than those that did not.<sup>150</sup>

**... and that it embraces a continuum of economic activity**

150. The concept of informality covers activities that are not illegal in themselves, such as trading in banned drugs, but those outside the reach of the legal system. The informal economies of developing countries, and to a certain extent of developed countries too, are extremely varied and represent a continuum in which, at one extreme, all production and exchange take place outside the reach of laws and, at the other, most activity occurs within the framework of a public regulatory order. Some informal operators are barely touched by laws and regulations, while others are partly inside the legal system and partly outside.

**Informal economy grows when public sector and large firms downsize**

151. In very poor neighbourhoods the driving force of the informal economy is survival and there may be few linkages to the formal economy. ILO research in South Africa and the United Republic of Tanzania found that micro- and small enterprise employment grew when employment in the public sector and large enterprises declined. Many of these small businesses were a last resort to earn a livelihood.<sup>151</sup> Nearly two-thirds of women in the developing world not engaged in farming, work in the informal economy – often in small family businesses.<sup>152</sup> Reducing informality by tackling its root causes in poverty is essential.

**Reducing compliance costs for informal operators**

152. Even in poor districts, however, some businesses may have links to the formal and better-off parts of the economy and society. In some areas, the informal economy is to a large extent servicing and producing for the formal economy. Avoiding to pay taxes or social security contributions or failing to observe occupational safety and health regulations may give informal operators a cost advantage over competitors who do follow the law. Devising ways to prevent the avoidance and evasion of laws and regulations is also important. This is likely to include reviewing some laws and regulations to ease the costs of compliance for micro- and small enterprises. Simplifying business registration procedures for start-up enterprises is often a priority, coupled with help in understanding how to move into the formal economy or how to raise productivity so that micro- and small enterprises can start to grow more securely.<sup>153</sup>

**Increasing formal economy opportunities through growth**

153. In recent years, slow and intermittent economic growth in many developing countries has led to an increase in informality, with enterprises in the formal economy and the public sector reducing rather than increasing job opportunities. Only in East and South-East Asia have jobs in industry and the modern service sector grown sufficiently to cause a fall in the numbers of workers in the informal economy.<sup>154</sup>

<sup>149</sup> H. de Soto: *The mystery of capital* (Bantam Press, 2000).

<sup>150</sup> Reinecke and White, op. cit.

<sup>151</sup> *ibid.*

<sup>152</sup> *Women and men in the informal economy*, op. cit.

<sup>153</sup> Reinecke and White, op. cit.

<sup>154</sup> Majid, 2005, op. cit.

154. Reducing informality is not just a matter for government. Entering the formal economy is part of a process of raising the skills and productive capacities of micro- and small businesses, building social protection mechanisms that reduce the risks of becoming trapped in poverty, and promoting the development of self-help associations such as cooperatives, microcredit institutions, trade bodies, employers' and workers' organizations.

***Associations of informal economy operators offer mutual support and a voice in decision-taking***

#### Street vendors in India make progress by getting organized

Two of the key demands of the National Association of Street Vendors, India (NASVI), a coalition of various trade unions and voluntary organizations working to protect the rights and improve living conditions of hawkers and vendors, are to secure spaces to lay out their wares and a document that proves that they have the right to trade. Their campaign has achieved government support. A comprehensive national policy for street vendors was promulgated on 12 August 2004 with the aim of ensuring that legislation and urban planning policies at national, state and city levels protect vendors from harassment and provide suitable clean and safe spaces for street trading.<sup>1</sup> Now the challenge for the public authorities and the NASVI is to ensure that the national policy is reflected in local practice.

<sup>1</sup> S.K. Bhowmik: "Street vendors in Asia: A review", in *Economic and Political Weekly*, (Mumbai), 28 May 2005; and *National policy for urban street vendors*, Ministry of Urban Development and Poverty Alleviation, Government of India, 12 Aug. 2004 (<http://www.muepa.nic.in/policies/natpol.htm>).

155. Reducing informality requires a comprehensive approach across several policy dimensions attuned to the particular characteristics of countries and localities. It is essential that there be a process of dialogue with representative organizations to ensure that people living and working in the informal economy are able to move into the security of a rights-based system in which all have the chance of a decent job. For women and men with an often tenuous grip on survival, replacing even an oppressive status quo for the promise of a better life can seem a huge and risky leap.<sup>155</sup> The following are some of the main building blocks of a strategy to upgrade informal work:

***Comprehensive approach needed to address many aspects of social and economic insecurity***

- Government policies and laws should be reviewed to remove biases against micro- and small businesses and to facilitate compliance. Creating a conducive environment for legitimate small business development is vital.
- Employers' and workers' organizations should be encouraged to enhance the representation of informal economy actors by, for example, fostering self-help groups around issues like health insurance, legal advice, microfinance or producer cooperatives. Biases in policies and laws against small-scale operators are often perpetuated by their difficulty in being heard in policy-making.
- Micro- and small businesses often need advice and access to credit to improve productivity. Such advice should promote awareness of the links between improved working conditions and performance. Social protection initiatives are important to prevent working families from becoming trapped in poverty as a result of personal crises such as ill health.
- Labour inspection services should promote compliance with labour laws with a strong emphasis on technical assistance to improve work practices and build networks for mutual support, reserving sanctions for situations of gross or persistent abuse and serious danger.

<sup>155</sup> G. Wood: "Staying secure, staying poor: The 'Faustian bargain'", in *World Development* (Elsevier), Vol. 31, No. 3, Mar. 2003.

- Urban planning should take into account the needs of small businesses and workers for cheap and safe workplaces, housing, public transport, electricity, water supply and waste disposal. Infrastructure development should also use, wherever appropriate, construction techniques that foster the expansion of decent work opportunities and stable legitimate small businesses.

## 2. *Agricultural work and the reduction of poverty*

### *Rural work often beyond the reach of laws and regulations*

156. With three-quarters of the world's poorest people living in the rural areas of developing countries – often dependent on family earnings from agriculture – improved productivity, incomes and working conditions in farming are vital to development. In some countries, traditional forms of agricultural life persist, with working arrangements determined by often deeply entrenched customs and community norms. Countries with dispersed land tenure tend to have a larger share of farming in the hands of small peasant farmers working on their own account.

### *Paid employment on the rise but many rural workers also farm on own account*

157. Where agriculture is more commercialized, the proportion of workers who are employees is higher. Paid employment is on the rise and, at 450 million workers worldwide, could exceed 40 per cent of the global agricultural workforce.<sup>156</sup> One of the difficulties in measuring this trend is that many female and male members of own-account farming households often also work off the farm on a casual basis to supplement the family's income. Little sound data is available on the scale of such casual work; however, a study of the Mexican agricultural labour market in the early 1990s estimated that 4.8 million farmers – or nearly 80 per cent of the rural labour force – undertook some wage work for at least part of the year.<sup>157</sup>

### *Increasing agricultural productivity is a social as well as a technical challenge*

158. Despite the continuing large rural exodus, on current trends about one-third of the world's labour force will still be working in agriculture by 2015.<sup>158</sup> Reducing extreme poverty is thus to a large extent a question of improving the earning power of agricultural workers and small farmers, together with developing non-farm employment opportunities in rural areas. While the technical possibilities for productivity improvement, even in arid areas, are considerable, the poorest farming communities face many barriers – not least the debilitating effects of malnourishment and disease – to accessing both inputs and markets that could yield higher incomes. Discrimination, often of a multiple character, is a social reality for many women and men from indigenous or other disadvantaged ethnic groups.

### *Cooperatives have vital role in rural development*

159. In addition to investment in infrastructure and education, breaking rural poverty traps requires a major effort to develop collective organizations of workers and small farmers, such as cooperatives. These can represent the poorest in policy-making for rural development and provide key services such as health insurance and microcredit, bulk purchasing of seeds, fertilizers and tools, as well as improved marketing. In Bangladesh, the Milk Vita cooperative has expanded dramatically since the early 1990s, raising its

<sup>156</sup> P. Hurst: *Agricultural workers and their contribution to sustainable agriculture and rural development* (FAO-ILO-IUF, 2005).

<sup>157</sup> R. Plant: *Role of rural workers' organizations in economic and social development: A case study of ILO Convention No. 141 in Mexico and the Philippines* (Geneva, ILO, 1993).

<sup>158</sup> ILO: EAPPE database, 5th edition, op. cit.

previously very poor farmer members' living standards, providing safe milk to the cities at competitive prices and creating jobs in milk distribution.<sup>159</sup>

160. Where larger scale farming, especially on plantations, is important, dialogue and negotiation between agricultural workers' unions, farmers' organizations and large enterprises is increasing and creates scope for improving working conditions and pay alongside productivity. Major purchasers of agricultural products also have a responsibility to work with producers to improve working conditions and the social and ecological environment in rural areas.<sup>160</sup>

161. Compared to those working in other economic sectors, many agricultural workers are only weakly protected by national labour law.<sup>161</sup> The role of law in agricultural work is closely connected to patterns of land ownership, the size of farms and the extent of commercialization. Yet all around the world, farm workers experience discrimination, hazardous working conditions, low pay and lack of social protection, contributing to the high incidence of poverty. Agriculture is sometimes excluded entirely from the coverage of labour laws. Size thresholds may also mean that many farming employers are outside its application.

162. The casual, seasonal or temporary nature of much farming work is another reason for weak legal protections. Many farm workers are perpetual migrants, following crop cycles to different regions and even to foreign countries. Much of the labour-intensive harvest work in Europe and North America is done by gangs of workers from lower-income countries. Furthermore, the remote and isolated location of farm work makes the task of labour inspectors particularly difficult. In some countries, the general absence of the rule of law in the rural areas creates a vacuum in which private militia, crime and banditry are unchecked, exacerbating the insecurity and vulnerability which prevents communities from working out of poverty.

