The Changing World of Work: Major Issues Ahead

Report of the Director-General (Part I)
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INTRODUCTION

Founded in 1919, the International Labour Organisation has been in existence for nearly 70 years and some 40 years have already elapsed since the adoption of the Declaration of Philadelphia in 1944, which set the course for the ILO in the new world emerging from the ashes of the Second World War. While remaining faithful to the fundamental principles and basic objectives enshrined in its Constitution and in the Declaration of Philadelphia, the Organisation has constantly adapted its activities and its means of action to changing circumstances in the world of labour.

It is not my purpose to retrace this long evolution here, but in contrasting the current situation with that in 1919 or even in 1944, two main factors stand out which have affected and will continue to affect our priorities. The first factor is the change in the size and nature of the ILO constituency. The founding fathers of the Organisation in 1919 formed a relatively homogeneous group of 42 countries with reasonably common interests. What was needed most urgently at that time was the establishment of a body of international instruments to protect the rights and conditions of workers. Today, the ILO has a much more comprehensive mandate in the field of social development and it serves a much wider constituency embracing 150 member States with different cultures, at different levels of economic development and with varying social and political systems. It is evident that the ILO has had to adjust to these developments and it is equally clear that this process of adjustment will have to continue in the future if our Organisation is to maintain its relevance.

The second consideration is that the world of labour today is quite different in many respects from what it was in 1919; major preoccupations of the early years have now receded and new or emerging problems and issues have come to the fore. Not least among these is the realisation of the magnitude — and indeed the growth — of unemployment and of extreme poverty in many parts of the world. Since the creation of the World Employment Programme, much has been done to estimate the size of the problem, identify causes and seek remedies. The challenge is a formidable one, exacerbated by one of the most protracted economic recessions the world has known, coupled with fundamental structural
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and technological change and various austerity measures and adjustment policies to cope with the problems of inflation, balance-of-payments disequilibrium and external debt — all this against the background of continuing population growth and shifts in the sectoral distribution of the labour force.

The present situation and its probable evolution, the broad lines of which I shall outline in this Report, are characterised by profound and disturbing changes which confront the world of labour, and hence the Organisation that serves it, with a number of new challenges. If the Organisation is to remain faithful to its fundamental mission, yet remain relevant, it must meet these challenges. This implies some rethinking of established approaches. The time has come to consider whether we are approaching the most pressing problems of the coming years along the right lines; and whether we are sufficiently extending the safety net of social protection and assistance to all those in need of it. These basic questions, about which I would like to share my thoughts with the Conference and hear its reactions, are the subject of Part I of my Report this year.

I have carefully chosen the timing of this consultation. Indeed, in 1988 the Office is expected to submit to the Conference, through the Governing Body, the ILO Medium-term Plan for the period 1990-95. To meet that deadline, the Plan will be prepared in the course of 1987. I therefore regard the Conference discussion of Part I of my Report this year as a source of inspiration in the preparation of the Medium-term Plan and a means of ensuring that it will reflect the views expressed by the ILO tripartite constituency as a whole.

I should emphasise, however, that this Report is not a “Plan”, nor is it even a preview of the full Medium-term Plan. Thus, contrary to what is expected of the Medium-term Plan, the present Report does not attempt to address all the issues which the ILO has to confront or all the activities in which it is likely that the Organisation will be engaged in the coming decade. Many important areas of ILO activities are mentioned only indirectly, and some others are not mentioned at all.

Indeed, my major concern throughout this particular Report has been with the scourge of unemployment and poverty in the world and with emerging issues in the fields of labour relations and employment. Deliberately, therefore, I have not dealt with many other important matters such as conditions of work and environment, notwithstanding the key role which the ILO will continue to play in this field.

Although I do not discuss human rights as such, the ILO’s commitment in this field must clearly continue to be a fundamental one. Indeed, the issues discussed here, related to the struggle against unemployment and poverty and to more extensive social protection in the widest sense of the term, are ultimately related to a most fundamental right, that to live in decency and dignity.

I must also stress that this is not intended to be a technical report but rather a reflection of my own personal assessment. Thus, no attempt is made to give extensive technical details about some of the facts and their interpretation. For example, I cannot pretend to be able to substantiate with precision the figures
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given of the numbers of workers who are inadequately or ineffectively protected by labour legislation and the provisions of social security; many more research findings than those at present available would be required for that purpose. Given my contention, however, that this should be one of the most important target groups for future ILO action, I felt it essential to give some quantitative estimates of the numbers involved, however imprecise.

The three broad issues which I have selected to highlight in this Report, with an eye on the future, concern firstly, the phenomenal twin problems of unemployment and poverty (Chapter 2); secondly, new dimensions in labour relations, including the organisation of unprotected workers, and certain issues in the formal sector (Chapter 3); and thirdly, trends and issues related to the future of social protection in both developed and developing countries (Chapter 4). These issues will be examined against the background of general trends affecting the world labour situation (Chapter 1), including such factors as demographic trends and labour force projections, patterns of trade and protectionism, production and productivity and the impact of structural and technological change.

One recurrent theme throughout the Report is the question of how better to assist, in all respects, the masses of unorganised workers lacking adequate social protection. As I try to demonstrate in Chapter 1 of the Report, these constitute the majority of the world labour population, including the most destitute and vulnerable sections of the population in developing countries. How then can the ILO constituency not give the highest priority to the problems faced by this massive labour force? This was indeed the sense of the appeal so eloquently made by our distinguished visitor to the Conference in 1985, Prime Minister Rajiv Gandhi. It is my conviction that this Organisation should concentrate much of its effort in the years to come on responding to this appeal, and coming to grips with all the intricate issues involved.

In each of the chapters which follow I briefly identify the major problems and issues confronting the world of labour. These lead to some tentative conclusions regarding implications for future ILO action. I must stress that my purpose is not to provide answers to all the questions raised but rather to identify the major issues in respect of which policy responses will need to be elaborated and action taken in the years to come. I very much hope that the discussion of Part I of my Report at the Conference will set the stage for the preparation of the ILO Medium-term Plan for 1990-95.

5 March 1986

Francis BLANCHARD
At a time when prolonged economic recession and major structural changes darken the horizon, it is appropriate to recall the considerable economic progress achieved in the past 25 years. In both developed and developing countries, per capita incomes in real terms have doubled since 1960. This is a much more rapid rate of growth than that experienced in the now industrialised countries of Western Europe in the last century. Moreover, this high rate of economic growth has been paralleled by very solid social progress in many developing countries. For example, looking at average length of life, a crucial indicator of well-being, new-born babies in many developing countries can now expect to live longer than 60 years, whereas a quarter of a century ago life expectancy was only 45 years. Adult literacy is also estimated to have improved considerably in the same period. These are average trends, and there are of course considerable variations between different countries, and between different regions: the relatively slower progress in Africa, in particular, is a cause for concern. Yet the overall impression of progress is clear enough, and telling testimony to the benefits of international co-operation combined with the will to develop at the national level.

This progress, too slow in relation to the objective of eradicating poverty, yet fast in terms of historical comparisons, is now in jeopardy. World economic growth is now much less rapid today than in the period 1960-80 and it seems unlikely that the earlier rate of growth can easily be resumed. Moreover, despite this progress, most of the world’s labour force (comprising all those working or willing to work) are still in a permanent state of unemployment or underemployment, particularly in the developing countries. Many willing workers lack basic skills. Sometimes even trained workers cannot find a job in manufacturing industry because employment is not expanding, or is even diminishing. Productivity tends to be low in agriculture, the informal sector and services because of inadequate or inappropriate education and training and the lack of tools, equipment and physical infrastructure. In consequence, perhaps as much as half the world’s labour force are engaged in activities with levels of productivity and incomes that are so low as to prevent them from providing their
families with many of the basic necessities of life. To complete this bleak picture, the world labour situation has actually deteriorated in many parts of the world over the past ten years. The most striking feature of this deterioration has been the sharp increase in unemployment and underemployment, both in developing countries and in the industrialised market economies.

This introductory overview of some of the more fundamental issues and problems facing the world of labour in the coming decade is intended to serve as a background for the three main topics considered in later chapters. Firstly, estimates are presented of the numbers of workers in the world who are, and are not, protected by labour legislation and social security. These estimates emphasise the continuing need to extend some form of social protection to the poor and the under-represented in all regions of the world, a theme which recurs throughout this Report. Secondly, some details are given of current projections of the size of the world labour force to the end of the century. These projections underline the continuing, but slightly decelerating, rate of growth in the labour force, which does not make the prospects for employment any easier. Thirdly, following a summary of recent world economic trends, an analysis is presented of the likely development of the global economy and the level of unemployment in the 1990s. Finally, the key problems facing the ILO and the world of labour in the coming decade are briefly summarised, and this summary serves to introduce the remaining chapters of the Report.

One feature of this introductory overview deserves emphasis even now. This concerns the causes of the continuing economic stagnation in the industrialised countries, a topic to be discussed further below. The high rates of unemployment, especially long-term unemployment among young people, are in themselves very disquieting. But even more alarming is the lack of consensus at the political level, or among experts, regarding either the reasons for the current recession, or the policy measures required to enable sustained economic growth to be resumed. Moreover, it is not clear how politically and socially tolerable it may be for unemployment to remain at a level of around 10 per cent in the industrialised countries for years to come; and, equally importantly, the greater interdependence of the global economy means that the developing countries of the South are more severely affected by the economic stagnation in the North than was the case in past years. In this sense the world labour situation is perhaps more challenging and fraught with risk than at any time earlier this century or indeed in the history of the Organisation.

1. THE WORLD LABOUR FORCE TODAY AND THE EXTENT OF SOCIAL PROTECTION

In 1980 the world labour force comprised some 2,000 million people out of a total population of about 4,500 million. Women account for about one-third of this labour force. More than a half of it is engaged in agriculture, one-fifth in industry and somewhat less than 30 per cent in services (see chart 1). Within the total there have been some important shifts in recent decades between the three
### Chart 1. Share of each sector of activity in total labour force

<table>
<thead>
<tr>
<th>Total labour force (millions)</th>
<th>192</th>
<th>348</th>
<th>189</th>
<th>124</th>
<th>1105</th>
<th>1958</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed socialist countries</td>
<td>21%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrialised economies</td>
<td></td>
<td>40%</td>
<td>36%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td></td>
<td>8%</td>
<td>35%</td>
<td>68%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td></td>
<td></td>
<td>12%</td>
<td>32%</td>
<td>42%</td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td></td>
<td></td>
<td></td>
<td>26%</td>
<td>69%</td>
<td></td>
</tr>
<tr>
<td>World</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>51%</td>
</tr>
</tbody>
</table>

Source: ILO estimates for 1980 (rounded).
principal sectors of economic activity: agriculture, industry and services. In most industrialised countries the share of services in total employment has tended to increase significantly, in several cases to a level above one-half of the labour force. On the other hand, agriculture’s share has declined considerably, as has industry’s share, although to a lesser degree. These shifts are creating problems in the area of labour relations, as discussed further in Chapter 3.

In developing countries, on the other hand, the share of industrial workers in the labour force has risen quite markedly, and this increase has been accompanied by a somewhat smaller growth in the share of services, and by a decline in that of agriculture. Although some of the increase in the industry share is attributable to the growth of the urban informal sector, in which the workers are generally unorganised, much of it is in the formal sector in which established trade unions already exist.

Only a small part of the world labour force, approximately 80 millions, are officially registered as unemployed. A fraction estimated at between one-third and one-half of the world labour force are underemployed, i.e. they are not able to find work regularly or they earn only a subsistence income, or less.

In fact, the world labour force includes a whole range of different types of workers. On the one hand there are those who have a stable job in the modern sector and who are protected by labour legislation, by social security and often by workers’ organisations. On the other hand there are day-labourers who are compelled to work for low wages on a casual, intermittent and insecure basis and the unemployed who have no work at all. Peasants and family workers, although they have the security of a small plot of land, are often underemployed and frequently need to seek additional work as day-labourers or seasonal workers to augment their low incomes. The same applies to workers in the urban informal sector, who are frequently underemployed, unorganised and unprotected by labour legislation.

The group of economic activities in which workers are protected in an effective manner by legislation encompasses registered manufacturing enterprises of all sizes, large- and medium-scale agriculture, and enterprises providing services, including commerce, the public service and public and private utilities. This group of activities, the composition of which varies from one country to another, is often referred to as the modern, formal, or organised sector. On the other hand, what could be termed the unprotected sector comprises all other economic activities, an extensive “grey zone” in many economies, comprising informal activities which are ineffectively regulated and in which the workers do not benefit in any practical sense from protective legislation. This grey zone is much broader in scope than the urban informal sector, which consists of small manufacturing and service units in urban areas alone. Indeed, because of its heterogeneity it is impossible to formulate policy measures or legislation to protect workers in all the activities concerned. For example, policy measures useful in relation to small-scale informal manufacturing are meaningless in addressing the problem of landless agricultural labourers or destitute self-employed persons.
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It seems essential to have some idea of the number of workers who lack any kind of social protection. One way of doing so is to define workers as “socially protected” when they are covered by labour legislation or collective agreements or benefit from a social security scheme to which they themselves and/or their employers have contributed. This is evidently a rather rough-and-ready definition, but it enables estimates to be prepared which indicate the order of magnitude of the problems facing this Organisation and its constituents in the coming years.

Defining socially protected workers in this way implies that most employed persons in the industrialised countries, and those employed in the professions, public administration and manufacturing in developing countries, are included. On the other hand, the group of socially unprotected workers in developing countries includes most of those classified as self-employed, family workers, and a certain proportion of employees. In general, apart from a few self-employed individuals who own businesses or land, the socially unprotected in developing countries work in activities giving rise to low or very low incomes, often earned only intermittently. The socially unprotected thus tend to be poorer, or much poorer, than those who are protected. As such, they constitute a very high priority target group for social action and policy in the coming years.

Estimates of the size of this group, as defined above, are shown in chart 2. The figures in this chart must evidently be treated with caution. The estimates are based on an imprecise concept and equally imprecise tools of measurement. They are useful only in so far as they indicate very broad orders of magnitude. Notwithstanding these qualifications, the chart indicates that some 800 million workers out of the total world labour force of almost 2,000 million may be considered socially protected. The remaining 1,150 million, amounting to 60 per cent of the total labour force, are estimated to be unprotected in terms of basic social security coverage and the application of labour legislation. Thus although immense progress has been made, as shown in the high percentage of the labour force that is socially protected in the industrialised market economies and developed socialist countries, nevertheless about 77 per cent of the labour force in the Third World is unprotected; this proportion amounts to 77 and 84 per cent in Asia and Africa respectively. These figures for the developing regions underline the need for much more progress towards full social justice in the sense of minimum protection for workers, as well as improved access to employment opportunities and incomes consistent with the satisfaction of the basic needs of the worker and his family.

2. EMPLOYMENT AND TRENDS IN THE WORLD LABOUR FORCE, 1985-2000

In recent decades the rapid rate of growth in the labour force, fuelled by population growth, has exacerbated the employment problem, especially in developing countries. Since evidence is beginning to accumulate of some
Chart 2. Proportion of socially protected workers in total labour force

Estimated number of socially protected workers (millions)/Total labour force

<table>
<thead>
<tr>
<th>Region</th>
<th>Estimated number</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed socialist countries</td>
<td>182/192</td>
<td>95%</td>
</tr>
<tr>
<td>Industrialised market economies</td>
<td>283/348</td>
<td>81%</td>
</tr>
<tr>
<td>Africa</td>
<td>30/189</td>
<td>16%</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>49/124</td>
<td>40%</td>
</tr>
<tr>
<td>Asia</td>
<td>253/1105</td>
<td>23%</td>
</tr>
<tr>
<td>Total developing regions</td>
<td>332/1418</td>
<td>23%</td>
</tr>
<tr>
<td>World</td>
<td>797/1958</td>
<td>41%</td>
</tr>
</tbody>
</table>

The world labour situation

Table 1. Annual average increases in population (by age group) and in the total labour force, 1970-85 and 1985-2000 (%)

<table>
<thead>
<tr>
<th>Age group</th>
<th>0-14</th>
<th>15-60</th>
<th>60+</th>
<th>Total</th>
<th>Labour force</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed socialist countries</td>
<td>0.0</td>
<td>0.3</td>
<td>1.1</td>
<td>0.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Industrialised market economies</td>
<td>-0.7</td>
<td>0.0</td>
<td>1.1</td>
<td>0.4</td>
<td>1.6</td>
</tr>
<tr>
<td>Africa</td>
<td>2.8</td>
<td>3.0</td>
<td>2.9</td>
<td>3.1</td>
<td>2.6</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>1.6</td>
<td>1.1</td>
<td>2.9</td>
<td>2.5</td>
<td>3.1</td>
</tr>
<tr>
<td>China</td>
<td>-0.3</td>
<td>-0.3</td>
<td>2.7</td>
<td>1.5</td>
<td>2.9</td>
</tr>
<tr>
<td>Rest of Asia and Pacific</td>
<td>1.7</td>
<td>0.8</td>
<td>2.7</td>
<td>2.4</td>
<td>2.8</td>
</tr>
<tr>
<td>World</td>
<td>1.0</td>
<td>0.9</td>
<td>2.3</td>
<td>1.8</td>
<td>2.2</td>
</tr>
</tbody>
</table>


deceleration in population growth, it is reasonable to ask whether this trend may have the effect of easing the employment situation.