163. Comprehensive strategies for the achievement of the goal of decent work for farm and other rural workers must become an important element in poverty reduction. In addition to improving the effectiveness of legal protections of working conditions, the exercise of farm workers' and peasants' right to freedom of association needs to be extended, secured and encouraged. Working alongside other voluntary bodies – such as farmers' and landowners' organizations, other organizations of rural employers, cooperatives, social insurance and microcredit institutions – and local authorities and agencies of central Government, farm workers' and peasants' organizations, can enrich the social capital of rural areas and contribute to escaping the multiple poverty traps that hold back agricultural productivity and rural development.

***Collective bargaining leads to improved productivity and working conditions***

***Agricultural workers need better legal protection***

***Rural work insecurity***

***Organizing for rural change***

### ***3. The impact of technological change and intensified competition on labour market governance mechanisms***

164. The combination of intensified international competition and the scope offered by changes in technology to restructure enterprises, including through increased outsourcing, has led to increased uncertainty over employment

***Intensified competition increases pressure for flexibility***

<sup>159</sup> J. Birchall: *Cooperatives and the Millennium Development Goals* (Geneva, ILO, 2004).

<sup>160</sup> L. Rusgaard: *The IUF/COLSIBA-CHIQUITA framework agreement: A case study*, Working Paper No. 94 (Geneva, ILO, 2004).

<sup>161</sup> ILO: *Sustainable agriculture in a globalized economy*, report for discussion at the Tripartite Meeting on Moving to Sustainable Agricultural Development through the Modernization of Agriculture and Employment in a Globalized Economy (Geneva, ILO, 2000).

security in many countries. With businesses less confident about their market position and under pressure to keep up with the pace of their most innovative competitors, many employers have sought to find ways of increasing the flexibility of working arrangements both through internal reorganization (functional flexibility) and by the easing of rules on hiring and firing (numerical flexibility). Labour market governance systems condition employers' response to these pressures.<sup>162</sup>

***Quality of laws on employment and enterprise critical for development***

165. Two important foundations for the governance of open market economies and the promotion of sustainable development are the employment relationship and the limited liability company or firm. Although they both have formal definitions in national laws, they are also social institutions that have developed in parallel to play a vital role in the coordination of the production process and the functioning of the market. While the legal constructs for employment for the firm – that have evolved over the last 200 years – vary from country to country, they display a remarkable underlying similarity in their purpose and basic principles. The quality of the laws concerning employment relationships and the firm, and most importantly the effectiveness of their implementation, are critical to development and the adjustment to economic and technological change.

***Modern production methods founded on employment relationship***

166. Despite the scale and pace of economic and social change there is little sign of fundamental change in the role of the employment relationship and the firm in modern market economies. Where the production process requires some degree of division of labour and thus the coordination of work teams, employers need to hire workers so that they are available when required; they also need to ensure that skills learned are retained and that tasks can be adapted as needed. From the workers' side an employment relationship offers some security of income and does not require investment in tools, materials and premises.

***Integrated production processes require stable working relations***

167. The alternative of breaking the work process up into a series of tasks undertaken by independent self-employed workers who “sell on” each intermediate product in a chain eventually leading to the final consumer is, in theory, possible. However, for most goods and services the transaction costs involved makes the option of integrating at least a good part of the process inside a firm employing a group of workers more efficient. About nine out of ten workers in most industrialized countries are in an employment relationship of some sort and the share is rising in the faster growing developing countries.<sup>163</sup>

***Outsourcing option is changing shape of firms***

168. Many businesses all over the world are restructuring their production processes with important impacts on the terms of employment and the shape of the firm. New information and communication technologies, the opening of markets and reduced costs of transportation are altering the parameters that firms – both publicly and privately owned – use when deciding what to buy from others and what to do themselves. For many firms, the option of outsourcing an increasing range of production or service functions, even to another country, is now feasible. This implies that firms also want to have the option to increase or reduce their workforce according to the choices they make about what to do and what to buy. In turn, this has led to the questioning of laws that restrain employers' ability to employ at will and protect workers from the effects of employment instability.

<sup>162</sup> K. Van Eyck: *Flexibilizing employment: An overview*, SEED Working Paper No. 41 (Geneva, ILO, 2003), provides a survey of the several ways of analysing employment flexibility.

<sup>163</sup> D. Marsden: *A theory of employment systems: Micro foundations of societal diversity* (Oxford; New York, Oxford University Press, 1999).

169. Similar pressures are also pushing firms to reorganize work internally by, for example, operating for longer hours, arranging work schedules to meet peaks in demand or requiring workers to undertake multiple tasks. Temporary and part-time work and agency contracting are on the increase in some countries. These trends are apparent in both the public and private sectors in many countries, where government departments and agencies, as well as local authorities, are re-examining work processes with a view to cutting costs and/or improving services. The scope for such internal or functional flexibility is constrained to varying degrees by labour laws and collective agreements, on the one hand, and by the need for explicit or implicit rules that encourage commitment and cooperation from work teams, on the other.<sup>164</sup>

170. A robust capacity of employers and workers to adapt to changes that affect work and the labour market without costly disruptions or high unemployment provides a competitive advantage to countries. This has stimulated renewed interest in the role of active labour market policies (ALMPs) as a means of encouraging change through “protected flexibility”. Such policies facilitate the matching of labour supply and demand through an array of programmes that include, employment services and labour market information, training, public works and support for enterprise development. Countries that have a high ratio of trade to GDP tend to have high levels of spending on ALMPs. Furthermore, spending on ALMPs is also positively co-related with workers’ perceptions of security.<sup>165</sup>

#### 4. Trends in labour law

171. The pressures for change in how work is organized and rewarded are provoking debate over the coverage and content of labour laws, regulations and collective agreements. On the one hand, increased uncertainty is resulting in demands, especially from workers and unions, for stronger protection. On the other hand, the effects of intensified global competition are felt, particularly by business, to require a faster pace of adaptation less constrained by laws or collective agreements. As a result labour law is currently in a state of more or less constant adjustment. Between 2000 and 2005, the ILO was actively engaged in labour law reform deliberations over 50 countries.

172. The issues involved in labour law reform are extremely varied; however, two major trends have emerged in the last few years. First, much of the legislative action recorded by the ILO has been in the form of new or amended laws designed to give effect to fundamental principles and rights, particularly concerning the fight against discrimination at work and child labour. Second, a number of countries have eased regulations to lower the costs to employers of hiring and firing and/or introducing new work arrangements.

173. During recent years, often as part of a process of movement towards democratic systems of government, many countries have adopted laws on fundamental principles and rights at work. Discussion of freedom of association has decisively shifted from whether these rights and principles should be respected to how best to respect and make use of them. A number of countries are still in the process of introducing or improving freedom of association laws and many allow various exceptions to legal protection – particularly for agricultural, export processing zone, migrant, domestic and informal economy

***Flexible working  
on the rise***

***Labour law influx***

***Broadening  
of protections  
for fundamental rights  
at work and easing  
of regulations on job  
security***

***Debate on union rights  
shifts from whether  
to how***

<sup>164</sup> M. Marchington: “Fragmenting work: Blurring organizational boundaries and disordering hierarchies (Oxford University Press, 2005).

<sup>165</sup> P. Auer, U. Efendioglu and J. Lescheke: *Active labour market policies around the world: Coping with the consequences of globalization* (Geneva, ILO, 2005).



workers. Nevertheless, the fact that the principles of freedom of association are less contested has allowed increased focus on ways to ensure that, in practice, women and men are able to form and join organizations of their own choosing without fear of reprisal.<sup>166</sup>

- Legal offensive against discrimination spreads** 174. The strengthening of laws concerning discrimination at work is a particularly noteworthy trend, especially in Europe. There has been an increase in measures to combat indirect gender discrimination, as well as in organizations set up to promote equal opportunities at work. While reforms have mainly focused on discrimination on grounds of gender or race, other motives such as sexual orientation, physical disability and HIV/AIDS status are also being addressed.
- Worldwide drive to eliminate worst forms of child labour** 175. Since its adoption in 1999, the Worst Forms of Child Labour Convention, 1999 (No. 182), has been ratified by 158 member States, many of which have had to update their laws as a consequence.
- More variety in employment contracts** 176. The easing of legislative protection concerning dismissal is another prominent area of labour law reform. Although most legislation still presumes that, unless otherwise specified, employment contracts are full time and of indefinite duration, many reforms have made it easier to offer so-called “atypical” contracts. Such contracts could be for a fixed term, temporary, part time or covering a training period. Many countries have also introduced legislation covering private employment agencies and temporary work.<sup>167</sup> Reviews of statutes on the status of public service workers, often with a view to easing restrictions on changes in working arrangements, have taken place in many countries.
- Protections against mass dismissal eased but not abolished** 177. Nearly all countries have some form of legislative limitation on an employers’ decision to dismiss large groups of workers. Most specify a minimum period of notice. In addition, two forms of consultation are widespread: an obligation to consult workers and/or their representatives with a view to finding alternatives to closure or determining terms for separation; and/or an obligation to notify a public authority which could be a local ministry official or even the minister, again with the objective of providing time for consultation over alternatives or to mitigate the effects of the lay-offs. Although such employment protection legislation is often criticized as inhibiting flexibility, most reforms have in practice tended to focus on improving the pace and transparency of procedures for consultation and, if necessary, approval of mass dismissals. Protections against discriminatory practices in the termination of employment have often been strengthened as part of new laws promoting equality of opportunity.
- Labour inspection squeezed** 178. The volume of labour law and regulation is not diminishing. Rather it is adapting to democratic pressures for improved rights and economic and technological forces for greater flexibility. Nonetheless, in many countries, especially developing countries that have undergone years of austerity, one of the main means of enforcement of labour law – labour inspection services – have been in retreat. Many countries have good laws based on the Labour Inspection Convention, 1947 (No. 81) but lack the means to employ, train and equip an adequate labour inspectorate.<sup>168</sup> In many countries prolonged austerity measures affecting public service pay has made retention of skilled inspectors more difficult and increased the risk of corruption.