In fact it is projected that the world labour force will continue to grow rapidly in the coming decade. Between 1970 and 1985 the growth rate of the world's population was 1.8 per cent per year; this is projected to decrease only slightly to 1.6 per cent per year between 1985 and 2000 (see table 1). The rate of growth in the size of the economically active 15-60 age group will decline from 2.3 per cent per year in 1970-85 to 1.8 per cent between 1985 and 2000. Reductions are projected for all the major regions except Africa, where the labour force is likely to grow slightly more rapidly in the later period.

Another striking feature of table 1 is the relatively slow growth of the 0-14 age group (again, except in Africa) which foreshadows the stabilisation of the world's population now foreseen in the course of the twenty-first century. Also, it may be observed that the projected growth rate in the numbers of older people (the 60+ group), 2.4 per cent globally, is considerably higher than the growth rate of younger age groups. Thus the share of older people in the world's population will be a good deal higher in 1995 than it is today. This trend has important implications for the future of social security, which are considered in Chapter 4 below.

The future labour force is determined not only by the population increase in the 15-64 age group, but also by estimated labour force participation rates (i.e. the proportion of the population in the 15-64 age group that is willing to work). In regions where most women already play a significant role in the labour force, as in the centrally planned economies and in many industrialised market economies, there will be little additional increase in participation rates. The
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growth of the labour force due to the increased participation of women will be much larger in certain Western European countries and most countries in the developing regions.

The overall conclusion from these various figures on the total labour force, its age structure, and participation rates of women is that the pressure on the labour markets of developing countries is liable to be as great in the coming decade as in recent years. Only in the next century will this pressure begin to lessen as the world population begins to stabilise.

3. PAST AND FUTURE TRENDS IN WORLD PRODUCTION AND EMPLOYMENT

In the late 1960s, after almost a quarter of a century of fairly continuous economic growth and low rates of unemployment, inflation began to develop to a significant degree in the industrialised market economies. In 1973 the first major increase in oil prices aggravated the underlying tendencies towards inflation and unemployment then becoming evident. Despite some recovery in the late 1970s, the years 1980-82 witnessed a sharp recession with deepening inflation and increasingly serious levels of unemployment. Governments then began to accord high priority to combating inflation, quite successfully in many countries, at the expense of growth in output and employment. Although an economic recovery began in 1983, this remains fragile.

Setting aside year-to-year fluctuations, it is clear that since the early 1970s average annual growth in the industrialised market economies has been reduced to 2-3 per cent compared with around 5 per cent in the 1960s; inflation has persistently tended (except in the past three years) to be much higher; and unemployment in the Western European countries has increased steadily from around 3-3.5 per cent in the late 1960s to over 8 per cent in 1984, with the prospect of a further increase to over 11 per cent by the end of 1986.

The economic performance of most developing countries has been affected by the malaise in the industrialised countries. Although a few countries benefited from higher primary commodity prices for temporary periods in the past decade, in general the rate of growth of developing country exports has been less than previously because of depressed demand in industrialised countries, and increasing protectionism. The developing countries' problems have been compounded in recent years by high interest rates and the high value of the dollar, which has increased the cost of the extensive payments required to service the debt incurred earlier, to some extent in consequence of the sharp increases in oil prices in 1973-74 and 1979-80. The average growth rate of per capita incomes in developing countries is estimated to have been only 0.5 per cent in 1980-85 compared with 3.5 per cent in the 20-year period 1960-80. In Africa, however, where growth was already slower than in the other developing regions in the period 1960-80, per capita incomes are estimated to have been reduced by 1.7 per cent per annum in the period 1980-85. The international community will need to
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continue to give special attention to the problems of Africa in the coming decade.

The future of world output and employment into the 1990s may be discussed in terms of two possible alternative scenarios for economic development in the next ten years (suggested by the World Bank). The pessimistic low case scenario assumes that the industrialised market economies fail to improve on their weak performance of the past ten years. In this case economic growth in the industrialised market economies would average 2.5 per cent a year in the decade 1985-95. Budgetary deficits, inflation, unemployment and interest rates would remain high. On the other hand, a more optimistic scenario assumes sustained growth with low rates of inflation in the industrialised market economies at a rate of 4.3 per cent per year between 1985 and 1995.

In developing countries the high and low scenarios imply growth rates of 5.5 and 4.7 per cent respectively. Neither growth rate promises particularly significant progress towards fuller employment in these countries since (as discussed above) the underlying growth rate of the labour force is projected at more than 2 per cent per annum in most developing regions. A common feature of both scenarios is the bleak outlook for the low-income countries of Africa, in which per capita incomes are expected to continue to decline slowly each year.

At the time of writing there are no grounds for optimism concerning economic growth and employment in the medium term. For a variety of reasons it seems improbable that the industrialised market economies can in fact attain a 4.3 per cent annual growth rate over the next decade, as postulated in the World Bank's high case. In the immediate future the cyclical recovery since 1983 appears fragile and unlikely to be sustained long beyond 1986, partly because of the uncertain world trade prospects, increasing protectionist pressures, and the absence of any consensus among the industrialised countries on co-ordinated measures for reflation. Even more importantly, the prospects for sustained global recovery are constrained by the increasing current account deficit of the United States, which brings in its train the risk of a fluctuating dollar. This would constitute a significant constraint on trade, the more so since the dollar is the world's trading currency and high interest rates would restrain both developing country imports and investment in industrialised countries.

National policy-makers are constrained by the lack of an international consensus on trade and monetary policies or, perhaps more precisely, by the lack of a concerted approach in the respective domestic policies of countries whose economies play a dominant role in the world economy. They are also confronted by a baffling set of paradoxes in the analysis of domestic policy options. Keynesian demand-side policy prescriptions no longer seem to be applicable, yet the monetarist school of thought has scarcely been more successful when put to the test in recent years. To take another example, to reduce the burden on pension funds later retirement is desirable (and would be welcomed by many workers); yet one worker's later retirement may mean that a young person
somewhere in the labour market remains unemployed. Similarly, it is paradoxical that at a time when innumerable possibilities exist for increasing productivity through technological change, unemployment is so high as to reduce the benefits to the community of implementing such change, because of its labour-saving character. Again, it is unfortunate that systems of labour relations are weakened just at the time when concerted tripartite formulation of national policies on a wide range of issues linked to employment and structural and technological change is needed more than ever.

These paradoxes and constraints on policies to assist the resumption of renewed growth tend to imply that unemployment levels are liable to remain above 10 per cent in the industrialised market economies of Western Europe, unless significant changes occur, firstly in the way in which the international economy is managed, and secondly in the approach to employment policy at the national level. These qualifications are important for all those committed to the ILO and all that it stands for. It is just conceivable that if more determined efforts were to be made to seek consensus on the most appropriate international economic policies and if the necessary political will were to be mobilised at the national level, faster global growth might be possible. Unemployment might then begin to decline in the industrialised countries. Developing countries might start to resume economic growth as their debt problem was gradually reduced by lower interest rates and increased exports, and the problems of poverty and unemployment could be attacked afresh. In the face of the many pessimistic prognoses for the next ten years these hopes are no more significant than a glimmer of light behind a closed door, but they are hopes that the ILO cannot deny. The chances of realising these hopes depend on the progress which can be achieved in the decade 1985-95 towards solving the many crucial problems summarised below.

4. KEY ISSUES IN THE DECADE 1985-95

Some of the issues now facing the ILO are new versions of questions confronted by the Organisation throughout its existence (for example, working time); other issues are new in a more fundamental sense, having arisen either during the current global economic recession, or in consequence of the growing interdependence of national economies.

A major issue to which considerable effort should be devoted in the coming years concerns the broad category of unprotected workers. For the ILO this group of people presents serious problems, indeed a fundamental dilemma, incapable of any neat solution in the short term. On the one hand, the unregulated part of the economy in which these workers are employed or self-employed has some important advantages, including, for example, the potential for employment creation of urban informal-sector enterprises producing low-cost goods appropriate for low-income consumers. Such enterprises may be regarded as following in the best tradition of prudent but dynamic entrepreneurial endeavour. At the other extreme, unregistered small businesses may often
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involve so-called sweat-shop drudgery, with unprotected workers, sometimes including children, enduring long hours of labour in poor or even dangerous conditions, often in competition with formal-sector enterprises producing similar goods. Unprotected workers also include the peasants, tenant farmers and sharecroppers who constitute the vast mass of the rural poor in many countries, and who are for the most part unprotected by legislation and unorganised. In food processing and other non-farm rural activities the lack of regulation gives rise to the same ambiguous combination of promise and exploitation.

The fact that 60 per cent of the world's labour force are not effectively protected by labour legislation and social security is a striking one. Difficult as the questions of principle this raises may be, the extension of assistance and protection to workers who are so far protected in an inadequate fashion, including assistance in the form of improved access to employment and income-earning opportunities, should be emphasised to a greater extent than hitherto in ILO activities in the coming decade.

Economic and social development everywhere will continue to be very much affected by patterns of trade and protectionism. The pattern of international trade has been changing rapidly in the past decade. Summarising these changes in very broad terms, developing countries are exporting manufactured goods to a greater extent than in the past, and are importing more agricultural commodities. Three industries in which the phenomenon of the global relocation of productive capacity has been especially marked are motor cars, iron and steel, and textiles and clothing, in each of which the developing country share has increased considerably at the expense of the share of the industrialised countries. This changing pattern of production and trade has given rise to strong pressures in recent years to protect vulnerable domestic industries especially in the industrialised market economies, but also in certain developing countries. Thus, although there have been some tariff reductions, there has also been an increasingly prolific use of quota restrictions and other non-tariff barriers. The ILO must inevitably be closely concerned with these protectionist tendencies, firstly because of the involvement of workers' and employers' organisations in the consideration of protective policy measures, and secondly because of the need to restrain protectionism in the interest of maintaining employment in the longer term in all countries participating in world trade. Pressures to protect labour markets by restraining international migration may also need to be resisted, because of their negative implications for the receiving and sending countries and for the migrant workers themselves.

The evolution of international trade is itself one of the factors affecting structural change at the national level. Structural change refers to a cluster of related problems that have arisen because of the major changes peculiar to the 1970s and 1980s in the fields of international trade, technology, energy supply and demand, and developing country debt which have had significant economic and social implications in both developed and developing countries. The term is generally understood to imply the inevitability of a more severely competitive
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economic environment in the future. The term “adjustment policy” is also used in relation to fairly short-run policy measures which have to be applied in some countries to stabilise precarious balance-of-payments situations. This is another policy issue that will be important to employers and workers, as well as governments, in the years to come.

Another topic liable to retain the attention of the ILO’s social partners in the coming decade is working time. Because of technological change, productivity increases and evolving social values, the average hours worked in a lifetime have progressively declined in the past hundred years owing to later starts in working life, earlier retirement, longer annual leave, and reduced normal working hours and overtime in a working week. One aspect of the overall working time issue now being debated in many industrialised market economies is the possible reduction of the number of working hours per week. Associated issues are those of flexible working hours, part-time work and shift work.

Technological change, and the transfer and diffusion of knowledge about technology between countries, will have profound implications in the decade to come for the pattern of economic growth and employment, the organisation of enterprises and economic sectors, systems of industrial relations, and working conditions. Significant new technologies of the past decade include micro-electronic devices of various kinds including industrial robots, new materials, new technologies for computer-based telecommunications, as well as modern biotechnology and genetic engineering, just to mention a few examples. But in developing countries the innovations of recent years are less important than the whole question of the transfer of the technological innovations of the developed countries in the past half-century.

All the issues mentioned so far are themselves having an effect on the development of new forms of employment and employment relationships. Part-time work, temporary work and work at home are all becoming more common, partly because the present widespread unemployment often leaves no alternative, but also because of changing attitudes on the part of the labour force. These changing attitudes contain various positive elements, including a desire for variety in work, and less attachment than in the past to the concept of permanent and contractual employment security. These trends, together with the increasing participation of women in the labour force, have important implications for industrial relations, employment and social security. Equally, the trend towards increasing self-employment, already commonplace in developing countries, deserves more attention. Is this trend a good thing? Should it be promoted and, if so, how? What are the responsibilities of society towards the self-employed? These questions are being addressed at the national level and merit further discussions at the international level within the ILO itself.

Labour market flexibility is another policy issue which has arisen in the course of the present economic recession, as mentioned earlier, and is likely to be topical for some years to come. The protagonists of increased flexibility, who are to be found largely among governments and employers, argue that in the industrialised countries there are too many rigidities in the operation of the
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labour market due to high wage costs, lack of mobility of labour, restrictions on workforce reductions, legislation concerning hours of work, legislation and practice regarding the fixing of wages and minimum wages, etc. These arguments are reviewed in Chapters 2 and 3. Finally, careful consideration must continue to be given to a set of issues concerning the role of the State and the public sector. Balance-of-payments problems and public spending deficits have given rise to policies intended to reduce the size of the public sector and increase its efficiency, and in many countries the traditional employment relationship in the public service is in question, as discussed in Chapter 3. For these reasons problems in the public service are likely to remain on the ILO's agenda for several years to come.

The above analysis of the world labour situation and summary of some of the key issues ahead serves as a background for the remainder of this Report, concerning the three areas of emphasis for the ILO in the next ten years.

Chapter 2 concerns unemployment and poverty. For this Organisation, committed by the Declaration of Philadelphia to wage the war against want “with unrelenting vigour”, it is vitally important not to accept with resignation the prospect that slow growth and high levels of unemployment are here to stay in the foreseeable future. This chapter focuses on certain important issues of special interest to the ILO's tripartite constituency faced by policy-makers at the national and international levels, concerning policies to promote the resumption of sustained economic growth and to make progress towards the resolution of the serious problems of unemployment and poverty.

Chapter 3, entitled “New dimensions in labour relations”, again touches on the theme of how to improve the circumstances of workers who are inadequately protected by labour legislation and social security provisions, in particular by ensuring that these workers receive assistance in organising themselves. Although this problem does not lie within the conventional definition of labour relations, I believe that it is essential that it be recognised and placed fairly and squarely in this Organisation's programme of work in the years to come. The second part of Chapter 3 focuses on labour relations in the traditional sense, the complex and country-specific mechanism by which the social partners can resolve their differences regarding policies to absorb the impact of adjustments to production and employment arising from technological change, changes in trading patterns, and slower economic growth, at the national and enterprise levels. New problems associated with the prolonged economic recession are arising in this field, problems which will need to be constantly kept under review by the International Labour Conference and other ILO forums in the years to come.

A common problem of recent years in many of the industrialised market economy countries is the constant increase in the costs of social security, due to the ageing of the population in these countries, among other factors. Because of this tendency of total costs to rise, coupled with the perceived need to restrain all public spending, governments are now trying to find ways of restraining the total cost of social security, although not necessarily the benefits. This raises some
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crucial questions for this Organisation, in virtue of the call in the Declaration of Philadelphia for "the extension of social security measures to provide a basic income to all in need of such protection and comprehensive medical care". These questions are treated in Chapter 4, which also contains an appraisal of the key issues to be confronted in the coming years regarding the development of social security and assistance to the poor in developing countries.
UNEMPLOYMENT AND POVERTY

In the context described earlier it seems sadly inevitable that the problems of unemployment and poverty in the developing world will remain high on the agenda of work for the ILO in the coming decade. In this chapter I wish to set out my views on the most important policy issues facing this Organisation in the years to come in this important field of our endeavours. However, in what follows I have carefully limited myself, for the sake of clarity, to those challenging issues which, to a greater or lesser extent, merit discussion in our political constituency. Some of these issues, like rural development in low-income countries, to take one example, have been with us for some time. Others, like labour market flexibility and balance-of-payments adjustment policies, are rather new, having come to the fore during the present period of economic recession.

1. UNEMPLOYMENT AND POVERTY IN DEVELOPING COUNTRIES

There can be no doubt that the relatively slower rates of economic growth in developing countries in recent years — and negative rates in some cases — have led to higher levels of unemployment, underemployment and poverty. At the start of the present decade it was estimated that some 450 million people, or about 14 per cent of the total population of the developing world, were living in extreme poverty and malnutrition; another 800 million, or 25 per cent, had living standards corresponding to conditions of absolute poverty (i.e. low levels of income and varying degrees of deprivation in the areas of nutrition, health, housing and education). With the worsening of the economic situation in the past five years the total number of people living in dire poverty has no doubt increased substantially.