<sup>166</sup> ILO: *Organizing for social justice*, Global Report under the follow-up to the Declaration, Report 1(B), International Labour Conference, 92nd Session, Geneva, 2004.

<sup>167</sup> Despite the relatively low number of ratifications of the ILO Private Employment Agencies Convention, 1997 (No. 181), its provisions appear to have influenced many of these new laws.

<sup>168</sup> ILO: *General Survey: Labour inspection*, Report III (Part IB), International Labour Conference, 95th Session, 2006 (<http://www.ilo/public/english/standards/relm/ilc/ilc95/pdf/rep-iii-1b.pdf>).

179. Debates over laws on employment protection have also involved discussion of unemployment benefit regimes and the effectiveness of training systems. The terms for separation are influenced by the extent of income protection workers enjoy while searching for a new job and the availability of training options to reskill for a different occupation. There is a lively discussion over the concept of “flexicurity”, especially in Europe, but also in other regions. This is a model for employment adaptation in which the formal constraints on employers to dismiss are relatively modest but other measures ensure that any unemployment is of short duration. Consultation with unions and public authorities, backed up by the social security and training system, are geared to ensure that workers experience little income loss for a short period of job search and are further assisted by active support of occupational or geographical mobility.<sup>169</sup>

***Search for a new policy blend for flexibility with security***

180. The trend towards increased protections for freedom of association and against discrimination, coupled with an easing of laws concerning dismissal, may presage a more general move towards a rights-based approach in which recognition of the need for dynamic labour markets is conditioned by respect for rights and negotiated solutions to workplace changes. This is sometimes characterized as a shift towards procedural rights and away from guaranteed substantive outcomes.<sup>170</sup> Such an approach would require modernization of social security systems and the upgrading of human resource policies. Furthermore, mechanisms for the day-to-day governance of work by dialogue and negotiation, with less reliance on reference to statutes and legal processes, require strong and effective representative organizations of employers and workers.

***Negotiated change, protected mobility: A trend for the future?***

## **5. Collective bargaining and social dialogue**

181. Collective bargaining between free associations of workers and employers, as well as other forms of social dialogue, are features of democratic societies. In many countries, the historical process in which the State accepted and encouraged the right to freedom of association often marked a turning point in the emergence of democracy. However, the internal dynamic of work processes imparts a strong natural logic for work groups to form and for employers to reach accommodations with them. In many countries, unions were formed and functioned, often clandestinely, before they acquired legal status or a functioning democracy was established. The social struggle to assert labour rights can lead to their realization – at least in part – despite the absence of an orthodox legal route to their application. Nevertheless, in order for freedom of association and collective bargaining to become effective and be integrated into labour market governance based on social dialogue, these rights need an anchor in law.

***The rights foundations of social dialogue***

182. The international reference points for freedom of association and collective bargaining are ILO Conventions Nos. 87 and 98.<sup>171</sup> The spread of democracy in the last decades of the twentieth century was paralleled by an increase in ratifications of the ILO Conventions on freedom of association. In many countries where freedom of association was previously heavily restricted, legal obstacles to the functioning of free trade unions and employer

***The role of international labour standards in the spreading of democracy***

<sup>169</sup> ILO: *Managing transitions: Governance for decent work*, Report of the Director-General, Vol. II, Seventh European Regional Meeting, Budapest, February 2005 (Geneva, ILO, 2005).

<sup>170</sup> B. Hepple (ed.): *Social and labour rights in a global context: International and comparative perspectives* (Cambridge; New York, Cambridge University Press, 2002) p. 15.

<sup>171</sup> The Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87), and the Right to Organise and Collective Bargaining Convention, 1949 (No. 98).

organizations have been much reduced. The scope for collective bargaining and social dialogue has thus spread and developed. At the same time, economic and social changes have led to considerable changes in the organized labour movement and, to a certain extent, in employers' organizations as well.

***Union membership down in most countries***

183. Union membership as a proportion of the workforce has fallen in most countries. The drop has been particularly sharp in the former Communist countries, where membership of party-controlled organizations was virtually compulsory. In the EU, membership was about 26 per cent in 2002 with lower rates in the "new" Member States.<sup>172</sup> United States union membership in 2000 was also down to about 13 per cent compared to 15 per cent ten years earlier. In Japan, union members constituted 22 per cent of employees – also down by about 3 percentage points since 1990.<sup>173</sup> The size of union membership in developing countries is equally variable and depends to a large degree on the size of the non-agricultural workforce. Sources of information are also thin. If measured as a share of total paid (formal) employment between 2000 and 2003, it is as high as 25-45 per cent in countries such as Brazil, Egypt, Mauritius, Nicaragua, Singapore and Sri Lanka; between 10-20 per cent in Costa Rica, India and Republic of Korea; and under 10 per cent in many other countries. Measured as a share of total employment, including the urban informal economy and agriculture, union density figures are much lower in countries such as India.<sup>174</sup>

***Union recruitment in new economy fails to keep pace with falling employment in "smokestack" industries***

184. The main cause of decline in the industrialized countries, is the fall in employment in heavily unionized industries such as coal, railways, steel, ship-building and manufacturing in general. Recruitment in new service sectors and in smaller establishments has not compensated for these falls. Public sector unions have suffered less membership loss than those in the private sector. The fall in union membership is much less marked in countries where unions play a prominent role in the social security system, e.g. in Scandinavia.

***Women playing greater role in unions holds promise of reducing gender inequality at work***

185. Against this overall picture of decline, women are rising as a share of total membership in many countries. The empowerment or presence of women in decision-making bodies is key for promoting gender equality in the world of work. Women's and men's equal participation and representation in social dialogue at the highest levels has the potential to influence labour market outcomes – resulting in the removal of barriers that prevent women from engaging in full employment on equal terms with men and the reversal of any inequalities in their capabilities to engage equally in decent work opportunities. Equal participation in decision-making can therefore lead to the introduction of more gender-equal legislation and better policies to balance family and working life; increased equality in access to decent work opportunities; and enhanced social protection for women and men working in informal and insecure jobs.

***Social and political hostility hampers organizing efforts***

186. A more intangible factor affecting union membership is a change in the social and political environment in some countries. Unions depend on volunteers in the workplace to maintain levels of organization. If playing this important social role attracts the hostility of managers, employers or other figures of authority and is felt to put at risk continued employment, the number and enthusiasm of volunteers is reduced. It seems likely that part of the difficulty unions face in some countries is due to inadequate protection

<sup>172</sup> European Commission: *Industrial relations in Europe 2004* (Brussels, 2004), table 1.3.

<sup>173</sup> *OECD Employment Outlook* (Paris, 2004), table 3.3.

<sup>174</sup> S. Lawrence and J. Ishikawa: *Trade union membership and collective bargaining coverage: Statistical concepts, methods and findings* (Geneva, ILO, 2005).

of union activists from discrimination, particularly when seeking to recruit in previously unorganized workplaces.

187. Structural change in employment is also affecting employers' organizations – although this is harder to quantify. Data from Europe show that companies belonging to employers' organizations still continue to employ around 60 per cent of all workers. This is probably a relatively high figure by comparison with other regions although membership is weaker in the new Member States of Central and Eastern Europe. Support for employer institution building remains important in the transformation countries.<sup>175</sup>

***Employers' organizations affected by employment changes***

188. The structure of unions and employers' organizations has changed, with many unions merging and previously separate business associations for commerce and employment issues combining in some countries. In November 2006, the World Confederation of Labour (WCL) and the International Confederation of Free Trade Unions (ICFTU) will form a new global labour international, bringing together most independent and democratic national centres of unions.

***Union and employer structures consolidating***

189. The decline in union participation rates – and to a certain extent employers' organizations – has had some effect on the coverage and content of collective bargaining and other institutions of social dialogue. However, in many countries far more workers benefit from collective agreements than are actually members of unions or employees of firms that are members of employer organizations. For example, in EU Member States, about 78 per cent of employees in the old 15 – and 35 per cent in the new ten – Member States were covered by collective agreements in 2001. These figures are high by comparison with other countries because of the continued strength of industry bargaining and the use of voluntary or legal procedures to make agreements binding on all employers in the sectors concerned. In 2000, the average for the industrial countries of the OECD was 35 per cent in 2000, down from 45 per cent in 1980. Information on the coverage of collective bargaining in developing countries is scant. The practice is less common than in industrial countries and limited mainly to the public sector and larger enterprises.<sup>176</sup>

***Coverage of collective agreements falling but remains high in Europe***

190. A shift away from national- or industry-level bargaining towards bargaining at plant or company level is apparent in some countries. In others, bargaining takes place at two or three levels and the degree of decentralization can vary from round to round. In a number of European countries, there is an observable trend toward more local agreements within an industry or national framework.<sup>177</sup> This, however, contrasts with the resurgence in some countries of tripartite agreements on social pacts that embrace issues such as pay, training, social transfers, tax strategies and labour law reforms.<sup>178</sup>

***Some trends towards more decentralized bargaining***

191. A further emerging trend is international social dialogue between multinational companies and global union federations. By the end of 2005 there were over 40 framework agreements largely based on the ILO's Declaration of Fundamental Principles and Rights at Work covering over 3.5 million workers. These agreements do not cover issues such as pay and working conditions but do establish agreed principles that can facilitate improved union management relations throughout a global company.

***International social dialogue emerging***

<sup>175</sup> European Commission: *Industrial relations in Europe 2004*, op. cit., table 1.5.

<sup>176</sup> *OECD Employment Outlook*, 2004, op. cit.; Lawrence and Ishikawa, op. cit.

<sup>177</sup> P. Marginson, K. Sisson: *European integration and industrial relations: Multi-level governance in the making* (New York, Palgrave Macmillan, 2004).

<sup>178</sup> H.C. Katz and O. Darbishire: *Converging divergences: Worldwide changes in employment systems* (Ithaca, New York, Cornell University Press, 2000).