Poverty will certainly remain serious in the developing world in the coming decade because the problem is so fundamental, its crux being the lack of access to such basic needs as adequate shelter, nutrition, health care facilities, safe drinking-water, education and transportation. Yet the overriding concern of many governments, particularly in Latin America and Africa, with external...
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payments problems and growing budget deficits is leading to substantial reductions in public spending on social services, with direct implications for the improvement of access to basic-needs facilities. Even more seriously in relation to poverty, per capita food production in many countries in Africa has declined to a level below that of 1970. Thus, although it seems that some progress is being made to restrain population growth, the poverty problem remains as serious as ever, and in some ways is even more intractable than before.

To summarise very briefly for present purposes, I would single out four main strands in the ILO approach to the problems of unemployment and poverty in developing countries. The first is the need for sound economic management. This implies certain structural changes and policy reforms to facilitate adjustment to changing economic and financial circumstances. A second area of concern relates to policies to raise levels of output and productivity in the rural sector, where many of the working population are underemployed. Third, the problem of open unemployment in urban areas will need to be tackled by policies and programmes specifically aimed at increasing employment opportunities, including self-employment in the informal sector. Finally, the issue of human resources development is vitally important, in order to eliminate the mismatch between the available jobs and skills and to increase employment opportunities among new entrants to the labour market.

Economic management and development planning

Improved economic management could make for a faster rate of growth of productive employment in many developing countries. At present, employment promotion is too rarely an objective of economic policy, decision-makers preferring instead to assume that economic growth may generate a sufficient number of new employment opportunities. On the contrary, increases in modern-sector employment have turned out to be limited even during periods of sustained growth. Indeed, macro-economic policies have often resulted in higher levels of unemployment and underemployment. Moreover, in the present climate of uncertainty regarding the future, the problem of economic management is even more difficult in many countries because of balance-of-payments pressures. These pressures often lead to policies of short-term adjustment which may result in constraints on the growth of output, employment and incomes, immediately and in the longer term.

In this connection it should be noted that the Office is at present carrying out work, to which I attach great importance, on how economic policies may be designed to restore and maintain balance-of-payments equilibrium while ensuring the sustained growth of output and employment, and adequate protection for the poorer sections of the population. Taking account of the more positive atmosphere prevailing since the joint World Bank/International Monetary Fund annual meeting in Seoul last October, it may be hoped that in the future there will be more emphasis on stabilisation policies of this kind, and on consultations with employers' and workers' organisations in the design of such
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policies, while less reliance on the price mechanism may be necessary. Ideally, the design of stabilisation measures might also be characterised by a balanced distribution of the costs and benefits of adjustments between the various socio-economic groups and between different production sectors.

As long as the prospects for resumed and sustained growth in developing countries remain uncertain, a cautious and discriminating attitude towards additional debt may be appropriate on the part of the authorities in developing countries, especially in respect of high-interest commercial lending. On the other hand, the seriousness of the economic recession affecting many developing countries implies the need for increased concessional capital transfers from international financial institutions such as the World Bank group. I believe that these institutions should endeavour, within the conditions inevitably attaching to capital transfers, to preserve the potential for growth, especially taking account of the new approach to the debt and development problem advocated at Seoul last October.

According to this new approach of the Seoul meeting, the resumption of economic growth is to be regarded as an important principle in tackling the debt crisis. Such an approach is certainly preferable to the application of unduly austere stabilisation programmes, framed only in a short-term perspective, which may actually exacerbate the problems of unemployment and poverty with which the ILO itself is primarily concerned. Following the Seoul meeting I hope that foreign aid programmes and international lending institutions will increase their support for social infrastructural projects such as training institutions, schools and colleges, in addition to projects in the industrial sector, the benefits of which are immediately tangible and capable of expression in terms of an expected financial rate of return. The time has come to reaffirm once more that in the long term the economic benefits of projects to develop the social infrastructure are liable to be as significant as those of more immediately productive investments.

Rural-sector policies

Rural development is vital in order to improve by direct means the living and working conditions of most of the population of the developing countries, and such development also alleviates the pressure on employment in urban areas. As such, it should receive top priority in these countries. While its overall aim is to enable the rural poor to make a living for themselves and to gradually improve their lot, the diversity of natural conditions and economic and social situations precludes uniform prescriptions, and policies need to be adapted to particular circumstances. At the same time, rural development should not be regarded as a cheap short cut on the path to economic development. To be successful, it should not rely exclusively on the development of agriculture; it must be accompanied by industrialisation, including the development of rural industries, and diversify into various non-farm activities, some of which will be pursued in an expanding informal sector. And in any event, rural development
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for its own sake is also an expensive process. Meeting the basic needs of the poor in rural areas will require massive expenditure on physical infrastructure and on human resources development. I believe that the developed countries, which have an important stake in rural development, must bear their share of these expenditures, in the form of grant aid and long-term concessional loans.

Since the main objectives of rural development are to generate more opportunities for productive work in both agriculture and non-farm activities, and to improve the access of the rural population as a whole to productive assets and technologies offering scope for higher productivity, two types of rural development strategy may be distinguished in broad outline: (1) those which contribute to the growth of output and income-earning opportunities; and (2) those which influence the distribution of income and consumption in favour of poorer households and individuals.

(a) Integrated rural development programmes

Many developing countries are now seeking to correct the past neglect of the rural sector by implementing integrated rural development programmes designed to raise productivity and output in agriculture and create employment in rural non-farm activities. However, such programmes are unlikely to be successful in the absence of specific policies to improve the access of the poor to productive assets and to strengthen the production base in the rural sector. It is therefore most important that rural development programmes of this type, in the design of which the ILO will remain closely concerned in its technical co-operation activities, should emphasise measures to increase incomes by creating opportunities for wage employment and self-employment, since these are a crucial link between the ownership or use of productive assets and improvements in living standards. Some form of land reform is also necessary in some countries in order to improve the access to land ownership of subsistence producers, small-holder farmers and landless peasants.

The vital role of women in agriculture in many parts of the developing world means that they should be assisted in rural development programmes, for example by the introduction of appropriate technology and simple farm tools to reduce the burden of their work on the land and in the home. Technological innovation and appropriate training aimed at peasant and small-holder farmers should be organised as part of extension services which are easily accessible to even the poorer segments of the rural population. The adoption of appropriate technologies will be crucial to the attainment of food self-sufficiency in the coming decade, and here again is a field in which the ILO has an important role to play in the coming years, building on experience gained so far. Other policy measures to increase agricultural production deserving of consideration include the provision of infrastructural facilities and essential public services (e.g. roads, irrigation, health centres, schools); improved access to credit; and pricing and marketing policies appropriate to the maximisation of the growth of output and employment in rural areas.
Since agriculture alone cannot absorb all the underutilised labour in rural areas, the possibilities for wage employment and self-employment outside farming need to be explored. Small industries processing agricultural products can generate many direct and indirect employment opportunities in rural areas. Similarly, self-employment in the service sector (e.g. utilitarian handicrafts, retail trading and transport) seems to hold promise for income generation, judging from the rapid growth of this sector in several countries in recent years. Thus, any integrated rural development programme should include incentives to self-employment such as access to credit, technological know-how and a wider market including possibilities for export-oriented production, as well as a training component geared to existing and potential entrepreneurs. How such training activities should be designed is an issue we will have to confront in preparing ILO training programmes in the future.

(b) Local-level development strategies

Local-level rural development programmes to assist the poorer segments of the rural population by improving the satisfaction of basic needs such as health, education, shelter and water supply, are vitally important. Such programmes can best be implemented at the local or community level where they can have an immediate impact on levels of household income and consumption. To be effective, however, they require the participation of the broad mass of the population in the overall development process by some form of decentralised planning.

The importance of popular participation in community-level development programmes lies in the fact that local people are better able to assess accurately the nature of their employment and poverty problems, and are more knowledgeable about solutions to particular problems. However, living on the margin of survival may have discouraged innovative approaches involving risk and uncertainty, and such approaches tend not to be adopted in the absence of institutional arrangements and lack of incentives to promote broad-based participation. Thus the rural poor need to be encouraged, through organisations of their own choice, to participate actively in the making and implementation of decisions affecting their livelihood. Organisations such as peasants' associations, rural workers' unions and mutual aid or self-help societies may serve to ensure the effective participation of the rural population in the development process. Such participatory organisations can also serve to manage productive assets created with labour inputs by local people.

However, experience has shown that in some cases the rural poor may not always be able to organise themselves effectively to defend their interests, especially against local vested interests. The removal of obstacles to popular participation at the local level may therefore need the support and assistance of outside agents, as discussed in greater detail in Chapter 3. Apart from the State, non-governmental organisations operating at the local level can play a vital role in helping the unorganised to organise themselves.
Of particular significance are producer and marketing co-operatives involving the participation of peasant and small-holder farmers. Such co-operatives can play an important role in raising levels of productivity and incomes among the rural poor, especially where the growth of output is constrained by the lack of access of individual farmers to capital and other essential inputs such as fertilisers, farm tools and equipment, transportation, etc. The organisation of agricultural production on a co-operative basis can strengthen the financial and human resource base of rural producers and give them access to productive assets and market opportunities not available to individual producers. Apart from possible economies of scale in co-operative-type production, this form of production may strengthen the bargaining power of producers vis-à-vis market middlemen and money-lenders.

While communal self-help projects (e.g. construction of feeder roads, tube-wells, fish-ponds, irrigation channels) are frequently cited as ways to strengthen the asset base of the rural poor, in some cases those who contribute their labour to such projects are subsequently denied access to the facilities they have helped to create, by the introduction of high user charges or the inappropriate location of the facilities. If the broad mass of the local population are genuinely involved through their own organisations in decision-making concerning the planning and management of communal facilities their interests will be better protected.

Such an approach is being encouraged in the implementation of special labour-intensive public works programmes in developing countries in Asia and Africa. The ILO is assisting, and will continue to assist, many programmes of this kind, involving road construction, irrigation works, soil conservation, etc., and great importance should continue to be attached in the planning of such schemes to local participation and the generation of employment on a long-term basis, for operation and maintenance activities.

Special employment schemes involving food for work can also be useful in providing emergency relief in times of serious disasters such as prolonged drought and famine. However, analysis of the present catastrophic situation in several African countries suggests the principle that such schemes should also contribute towards a long-term solution through the strengthening of the production base in disaster-prone areas.

Urban-sector policies

In the cities and towns of developing countries unemployment is increasing. The current economic slowdown has led to redundancies among an increasing number of wage earners, and the problem is even more severe among potential new entrants to the urban labour force such as school-leavers and recent migrants from rural areas, though for different reasons. As regards school-leavers, the rapid spread of formal education over the past two decades in many developing countries has tended to increase the proportion of young
people in the labour force aspiring to modern-sector wage employment but with little hope of success. These young people are not usually interested in self-employment in the informal sector, except as a last resort. As regards migrants, even high rates of unemployment in towns and cities do not seem in general to reduce rural-urban migration.

There can be no doubt that the incidence of poverty in urban areas has increased as unemployment has risen. The situation may also have worsened owing to inflation. This has been the case in some Latin American and African countries, where low-income urban households have found it difficult to maintain their levels of consumption in the face of a steady decline in real wages and purchasing power. These households are perhaps more seriously affected by reductions in public spending on the maintenance and expansion of social services (e.g. satisfaction of basic needs such as health, education and even housing), because they cannot afford the cost of alternative services furnished by the private sector.

Ideally, poverty in the towns of developing countries may be reduced in the long term by more vigorous policies and programmes in rural areas, to raise living standards and provide more work and thus stem the migration that is the root cause of urban poverty. Apart from this basic approach direct action is needed in cities and towns to create more employment opportunities, raise household income and consumption, and improve the availability of, and access to, essential services. Given the limits on the expansion of wage employment in the urban sector, and taking account of the continuing growth of the urban labour force in most developing countries, the ILO needs to give more attention to the informal sector as an instrument of job creation.

The potential of the informal sector (which accounts for a significant fraction of the unprotected workers in urban areas) for employment creation is due to its use of relatively labour-intensive methods of production, ease of entry in terms of venture capital and skill requirements, and the fact that it makes more use of locally available raw materials. These characteristics, plus the fact that the informal sector generates more employment for a given investment, directly and indirectly, than the formal sector, has given it a certain resilience during the global recession, and it has served a useful purpose in restraining urban unemployment in many countries. Another feature of the activities of the informal sector is that the goods and services it produces are often within the means of low-income households and individuals who cannot afford the more expensive substitute products of the formal sector.

On the other hand, precisely because it is unregulated and the writ of the law does not apply, the urban informal sector is fertile ground for abuses. Exploitation can take many forms, ranging from low wages and long working hours to child labour and various rackets, all set in the context of poor to very bad working conditions. The sudden application of the full range of rules governing the formal sector, were it possible, would no doubt stifle (and perhaps destroy altogether) the dynamism of the informal sector and its potential to provide gainful employment. However, ways can and should be found to prevent the
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worst kinds of abuses which the nature of the sector makes possible although not necessarily inevitable.

Taking account of all these conflicting considerations, my own view, in the end, is that the potential of the informal sector for reducing unemployment and poverty justifies a policy of seeking to realise that potential. At the same time, although most of the inevitable failings of the sector have to be tolerated, measures to curb the worst of them should be applied in a resolute fashion.

On this view, public authorities can exploit the positive aspects of the urban informal sector. Perhaps the most pressing need is to provide infrastructural facilities, such as water supply and sewerage, access roads and electricity as a foundation for small industrial estates, which will benefit the community living and working in the sector, if not every individual. At the same time, the more enterprising elements of the informal sector need access to credit facilities to enable them to take advantage of market opportunities. These entrepreneurs also need access to training to improve their native managerial and technical abilities and to take advantage of the application of appropriate technologies. In parallel, some novel forms of training or apprenticeship would both upgrade the manpower these entrepreneurs employ and help workers to set up their own business, although care is needed to avoid excessive institutionalisation, which is often of greater benefit to the formal sector, which is better able to take advantage of it. Identifying markets for the goods produced in the informal sector apart from those which may be reached by door-to-door peddling is another problem which public authorities may be able to help solve. Indeed, a positive attitude on the part of the authorities can increase the benefits of the sector to the economy as a whole. These are rather novel approaches of which our experience is still limited although encouraging. In the coming years the ILO would do well to devote special attention to ways of developing and refining them.

If advantage is to be taken of the potential of the urban informal sector, we cannot ignore the dangers it entails in terms of lack of protection for those who work in it. There is, unfortunately, no ready answer to the problem, but two lines of approach can be discerned. Firstly, some form of organisation for the collective defence of the interests of these workers would, as the experience of the formal sector shows, provide a powerful restraint on abuse in the informal sector. The organisation of socially unprotected workers, which will be extensively discussed in Chapter 3, provides clues to the kinds of catalytic action needed to facilitate the creation and operation of effective organisations. Secondly, the State must act to prevent the more intolerable abuses. While full regulation would tend to result in administrative chaos and is therefore undesirable, some measure of decency must be encouraged, by appropriate action by the public authorities in the worst cases of law-breaking but more generally by some imaginative and flexible form of rudimentary labour inspection, in the design of which the ILO may be able to assist.
Human resources development

The development of human resources is directly related to the achievement of employment and income objectives. Manpower planning is crucially important in adjusting the supply of particular skills to meet the demand for those skills, so eliminating surpluses and shortages in the labour market. Similarly, policies to relate the content of training to required skills and establish links between training and productive employment serve to increase productivity, output and incomes.

In practice, however, many developing countries have not been successful in tackling unemployment through human resource development, as evidenced, for example, by the coexistence of skill shortages and large surpluses of unutilised and underutilised labour. The inappropriate and inadequate development of available human resources is particularly manifested in high and rising unemployment among school-leavers who have received a formal education insufficiently oriented towards the opportunities actually available, including self-employment in rural areas and the urban informal sector. More often than not, formal education has been perceived by both decision-makers and pupils as a preparation for wage employment, although the number of persons so employed is increasing very slowly (if at all) in most countries. Moreover, even in the context of formal-sector employment, the content of programmes of education and training tends not to be adjusted rapidly enough to respond adequately to changing skill requirements due to technological changes. More emphasis is needed in school curricula on technical subjects relevant to the development of the sort of skills needed in a modern developing economy.

Education and training systems therefore need to be more consistent with skill requirements in a developing economy. In particular, developing countries need to aim at training policies and programmes geared towards productive self-employment in the informal sector. The provision of training programmes tailored to the needs of the rural and urban informal sectors may serve to raise productivity and output and thus contribute to the expansion of the sector. The access of informal-sector trainees and apprentices to existing facilities for vocational and technical training should be improved so that they are on an equal footing with formal-sector trainees. This approach may be supplemented by specially designed on-the-job training schemes in enterprises in the informal sector. Alternatives to conventional apprenticeship and vocational training schemes need to be worked out, to take account of the skills and competence required for self-employment in the informal sector. For example, curricula might be developed to include practical training as well as instruction in the rudiments of management, marketing and bookkeeping. In addition, training specifically designed to improve productivity may be provided to workers in the rural areas and the urban informal sector by community-level adult literacy and skill development programmes. However, safeguards need to be built into the system to ensure that those who benefit from the extension of training opportunities to the informal sector are those most in need of such training in order to earn a living within the sector.
Budgetary constraints may well restrict public spending on education and training in the coming years. Thus policy-makers will need to consider more carefully than before the costs and benefits of alternative training programmes in relation to the actual needs of society. For example, it may be appropriate to train medical auxiliary staff rather than doctors in order to provide basic health care at the community level; technicians and mechanics rather than engineers for the operation and maintenance of plants and machinery and essential services and facilities; and extension workers rather than agronomists for improving agricultural production. In other words, policy-makers need to adopt a more realistic attitude to training based on the benefits and costs of creating different types of skills.