## 6. *International dimensions of labour market governance*

### *National frameworks for labour and product markets*

192. Current governance mechanisms for the world of work, principally laws and collective bargaining, evolved during the nineteenth and twentieth centuries in settings bounded by the jurisdictional reach of the nation State. There was an international dimension to the development of labour law even in the nineteenth and early twentieth centuries, partly as a result of colonial interests but also stemming from the work of the ILO and its precursors in establishing common standards for national law and practice. Nevertheless the impact of systems of labour market governance on the price and quality of final products and also on social relations was mainly contained within national markets.

### *Product markets go global*

193. In the twenty-first century, the markets for goods and services are increasingly global. Workers are much less able to move internationally – although labour migration is significant and growing. This has created a new environment for labour law and social dialogue. Reforms or the continuation of the status quo, are often assessed against their expected effect on the competitiveness of individual enterprises or the country as a whole.

### *Concern about equity in working conditions internationalized*

194. At the same time, working conditions in other countries are increasingly scrutinized by workers, consumers, businesses and governments, motivated at least in part by legitimate fears that increased international competition will undermine hard-won social progress. In addition, global concerns about abuses of human rights and continued poverty in other countries have increased in parallel with the availability of information. But it cannot be denied that uncertainties arising from increased international competition can also be exploited for narrow protectionist purposes.

### *International influences on labour market governance increase*

195. Increased awareness of the international dimensions to labour market governance has evoked several different but overlapping approaches to modernization and adaptation. First, as discussed earlier, many countries are reviewing national laws or social dialogue systems, often with the explicit goal of matching the performance of competitors and sometimes of importing their governance mechanisms. This might be characterized as a process of regime competition or emulation. For example, comparisons between the United States, European and Japanese labour market systems are frequently used to support arguments for reform, even though the evidence for the superiority of any of the models is weak. A second trend is a search for ways of harmonizing laws, if not globally then within a regional market such as that created by the European Union. Such approaches are often based on the search for a social floor for competition. A third response is to think across national jurisdictions and define norms that multinational businesses could apply wherever they operate and to the subcontractors with which they do business. The governance frame for such an approach is a global production system and thus the norms are not legally binding – but they rely on other means of application such as market pressures on enterprises to maintain a reputation of corporate social responsibility.

### *A new, more integrated, approach to labour rights apparent in the market*

196. An important new feature of discussions about national labour law reform, regional or global social floors and corporate social responsibility, is that labour rights are no longer seen as outside or in opposition to the market but are treated as integral to it.<sup>179</sup> For the ILO this approach is, of course, not new. The potential for a positive relationship between improved productivity and better working conditions and rights is one of the building blocks

<sup>179</sup> Hepple, op. cit., p. 15.

of the ILO's tripartite system of governance and standard setting. Nevertheless, the notion that the improved application of labour rights can act to support the development of the market for goods and services has become more widely accepted recently.

### ***Regime competition and emulation***

197. Intensified competition worldwide has prompted businesses of all sizes to seek faster-paced, more frequent and more extensive workplace changes – “flexibility”. The practical meaning of increased flexibility can vary considerably for different firms and sectors. Labour economists often distinguish “functional” and “numeric” flexibility. The former implies changed tasks, roles, hours of work and skills within a more or less stable workforce. The latter suggests a capacity to hire or fire more easily in an effort to adjust the number of workers to the order book on hand.

198. In discussions on the flexibility of national labour market governance systems, attention has tended to focus on issues such as the termination of employment. However, stability of employment and the retention of workers with firm specific skills are important for many firms.<sup>180</sup> Reflecting the importance of a balance between the encouragement of external mobility and the fostering of security and commitment, labour law reforms have in most countries produced incremental rather than systemic changes. It is also clear that there is no single model for success. Different labour law regimes have proved to be quite compatible with the achievement of high levels of competitiveness on world markets. For example, over several years the *Global Competitiveness Report* of the World Economic Forum has placed the Nordic countries alongside the United States and Singapore in its top ten rankings.<sup>181</sup>

199. The pressure for flexibility has nevertheless caused concern that in the competition for scarce foreign investment, some countries may weaken labour laws that protect against worker exploitation. This is more likely to be a risk in countries specializing in low-skill labour-intensive assembly industries where there is an abundant supply of workers. The growth of a number of export processing zones where national labour laws are not enforced has fuelled such concerns. There is risk of such a form of competition causing a so-called “race to the bottom”. Other factors suggest that this can be avoided.

200. For FDI in export-oriented manufacturing industries to contribute to national development of low-income countries, it is important that it be part of a strategy for raising value added, skills, technology transfer – and thus economic growth and poverty reduction. If all or a large part of the returns do not stay in the country, little is gained from a “jobs-at-any-cost” approach to attracting FDI. Employment policies and labour laws therefore need to be framed as part of a dynamic strategy for the upgrading of productivity, skills and working conditions for improved competitiveness. Respect for fundamental principles and rights at work contribute to such national strategies.

### ***Collaboration to build international social floors***

201. Collaborative action to promote respect for shared principles and avoid undermining them has inspired the development of ILO standards since 1919 and more recently regional initiatives. A leader in this regard is the European Union. Following the adoption of the social protocol in Maastricht in 1991, which was incorporated into the European Union Treaty in Amsterdam in

***Intensified competition increases pressure for flexibility***

***But stability of employment remains important too***

***Risk of “race to bottom” highest in labour-intensive low-skill assembly work***

***Competitiveness and development require strategies for increasing value added***

***Regional innovations led by European Union***

<sup>180</sup> P. Auer and S. Cazes: *Employment stability in an age of flexibility. Evidence from industrialized countries* (Geneva, ILO, 2003).

<sup>181</sup> WEF: *Global Competitiveness Report 2005-06*, op. cit.

1999, the European Commission has the authority to promote Europe-wide agreements between the Union of Industrial and Employers' Confederations of Europe (UNICE), the European Centre of Enterprises with Public Participation and of Enterprises of General Economic Interest (CEEP) and the European Trade Union Confederation (ETUC). This has led to a number of agreements, which have been transposed into legally binding European Directives. They include directives on parental leave, part-time work, fixed-time work and working time in the maritime and air transport sectors. Since 1994, the European Works Council Directive has led to the formation of some 650 works councils covering over 11 million workers, aimed at promoting improved information and consultation between management and employees in pan-European meetings.<sup>182</sup>

***Labour and social provisions linked to regional free trade deals***

202. Regional free trade areas such as NAFTA, MERCOSUR and SADCC have also included a labour and social dimension, often drawing on ILO principles or practice. A variety of mechanisms are now functioning with the common underlying goals of discouraging any tendency to undermine existing labour protections and promoting a strengthening of laws, especially those concerning fundamental principles and rights at work. The EU and the United States have also included incentives to improve labour law regimes in trade and aid policies such as their Generalized System of Preferences (GSP) tariff reductions.

***Global production systems pose new governance challenges***

***Impact of growth of global production systems on jobs***

203. The growth of global production systems, and especially shifts in the location of assembly work, has evoked a vigorous debate about whether they help or hinder development. They have also posed the question of whether new forms of governance are needed to protect working women and men in both developed and developing countries. On the one hand, conditions in the export factories in many developing countries are better than in the agricultural or urban informal economies from which many of the workers are drawn. Furthermore, many of the assembly line jobs are taken up by women, who otherwise might have few opportunities for paid employment. On the other, there is concern that opportunities for low-skilled workers will disappear in industrialized countries, and that this phenomenon will increasingly start to affect middle-class office workers as some services start to become organized in a similar way.

***Rise of corporate social responsibility initiatives***

204. These concerns about global production systems have prompted multinational enterprises MNEs to respond in a number of ways. Corporate social responsibility (CSR) is one of the ways in which enterprises give consideration to the impact of their operations on society and affirm their principles and values, both in their own internal methods and processes and in their interaction with other actors. CSR is a voluntary, enterprise-driven initiative and refers to activities that are considered to exceed compliance with the law. CSR thus falls within the broad scope of governance as it seeks to establish norms of behaviour within businesses that affect how work is organized and performed.

***CSR embraces a wide variety of initiatives***

205. CSR embraces a wide variety of initiatives, including company codes of conduct intended to guide managers' behaviour on employment issues and

<sup>182</sup> The Council Directive (94/45/EC) covers undertakings with more than 1,000 employees and at least 150 in two Member States. Seventeen companies in two non-Member States, Norway and Switzerland, have also set up EWCs. See: European Commission: *Industrial Relations in Europe 2004* (Brussels, 2004), Chapter 5.

community involvement.<sup>183</sup> Others involve national or international business federations, usually covering particular sectors. Some are non-governmental in origin but invite the adherence of businesses. Many are purely declaratory, whereas others include extensive measures for reporting and monitoring, in some cases by external social auditors. Socially responsible investment, which is closely related, involves assessment by investment groups, often employee pension funds or unit trusts, of the companies in which they invest against social responsibility criteria. Nearly 1 out of every 10 dollars – or US\$2.3 trillion out of US\$24.4 trillion – under professional management in the United States is involved in socially responsible investing.<sup>184</sup> In many cases, social and environmental responsibility issues are dealt with in the same initiatives. The International Finance Corporation (IFC), the private lending arm of the World Bank, has recently strengthened its environmental and social performance standards for borrowers to include labour rights provisions based on the ILO's fundamental principles and rights at work.<sup>185</sup>

206. There is considerable debate on CSR and on the role of enterprises in society. Some are concerned that the expectations of enterprise CSR initiatives extend well beyond what might be considered as the legitimate role of an enterprise in society: CSR cannot substitute for the role of government. While others might agree with the primacy given to the law and its implementation, they note that CSR is a voluntary concept involving responsibilities unilaterally identified by enterprise management. There is also criticism that in some instances CSR commitments represent little more than declaratory statements of intent. There are concerns over the number and quality of audits being conducted by buyers. Some argue that this is introducing a multiplicity of demands and unnecessary costs in supply chains with little return to suppliers in terms of market expansion, or to workers in terms of an improvement in working conditions.

207. Predating the current wave of interest in CSR – and differing from private initiatives because it consists of official public statements endorsed by governments – is the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (the MNE Declaration). The MNE Declaration is the ILO's reference point in its CSR-related activities. Adopted in 1977 and revised in 2000, it represents a unique set of guidelines for voluntary action on labour issues and the only one agreed to by governments, employers' organizations and trade unions on the basis of universal standards. The OECD Guidelines for Multinational Enterprises (OECD Guidelines) adopted in 1976 and revised in 2000 are also backed by governments. They contain non-binding recommendations that provide "voluntary principles and standards for responsible business conduct consistent with applicable laws". Together these two instruments articulate a set of principles to guide the global operations of enterprises and their social policies and is intended to inspire good CSR policy and practice.

208. The United Nations Global Compact is a partnership initiated by Secretary-General Kofi Annan to bring companies together with the United Nations, its agencies, organized labour and civil society, to show that a globalized economy can be both sustainable and inclusive. The Global Compact

***CSR implementation and its relationship with laws***

***ILO and OECD voluntary codes***

***Global Compact***

<sup>183</sup> Information on over 800 corporate social responsibility initiatives is contained in an ILO online database: [www.ilo.org/basi/records](http://www.ilo.org/basi/records).

<sup>184</sup> Social Investment Forum: *2005 Report on socially responsible investing trends in the United States* (Washington, DC, 2006). [http://www.socialinvest.org/areas/research/trends/sri\\_trends\\_report\\_2005.pdf](http://www.socialinvest.org/areas/research/trends/sri_trends_report_2005.pdf).

<sup>185</sup> IFC: *IFC reviews environmental and social standards*, [http://www.ifc.org/ifcext/media.nsf/Content/IFC\\_Performance\\_Standards](http://www.ifc.org/ifcext/media.nsf/Content/IFC_Performance_Standards).



### Global Social Dialogue: Framework agreements between multinationals and unions

Beginning in the 1990s and accelerating after the adoption of the ILO Declaration on Fundamental Principles and Rights at Work, an increasing number of transnational corporations have been signing “framework agreements” with global union federations representing unions by sector. By the beginning of 2006, 43 companies had reached agreements covering over 3.7 million workers. The agreements typically commit the company and the unions to respect the ILO’s core standards within the company’s global operations. Some include procedural arrangements for periodic review. In a number of cases, the framework agreement has provided a vehicle for companies to develop closer relations with unions in an international setting, which has proved helpful in settling disputes on such issues as restructuring of operations. Most framework agreements cover companies in which the union in the company headquarters has an established bargaining relationship with the company. In many cases, other subsidiaries are also well organized, and the unions have got to know each other through the global union federation to which they are affiliated.

consists of ten principles in the areas of human rights, labour, the environment and transparency. The labour section is based on the ILO Declaration on Fundamental Principles and Rights at Work.

#### ***Influence of ILO***

209. A common feature of the new private CSR initiatives, the MNE Declaration, the OECD Guidelines and the United Nations Global Compact is the extent to which they draw on ILO standards in their provisions regarding employment matters. Not surprisingly, the MNE Declaration is the instrument that most systematically references its sources in ILO Conventions, Recommendations and codes of practice, but others explicitly or implicitly draw inspiration from the ILO, especially its fundamental principles and rights at work.

#### ***Reputation: A market-based enforcement mechanism?***

210. CSR codes, the ILO MNE Declaration, the OECD Guidelines and the United Nations Global Compact set standards of behaviour for employers operating internationally but eschew the classical international legal route of ratification and assimilation of the standards into laws, enforceable by domestic courts. Since in the employment field they draw heavily on ILO Conventions and Recommendations which have often been absorbed into national laws there is considerable overlap between CSR initiatives that are aimed at influencing management behaviour and legal obligations. However, up to now the main incentive for observing such voluntary instruments has been to enhance or avoid damage to a company’s reputation in the marketplace. The main mechanism for applying the principles in such codes is transparency; i.e., the possible exposure of a firm to not living up to voluntarily accepted standards of behaviour, a consequent loss of reputation and a possible loss of business. Consumer, investor and business partner reactions are thus playing a role in stimulating compliance with codes.

#### ***Potential and limits of CSR***

211. Some CSR instruments include built-in mechanisms for auditing of behaviour and remedial action. Many do not; or have systems that do not provide a credible assessment of behaviour. Nevertheless, the debate about “enforcement” of voluntary codes highlights the difference between CSR and law. CSR principles are, in the main, good practices which in most circumstances are in companies’ interests to strive to attain. They cannot replace laws that seek to prevent bad practices and are backed up by sanctions. Their potential value lies in encouraging employers to adopt best practices that go beyond minimum legal requirements and in reducing the compliance costs faced by

the State, workers and companies themselves in applying laws. They can also provide an agenda for dialogue between companies and unions and other civil society organizations, thereby facilitating dispute resolution and the identification of areas for collaborative action. An emerging issue is the relationship between predominantly public labour inspection systems, covered by the Labour Inspection Convention, 1947 (No. 81), ratified by 135 countries, and new private mechanisms addressed at compliance with voluntary codes.

## **7. The impact of the international labour standards system**

212. The three interlinked international dimensions of labour market governance described above are, to a large extent, built on the foundations of the ILO's international labour standards system. International labour standards are legal instruments drawn up by the ILO's constituents setting out basic principles and rights at work. They are either Conventions, which are legally binding international treaties that may be ratified by member States, or Recommendations, which serve as non-binding guidelines. In general, Conventions lay down basic principles to be implemented by ratifying member States, while Recommendations provide more detailed guidelines on how the principles could be applied. The labour laws of most countries address issues dealt with in international labour standards. In some cases the influence is direct. In other cases, the resemblance may have more to do with a process of deliberation which has yielded very similar results. While many ILO Conventions have a high number of ratifications, this is not a complete measure of the influence of ILO standards. Conventions that are not ratified and the more detailed accompanying Recommendations also often form the agenda for the drafting of labour laws.

213. The process of preparing Conventions and Recommendations also has an impact. They are drawn up by representatives of governments, employers and workers and are adopted at the ILO's annual International Labour Conference. Once a standard is adopted, member States are required, under the ILO Constitution, to submit them to their competent authority (normally the parliament). In the case of Conventions, this means consideration for ratification which is a commitment to apply the Convention in national law and practice and to report on its application at regular intervals. Technical assistance is provided by the ILO if necessary. In addition, representation and complaint procedures can be initiated against member States for violations of a Convention they have ratified. This dialogue between the Organization and its member States helps to clarify what is intended by the different standards and the various ways in which principles can be reflected in law and practice.

214. Standards are adopted by a two-thirds majority vote of the ILO's constituents and are therefore an expression of universally acknowledged principles. At the same time, they reflect the fact that countries have diverse cultural and historical backgrounds, legal systems, and levels of economic development. Indeed, most standards have been formulated in a manner that makes them flexible enough to be translated into national law and practice with due consideration of these differences. For example, standards on minimum wages do not require member States to set a specific minimum wage but to establish machinery to fix appropriate minimum wage rates.

215. As part of an ongoing process marking a major renovation of the International Labour Code, the Governing Body has reviewed all ILO standards adopted before 1985, with the exception of the fundamental and priority Conventions, to see if they needed to be revised. As a result of that review,

***Pervasive influence of ILO standards***

***Authority of standards derives from worldwide tripartite involvement in their formulation and application***

***Universal principles with built in flexibility for differing national circumstances***

***Review process focuses promotion efforts on 71 up-to-date Conventions***

71 Conventions – including the fundamental Conventions and those adopted after 1985 – were designated as being “up to date” and recommended for active promotion out of the 185 adopted since 1919. The ILO Governing Body strategy for standards has four elements. The first component is directed towards a better promotion and application of the existing corpus of up-to-date ILO standards; the second towards the strengthening of the supervisory system; the third towards the importance of achieving greater visibility of ILO standards; and the fourth is technical assistance, technical cooperation and capacity building.

***Designed to aid lawmakers, ILO standards are points of reference for other labour market governance mechanisms***

216. International labour standards are primarily tools for governments which, in consultation with employers and workers, are seeking to draft and implement labour law and social policy in conformity with internationally accepted standards. Courts in many countries are able to use international labour standards to decide cases on which national law is inadequate or silent, or to draw on definitions set out in the standards, such as “forced labour” or “discrimination”. In addition to shaping law, international labour standards can provide guidance for developing national and local policies, such as employment and work and family policies. They can also be used to improve various administrative structures such as labour administration, labour inspection, social security administration, employment services, and so on. Standards can also serve as a source of good industrial relations applied by labour dispute resolution bodies, and as models for collective agreements. They are also increasingly used as reference points for CSR initiatives.

#### New Maritime Convention set to become global framework for regulation of work at sea

Nearly 1.2 million seafarers work for the world’s shipping industry, which handles 90 per cent of world trade. These seafarers received a new “bill of rights” when the 94th Maritime Session of the International Labour Conference met on 7-23 February 2006 and adopted a new labour standard consolidating and updating more than 65 international labour standards adopted over the last 80 years.

The new Convention sets out seafarers’ rights to decent conditions of work on a wide range of subjects, and is to be globally applicable, easily understandable, readily updatable and uniformly enforced. It has been designed to become a global instrument known as the “fourth pillar” of the international regulatory regime for quality shipping, complementing the key Conventions of the International Maritime Organization (IMO).

The new Convention is set to achieve greater compliance by operators and owners of ships and to strengthen enforcement of standards through mechanisms at all levels. It includes provisions for complaints procedures available to seafarers regarding the shipowners’ and shipmasters’ supervision of conditions on their ships, on flag States’ jurisdiction and control over their ships, as well as port state inspections of foreign ships. The Convention sets minimum requirements for seafarers to work on a ship and contains provisions on conditions of employment, accommodation, recreational facilities, food and catering, health protection, medical care, welfare and social security protection.