2. UNEMPLOYMENT IN THE DEVELOPED COUNTRIES

The economic and social situation in the developed countries is of course very different from that prevailing in the developing countries, despite our determination in the ILO that the same basic principles of social justice should apply in a universal fashion in countries at all levels of income. Here I propose to mention briefly the extent of unemployment, contemporary trends in attitudes towards work, and the organisation of work, before addressing certain policy issues of particular concern to the ILO, relating to the employment and other social problems of the industrialised countries, including the centrally planned economies of Eastern Europe.

Despite the economic recovery in the industrialised market economy countries since 1983, the level of unemployment remains high, particularly in Western Europe. Over 30 million persons, or 8 per cent of the total labour force, are now affected by unemployment in the industrialised market economy countries as a whole; for Western European countries as a group the corresponding level is 19 million or about 11 per cent of the labour force, with unemployment rates of over 15 per cent in some countries. Of even greater concern are the various forecasts suggesting a further rise in levels of unemployment in many developed countries, at least over the next two years. Thus high unemployment is now widely accepted in most countries as having become a long-term problem rather than merely being due to a cyclical downswing in economic activity. It follows that any progress in reducing the unemployment problem in the developed countries will require the application of a range of economic, social and labour market policies at both national and international levels.

Unemployment in the industrialised countries is distributed unevenly across the labour force. Young people, especially first-time jobseekers, have been particularly affected. Another disturbing feature of the current situation is the steady rise in the numbers of the long-term unemployed (i.e. those continuously out of work for more than a year). Although this phenomenon was previously confined mainly to older workers, an increasing proportion of young people and even adult workers are now affected. These two categories of the unemployed
(i.e. young people and the long-term unemployed) account for between 60 and 80 per cent of total unemployment in some countries. Another group which may be identified comprises those experiencing repeated spells of unemployment with the risk of becoming long-term unemployed. There is also evidence that high rates of unemployment may be discouraging women with family responsibilities from working, although this category of worker does not tend to be registered so clearly in statistics of unemployment.

Apart from the problem of unemployment a significant development of recent years has been the apparent growth of the clandestine (the terms "clandestine" and "submerged" will be used interchangeably here, to denote employment that is not declared for legal, tax or other purposes) economy in the industrialised market economy countries. Increasing numbers of the unemployed have turned to the clandestine economy either as an alternative to open unemployment or to supplement social security benefits. In addition, some workers take on additional jobs illegally to supplement their earnings.

However, the growth of the submerged economy is not due only to economic and financial considerations. The constraints on work and work organisation in the official economy, imposed by existing legislation and official regulations, may also have some influence on the decision of individuals in the labour force to seek a livelihood outside the formal sector. Bearing in mind the cost of the clandestine economy to the State on account of tax avoidance and loss of revenue, and the cost to the workers because of the lack of proper protection, the possibilities for promoting the creation of additional and legal employment opportunities deserve to be explored more fully.

The introduction of new technologies and consequent changes in the organisation of work have been important factors influencing the structure of employment and changing attitudes towards work in recent years. Technological change is opening up wider choices regarding work and work organisation, especially in the service sector. To take one of the more obvious examples, computer configurations are now available which enable staff in certain occupations to work at home for at least some of their working time. Thus, while it is probably true that the introduction of new technologies may initially lead to redundancies in traditional industries, employees in general may gain considerably in terms of better working conditions, and perhaps more freedom in the planning of work to be done and the use of working time. Moreover, there may be long-term gains in the number of jobs through the development of new and cheaper products and, in consequence, larger markets and higher levels of demand.

The coincidence of high unemployment and rapid technological progress is likely to have some serious implications in the coming decade. Because of the combination of this rapid rate of technical change and current economic trends it would seem that individuals and enterprises, and ultimately society as a whole, will have to face some fundamental choices about the place of work in human existence and about the changing form of the employment relationship. These choices will include those between working time and leisure time; between wage
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employment and self-employment; between overtime and job-sharing; and between full-time work and part-time work. Signs have emerged in recent years that some of these choices are increasingly being exercised in the industrialised countries. Further evidence of profound rethinking of the place of work in life as a whole lies in the trend towards atypical employment relationships. Such relationships include for example temporary work, short-term work, casual work, home work and various kinds of subcontracting arrangements. Self-employment is also becoming more common, partly as an alternative to open unemployment and, more positively, in preference to wage employment.

These new kinds of employment relationship, which are discussed further in Chapter 3, are unconventional. They have advantages and disadvantages from the point of view of the worker. On the one hand, temporary and part-time work is frequently insecure, and those who engage in it often enjoy only limited protection under the law. They are also poorly protected in the more general sense that the extent of unionisation of the workers concerned is typically low or non-existent. On the other hand, some people prefer these new kinds of jobs because they value freedoms such as that of frequently changing their work, or of working for only part of the day, leaving the rest of the time free for family and home care, or for other work of a different kind. Many women with family responsibilities derive satisfaction from part-time work (which is also becoming more common among men in some countries). But these considerations do not diminish the need to ensure that such workers are adequately represented and protected.

Major employment policy issues

I wish here to focus mainly on those policy issues of most direct importance to the ILO and its constituents, but it is nevertheless appropriate to emphasise once more the close relationships between international economic policies and agreements, employment in the industrialised countries and economic development in the Third World. Taking account of these relationships, two conditions need to be satisfied for the resumption of sustained economic growth, with all its potentially favourable social implications. Firstly, there must be a wider recognition in practical terms of the need for better management of the international economic system by consensus. We are frequently told that this is an interdependent world, but rarely does it seem that this reality is accepted at the decision-making level. More high-level discussions are needed on issues such as the international trade and payments system, the virtues of floating exchange rates, co-ordination in the management of money markets, and trade liberalisation. I would appeal strongly to all governments, especially those of the industrialised market economy countries, to increase their efforts to concert their economic policies for the common good.

A second crucial condition for the resumption of sustained economic growth is the recognition of the position of the developing world in the international economy. Because of the important position of the developing
countries in international trade, as purchasers supporting employment in many industries as well as sellers, it is strongly in the interest of the industrialised countries to support global policy measures favouring economic development in these countries. In fact, the vast population of the developing world constitutes an immense potential market which could be opened up if its pent-up demand could be made effective through a combination of national policy measures and international trade and aid which would increase that population's purchasing power. Thus in my view it is essential, quite apart from political and humanitarian considerations, that flows of private capital and development aid should be strengthened, that the international financial institutions should be enabled to increase the volume of long-term loans on concessionary terms, and that all forms of North-South and South-South co-operation should be further expanded.

Although in this interdependent world the level of employment in the developed countries is closely dependent on the international economic situation, there is probably more scope for increasing employment by measures at the national level (albeit some of them with international implications) than is sometimes thought. In what follows the focus is on those policy issues of greatest interest to this Organisation as a whole, and particularly to employers' and workers' organisations. These are trade and protectionism, the notion of labour market flexibility, the promotion of small-scale enterprises and self-employment, and the treatment of disadvantaged workers. (Another important issue, the reduction of working time, often suggested by trade unions as a means of increasing employment, is discussed separately in Chapter 3.) Another policy issue deserving the attention of governments, depending on the circumstances in each country, is the possibility of reflation based on tripartite consensus at the national level, possibly coupled with various forms of incomes policy and increased public infrastructural investment. At the present time there appears to be scope in some of the industrialised market economies for relaxing certain restrictive measures deployed in the course of the fight against inflation, although it will generally be appropriate to try to develop a tripartite approach towards reflation at the national level in order to avoid renewed inflation.

(a) Trade and protectionism

To sustain a global economic recovery of benefit to both developed and developing countries, more open trade arrangements are essential. To achieve this requires a further liberalisation of international trade as well as a better observance of current rules and procedures. Action in these directions is urgent in the light of growing protectionist tendencies. The present high levels of unemployment in the industrialised market economies have intensified protectionist pressures and have slowed down the structural adjustment process. However, any delay in implementing the adjustments necessitated by changes in demand, technological innovations and international competition, although advantageous in the short run, will almost certainly diminish employment opportunities in the medium and long term.
The ineffectiveness of protectionism as a weapon to combat unemployment was demonstrated in the 1930s when the erection of tariff barriers provoked widespread retaliatory measures which further reduced world trade. This was a contributory factor in the transformation of a cyclical recession into a prolonged global depression. The fact that interdependence in international economic relations is now much greater than in the 1930s implies that protectionism, if unchecked, may be even more harmful to the world economy. Even if protectionism may offer certain short-term benefits by preserving employment and levels of profit, in the long term protected industries reduce the dynamism of the economy and its potential for employment creation and are a burden on consumers and a factor of inflation. Thus widespread protectionism will reduce world trade and everyone’s prosperity. Clearly, then, this Organisation must prepare itself to support all those governments and employers’ and workers’ organisations which are working to restrain protectionist pressures, and to assist those workers whose jobs are threatened to find new employment opportunities. Equally, however, we must seek to ensure that the exigencies of competition in international trade are not used as an argument to restrain the application of those international labour standards by which workers in export-oriented industries should normally be protected.

(b) Labour market flexibility

Past experience in several industrialised market economy countries has demonstrated that traditional Keynesian demand-led policies to deal with unemployment by increasing aggregate demand are likely to lead to a higher rate of inflation which can subsequently be diminished only at the cost of higher unemployment. Because conventional policies no longer seem to work, it is now being argued, particularly by employer organisations and governments, that improvements in the supply, quality and mobility of labour are essential if unemployment is to be reduced, as well as to facilitate the introduction of new techniques of production. Summarised in the term labour market flexibility, this notion of improving the characteristics of labour supply has several components, relating for example to labour costs, employment security and labour mobility. Each of these components is briefly discussed below.

The issue of wage flexibility arises because higher labour costs, resulting from increases in real wages unmatched by increases in productivity, may have an immediate or longer-term negative effect on employment through high inflation and a reduction in international competitiveness and demand. Higher real wages may also reduce profits and rates of investment with adverse consequences for employment in the long term. On the other hand, it can be argued that wage moderation may have a deflationary impact, at least initially, on consumption. Without government intervention to support the level of demand, this may lead to a reduction in employment. The available evidence on the relationship between real wages and employment is inconclusive. This is an issue which the Office should examine in the future because of its important implications for employment.
Apart from the issue of the overall level of wages, another important aspect of flexibility is that of wage differentials. It is argued that there is scope, in the interest of higher productivity, employment, and levels of output, for wider wage differentials between economic sectors, between enterprises within sectors, and within enterprises. This implies more wage bargaining at the local, enterprise level, with less emphasis on agreements at the sectoral level, or national agreements concerning particular occupational categories. For the individual worker increased flexibility in this sense could mean a higher level of remuneration in some cases and a lower level in others. Again, the issue of flexibility in wage fixing is one deserving of continued attention in the ILO in the coming decade.

Another issue related to labour market flexibility is employment security. It is argued that labour legislation guaranteeing job security discourages employers from hiring new workers even when sales and production are rising because of the difficulties involved in subsequently dismissing them. Thus in practice employers may prefer to increase overtime worked by the existing labour force, hire part-time workers or even employ labour in a clandestine way. While this argument may imply the need to modify existing legislation in some countries, this could result in a larger number of workers with inadequate employment security. Another contrary consideration is that many employers value job security because it encourages the formation of firm-specific skills, minimises turnover costs, helps to create good labour relations, and enhances the prospects for productivity growth.

In principle, increased labour mobility could facilitate the process of structural adjustment and unemployment could be reduced if labour were to be more mobile between localities and occupations. In practice, however, there are various practical constraints on such mobility, including insufficient housing and other community services in those areas in which labour is needed. Equally, the occupational mobility of labour may be limited by resource constraints on the training and retraining of workers in new skills. In all countries more consideration needs to be given to the necessary arrangements for the retraining of workers, possibly on the basis of cost-sharing between the public authorities concerned and individual employers and workers.

In some industrialised countries the opposite approach has been tried, of moving work to the workers: the creation of jobs in depressed areas has been encouraged by various incentives. The results of such experiments have been mixed. On the benefit side some incentives have served to encourage the establishment of new growth industries, often based on advanced technology. On the other hand, incentives which have the effect of maintaining employment in depressed areas in traditional but declining industries (and which may well be a disguised form of protectionism) are of less long-term value to society as a whole.

Promotion of small-scale enterprises and self-employment

Some evidence from the industrialised countries has revealed the significant contribution to employment growth that has been made by small firms in the
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past decade. However, failure rates among small firms can sometimes be high, owing to lack of finance, limitations on entrepreneurial ability, and the high risks involved. Thus, if small enterprises are to realise their full employment potential, they need assistance in areas such as easier access to capital; the provision of technical advice and training in management and accounting; reductions in administrative controls on the registration of businesses; and the modification of unduly restrictive collective bargaining practices and protective legislation, in so far as they hinder the formation and development of small firms. Finally it may be noted that schemes for promoting self-employment, especially among redundant workers, have been a significant feature of the process of adjustment and economic recovery in some industrialised market economy countries. Such schemes will need to be promoted further in the coming decade.

(d) Labour market programmes for special groups in the labour force

In consequence of the continuing and serious unemployment situation in the industrialised market economies, public authorities in some countries have endeavoured to protect certain disadvantaged groups in the labour force. The position of these groups, including women, young workers, migrant workers and the disabled, is of long-standing concern to the ILO, and a general comment about schemes to assist these disadvantaged groups is appropriate.

As an example, in several countries special youth employment schemes have been launched, and some attempts have also been made to provide for the retraining of older workers so that they may acquire new skills. Planning such schemes is difficult in a fundamental sense because there is no overwhelmingly convincing argument, in relation to the crucial question of employment opportunities, for assisting one group more than another, or indeed for assisting any of these groups in preference to persons who are not disadvantaged but have significant family responsibilities. For reasons related to this consideration trade unions have sometimes opposed the introduction of youth employment schemes appearing to provide for the employment of young people at relatively low wage rates, which may not necessarily be the best start in working life for the young people concerned and may diminish the number of jobs available for all other categories of workers. This dilemma concerning the extent of assistance to special groups is one that will continue to be an especially acute one as long as high rates of unemployment persist.

A related problem is that of discrimination against women in respect of access to employment, a phenomenon inevitably liable to increase in incidence in a situation of high unemployment. However, notwithstanding current economic circumstances the widely recognised perception in contemporary social values of the need for further progress towards equality between the sexes demands that the ILO and all the other concerned bodies working in this field should continue their efforts in the coming decade.
As regards migrant workers our primary concern in the ILO must continue to be the application of international labour standards designed to protect such workers. These standards are more relevant than ever before at a time when pressures favouring emigration are mounting in some countries while a less warm welcome than in the past is being extended to migrant workers in some others. Apart from the important issue of seeking to ensure the increasingly effective application of the relevant international labour standards applying to migrant workers we in the ILO will have to be alert to new kinds of problems in the coming decade such as the levelling-off in the numbers of migrant workers in certain regions (including the Middle East, Southern Africa and Latin America). The fact that more migrants than in the past could be returning to their own countries may bring about problems of reintegration, and these countries may also have to face the problem of flows of remittances the levels of which are stationary or slightly lower than in the past.

3. TRENDS IN ECONOMIC AND EMPLOYMENT POLICY IN THE DEVELOPED SOCIALIST COUNTRIES

The right to work is enshrined in the Constitutions of many of the centrally planned economies of Eastern Europe, and indeed the achievement of full employment has been an important contributory factor in the improvement of the living conditions of the population as a whole. Concurrently, labour shortages occur in certain industries and occupations in these countries. Much progress has been made in recent years in alleviating these labour shortages by various measures to increase the rate of participation of women in the labour force, and by the provision of incentives to promote the continued employment of workers beyond the normal retirement age of 60 (55 for women). Labour shortages may persist in the 1990s because of demographic trends characterised by successive waves of low birth rates following the Second World War, and the consequential ageing of the population as a whole. However, demographic trends are likely to be less of a constraint on economic growth in the future than they have been in the past, because of the increasing emphasis in economic planning in the socialist States on intensive development, in contrast to extensive development involving the application of an increasing volume of scarce resources including, most importantly, labour. Intensive development implies economic growth by the more efficient use of factors of production — labour, capital, materials and energy. In this new approach to the development process, technology is accorded rather more importance than was previously the case. The associated search for higher labour productivity is being vigorously pursued and has led to growing innovation in conditions of employment such as wider wage differentials, profit sharing and the retention by enterprises of profits accruing from savings obtained through a more sparing use of labour.

At the same time, several changes are occurring which, although taking place in a very different context, are not without some similarities with developments in the industrialised market economy countries. Thus the service
sector is acquiring greater importance and is absorbing an increasing proportion of the total labour force. Owing to significantly higher levels of education, as well as the growing importance of services and technology, non-manual labour is increasingly sought after, especially by younger people. Individual enterprises, including the cultivation of individual plots and some service or craftsmanship activities, play a somewhat greater and more recognised role in the economy. There is also some evidence of a growing secondary economy, comprising more or less legal activities, in some countries, which, at least so far as flexibility is concerned, share some features of the clandestine economy discussed earlier.

Finally, other developments of significance include the modification of the system of wage determination to permit greater autonomy at the enterprise level. This trend towards decentralisation, at least in respect of remuneration, which parallels a similar trend in the industrialised market economy countries, is likely to continue. The trend implies more scope for bargaining between enterprise managers and workers, potentially leading to a stronger, more diversified role for managers and trade unions.
As I emphasised in Chapter 1, the extension of social protection to all those workers now protected inadequately or ineffectively by legislation and social security provisions is a major issue which will continue to face this Organisation for the rest of the century. The first part of the present chapter returns to this theme, focusing on the problem of how to assist these workers to organise themselves to defend their interests and improve their access to employment and income-earning activities. This is to complement the discussion in Chapter 2 of the need to assist socially unprotected workers by ensuring that they have better access to skills, materials and capital, so as to enable them to improve their living standards by dint of their own efforts.

Although a comprehensive account of trends in the field of industrial relations was given in my Report to the Conference last year, I still believe that it is useful to highlight the most important and controversial issues relating to the formal sector — those liable to remain with us in the coming decade — and this is done in the second part of this chapter. Key issues to which reference is made include the changing role of the State, the needs for more efforts to promote tripartite consensus, the special problems arising in the public service, and labour market flexibility.

1. THE ORGANISATION OF SOCIALLY UNPROTECTED WORKERS

I have already noted the limited number of workers, especially in developing countries, who are socially protected in the sense that labour legislation is applicable to them or they may benefit from some form of social security. I have also suggested the need for a positive approach towards the urban informal sector — which accounts for a significant proportion of unprotected workers in many countries — including in particular the provision of material facilities and training to workers in small enterprises in this sector. I have also argued in favour of rural development with as much local participation as possible in decision-making. But beyond this, I believe that assisting workers in both urban and rural areas and in all types of economic activity to acquire that
most basic human right, representation of their interests, is a new challenge facing the ILO in the coming years.

For the purpose of discussing this particular issue, unorganised workers may be divided into two main categories: self-employed persons (including persons working with their family or with the help of occasional outside labour) such as small owner-cultivators, sharecroppers, tenant cultivators, fishermen, animal husbandrymen, artisans and craftsmen and providers of various services (e.g. street vendors, rickshaw pullers); and wage earners who operate on a casual basis (taking up any job offered and often working for short periods on a daily wage basis). Many migrant workers fall into this latter category. Moreover, unorganised work is in reality a complex phenomenon and any categorisation runs the risk of over-simplification. Many workers in the unregulated sector combine farming with non-agricultural activities or alternate between self-employment and wage labour. Moreover, the distinction between self-employment and wage employment is not a precise one: in some forms of tenancy agreement, for example, the tenant is virtually a wage earner.

The unorganised are usually among the poorest and most deprived sections of the population. They suffer from many handicaps, including limited resources, underemployment, low productivity, low incomes and lack of legislative protection. Isolated as individuals, they are vulnerable to various political, economic and social pressures which are not necessarily sympathetic to their interest, and may even be hostile. Women workers, who figure significantly among unprotected workers, also have to face the additional problems associated with discrimination and exploitation on the ground of sex.

I believe that the ILO has to seek to improve the living and working conditions of the large numbers of socially unprotected workers in the developing world by helping in the design of institutions and procedures to meet their needs. In the past some trade unions have organised wage earners who are inadequately socially protected, including agricultural workers (both wage earners and self-employed). This was especially the case in Western Europe in the past, where conventional trade union activity among rural workers was quite successful. In developing countries today, as was previously the case in the industrialised countries, legal obstacles are often placed in the way of freedom of association and of the activities of conventional trade unions seeking to assist rural workers, or legislation designed to enhance civil liberties is not properly applied or enforced. Many other practical considerations restrain established trade unions from organising unprotected workers, particularly the self-employed. One such consideration is that these trade unions are accustomed to operating in urban or industrial environments where large numbers of workers hold similar jobs and shared interests favour collective action. In contrast, socially unprotected workers, many of whom are in rural areas, are in a wide range of work situations, so that their interests have to be defended, according to the categories involved, not only or not primarily against employers, but also against the public authorities, wholesalers, various kinds of intermediaries (e.g. subcontractors, labour-only subcontractors) or other
economic groups (e.g. landowners, money-lenders, private traders) having an important market influence. Trade unions operating in highly industrialised urban settings usually have little or no experience in dealing with these interest groups.

A further obstacle encountered by trade unions trying to organise inadequately protected workers is the fact that these workers are poorer than workers in the formal, organised sector, and more deprived in the sense that land tenure systems and the concentration of economic power in relatively few hands in rural areas often renders them dependent on the richer classes for their survival. Moreover, the continuing experience of poverty and oppression causes many of the poor to view their dependence with fatalism and resignation.

This poses a challenge to established trade unions which have been able in some cases to overcome these obstacles, and there are several examples of successful rural workers' organisations which will no doubt be replicated elsewhere. In other cases such experiments have failed, and this fact has caused attempts to be made in many parts of the developing world to establish new forms of organisations to defend the interests of socially unprotected workers. These new organisations have in common with trade unions the objective of defending the economic interests of their members (vis-à-vis public authorities, employers, various intermediaries or other economic groups). They include various types of community development organisations and co-operatives set up to press for tenurial or land reform or for the implementation of existing legislation in this area. Similar organisations have been set up to defend forestry and fishing rights, and to alleviate dependence on money-lenders or private traders. For example, peasants and tenant farmers have sometimes established producers' associations to defend their interests in relation to wholesale merchants and other middlemen. Mention may also be made of organisations specifically concerned to defend rural women.

Those who try to set up such organisations are faced with many of the difficulties encountered by other trade unions. In particular, many community development organisations covering an entire community have failed to serve the interests of the poor. Specific experiments have indicated that it is difficult to do anything concrete about the special problems of poor peasants, sharecroppers and landless workers when they form part of a comprehensive rural organisation which includes all segments of the community, some of which have different or even contrary interests. Thus practical experience suggests the need to shift away from approaches aimed at whole communities and seek instead to promote programmes and institutions designed to help the poor and the deprived. For this purpose it is important in the first place to identify relatively small but more or less homogeneous categories of individuals with similar handicaps and in similar circumstances. As a second step, larger organisations may be formed by linking different organised groups to enable them to pursue their common interests by enhancing their bargaining power.

Past experience also seems to indicate that efforts to organise a group of unprotected workers will usually be unsuccessful unless the workers concerned
have previously been made fully aware of the possibilities for changing their situation by their own efforts. This preliminary process of promoting awareness can best be carried out by persons who are committed to the poor, and who possess the social and behavioural skills needed to work closely with them. At present such persons tend to be drawn from non-governmental organisations. Subsequently the capacity of the poor to improve their position may be improved by supplying them with the relevant information, and with technical and managerial training.

Another point which deserves consideration by the ILO and its constituents concerns the internal functioning of organisations of unprotected workers and their relationship with the public authorities. While welcoming active policies at the national level to facilitate the establishment of such organisations, I believe that it is vitally important not to depart from the following principles: that participation in these organisations should be entirely voluntary; that they should be free from governmental interference in their internal management; and that they should be organised in a democratic manner.

I believe that it is important to recognise that despite the many difficulties described above, the interest of governments, employers' and workers' organisations in extending the protection of workers who are inadequately protected has increased in recent years. At the country level several ministries often work together in a concerted effort. In some countries ministries of labour are taking new kinds of initiatives, including special inquiries on the problems of unprotected workers, with a view to gradually extending the scope of their action in such areas as training, welfare and protection, in co-operation with other departments. Similarly, employers' and workers' organisations are making special efforts to engage in development and organisational activities. In some countries, for example, certain employers have "adopted" villages and are promoting a variety of rural development and welfare activities; and employers' organisations increasingly offer training services to small enterprises. Trade unions are also engaging in a variety of developmental and organisational activities in rural areas. We can only welcome these new approaches by the social partners, with which the ILO is frequently asked to assist, and which should be further expanded. Moreover, in order to extend social protection we may well have to be more ready in the future to work very closely with those units in governments dealing directly with unorganised and inadequately protected workers when the circumstances in a particular country warrant such an approach. Similarly, I believe that we must be ready, more than ever, to work not only with employers' and workers' organisations, but with all those institutions, organisations and authorities most concerned with this problem at the national level.

2. MAJOR TRENDS AND PROBLEMS IN THE FORMAL SECTOR

The continuing period of slow growth and increasing unemployment in many of the economies of both developed and developing countries is raising
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some fundamental problems for employers and workers, as well as for governments. The more severely competitive economic environment brought about by structural change has reduced the room for manoeuvre in collective bargaining, in which the issues for discussion have changed somewhat, as described in subsection \((a)\) below. Both trade unions and employers’ organisations are confronting a new set of problems affecting their own policies and the services they offer to their members, and these problems are reviewed in subsection \((b)\). Other topics treated in the rest of this section include the role of the State in labour relations, changes in enterprise-level labour relations and the particular problems of the public service. Each of these areas poses important questions for the ILO in the years to come.

\((a)\) The substantive issues in collective bargaining

In recent years there have been significant changes in the substantive issues addressed in collective bargaining, particularly in the industrialised countries. Although wages and salaries previously enjoyed high priority, other questions such as employment security, labour market flexibility, work organisation and working time have now come to the fore. However, employment security and wages are closely linked issues in the sense that some structural adjustment policies in recent years have aimed to reduce the rate of increase of labour costs, or even to freeze or reduce them, in order to preserve as many employment opportunities as possible. Thus the purchasing power of workers’ incomes has declined in many countries, often because of restraints placed on systems of wage indexation, and also because of the renunciation by workers in some countries of certain acquired rights in the area of wages and salaries (in what is termed “concession bargaining”).

On the other hand, measures have been taken in order to create new jobs for the many workers made redundant by reductions in the workforce and the closure of enterprises. Moreover, temporary jobs, often subsidised by the public authorities, have been created for certain disadvantaged workers, such as young people and the long-term unemployed.

Collective bargaining is of course a vital instrument in the whole process of structural adjustment. In present circumstances, however, its role in maintaining levels of employment is generally limited. For example, in the case of negotiations at the level of the enterprise or the economic sector, the main objective is usually to define the conditions attached to redundancies which have become inevitable, in such a way as to limit their social costs. Negotiations at the national level, particularly to the extent that they are tripartite, offer more room for manoeuvre in the sense that the transfer of resources on a larger scale can be envisaged. But even this latter form of negotiation cannot itself provide any real solution to basic structural problems.

Employers and some governments are now of the view that a considerable number of jobs could be created if the labour market were to become more flexible. According to this view, labour market flexibility in Japan and the United States has been responsible for the greater extent of job creation in these
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two countries in recent years, and the smoother adjustment to technological change. As already observed in Chapter 2, these issues are very complex, the more so as there is no generally accepted definition of the term "flexibility". Aspects of labour market flexibility mentioned by its various advocates include geographic and occupational mobility of workers, flexibility in labour costs (including wage flexibility in response to changes in the economic situation, and flexibility in wage differentials among sectors and occupations), flexibility in the management of human resources at the enterprise level (which includes recruitment questions, issues related to redundancy, conditions to be attached to temporary work and work under fixed-term contracts), the arrangement of working time in the wider sense of the term, and the minimum size of enterprise to which various provisions of social and tax legislation should be applicable.

The current debate on the concept of flexibility stems from the conjunction of two factors which have heavily influenced enterprises in recent years, namely the current economic recession and more fundamental although less readily apparent changes in the structure of the labour market and in attitudes towards work. The latter are factors of a continuing nature which would operate even if the recession came to an end and the question of whether or not more flexibility should be encouraged will remain at the heart of the debate on the rigidities of the labour market, although parallel "rigidities" in capital markets which constrain investments should not be lost sight of. Clearly, the ILO has to face the issue squarely, if only in order to better define its nature and scope. But beyond the analysis of the policy implications of the concept of labour market flexibility which the Office should carry out in order to facilitate its continuing discussion in ILO forums, whatever approach to the problem is ultimately accepted will necessarily involve the role and responsibilities of the social partners and will therefore remain high on the agenda of discussions between employers and workers at the national and sectoral levels.

A similar extension of the field of negotiation may be noted in another field, that of technology and work organisation. It has become normal practice for agreements to be concluded between management and workers at the time of the introduction of new technologies. In general, such agreements concern not only changes in the production process, but also productivity increases, higher product quality, improved co-operation within the enterprise and better job satisfaction. Such issues are liable to become more important in the coming years, and the introduction of new technologies offers considerable scope not only for changes in ways of operating enterprises, but also for more fundamental changes related to job satisfaction.

Another important subject of negotiation closely linked to those already mentioned is working time. Many trade unions are calling for a significant reduction in working time as a way of reducing unemployment, in the hope that sufficiently drastic measures to redistribute work may accommodate all those who are unemployed. Some trade unions also believe that reducing working time may enable progress to be made towards certain other goals implying basic
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changes in the allocation of the workers' time between training, work and leisure (e.g. flexibility in retirement age; sabbatical years away from work; greater equality between the sexes as regards household work and gainful employment, and, in consequence, a considerable development of part-time work). On the other hand, employers are generally opposed to reductions in working time, believing that its impact on the reduction of unemployment is likely to be limited, and that it is impossible to maintain levels of wages and salaries and simultaneously reduce working time in the present economic situation. In practice, a moderate reduction in working time has been observed in recent years, which has had a limited effect on unemployment. Such reductions in working time as have been agreed have generally been associated with a relaxation of the rules associated with working time but, contrary to past practice, they have not always been associated with the maintenance of existing levels of wages and salaries. The important issue now is whether to continue the usual policy of gradual and limited reductions in working time, or to engage in more fundamental changes of the kind sought by certain trade unions. As regards the second alternative it should be emphasised that major reductions in working time would be necessary to have a significant effect on unemployment. However, it may be unrealistic to suppose that working time can be significantly reduced during the present period of very slow economic growth without either simultaneously reducing the real level of wages and salaries, or increasing productivity to a similarly significant extent. The rate of economic growth is crucial here. The options will widen considerably if steady economic growth can be resumed in the industrialised economies.

(b) Problems confronting the social partners

Changes in economic structure, the pace of technological change, and widespread and increasing unemployment have created many serious adjustment problems for trade unions and employers’ organisations. Trade union membership has declined in some countries, sometimes quite significantly, and the unions' bargaining position in labour relations has been weakened as a consequence. Employers have equally suffered individually through shutdowns in some industries, widespread bankruptcies and reduced levels of production.

Although changes in patterns of trade, and the process of structural change in general, have been equally important factors, technological innovation has contributed in an indirect way to the decrease in trade union membership, at least in some industries and occupations. Moreover, new technologies have often had several other consequences for organised labour, owing to their influence on job content. One such consequence is that the traditional distinction between blue-collar and white-collar workers is becoming increasingly irrelevant. Secondly, the relative importance of highly qualified technicians is increasing (notwithstanding the fact that certain kinds of technical progress may also create certain low-skilled jobs in place of craft skills). Technical innovation is also tending to increase the possibilities for work at home and is encouraging
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the creation of small-scale enterprises applying and selling advanced technologies related to data processing and communications.

In consequence of these various economic and technological developments, some important changes are taking place in the pattern of employment. Traditional, highly unionised sectors are losing ground in favour of others in which workers' organisations are less well established (e.g. certain parts of the service sector, sectors providing new technologies). At the same time, the levels of qualifications required are increasing in many branches of activity. Moreover, other trends in the labour market are becoming apparent which are partly a consequence of economic and technological changes but also arise from changes in attitudes, life-styles and values. These changes include the significant increase in many parts of the world in the proportion of women who are employed.

All these developments confront the workers' and employers' organisations with a number of challenges. To retain their past influence in society they will need to adjust their structure to the changing composition of the labour force (e.g. waning distinction between blue-collar and white-collar workers, increase of high-level technicians) and the economy. In particular, if trade unions are to offset falls in membership due to the declining levels of production and employment in certain sectors which used to be their strongholds and to increase their relative strength on the labour relations scene, they will have to improve their capacity to represent categories of workers whose rate of unionisation is still low, including women; high-level technicians and, more generally, highly skilled workers; workers in atypical employment relationships; workers in small “high-tech” enterprises; and home-based workers. Thus it will be essential for trade unions to offer the policies and services which will attract these categories of workers.