There are several novel features as far as the ILO is concerned. The whole structure of the new Convention differs from that of traditional ILO Conventions. It consists of the basic provisions, followed by a two-part Code and is divided into five Titles – one of which is devoted to compliance and enforcement. The Regulations and the Code, which contain Standards and Guidelines, are organized under the five Titles: Minimum requirements for seafarers to work on a ship; Conditions of employment; Accommodation, recreational facilities, food and catering; Health protection, medical care, welfare and social security protection; and Compliance and enforcement. There is also an explanatory note to further assist member States in implementing the Convention. Other innovations are the amendment procedures and the system for the certification of ships.

217. The ILO's Constitution requires that all ratifying member States give effect to the principles of the Conventions in national law and practice and provide periodic reports on their application. Furthermore, the ILO Declaration on Fundamental Principles and Rights at Work, adopted in 1998, requests States to report annually on the effect given to the non-ratified Conventions and the difficulties that prevent ratification. The Declaration refers to the principles concerning the fundamental rights that are the subject of the eight Conventions on: freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation. Taken together, these principles constitute a global social floor for the governance of the world of work.

***Global social floor  
for governance  
of the world of work***

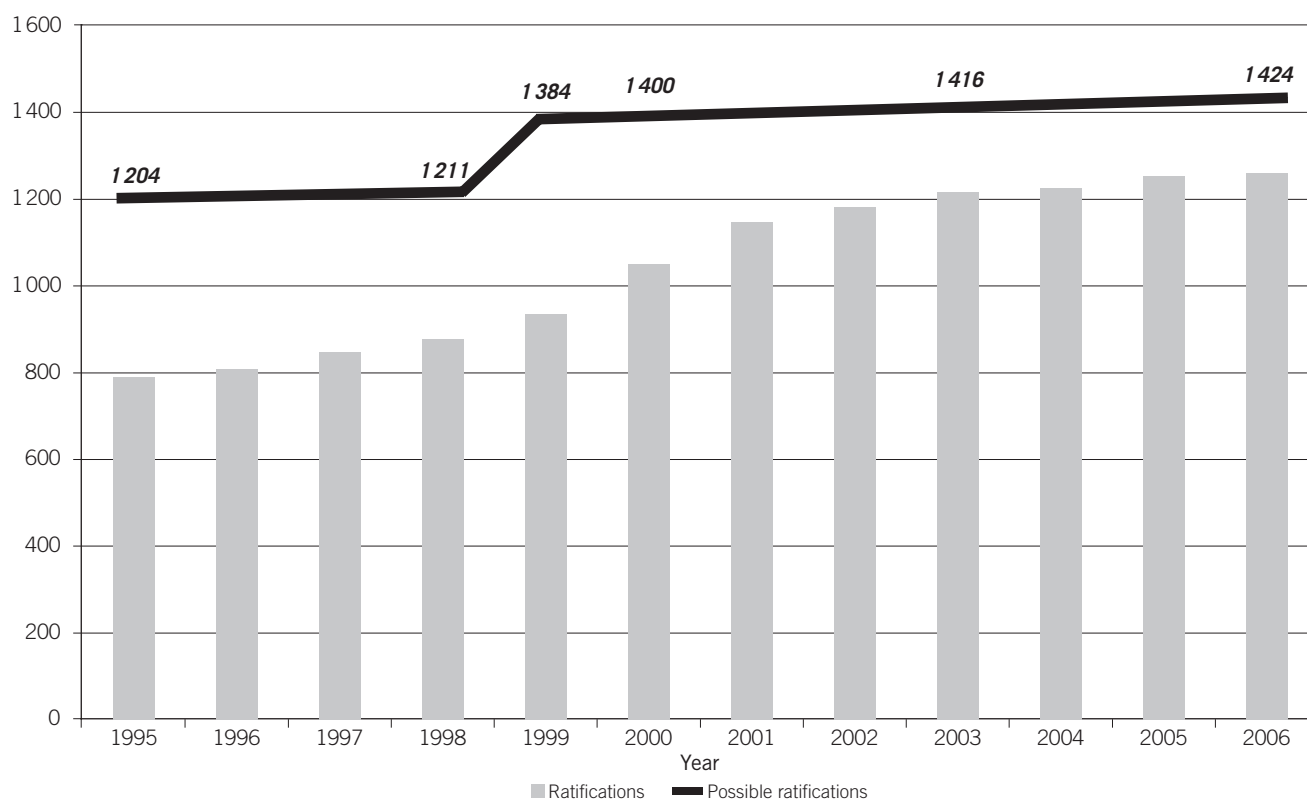
218. Since 1998, the ILO has received 385 new ratifications of the eight Conventions, including 160 ratifications of the Worst Forms of Child Labour Convention (No. 182), adopted in 1999. As of 1 May 2006, 119 of the ILO's 178 member States had ratified all eight Conventions. Total ratifications amounted to 88.6 per cent of the possible 1,424 (see figure 10).

***Global commitment  
to freedom at work***

219. With global markets for finance and manufactured goods becoming increasingly open, the significance of the ILO Declaration lies in the fact that it asserts the basic freedoms all working women and men need to be able to exchange, without coercion, their main, and often only, asset – their labour. These freedoms provide conceptually and politically the foundations for the governance of work in free societies and open market economies. Stronger governance systems, based on the ILO standards, offer a promising route to balancing the objectives of efficiency, equity and representation needed to foster both economic competitiveness and social progress. However, national action alone is not enough. It must be backed up by more coherent international policies that support the expansion of decent work opportunities through more employment-intensive growth.

***Freedom at work  
in a global market***

**Figure 10. Increasing ratification of fundamental ILO Conventions**



Source: ILO, 2006.

## **E. Looking ahead**

### ***International influences on work strengthening***

220. Work in its many forms will be central to people's lives everywhere in the world for the foreseeable future. The four forces identified as the major current drivers of change in the world of work – the development imperative, technological transformation, the intensification of global competition and the greater reliance on markets and a reduced role for the State – are of a long-term character. It may fairly be predicted that working women and men will increasingly view their own situation in relation not just to colleagues in the same workplace, to the same employer, or to the same country, but also from a global perspective. This Report has traced the way in which international influences on work are becoming stronger. It is a trend that is set to continue and has considerable implications for the role of the ILO.

### **1. Global labour force growth continues**

#### ***Growth of world population slowing by 2050***

221. Population projections by the United Nations up to 2050 show a continuing growth in the world population of working age almost entirely in the developing countries. However, the pace of growth is slowing and many countries will reach the point in the next 25 years where the ratio of the dependent population to those of working age starts to rise. China, for example, is forecast to stabilize at a population of around 1.5 billion in 2030-35. It is expected that India's population will continue to grow at least until 2050 and Africa's population will not stop growing until around the turn of the next century.<sup>186</sup>

#### ***World labour force concentrated in developing world***

222. By 2015, the working-age population of the world will be about 5.35 billion, of which some two-thirds, or 3.48 billion people, are expected to be economically active. Of this total, nearly 3 billion will be living in the developing world. Some 60 per cent of the world's workers will come from Asia. These projections imply an average annual increase in the world's labour force of 43 million between 2005 and 2015.<sup>187</sup> Job creation will have to exceed this net increase in women and men looking for work in order to reduce unemployment and provide for an increase in women's participation in the labour

<sup>186</sup> United Nations: *World Population Prospects 2004*, op. cit.

<sup>187</sup> ILO: EAPEP database, op. cit.

market. Furthermore, a major effort is also needed to improve productivity, earnings and working conditions in order to reduce working poverty.

223. The development imperative highlighted at the outset of this Report will become ever more pressing in the years ahead as the poorer countries of the world strive to create decent and productive work for a young and growing workforce. The demographic window produced by this increase in the potential workforce, before slowing population growth tips into rising dependency ratios, will be a critical period. It will create an opportunity for rapid growth in per capita incomes and a closing of the gap in living standards with the already developed world. The HIV/AIDS pandemic, however, threatens to retard development in the worst-affected countries. Integrating policies and programmes for decent and productive work into development strategies will be a priority not just for developing countries themselves but also for the international community.

***Potential for rapid growth to narrow global inequalities***

## **2. Technology plus open markets transforming world of work**

224. The ICT revolution is a radical innovation on a par historically with steam power or electricity. Its impact is still spreading and has furthermore set off a continuing wave of incremental innovations building on the initial breakthrough of the microchip. A leading economist has argued that the business environment of the twenty-first century may be one in which the “prime weapon of competition is not price, but innovation.”<sup>188</sup> The dramatic fall in the cost of computing power is a major factor affecting a number of manufacturing and service sectors. Enterprises in developing as well as developed countries are moving rapidly to upgrade the sophistication of their products and processes to keep up with market leaders. Coupled with the opening up of product and capital markets internationally, the ICT revolution is leading to a transformation of production processes and the structure of employment by sector and occupation and the content and skill requirements of most jobs.

***Transformation only just beginning***

225. The application of ICT is strongly influenced by network effects; the more businesses, workers and consumers are connected, the higher the returns to an individual investment. Nonetheless, the opposite is also the case. Not being connected, or not having a fast and reliable connection, poses a risk of economic and social marginalization as more and more commercial, cultural and knowledge exchange takes place through ICT networks.

***Risks of exclusion***

226. Where such network effects are powerful, there is a strong case for coordinated action to realize the potential benefits of network expansion and avoid the risks of exclusion. Organizing coordinated action requires an institutional framework at several levels from local “feeder” connections to a global programme to help poorer countries access the global highways of the digital age. Furthermore, this is not just a question of the physical hardware of ICT but also the human software of literacy, numeracy and the ability to learn new skills throughout life. The ICT revolution calls for a major investment – a strong international component – in education and skills development to overcome digital divides within and among countries.