Equally, employers' organisations need to adapt their actions to the changing structure of economic activity and the trend towards a larger service sector. In this sector, and in the many small enterprises now applying or selling advanced technology, management faces a different set of problems from those of the past, because of the highly skilled labour normally employed. In an effort to meet these emerging needs, employers' organisations in both industrialised and developing countries are increasingly offering special training courses for managers of small enterprises, tailored to their specific requirements. This also encourages such enterprises to participate in the activities of such organisations of less immediate interest to them such as the application of international labour standards.

Thus both employers' and workers' organisations face a new set of challenges arising from the increasingly interdependent and complex nature of the world economy, and the pressing needs to adjust to the introduction of new technologies and to changes in the pattern of world production and trade. Although heightened by the current economic recession, the factors of change from which these challenges arise will persist, and continue to test the adaptability of employers' and workers' organisations. Their vitality of the latter will be crucial to prosperity and equity in the societies of the future.
New dimensions in labour relations

(c) The role of the State in labour relations

When the balance of power between employers and trade unions is fairly equal, the State tends to reduce its interventions in industrial relations and maintain a low profile. However, if there are tensions in the economy due to internal or external factors, the interests of the national community as a whole often demand action by the State. Since most countries of the world have found themselves in a particularly difficult economic situation over the past decade, the role of the State in labour relations has been under constant consideration in recent years.

In many developing countries state intervention in labour relations by measures having the force of law is not a new phenomenon. In some of these countries public authorities have tended in recent decades to place certain restrictions on the right to associate, the right to bargain collectively and the right to strike and to lock out, whenever they have considered that the exercise of these rights would seriously conflict with the progress of economic development and the need for political stability. In some other developing countries governments have felt compelled from time to time, because of the relative weakness of trade unions, to impose substantial wage increases for reasons of social justice. Thus, in a number of developing countries, unless there is a strong, independent trade union movement (which may come into conflict with government policies), trade unions tend to be closely associated with the State. On the other hand, in the industrialised market economy countries, state intervention by legally enforceable measures in collective bargaining, more particularly in wage bargaining, was virtually unknown prior to the economic recession of 1973-75. Such intervention is still systematically avoided in some of the countries concerned but has become common practice in many others. The conclusion to be drawn from this brief overview of the situation in both industrialised and developing countries is that the principles of freedom of association and of "free" collective bargaining as laid down in ILO Conventions Nos. 87 and 98 and as interpreted by the ILO supervisory bodies, are no longer fully observed in a growing number of member States. The discrepancy between some of the most basic principles of this Organisation and their actual implementation by member States is a matter of serious concern, and the question of how the ILO should react to this unhealthy state of affairs is one which has to be faced in the years to come.

Tripartite consensus (going beyond mere consultation) is preferable to state intervention in labour relations. Such consensus is the best way of identifying the most effective long-term solutions to difficult economic and social problems, because the solutions so determined tend to strike a reasonable balance between all interests involved (including the national interest) and therefore enjoy the support of those concerned. The increasing recognition at the present time of the merits of tripartite consensus is also related to the gravity of the problems of structural adjustment which many industrialised countries are facing and the problems of economic stabilisation being encountered by many developing
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countries, especially the major debtor countries. These problems are often so serious that the policy measures required tend to imply a significant risk of social disruption unless they are negotiated and accepted as equitable by all the parties involved.

Past experience shows that tripartite consensus is not always easily achieved. Admittedly, it has recently proved possible in several industrialised market economy countries to work out broad tripartite agreements dealing with a whole series of problems such as employment, remuneration, labour legislation, social security, labour market flexibility, taxation, foreign trade and public spending. However, similar attempts to that end have repeatedly failed in other countries of the same group, mainly because national agreements have been considered too costly and too rigid by employers, and also because budgetary constraints have prevented governments from offering employers and workers the benefits they desired in exchange for the commitments expected of them. In various African and Asian countries some tripartite bodies established many years ago have been convened only infrequently, and have failed to make a significant contribution to the solution of national economic and social problems. In Latin America the concept of consensus has lately attracted a good deal of interest, but achievements have so far been limited.

Despite the difficulties encountered by tripartite consensus — or indeed because of these difficulties — it seems clear that the ILO should be ready to devote considerable efforts to the promotion of this approach in the future because of its unique potential for the solution of many problems. However, in so doing, we shall need to bear in mind that tripartite consensus cannot by itself ensure economic recovery or generate large-scale increases in employment. Among these conditions it is clear firstly that strong and sufficiently centralised employers' and workers' organisations must exist. Secondly, the potential for success depends to a decisive extent on the way in which governments and employers' and workers' organisations conceive their role in society. The process will fail unless employers' organisations and trade unions are able to rise above adversarial bargaining concentrated on "bread-and-butter" issues of short-term interest, and instead co-operate in developing comprehensive and balanced solutions to economic and social problems. A third precondition is that governments should seek to involve the social partners in the design and implementation of broad policies to solve economic and social problems. If governments fail to take into account the contribution that employers and workers can make to the implementation of policies to solve national economic and social problems, and if they fail to involve the social partners in the design of such policies, the policies will tend to be poorly conceived or incapable of effective application.

In the current economic circumstances of prolonged recession tripartite consensus fails when governments, as the custodians of the long-term national interest, resist negotiated settlements which appear attractive, but are in fact prejudicial to the interests of consumers in the short term or to economic growth and employment in the long term. This is the case with measures liable to have a
significant inflationary effect, and with protectionist measures and others designed to protect jobs in a manner which impedes essential restructuring in industry. As was stressed in Chapter 2, protectionism may temporarily reduce the impact of foreign competition but is self-defeating in the long run in terms of employment, consumers' interests and inflation.

The roles of the parties in labour relations are different in the centrally planned economies. In several of these countries recent initiatives and declarations seem to indicate that in the interests of higher productivity the decentralisation process initiated as part of the economic reforms of the late 1960s and early 1970s will be pursued further. In particular, it is planned to grant greater autonomy to individual enterprises. If these plans materialise, public authorities, trade unions and managers of enterprises will need to make consequential adjustments with regard to their roles in the management of production and in labour relations.

(d) Labour relations at the enterprise level

In most countries in which a significant part of collective bargaining has traditionally been conducted at a higher level than the enterprise, labour relations at the enterprise level are now tending to assume increasing importance. This raises a problem of co-ordination between the various levels of bargaining. At the same time, enterprise labour relations are undergoing changes in some countries which, if they are carried far enough, will lead to a partial substitution of bargaining in the conventional sense by other forms of labour-management relations.

In Western Europe, although most collective bargaining still takes place at the level of the industry sector, negotiations at the level of the enterprise have recently tended to increase. The main reason for this is probably that several issues of structural adjustment, such as employment protection, higher productivity and the introduction of new technologies, arise at the level of the enterprise and can be solved most appropriately there — the more so because many employers believe that greater flexibility in the organisation of production is needed and this can only be achieved through an extension of enterprise bargaining. The decentralisation of the bargaining process may also have been facilitated by a certain weakening of workers' solidarity at national and industry-wide levels and by the readiness among workers for more autonomy at the level of the enterprise (and sometimes even at the shop-floor level) during the present period of economic strain. In consequence, many Western European countries are constantly faced with the need to devise a viable compromise, which may have to be revised over time, between the need to elaborate general guide-lines on major issues at the level of the economy as a whole and the need to arrive at sufficiently diversified solutions at the enterprise level to the issues which can only be properly settled at that level.

In North America, Japan and most developing countries of Asia, Latin America and English-speaking Africa, collective bargaining is conducted mainly—and sometimes exclusively—at the enterprise level. If, as suggested earlier, it
is judged desirable to develop tripartite consensus at the national level in some of these countries, problems of co-ordination between enterprise-level and national negotiations similar to those just mentioned in connection with Western Europe may arise. Again, similar problems could arise in the centrally planned economies if the announced intention to relax central planning procedures and practices and to increase enterprise autonomy is implemented. Clearly, then, this issue of the role of the bargaining process at different levels of decision-making is one to which the ILO will have to remain alert in the future.

Another important problem in labour relations at the enterprise level concerns workers’ participation and its relationship with collective bargaining. Institutional participation (i.e. through bodies such as works councils or supervisory or management bodies of companies) made considerable progress in the early 1970s in some countries in Western Europe, where it originated, but has not developed much further in this region since then. However, new forms of co-operation are emerging in enterprises in various industrialised market economy countries. Among other examples, participative personnel policies and quality circles may be mentioned, as well as several other informal, varied and flexible practices aimed at improving the organisation of work at the shop-floor level, particularly when new technologies are introduced. These new forms of co-operation often take place outside the traditional framework for workers’ participation, and in many instances the trade unions are not associated with them. An important consequence of these changes is that certain types of employer-employee relationship are more in the nature of individual than of collective labour relations. In other words, there is a tendency to replace labour relations (a basically bilateral process) by the management of human resources (a basically unilateral process). An issue the ILO has to face in the coming years is how far this tendency should be permitted to continue. In terms of worker protection it would seem desirable to ensure that labour relations at the enterprise level, even if they have to undergo many adjustments, should remain within the area of collective labour relations. After all, the main objective in the development of labour legislation and labour relations systems over many decades has been to do away with the nineteenth-century civil law fiction which held that the parties to an individual employment contract were equal in strength and had therefore to be left entirely to themselves when defining their mutual relations.

It might therefore be appropriate to take a close, critical look at the trends mentioned above, in which new forms of co-operation take place outside the traditional bodies for workers’ participation, and sometimes without the active association of the trade unions. The attempt to pursue certain objectives without the assistance of institutions, such as works councils, established to achieve them, may indicate that these institutions do not function as well as they should. Because of the important contribution which works councils and similar bodies can make to industrial peace in general, and to the solution of practical problems, it may be appropriate to explore the reasons and possible remedies for this. As far
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as the central issue of the role of trade unions in workers' participation is concerned, while it is generally recognised that the workers in participatory bodies should represent all the workers in the enterprise, whether unionised or not, the ILO has always felt that trade unions should be associated with workers' participation institutions and procedures. Their refusal to do so constitutes in many instances the main reason for the failure of workers' participation. Here again, it would be useful to examine why the trade unions have not been involved in several recent experiments in workers' participation, and to explore possible ways of associating them with such experiments in the future.

In a number of African and Asian developing countries various forms of workers' participation have generated some interest in recent years. However, in many instances the results have been far from satisfactory, even when the stage of practical implementation has been reached. One reason for this is probably the fewer resources available for workers' education and management training in developing countries. Another reason may be that workers' participation in much of the developing world is mainly advocated by governments and employers and is viewed by them as a means of achieving social peace and enhancing productivity rather than securing workers' protection. Participation is not therefore very attractive to the unions, especially when they have reason to fear that it could be used to undermine their position within the enterprise. However, other factors may also be at work. Because of the contribution that participatory bodies can make to efficient industrial development, I believe that the ILO has to seek remedies for the relative failure of workers' participation in Third World countries, and in planning its future activities to bear in mind the need to promote the effective functioning of workers' participation in a manner appropriate to these countries' national circumstances.

In centrally planned economies the prerogatives of the bodies representing the workers within the enterprise have recently been expanded. At the same time, new forms of collective work organisation, such as brigades, have been introduced with a view to increasing the influence of the workers on the way in which their daily work is performed. These developments have to be seen within the broader context of an attempt to relax central planning and increase the efficiency of the economy.

(e) Labour relations in the public service

Whether the rules governing labour relations in the public service should be different from, or similar to, those prevailing in the private sector has always been an issue of central importance. In consequence of the recent economic recession and of various restrictive measures taken by governments in their capacity as employers of the public service, this issue has become even more topical than before.

In the industrialised market economy countries practices in labour relations in the public service in the past ten or 15 years have become more similar to those in the private sector. At present, almost all categories of public employees enjoy the right to organise. Collective bargaining or other methods allowing
representatives of public employees to participate in the determination of their terms and conditions of employment exist practically everywhere. In a few countries a significant proportion of workers in the public service have the right to strike. Notwithstanding these developments, negotiations in the public service, because of the very nature of this sector, have been separate from those in the private sector.

In most industrialised market economy countries the public service was not seriously affected by the economic recession until the late 1970s, owing to the relative insensitivity of public administrations to market pressures and the strong tradition of employment security. However, as economic difficulties have increased the attitudes of many governments towards the public service have changed, sometimes dramatically. Because of the pressing need to reduce public expenditure to hold back inflation and to demonstrate the need to reduce costs and increase productivity, some governments have imposed particularly drastic measures in the public service. The objective of these measures has been to halt the upward movement of levels of wages, salaries and employment, and sometimes even to reduce them. As a result, there have been several major labour disputes in the public service, and in some countries more working days are lost through strikes or lock-outs in the public service than in the private sector. Some of these conflicts have involved serious hardships for the public.

In the light of these developments, it would be desirable for all the parties involved to agree on a clear and objective policy regarding the extent to which differences between labour relations procedures of the public service and the private sector are really warranted (even after taking account of the necessary distinctions between various categories of public employees). This issue may certainly be raised with respect to the right to organise, the right to bargain collectively and the right to resort to direct action (three items that have already been under consideration for several years). On the other hand, and less directly favourable to workers' interests, the question of whether or not differences in treatment are justified also arises in other areas such as security of employment, levels of remuneration and pay systems. Another related problem which deserves serious consideration concerns the desirability, in times of severe economic restraint, of establishing institutional links between negotiations in the public service and in the private sector, because public employees are more than ever in competition with the private sector regarding the distribution of increases in wage incomes. A further question to be examined concerns the bargaining structure in the public service. It is no longer clear that the widespread practice of dealing with the whole of the public service, or at least very large segments of it, as one bargaining unit is appropriate.

Much of what has been said here about the public service in the industrialised market economy countries also applies in developing countries. However, restrictions on the right of public employees to organise, to bargain collectively and to strike, as well as state intervention in the determination of their terms and conditions of employment, are more frequent in many
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developing countries. Moreover, the issue of labour relations in the public service in developing countries has several other important features, arising from the fact that it usually represents a larger part of the "regulated sector" than in industrialised countries. In consequence, it is even more desirable to do away with unnecessary differences of treatment between employees in the public service and in the private sector (the more so as these differences are often not observed in practice) in order to avoid situations in which discriminatory measures are applied to a relatively large proportion of the labour force.

The greater relative importance of the public service in developing countries also increases the need for institutional links between negotiations in the public service and in the private sector, the more so because resource scarcity is a more acute and more permanent problem in developing countries so that the equitable distribution of incomes between the public service and the private sector is therefore particularly difficult. A key consideration in determining the resources to be allocated to the public service is, of course, the need to improve its efficiency by appropriate arrangements for the determination of levels of pay, and for training to promote higher individual productivity. Another delicate question is the extent to which overstaffing in the public service is acceptable in order to reduce unemployment.
Today, the overwhelming majority of humanity depends on its productive work for the necessities and the amenities of life. Lacking or losing the opportunity or the ability to work, the individual alone would face destitution except for the solidarity of his fellow-men. In the processes of industrialisation and urbanisation, earlier forms of social solidarity to help those without a livelihood were progressively supplemented or replaced by more structured schemes of an insurance or benevolent character. In turn, these were developed into social security schemes, supplemented by additional benefits from public funds. Together these schemes now constitute a comprehensive safety net against misfortune, sickness, old age and unemployment in the industrialised countries. Indeed, the very comprehensive nature of social security coverage has prevented the economic recession in the industrialised market economies from giving rise to the same acute poverty and social unrest as marked the Great Depression of the 1930s, when unemployment was at similarly high levels. Nevertheless, social security now involves such a redistribution of national income in most industrialised countries, whether market or centrally planned economies, that the containment of its cost is a pressing concern, while questions are even raised in some market economy countries about the validity of this form of social solidarity.

In the developing countries, however, the situation is strikingly different. Although traditional forms of social solidarity and the extended family system survive to an appreciable degree, they are declining in importance. Only a fraction of the population of these countries is directly linked to the formal sector within the framework of which social security schemes have generally developed. And the very large proportion of the population living on the land faces different contingencies from those confronting industrial workers and has different needs. But above all, the considerably smaller resource base implies a vastly different set of constraints and opportunities calling for different solutions. Thus, the economic and social environment in industrialised and developing countries is so different as to warrant separate treatment.
The changing world of work

1. INCOMES SUPPORT AND SOCIAL PROGRAMMES
   IN INDUSTRIALISED COUNTRIES

The price of security

In this latter part of the twentieth century, following decades of gradual
progress, freedom from want has almost been achieved in industrial societies but
at a cost which must be constrained if this achievement is to be maintained and
extended. Social security systems now protect workers against unemployment,
ill health, injury at work and other possible disasters. In consequence, social
security involves a considerable redistribution of resources between the healthy
and the sick, the young and the aged, the employed and the unemployed. Such
solidarity between different groups in society and between generations is now
taken for granted, although it was hardly conceivable at the beginning of the
century. It provides the individual with a sense of security and is also essential to
the preservation of stability in modern industrial society.

Yet the extent of the total resource transfer, and the burden on the
productive part of the economy that it now represents, is causing deep concern,
especially in the market economy countries. Applying a narrow definition, the
share of GDP devoted to social security in OECD countries, which ranged from
3 to 12 per cent in 1960, has risen to 7-23 per cent in 1980. On a broader defini­
tion, social security now absorbs about one-third of GDP in these countries.
Similarly, in the centrally planned economies the share of Net Material Product
devoted to social security over the same period has risen from some 8-10 per cent
to 14-19 per cent.

Thus both in the industrialised market economies and in centrally planned
economies the share of social security in total output roughly doubled in 20
years, 1960-80. There were several basic reasons for this, apart from recent
increases in the total payments of unemployment benefits. One very important
factor was the maturation of retirement schemes as the number of retirements
each year caught up with the number of new contributors entering the labour
force. Another manifestation of the ageing of the population in most countries
was the longer period during which retirement benefits were paid as well as the
increased costs of health care of the elderly. Other significant factors were the
development of sophisticated and high-cost medical technology, the extension
of coverage and the improvement of the levels of various benefits.

These rising costs have serious consequences. Because of the repercussions
on total public spending, which subsidises the social security system in most
countries, public expenditure may require deficit financing. This drives up
interest rates, so reducing investment and restraining employment and incomes.
At the same time the increases in labour costs which result from higher social
security contributions diminish international competitiveness and may again
reduce employment, especially in labour-intensive economic activities. On the
other hand, some recent studies indicate that the increases in social spending
may not in fact be approaching intolerable levels as rapidly as was foreseen
earlier. Other research suggests no obvious positive association between low
rates of economic growth and high shares of social expenditure in GDP. However, these considerations carry little weight in comparison with the hard facts: public expenditure deficits can only be reduced by cutting spending plans, and this has the effect of reducing employment. This ultimately leads to increased payments of unemployment benefits, thus adding to the potential deficit in public spending. Restraining spending on social security will break this vicious circle and this is why the containment of hitherto uncontrolled cost increases is an immediate priority in many countries.

For over 30 years the rising cost of social security has been monitored at the international level by the ILO’s periodic inquiries. The facts are there, but the problem is whether the safety margin can be preserved for long, let alone widened, if costs continue to increase faster than GDP. More detailed, specific inquiries into the causes of cost increases would throw light on the problem, but the real challenge is to develop methods of containing costs within acceptable limits.

Old age

The ageing of the population in developed countries is placing a strain on retirement pension schemes which provide income replacement when working life comes to an end. It is on the younger, active generations that the burden of such income replacement falls, and, as people live longer, pensions are payable over longer periods. As the proportion of the elderly to the total population increases, the burden falls on an active population which becomes proportionately smaller. At the same time, the need to maintain the real value of retirement pensions and benefits calls for increased contributions by the younger generations in employment and tendencies towards rising costs are further aggravated by trends towards earlier retirement, in part as a remedy to unemployment. With longer life spans and the diminishing strains of physical labour, a predetermined end to working life is no longer generally desired or necessary. A flexible approach to the age of retirement could thus satisfy present-day social aspirations while alleviating growing strains on retirement schemes.

The choice between earnings-related pensions and uniform old-age cash benefits also presents a dilemma. Uniform benefits are egalitarian rights which may be superfluous for a few and insufficient for many. On the other hand, earnings-related pensions are more discriminating but often inadequate for those who have not contributed to the scheme for long enough. The dilemma is not, however, inescapable: it is conceivable to combine the two systems so as to provide a basic benefit to all, supplemented or replaced altogether by higher earnings-related benefits. How to do so raises complex, largely unexplored issues, the elucidation of which would be imperative to devise adequate workable models.

Health care

Access to health care is widely regarded as one of the major achievements in the development of social security in the industrialised countries of Western
Europe, especially since medical treatment is linked in a crucial and direct manner with personal welfare. However, the increase in demand for and supply of medical services, helped along by free access, has been accompanied by major cost escalation, and health care expenditure is now perhaps the one item of social protection costs which gives rise to most concern. This situation is due, in part, to positive developments such as greater longevity. The lengthening of the average life span means that the period of medical coverage is correspondingly longer, while the elderly tend to require more intensive and costly care than younger people. Recent advances in medical technology and the increasingly ample supply of medical personnel in many countries are encouraging the provision of more and more sophisticated care.

However, as the trend towards higher costs is not matched by corresponding rises in the general level of health, there is a strong suspicion that there may be considerable wastage of resources in health services. This calls for action in a number of directions which need further exploration. More cost-consciousness is required from both the medical profession and the public. In both cases better education can play an important role. In particular, it may be observed that the economic aspects of medical care tend at present to be neglected in medical education, which is primarily oriented towards clinical expertise rather than health economics. But more direct measures are also needed. In some countries cash limits on public expenditure on health, and particularly on hospitals, have been used to encourage the more rational and economical use of equipment and facilities. At the same time it is desirable that excessive demand, notably for drugs which are unnecessary or are not actually taken, should be curbed. The payment of a significant part of most medical costs by insured persons may also induce restraint, although welfare considerations imply that this share should be reduced or even eliminated in cases of long illness or especially high medical expenses. Taking account of the high total cost of minor medical treatment and prescriptions, such a system may lead to significant savings without any loss of effective protection.

Two other problems call for attention. For certain patients and illnesses, home nursing is preferable to hospital care because it is more comforting in emotional terms. But relatives and friends cannot always make the necessary arrangements for home nursing, especially if they are in full-time employment. Some compensation for relatives of patients who are willing and able to nurse on a voluntary basis would encourage this practice, which is more humane and also reduces hospital costs. The respective advantages of providing home nursing services or cash benefits to relatives to do the same thing deserve careful consideration.

The improved management of health care offers considerable scope for providing effective services to a large number of people while restraining mounting costs. Yet health care tends to be considered primarily from a medical or public health angle, without reference to factors which condition the general state of health but are beyond their scope. Given the potential of social security to provide wider access to health care, its economic, social and legislative
aspects are unduly neglected and would deserve a high priority in ILO activities.

Unemployment

Various additional benefits supplement basic unemployment insurance in the industrialised market economy countries, so as to prevent the worker and his family from falling into serious poverty. Income replacement for the temporarily unemployed remains an essential protection which is within the capacity of social security. Clearly, however, this cannot be regarded as the long-term solution to the basic problem of massive, continuing unemployment which places unbearable strains on schemes designed for different purposes. This problem should be tackled directly to prevent a significant segment of the active population from becoming unproductive and in need of assistance for prolonged periods, a situation to be avoided at all costs.

Thus, unemployment benefits are not the answer to the problems of mass unemployment. For most workers, unemployment is a condition which they would do anything to avoid, and unemployment benefits are regarded only as a temporary protection against serious poverty. However, they are viewed in some quarters as a disincentive to work. If unemployment benefits are high in relation to take-home pay, the pecuniary incentive to work is clearly marginal. And there are undoubtedly some abuses of benefits, such as technically unemployed persons engaging in clandestine work.

A reconsideration of the precise definition of the term “suitable employment”, in the absence of which unemployment benefits are payable, might give more flexibility to the labour market and provide a more visible incentive for work. Except that they help sustain effective demand, unemployment benefits are pure consumption and it would be tempting to replace them by payments for work producing some benefit for society. This may be feasible for some types of low-skilled activities if well conceived and useful, but skilled workers would not readily turn to such work, minimum wages tend to be higher than unemployment benefits, and public administrations often lack the expertise needed to devise such schemes. Moreover, they may involve investment costs as well as labour costs and may also reduce the number of new employment opportunities in the private sector.

In summary, social security legitimately and effectively provides protection for the temporarily unemployed and cushions the fluctuations of the labour market, but is at best a temporary palliative for basic employment problems, the cure for which must be sought elsewhere. Despite this fundamental limitation, social security funds could perhaps subsidise some activities and so relieve pressure on unproductive assistance, while existing standards on unemployment benefits are badly in need of revision in the light of the current situation.

Gaps in the safety net

Social security, coupled with various forms of supplementary benefits from public funds, provides the ultimate safety net against destitution. Although the
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overall burden of social protection is a cause for concern, there are nevertheless certain important gaps which merit consideration, the more so because those who cannot claim benefits are often those most in need. Possible gaps in protection are especially worrying because of recent increases in poverty, particularly in those countries where programmes of social aid have been reduced.

When social security benefits are based on earnings-related contributions, the individuals excluded are those unable to earn, such as the mentally or physically disabled or those who cannot get established in the labour market because of high unemployment rates, a tragic example being that of young people seeking their first job. This is also the case for casual workers, home workers and the many workers engaged in more or less clandestine or at least unrecognised activities in the submerged economy. Some people in this category present a special problem. Their activities are the result of the failure of the formal sector to provide employment, coupled with their own desire for an income free of tax, social security contributions and red tape, even at the price of no social protection. The dilemma to be pondered is how to bring about some form of essential protection without stifling the dynamism of the sector. This will call for a considerable effort of imagination and pragmatism.

The dilemma of protection in clandestine work is particularly acute in the case of the numerous migrants in this sector because their illegal status by definition invites exploitation and excludes protection. However, in the case of physical injury at work it seems unreasonable that such migrant workers should be left with no assistance whatsoever, and this is another gap in the present framework of social security.

But above all, it is women for whom social security protection is at present inadequate. The entry of women into the labour force has progressed steadily in consequence of economic pressures, a desire for independence and the rising expectations which only a second income can satisfy. To the extent that they are wage and salary earners they enjoy the same protection as men. However, because of childbirth and child rearing, many women leave the labour market permanently or temporarily, and re-entering employment may be very difficult. In consequence they frequently have lower aggregate earnings and hence lower benefits, and they may even lose certain entitlements acquired earlier. Consideration needs to be given to providing working women with an improved system of benefits.

Many other women, whether through choice or necessity, stay at home to care for their husbands, children and relatives. Although their work contributes to the welfare of the family, it is not included in GDP statistics, nor is the cost of providing substitute social services for that work. Having no earnings they do not qualify for social security benefits, except as dependants of a protected worker. Apart from the dependency status involved, such social security coverage has become less of an assurance as the marriage bond has become more fragile in recent years, and the number of one-parent families has increased. These serious and growing problems call for closer identification of the nature
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and extent of lacunae in social protection and an examination of successful replicable experience in filling them. And since targets for minimum social security coverage relate to the percentage of the workforce covered, women may still be left out. Guide-lines for the qualitative application of such targets need to be developed.

Financing social security

There are considerable variations in the scope and content of social security schemes in the industrialised countries, for both historical and philosophical reasons. In most countries several schemes complement each other and are supplemented by forms of social assistance. Thus, except for the gaps in coverage discussed earlier, the safety net of social security has come to cover most of the labour force and the worst risks of unemployment and ill health. Indeed some contingencies may be insured twice over. For example, early retirement pensions or invalidity pensions awarded in circumstances depending on a rather liberal interpretation of “invalidity” may relieve unemployment insurance at the expense of retirement and invalidity schemes. The desirability of covering all persons and all contingencies in a comprehensive global manner, using public funds to fill gaps in the existing coverage, has long been recognised. However, that goal has not yet been achieved and further efforts to reach it are necessary.

At present social security is usually financed by combining contributory schemes, which are usually occupational, with revenue from taxation. It would be simpler to obtain all the necessary funding from a single source such as taxation revenue. However, because of the desire of individuals for high after-tax incomes and the fact that the value of benefits and services tends to be underestimated, taxation is likely to meet with more resistance than contributory systems. A related issue is that within such schemes contributions may be at a flat rate or subject to a ceiling if wage-related. More revenue from contributions might be realised, especially for retirement benefits, if contributions were levied at a uniform rate or even at a series of progressive rates on total earnings.

Various suggestions for the financing of social security have been advanced, such as replacing contributions by an element of revenue from value-added tax or earmarking indirect taxes on products such as tobacco and alcohol. But it is doubtful whether any single source of tax revenue, if tax rates are to be contained within politically acceptable limits, would suffice to finance social security. Only a diversification of sources of revenue can solve the problem. Whether social protection is financed from contributions from employers and workers, from general state revenue or a combination of the two, in the end it amounts to a levy on production. Its collection and delivery, which might take alternative forms such as the provision of a basic income, negative income tax schemes or means-tested benefits, not only call for deeper analysis of alternative methods of financing and distribution but raise largely unexplored macro-economic issues.
If a bold approach to fundamental problems of financing social protection is to be taken, such issues must be faced squarely.

Administration of social security

Social security has come to play a considerable role in the daily life of most people and absorbs (and redistributes) a significant share of the wealth of the nation. However, the need for individual contributions is frequently resented, especially by young and healthy workers and others whose share of the benefits is relatively small. While the education of the public would facilitate a better understanding of the principles underlying social security and its modes of operation, its image owes much to its administrative complexity and red tape. In many countries this stems from the progressive growth of originally unrelated schemes leading to a maze of regulations and separate authorities. More efforts therefore need to be directed towards avoiding the waste and inequity which may result from a diversity of social security schemes. In their administration more direct human contact is needed, bearing in mind that some of the poorest people are unwilling or unable to claim the benefits to which they are entitled, sometimes simply because of aversion to red tape. Reform is imperative, and the past experience of the ILO in advising governments on the humanisation of social security administration is likely to remain relevant in the future.

Harmonisation and co-ordination

The harmonisation and co-ordination of national arrangements for social security through multilateral or bilateral arrangements are important, especially when workers and their families and other beneficiaries of social security move from one country to another. Such harmonisation promotes a more homogeneous social continuum which limits unfair competition based on lower social protection and is thus beneficial both to social advancement and to the international economy. This is a field for international action par excellence.

2. THE WAY FORWARD IN DEVELOPING COUNTRIES

Generalisations are always perilous, but especially so with respect to developing countries, given the diversity of cultural traditions and political structures and the uneven degree of development between and within these countries. Nevertheless, a common feature is that in most of these countries a significant proportion of the population barely achieves subsistence level and is therefore all the more vulnerable to the hazards of life. The need for social protection is thus even greater, yet except in the long run, the chosen instrument of social protection in developed countries, social security, can only meet that need in limited measure. As long as incomes remain at very low levels, the contributory capacity necessary for the self-financing of social security schemes will be lacking. At the same time, demographic growth remains significant in most developing countries, and even explosive in some of them. While increases
The future of social protection

in the proportion of people of working age in the population are potentially favourable for the improvement of social protection, of which they bear the major burden, sheer numbers in conjunction with unemployment and low levels of income make the problem of providing protection on a wide scale particularly intractable.

Moreover, social security schemes cannot create for redistribution wealth that does not exist. It is the very base for redistribution which is lacking and must be created through an improved primary distribution of income. This in turn depends on increased productivity of the poor, which implies their access to productive assets and the capacity to exploit them, or, in other words, the kind of development outlined in the discussion of unemployment and poverty earlier in this Report.

Such social security schemes as exist in the developing world — and several are very large, especially in Latin America — have evolved slowly from small beginnings. Many such schemes were often first started for the benefit of colonial personnel, and were later extended to limited groups of the population at the time of independence. Other schemes were directly patterned on models from the former metropolitan countries. Later the Beveridge Report (and ILO instruments) promoted the concept of social security in a manner relevant to all societies, although as an aspiration rather than as a programme capable of immediate implementation.

Social security schemes in developing countries generally apply to wage earners in stable jobs in an industrial-urban setting. Other categories of workers — and especially the overwhelming majority of the working population, who live in rural areas — remain uncovered. Thus, the gap between the relatively well-off and the poor may well be increased rather than diminished by such schemes. Many schemes inherited from colonial regimes benefit those who occupy a commanding position in the power structure, including the military and the civil service and the prosperous and better educated in other walks of life. Some assistance schemes, such as family benefits, are patterned on schemes in the developed countries devised for totally different demographic situations. Moreover, where social protection schemes are financed by state revenue derived from indirect taxes, which is sometimes the case, part of the cost of benefits paid to the already better off bears more heavily on the poorest.

Objectives of social security schemes in developing countries

While development is the essential foundation for effective social protection and the precondition for the development of comprehensive social security schemes, social insurance and social assistance schemes, however inadequate they may be in developing countries, nevertheless provide a starting-point for the progressive improvement of protection of people facing economic adversity or ill health. Their imperfections are the inevitable reflection of the shape of society, the aspirations and influence of social groups and also of the more immediate needs, which such schemes cannot by themselves significantly modify. Indeed, the development of comprehensive social security
The changing world of work

schemes in industrial countries had similarly limited beginnings which matured over a century into comprehensive coverage of populations and contingencies.

On this sober, realistic view, the task of the ILO, in addition to the essential pursuit of development, would be the parallel promotion of the development of social protection schemes in a pragmatic, diversified way, tailored to the possibilities and opportunities of individual countries. Even if no universal recipe can be advanced, the ultimate aim should always be wider, more effective coverage of segments of populations and contingencies. The challenge is to associate the promotion of socio-economic development in the broadest sense with the development of social protection, with the double objective of taking advantage of higher productivity and levels of living to secure better coverage while resorting to social assistance to fill the gaps resulting from the often uneven progress achieved in development.