***Need for investment in education and skills***

227. Technological change has made possible the emergence of a global market economy opened up by the liberalization of trade and capital flows. The effects of these closely interconnected drivers of change on workplaces are often difficult to disentangle. Intensified competition stimulates the introduction of

***Accelerated innovation and intensified competition set pace of adaptation***

<sup>188</sup> W.J. Baumol: *The free market innovation machine: Analyzing the growth miracle of capitalism* (Princeton University Press, 2004).

new processes and products which, in turn, incites emulation and more competition. This process shows no sign of slowing and, indeed, is gathering force as the network effects mentioned above increasingly kick in. It is the background for a continuing fast pace of adaptation in workplaces and labour markets.

### 3. *Global shifts in structure of employment*

#### *New Asian manufacturing hub*

228. The scope for ICT-enhanced automation of manufacturing has led to a stabilization of the share of industrial employment in global employment, although the absolute numbers employed in these sectors continue to rise. China and its East and South-East Asian neighbours are becoming a new hub for manufacturing jobs, while employment in industry in most industrial countries is in steady decline, both as a share of the total and in absolute numbers.<sup>189</sup> An additional feature of change in manufacturing is that it is increasingly necessary for producers wherever they are located to keep close to the technological frontiers of their industry.

#### *New skills focus for industrial and services development*

229. For developing countries, this suggests that manufacturing is unlikely to absorb much of their increased labour supply as unskilled, strongly labour-intensive, technological options become less viable on global markets. This is not to say that developing countries should eschew strategies to encourage investment in manufacturing. However, it will be increasingly important to factor-in a continuous process of worker and management skills upgrading to ensure technological development and competitiveness, as well as to capture a reasonable share of value added within global production systems. Similar concerns also apply to the export of services using high-speed Internet connections. In industrial countries, semi-skilled manufacturing jobs are set to continue to decline in the face of technological change and competition from lower-cost sources. This will require a combination of skills upgrading for existing industries to stay competitive and also to facilitate mobility into sectors of growing employment.

#### *Top and lower-tier service jobs growing in industrial countries*

230. The occupations in increased demand fall within the huge and varied sector of services. In industrial countries, some of the fastest growth is in business services of a managerial, technical or professional character. Also expanding are social services such as health and education, as well as hotels and catering, retail and transport. One feature of emerging concern in a number of countries is a widening of skill and income divides between a highly qualified and growing top tier of employees, with salaries being pushed up by increased demand, and a lower tier of less-skilled women and men whose wages are not growing as a consequence of abundant supply.

#### *Occupational shifts squeeze out “middle-class” jobs*

231. Mid-range skilled office and factory jobs are in least supply in industrial countries as employers restructure for a changed technological and business environment. The emergence of business process offshoring as a viable option for some firms could accentuate this trend. Such an “hour-glass” society, with a growing top and bottom and a shrinking middle, poses increased challenges for systems of social protection and labour market governance.<sup>190</sup>

#### *Rural exodus and weak growth entrench informal economy and add to international migration*

232. Viewed globally the changes within manufacturing and services overlay the long-term and very large-scale shift of workers out of low productivity semi-subsistence agriculture in rural areas into other occupations, mainly in cities. In the faster-growing industrializing economies mainly in Asia, formal jobs in manufacturing and services are expanding as a share of total employ-

<sup>189</sup> ILO: *KILM, fourth edition* (op. cit.). “Industry includes mining and quarrying, construction, water, gas and electricity as well as manufacturing which in most countries accounts for the bulk of employment in this category.”

<sup>190</sup> M. Moynagh and R. Worsley: *Working in the twenty-first century* (Economic and Research Council, 2005).

ment, absorbing some of the rural migrants. But in many countries with slow or patchy growth, most rural migrants end up with low-skilled, low-productivity and low-paid jobs in the informal economy, especially in petty trading. Furthermore, migration increasingly is not held back by national borders. A more managed rights-based approach to international labour migration needs to be founded on analysis of the dynamics of employment changes within developing countries.

#### 4. *World political environment*

233. The insecurity and poverty of many urban informal economies is holding back enterprise development and the upgrading of employment. Coupled with weak rural development in many countries, this creates a situation of large-scale working poverty. Half of the world's workforce is unable to earn enough to lift themselves and their families above the US\$2 a day poverty line. In Africa and South Asia nearly nine out of ten adults of working age are living in poverty.<sup>191</sup> And the spread of HIV/AIDS threatens to retard efforts to break out of the cycle of poverty in an increasing number of the poorest countries.

***Persistent large-scale working poverty***

234. Meeting international commitments to halve extreme poverty by 2015 requires a steady and sustained pace of growth in the developing world, as well as integrated policies aimed at increasing decent productive work opportunities. The job prospects of the world's poorest workers could be transformed by a combination of international policies to support a massive increase in the flow of funds to the poorest developing countries and national strategies to ensure that investments have a strong impact on poverty through the creation of decent work opportunities. Whether this will happen depends a great deal on politics and policies.

***Counteracting unsustainable trends***

235. Looking ahead, the Shell global scenarios to 2025 propose three possible political environments for business.<sup>192</sup> The scenarios are based on the results of the interplay between three global forces identified as efficiency, social justice and security. They are:

***Medium-term outlook for international co-operation uncertain***

- “Low trust globalization”, in which globalization continues but an ongoing crisis of security and trust leads to a legalistic world of overlapping and conflicting laws with intrusive checks and controls.
- “Open doors”, in which cooperation between governments, investors and civil society flourishes in a pragmatic fashion producing a more transparent world.
- “Flags”, in which suspicion of outsiders and conflicts over values, religion and national preferences creates regulatory fragmentation, gated communities and a dogmatic world.

236. The “open doors” scenario produces projections for economic growth and sustainable development that are decisively superior to the other posited trajectories for the governance of globalization. But all three scenarios are plausible. Exercises such as the Shell global scenarios serve to highlight the importance of action by the ILO and others to increase the chances of realizing the more coherent international approach to shaping a fair globalization envisaged by the World Commission on the Social Dimension of Globalization. The ILO's Strategic Policy Framework for 2006-09 commits the Organization to “making decent work a global goal” as the integrating theme guiding ILO actions for the next period on the basis of its progressive

***Shaping a fair globalization by pursuing the goal of decent and productive work for all***

<sup>191</sup> *Global Employment Trends 2005*, op. cit.

<sup>192</sup> Shell International Ltd.: *Shell global scenarios to 2025: The future business environment: Trends, trade-offs and choices* (2005).



implementation from the national (decent work country programmes (DWCPs)) to the international level (Millennium Declaration, Millennium Development Goals, Poverty Reduction Strategy Process).<sup>193</sup> The 2005 World Summit Outcome, adopted by the United Nations General Assembly in October 2005, which recognizes the importance of decent work to a fair globalization, has further set out a full agenda for the development of enhanced mechanisms for international cooperation.

#### Heads of State and Government endorse decent work in 2005 World Summit Outcome

“We strongly support fair globalization and resolve to make the goals of full and productive employment and decent work for all, including for women and young people, a central objective of our relevant national and international policies as well as our national development strategies, including poverty reduction strategies, as part of our efforts to achieve the Millennium Development Goals. These measures should also encompass the elimination of the worst forms of child labour, as defined in International Labour Organization Convention No. 182, and forced labour. We also resolve to ensure full respect for the fundamental principles and rights at work.”

Source: United Nations: 2005 World Summit Outcome, resolution adopted by the General Assembly (A/RES/60/1), General Assembly, Sixtieth Session, New York, 2005, paragraph 47.

## 5. Growth, employment and sustainability

### *Inclusive global growth depends on how work is organized*

237. The world of work is undergoing a major transformation which has the potential for creating opportunities for all working women and men to have a decent job. Technological progress, if applied in ways that promote inclusion rather than exclusion, could increase productivity and make material poverty history within a generation. The main means for ensuring an inclusive character to the growth of the global economy is the way in which work and labour markets are organized and governed.

### *Disappointing jobs component in current growth*

238. Recent history is however disturbing. The employment intensity of growth has slipped back globally. As a result, open unemployment in 2005 was higher than ten years earlier. In the period of 2004-05 when growth picked up, unemployment did not fall. Furthermore, while the incidence of extreme working poverty (below US\$1 a day per capita) has reduced, the number of working poor earning US\$2 a day remains disturbingly high. Current patterns of growth are not generating enough decent jobs to meet the growth in the global labour force and the need to reduce current levels of unemployment and working poverty.

### *Three tracks for more and better jobs*

239. This is socially, economically and politically unsustainable and morally unacceptable. There are in theory three components of a strategy to reduce the world's decent work deficits:

- A more employment-intensive form of growth achieved by altering the incentive framework to favour labour rather than capital, especially in countries with large-scale underemployment and working poverty.
- An increase in the productivity of the world's poorest workers so as to enable an improvement in their earnings and working conditions.

<sup>193</sup> ILO: Strategic Policy Framework (2006-09), Governing Body, 291st Session, Geneva, November 2004, GB.291/PFA/9.

- A faster rate of overall growth, thus increasing the demand for labour and accelerating the shift of the world's poorest workers into more productive jobs.

240. A combination of supply-and-demand-side policies is needed to increase the employment intensity of growth, raise productivity performance and accelerate growth, thereby shaping a pattern of development that would be pro-jobs and pro-poor. The balance in emphasis will depend on country priorities and circumstances. Support for the development of integrated national and international strategies that contribute to the global goal of decent work for all is the overarching priority for the ILO in the years ahead.

***Supply-and-demand-side employment policies needed***

241. A sustained employment-rich global growth strategy will need to address emerging issues of sustainability – the energy intensity of growth, environmental sustainability and threats to security.

***Emerging drivers of change***

242. Looking ahead to 2030, the International Energy Agency (IEA) expects fossil fuels to retain their dominance of world energy supplies unless a significant internationally concerted effort is made to reduce demand in total, and carbon emissions in particular. Energy intensity – the amount of energy needed to produce a dollar's worth of GDP – will continue to decline as energy efficiency improves and the global economy relies less on heavy industry. Two-thirds of the increase in global energy demand will come from developing countries. By 2030, they will account for almost half of total demand, in line with their more rapid economic and population growth. An alternative scenario of energy conservation and a switch away from fossil fuels could be achieved without cutting growth – but it would require a significant investment by energy users in conservation and equipment using fuels other than coal, oil or gas.<sup>194</sup> A gradual price-driven shift away from fossil fuels will have employment implications with some sectors increasing employment and others declining. A more determined effort to reduce carbon emissions is likely to require a larger effort of worker redeployment, especially in fast-growing developing countries like China and India.

***Global energy strategies for sustainable growth will affect employment patterns***

243. Total energy use and its sources are a central issue in the development of policies for environmental sustainability. However a number of other major questions in the search for more sustainable patterns of economic growth impact directly on jobs and livelihoods. Water use patterns are becoming an increasingly critical problem in many countries. Soil degradation, waste disposal, toxic residues and destruction of natural habitats are also high on the list for global action and directly linked to current patterns of work. Increasing employment and reducing environmental damage are too often pursued on parallel rather than converging tracks, risking a trade-off rather than a trade-in of policy objectives. Merging the three dimensions of sustainability – economic, social and environmental – as called for by the 2002 Johannesburg Summit, requires determined and far-sighted political leadership.

***Policies for environmental sustainability will create and destroy jobs***

244. A fair and efficient organization of work requires order. A breakdown in respect for human rights, laws, and basic social norms of civilized behaviour and trust destroys the confidence that business and workers need to invest in decent and productive employment. A lack of security for citizens and for States diminishes the prospects for decent work. But the converse is also true. Where unemployment and underemployment is widespread, social tensions are likely to increase, creating dry tinder for those who wish to enflame ethnic, religious or nationalistic passions to the point of violence. There is no automatic connection between unemployment and poor working conditions

***Stable environment for decent work vital to peace building and conflict resolution and management***

<sup>194</sup> International Energy Agency: *World Energy Outlook* (Paris, 2004).

and an increase in crime or a breakdown in peace and security. Yet experience from many countries suggests that the risks of disorder are higher where the need for decent work opportunities is ignored. And recovery from crisis is faster where communities can come together to work for reconstruction. Decent work is an important part of the global peace-building agenda.

## **6. Integrating the ILO's Decent Work Agenda with strategies for poverty reduction and an inclusive globalization**

### ***ILO role is to shape change for decent work***

245. The analysis of recent patterns of change in the world of work and the drivers that are shaping them highlights the scale and pace of the transformations under way and the likelihood that they will continue for some time. But, as stressed in this Report, the ILO is not a neutral observer of this process. The Organization has a mandate to support governments, employers' and workers' organizations in their efforts to achieve the goal of decent work for all. And in a world where the international influences on work and labour markets are becoming ever stronger, the ILO, through the engagement and commitment of its constituents, could make an important difference to the way the world of work changes in the future.

### ***World of work needs framework of rules that can be applied with flexibility***

246. There is no single policy or institutional framework that is appropriate for the huge variety of constantly changing work situations and labour market conditions in the world. Indeed, one of the major features of policies concerning work is the need to ensure that policy approaches, norms and regulations can be applied to specific jobs in ways that are both efficient and fair. Because work is so central to people's lives and because work relationships are inherently unbalanced, a framework of law is needed to provide the stability vital to ongoing productive activity. But the reality of most work situations is that it is for employers and workers, together with their representative organizations, to apply the law themselves without recourse to the judicial system. Such recourse should be available if needed, but work would grind to a halt if either employers or workers were constantly calling in their lawyers or the labour inspector.

### ***Work relations depend on dialogue***

247. In all the changes in the world of work, the basic labour relationship remains an exchange of work for pay underpinned by shared understandings of mutual obligations and common interests in enterprise sustainability. Rather than specify very precisely the exact tasks involved, since these cannot always be fully anticipated, the arrangement allows space for adaptation. The practical day-to-day workplace reality is that decisions about how work is organized is, at least to some degree, shared between employers and workers. Work without dialogue is likely to be dysfunctional. And in most cases work is a group activity, so the dialogue is often collective.

### ***Shared interests in well-balanced labour market governance underpins special role of ILO***

248. In many workplaces, workers have chosen to conduct the dialogue with employers through their own freely chosen trade unions. Many employers have found this a convenient and constructive way to handle the wide range of issues that arise between workers and employers. They too have organized collectively to strengthen their means of representation. Governments have found that decentralized rule-making through social dialogue and collective bargaining can avoid the risk of overloading the legal system and allow for innovation in new forms of cooperation and in the resolution of conflicts of interest. The logic of workplace dialogue, collective representation and a shared interest in well-balanced labour market governance has constantly refreshed the ILO as a tripartite institution and underpins a new consensus for the twenty-first century on the promotion of decent work as a

### The damage to development caused by failure to arrest spread of HIV/AIDS

The HIV/AIDS pandemic affects social and economic development primarily through its impact on the labour force because HIV-related illness and deaths are concentrated among the working-age population. Life expectancy is falling in many countries affected by the pandemic, reflecting increasing rates of adult mortality. Men and women with important economic and social roles are prevented from providing their full contribution to development. The pandemic also erodes the savings capacity of households, of formal and informal productive enterprises, and of government, through its effects on income and on levels of expenditure. Over time, reduced rates of savings lead to diminished investment, slower growth of aggregate output, constraints on employment, and the likelihood of impoverishment. Loss of income, impoverishment of households and failures of informal economy enterprises increase poverty, slow employment growth, and threaten sustainable development. An ILO study of 41 countries found that, between 1992 and 2002, HIV/AIDS reduced the rate of GDP growth by an average of 0.9 per cent a year. The cumulative effect of this loss of income growth over 15 years reduced economic growth by about 14 per cent compared to the level it would have been in the absence of the pandemic. A crude estimate of the financial cost indicates a loss of more than US\$17 billion per year for all 41 countries. Similarly, it is estimated that a potential loss of US\$270 billion could be incurred by 2020 by these same countries, if the shortfall in their growth rate continues at about 0.9 per cent per year on average. African countries were the hardest hit because their average HIV-prevalence rate is higher. The rate of income growth in this region was reduced by 1.1 per cent per year, on average, over the 1992-2002 period. If the HIV/AIDS pandemic were to persist at the same prevalence and under the same conditions, the collective economy of the 33 African countries studied would grow 18 per cent less by 2020 than if HIV-prevalence had not reached its current level. This represents an economic loss of at least US\$144 billion for Africa alone.

Source: ILO: HIV/AIDS and work: Global estimates, impact and response (Geneva, 2004).

global goal. Nevertheless, collective organizations of workers and employers are under pressure worldwide. New strategies for recruitment, service provision and representation are needed as well as a conducive political environment. The ILO has a role to play in supporting the capacity-building efforts of workers' and employers' organizations and in encouraging tripartite systems of social dialogue.<sup>195</sup>

249. Translating the goal of decent work for all into practice requires a range of policies that stretch beyond the main areas of expertise of the ILO and its constituents. It will also require a capacity to respond to crises and disasters, including the increasingly grave situation of those countries worst affected by the HIV/AIDS pandemic. In a world undergoing a massive transformation, the ILO has to offer both a sound portfolio of policy options in its fields of competence and encourage others to assess the impact of policies in other areas against the goal of decent work for all. Decent work as a global goal requires a concerted approach by the entire multilateral system, with the ILO playing a major role in facilitating the integration of the Decent Work Agenda into strategies for poverty reduction and a fair and inclusive globalization.

***Stronger and more effective multilateral system vital to promoting decent work as a global goal***

<sup>195</sup> See resolution concerning tripartism and social dialogue adopted at the 90th Session of the International Labour Conference, 2002; and ILO: *Social dialogue: Finding a common voice* (brochure for Social Dialogue Sector).

***ILO contribution to more efficient and effective multilateralism***

250. The significant process of United Nations reform to ensure – among other objectives – a more tightly managed system of multilateral organizations is an important window of opportunity for the ILO and its constituents. The Organization should welcome this very positive evolution and be an active partner in seeking the best solutions to make multilateralism more effective and efficient. It can make an important contribution with its decent work vision, its areas of recognized competencies and the unique social dialogue and tripartite capacities of its government, employer and worker constituency. For United Nations reform to succeed, it must concentrate on: attaining greater policy coherence among multilateral organizations; improving operational delivery as an integrated system at the national and regional levels; and making the necessary changes to ensure results-based management of each organization and of the multilateral system as a whole. On all three levels, the ILO must be prepared to adapt and change while making its own creative contribution to what will hopefully be a reinvigorated and credible set of modern organizations, capable of responding in an integrated way to the growing demands on their services to implement the internationally agreed development goals.

***Practical steps to meet growing expectations for a stronger ILO***

251. To meet the expectations of constituents and partners in the international system, several dimensions of the ILO's means of action could be developed. A number are already envisaged in the Strategic Policy Framework 2006-09 and the 2006-07 programme and budget. These could include:

- Improved technical advisory and capacity-building services delivered through decent work country programmes and continued attention to policy development in the light of fast-moving changes in labour markets.
- A strengthening of its information services, including on internationally comparable labour statistics and indicators of progress on benchmarks for decent work.
- The development of decent work impact assessment methodologies to help constituents assess the effects of policy options.
- Further examination of the means available to the ILO to strengthen its normative action, as well as to broaden and deepen the application of international labour standards.
- Facilitation at national level of international information exchange and policy dialogue between the tripartite constituents.
- Promotion of national and international tripartite dialogue on key policy themes and on sectoral developments.
- A renewal and refocusing of the research agenda and connections to global research networks.
- Increased engagement in international development planning processes at country level to help ensure that ILO decent work country programmes are fully integrated into national strategies for poverty reduction.
- Development of dialogue opportunities with partner international agencies and other actors to implement decent work as a global goal.