In this connection choices have to be made between extending coverage in several possible directions, with different short- and long-term benefits. Health insurance or maternity benefits provide immediate and welcome relief. On the other hand, retirement schemes take a generation to produce results, although the social protection of the elderly is highly desirable in any society. Provident funds, which are especially common in Asia, provide less satisfactory protection, but the lure of a large lump sum hampers their transformation into retirement schemes. Family allowances, often launched under colonial regimes, are not especially effective but provide benefits often distributed widely within families.

The choice of priorities in the development of social security is obviously a decision to be made at the country level according to the economic, social and political context. However, comprehensive schemes or unemployment benefit schemes must necessarily remain distant objectives, unattainable until the process of development eventually leads to the necessary contributory capacity, level of education and administration infrastructure. In contrast, protection against employment injuries is comparatively easy to achieve for industrial workers through compulsory employers' liability or insurance systems, while the provision of health care can yield considerable and immediate benefits.

In the latter area, the provision of free preventive as well as curative services appears a better response to the needs of developing countries than cash benefits or reimbursements, not only because of lower cost and administrative simplicity but also because better health requires a number of associated educational measures in hygiene or nutrition which community services can best provide.

Social security and health care

Great strides have already been made in the provision of medical care through social security, which encourages the effective and economical use of scarce medical resources where they are most needed. The primary health care approach, concentrating on hygiene, preventive medicine and simple treatment,
is particularly well attuned to the needs of developing countries, to which the WHO and UNICEF gave a definite form at the International Conference on Primary Health Care (Alma-Ata, 1978). This approach also constitutes the best channel to reach workers and their families in the urban informal sector who are not generally protected by social security schemes. Thus one of the more pressing needs of an important sector of the population can be met. This calls for action by the WHO and UNICEF, but the ILO could provide expanded support in respect of the organisation of health care services under social security and the financing of such services.

Both social security institutions and ministries of health have important roles to play in medical care. The latter clearly have overall responsibility for the planning of health policy, for its organisation and for the setting of standards. However, as regards the delivery of medical care, it is unlikely that the meagre resources of health ministries in developing countries, which derive only from taxation, will be increased so much in the near future as to enable them to provide medical care on a wider scale. On the other hand, social security institutions tend to have more funds available and possess the appropriate organisational infrastructure for the provision of medical care. It is sometimes contended that since health care should be available to all as of right, its provision to limited groups by social security institutions is undesirable. However, publicly financed comprehensive health care schemes are far in the future in most developing countries, whereas care provided by social security institutions is immediately useful and relieves the state budget of a potentially very heavy burden. Health ministries and social security institutions thus play complementary roles. With proper co-ordination, admittedly not easy to achieve, they can overcome some of the inevitable drawbacks of a plurality of institutions each of which fulfils an essential function.

Improving the social protection of unprotected workers

Most of the peoples of the developing countries are dependent on farming to produce food for their own consumption or for sale. While earnings are generally lower than in industry or services, wage earners on large agricultural estates or in plantations are in an employment relationship similar to that of workers in industry. Since they face similar contingencies, the urban forms of social security coverage can be progressively extended to them, with suitable adaptations.

The situation is totally different for subsistence farmers and rural artisans and their families. Smallholders, tenant farmers and sharecroppers are basically self-employed and therefore face a different set of risks: save in case of eviction, unemployment is not a hazard; nor is old age, since a farmer can continue to manage his farm even if other family members take over the tasks of physical labour. On the other hand, his income in cash or in kind is threatened by crop failures and is highly dependent on the pricing and distribution systems for agricultural products. Illness has varying effects on income depending on whether it strikes at planting or harvesting times or in idle periods and whether or not another member of the family can take over.
The changing world of work

Thus, contributory capacity as well as benefits are difficult to reckon in cash terms and that capacity is in any event very low. To this must be added the difficulty of providing services to scattered populations far from city centres or even smaller towns and villages, the lack of administrative infrastructure and low levels of education. All these factors combine to make social security schemes inappropriate for self-employed farmers and their families, let alone for landless agricultural workers, in most developing countries. Indeed, in the industrialised countries, the self-employed in agriculture were the last to whom the safety net was extended.

In the rural areas of many countries the provision of health care seems to be more promising than other forms of protection while meeting one of the most pressing needs. And this is where primary health care can make its most valuable contribution at the least cost, reaching out to isolated groups, through mobile services, rural dispensaries and the widespread use of paramedical personnel under medical supervision.

At the same time, protection of the means of livelihood of the self-employed farmer would be of powerful assistance in providing both direct and indirect protection against the contingencies covered by more classical forms of social security protection. Crop and livestock insurance has been tried in various parts of the world, including some developing countries, with some encouraging results. Appropriate agricultural credit would also provide significant help.

Indeed, measures to support productivity increases and the improvement of the incomes of socially unprotected workers are likely to be the most immediate and effective way of affording protection to these workers. Thus, credit for productive self-employment as an alternative to formal assistance or protection schemes, perhaps coupled with supportive fiscal measures, would also help in the urban informal sector. Whether or not these fall within the scope of social security as ordinarily conceived, they are alternative means of achieving the same ends.

This is, of course, largely uncharted territory. But traditional solutions are largely inapplicable to major segments of the population of developing countries whose conditions are strikingly dissimilar to the more familiar conditions of urban industrial workers. And the very absence of an obvious answer to their needs is a challenge to constructive thinking and imagination which should prompt the Organisation to break new ground in search of the means to achieve its fundamental purpose here as elsewhere.

Owing to low agricultural incomes and contributory capacity, the problem of financing social services and social security for rural areas cannot be solved without state intervention to effect a shift in resource use from the industrial and service sectors to the agricultural sector. This is a matter to which the ILO might usefully devote more attention in the future.

More generally, the financing of the further expansion of social security in developing countries is a daunting problem which can only be solved in the course of economic development. Existing systems based on the concept of social insurance for wage earners are difficult to adapt for hitherto unprotected
groups, such as artisans and tradesmen, the self-employed and rural workers. Schemes covering such occupations cannot easily be designed to be financially self-supporting in the same way as schemes for wage and salary earners, without imposing relatively high contributions. Thus, to meet the welfare needs of unprotected workers, especially those in the urban informal sector, the application of measures to assist productivity growth and thus generate higher incomes, as detailed in Chapter 2, may be a more efficient way of extending social protection in the long term than the provision of benefits.

Financial and administrative management

Although the needs to be met are much greater than the resources available, social security institutions handle vast sums of money. These sums may amount to 2 to 4 per cent of GDP, much larger than the budgets of the "social" ministries. The management of social security schemes thus involves a volume of resources which is economically and perhaps even politically significant. Sound financial management is therefore vital for the stability and further expansion of such schemes. It calls for increasingly complex technical and financial support, although social security administrators often lack the necessary technical training and experience. The ILO can, of course, make its own experience available for the solution of such problems. On the other hand, it would be even more desirable to provide direct training for administrators (and also for workers’ and employers’ representatives on the governing bodies of social security institutions) so that such institutions can run their own affairs in an independent and efficient manner.

Finally, the lack of administrative infrastructure combined with low levels of education makes the administration of social protection schemes in developing countries particularly difficult. Decentralisation and simplification are essential. Efforts under way to this end need to be greatly expanded. The decentralisation of administrative practices and authority enables scattered, isolated populations to be reached, and a great diversity of personal problems solved, by direct personal contacts, in a manner that overcomes the difficulties caused by illiteracy. It can also bring about a sense of participation and understanding where it relies on existing institutions such as co-operatives, municipal administrations and community leaders. Clearly, this is an area in which the ILO can be of significant assistance to the development of social security in developing countries, by analysing and disseminating information about successful experiences and by direct training in the management of social security schemes.
Throughout its history, the ILO has, it is generally agreed, succeeded in adapting its activities to the changing world of labour. This process of change is gathering momentum and our Organisation is confronted with countless issues, from which it must not turn away.

I have attempted, in this Report, to outline the world labour situation and its probable evolution over the next ten years, taking into account demographic trends and technological change. What emerges is that unemployment, which has already hit the industrialised countries hard, will remain high. In the developing countries, the problem is not so much unemployment in the strict sense of the term but underemployment and poverty, both of which will continue to reign for a long time unless the international community sets out to remedy the situation and check the trends threatening to engulf us in yet more unemployment and more poverty. The findings of this Report are unequivocal: the only way out of the situation, both for the rich and for the poor countries, is to step up development. The issue at stake is not only employment but also development, by which I mean all those economic and social factors, all those issues of national policy and international co-operation which must be harnessed to obtain adequate growth rates and economic progress.

The next ten years will be characterised by far-reaching changes in social values, relations between individuals, the organisation of labour and its scope. Although the population is increasing less rapidly in the developing countries, the fact remains that the jobseekers of the year 2000 have already been born. The rise in the percentage of young people in the Third World will coincide with an ageing of the population in the more developed countries. Technological change is altering production processes and deeply affecting the labour market. In the wake of an unparalleled period of growth up to the beginning of the 1970s, the world economy tottered under the impact of the recession and changes in the currency system. Last but not least, although poverty is as old as the world itself, the international community has just woken up to its full implications. The collective conscience is becoming increasingly concerned; not a day goes by but the media overwhelm us with a distressing account of the havoc wreaked by
hunger, sickness and poverty. We are all aware in one way or another that poverty is a threat to the stability of society, social peace and peace itself.

The founders of the ILO also felt this when they declared in 1919 that “lasting peace can be established only if it is based upon social justice” and stated in Philadelphia in 1944 that “poverty anywhere constitutes a danger to prosperity everywhere”.

This conviction has never failed to inspire the action of our Organisation. Arising from the ashes of a world conflict, the ILO has played its part in attempting to improve the lot of those workers who, in its early days, made up the bulk of the working class in the industrialised countries. More than 60 years have gone by; today, the ILO’s role is universal. The working world to which it is now committed not only embraces the industrial sector but also, although to a lesser extent, the rural and services sector. It must also come to the aid of the unemployed and of those without any occupation, the disadvantaged groups and the workers who make up the so-called informal sector and, by extension, all those innumerable people beyond the reach of protective legislation.

In submitting this Report to the Conference, I felt the time was ripe for all the member States to examine jointly the problems affecting the world of labour. I am hoping that this consultation will provide the Office with views on a number of issues with which our Organisation will be confronted in the future and which, in two years’ time, will form the basis of the Medium-term Plan for the period 1990-95.

The issues raised in this Report centre primarily on unemployment and poverty, the two scourges of our age, which threaten social stability and peace throughout the world. The figures speak volumes: they show that the world population and labour force are steadily on the increase; they show that over 1,000 million men and women live in a more or less pronounced state of deprivation and poverty; they show that, in the industrialised countries, unemployment rates are not likely to drop tomorrow although, in the same countries, there is a shortage of manpower in the sectors in which new technologies are being developed. Finally, they show that unemployment is becoming a long-term fixture and that, in many respects, this is the most serious problem of all. These trends clearly do not augur well for the achievement of full employment, in the strict sense of the term, by the year 2000, as intended by international development strategy. Yet, before that dawn of a new century is reached, looked on with hope by some and fear by others, the international community must have found ways of meeting peoples’ basic needs by giving them access to sources of income, food, education, housing, health and hygiene.

This enormous task engages the responsibility of all countries, and especially the big Powers, wherever they are situated on the world map. It also commits the international organisations. It presupposes that not only the industrialised countries but also the developing countries must attain considerably higher and sustained growth rates. It requires urgent solutions to the debt problem, an increase in monetary flows from the rich to the poor
countries, the dismantling of protectionist barriers, and policies to promote growth which are strictly applied and geared exclusively to the public welfare. It is at this price, but only at this price, that the world can emerge from the stagnation of the past few years. In the collective effort we are called upon to make, the ILO must carefully select its targets and establish its priorities.

In the Third World we must give our attention to the hundreds of millions of people living and working outside the formal and regulated sector of society. According to the approximate estimates given in this Report, more than three-quarters of the active population in the Third World neither have an adequately paid job nor enjoy a minimum of social protection. This leads us to the question of whether the solution lies in integrating these workers into the formal sector. This step might be neither feasible nor realistic. Indeed, work in what is known as the informal urban sector undoubtedly relieves unemployment and poverty and its positive contribution should not be taken lightly. We must take care not to smother it with regulations. It would be more pertinent to look for other ways to protect workers in this sector against exploitation, whilst helping them to set up small enterprises and co-operatives and providing them with training opportunities. A stringent development policy is vital in the rural sector and training is the corner-stone of its success.

These workers, irrespective of whether they are in the rural or urban sector, are employees or self-employed, must also be helped to overcome their difficulties more efficiently and to organise themselves to defend their interests, failing which they will remain vulnerable. Workers’ and employers’ associations should strive to meet the needs of certain groups in the informal sector more effectively, by adjusting their objectives and structures accordingly. Should these methods fail, because they do not match the particular characteristics of various categories of workers, an attempt should be made to find other forms of organisation and protection. This is where the ILO could make an important contribution by conducting a programme of research and practical activities in the field.

In the industrialised countries, in the newly industrialised countries (NICs) and in the developing countries, restructuration measures must be stepped up; indeed, these countries are, as a result of the considerable constraints put upon them, already involved in this process, some because of the fast pace of technological change and others because of the adjustment policies they have had to adopt under the burden of their debt. The changes taking place are spectacular, albeit sometimes fraught with tension. The discussions surrounding them are no less impassioned, especially those on the regulation of the labour market and on what is termed “flexibility”. Many problems are bound up with wage levels and manpower costs, productivity, mobility of labour, the organisation of labour and working time.

Furthermore, it is vital that there should be a correlation between education, training and employment to help adapt manpower to the labour situation. Although discussions on all these issues might be lively, no consensus has yet been reached. We must face the evidence that more questions are asked than
replies given. In view of its mandate, its experience and wealth of knowledge on the practices of its member States, the ILO should set out to have a better grasp of these issues and help the governments and social partners to strike the right balance between the need for regulations to protect workers and the "flexibility" vital for the economic viability of enterprises. By taking an active part in these deliberations and submitting proposals, the ILO would consolidate the action of the social partners, an idea put forward by a very large majority of the members of the Conference in June 1985, when discussing my Report on industrial relations.

Although the present crisis and the need for development constitute a major challenge to governments, this challenge also extends to the social partners. States, employers and workers must not merely cope with the crisis; they must overcome it. Macro-economic policies need to be accompanied by micro-economic decisions, to which the social partners are committed. To ensure this, freedom of association must not be disputed and initiative must be encouraged. We need to view the enterprise of tomorrow with fresh eyes as it will undeniably be different in form, on account not only of structural adjustments and technological progress but also of new attitudes towards work and new methods of participation. In short, it is vital to develop a network of modern enterprises, capable of producing more at less cost, within flexible systems of labour relations. At the same time, labour relations in the public sector will increasingly engage the ILO's attention, because of this sector's specific nature, its employment potential and its strong links with the rest of the economy.

Finally, a whole chapter of this Report is devoted to social protection. The need for solidarity is universally recognised; the problem arises when attempting to implement it effectively. In the industrialised countries the need for protection against the dangers inherent in unemployment, sickness, accidents or old age is now taken for granted. In the Third World countries, however, the financial means needed to enable the populations in these countries gradually to attain social security schemes similar to those in the industrialised countries are lacking. The future of social security schemes in the developing countries — of which some, admittedly, already offer considerable coverage — is inextricably bound up with the pace of development. Meanwhile, other ways must be devised and implemented to meet at least the most urgent needs of those populations who often have nothing.

Social security expenditure is a burning issue everywhere. In the industrialised countries costs have risen sharply as a result of growing unemployment, the increase in medical costs and the ageing of the population. The ILO is already involved in this vast field; in the years ahead, it will be called upon to step up its action. The present Report contains the outline of the problems and possible solutions.

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The ideas put forward in this Report and the conclusions drawn will call for an overhauling of the Organisation’s programmes and activities in the years to come. Bearing in mind the views expressed by the delegates at the Conference, I shall attempt to put forward concrete proposals on the Organisation’s priority activities in the Medium-term Plan for the period 1990-95, to be submitted to the Governing Body and then to the Conference in 1988.

My aim, at the present juncture, is merely to demonstrate the extent of the issues with which our Organisation is confronted. Will a world which is haunted by the fear of a nuclear holocaust and yet which continues to spend vast sums of money on arms ever understand that unemployment and poverty constitute just as great a threat to humanity?

The struggle against poverty is a struggle for stability and peace in the world. This is the cause to which both States and peoples should devote their energies and resources. Not one of us here, at the International Labour Conference, can remain indifferent to the fate of those without work and without basic means. Admittedly, the picture painted in this Report could make us lose heart. Yet, such discouragement would be fatal as it would run counter to the demands of justice and progress and deny the boundless potential of a world united in the common pursuit of development.

As with disarmament, development calls for a political commitment on the part of all nations, from the North, South, East and West. This commitment must take the form of action, agreements and a common endeavour, in which the International Labour Organisation must play a greater role than ever before.