Growth, employment and social protection: A strategy for balanced growth in a global market economy

A discussion paper for the
Informal Ministerial Meeting of Ministers of Labour and Social Affairs
during the International Labour Conference, Geneva, 12 June 2007

International Labour Office
May 2007

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Objective and context

This paper outlines an agenda for economic growth, employment and social policy in a global setting. It promotes a concept of balanced and inclusive growth that provides a maximum number of individuals and groups with fair opportunities and decent work, which includes at least basic social protection. The paper argues that growth is not sustainable when it is not balanced; that means growth is bound to have limits when the economic gains are not distributed fairly between individuals and groups within countries and between the countries of the world.

Inequality breeds discontent and discontent breeds national and international instability. Economic growth is not sustainable in instable societies and instable international relations. Global economic integration will only survive and progress if it develops a social dimension that translates economic gains into improvements in people's lives, thereby generating widespread public acceptance of the process. People need to be confident that – even in an economy dominated by global players – their societies and governments can still provide an adequate level of economic, employment and social security.

This paper is a discussion paper not a policy statement. It is designed to trigger debate by drawing out some of the key – and sometimes controversial – issues involved in achieving a balanced strategy for growth in the context of a global market economy.

The key message is that a combination of:

- mutually reinforcing employment policies and social protection policies;
- embedded in a governance and social dialogue framework that unlocks rather than limits the growth potential of market economies;

is needed to invest in the long-term social stability that is a prerequisite for all social and economic development in the global society. The ideas behind this concept have recently attracted increasing global support.

At the first Asia-Europe meeting (ASEM) of Labour and Employment Ministers in September 2006, Ministers agreed that "*…economic, employment and social polices are mutually reinforcing and should be coherent…*" (First ASEM Labour and Employment Ministers Conference, Chairman's conclusions, 2006). The principle of a balanced approach to growth were also, for example, endorsed by the recent Meeting of the G8 Labour Ministers who stressed in their conclusions that *"…in view…[of] the impacts of globalization and demographic change, we reinforce our commitment to promoting employment through well-designed labour market policies and social protection by ensuring a balanced combination of flexibility and security" and "we…consider the strengthening and broadening of social protection one of the most important tasks in the context of globalization processes"*(G8 Labour Ministers Meeting, 2007). These conclusions echo the ambitious targets for 2015 that the 11th African Regional Meeting had set for the African continent just two weeks earlier. These targets require, inter alia, the creation of decent work opportunities and investments in basic social protection systems as a means of poverty reduction and economic and social development (ILO, 2007a).

The positive potential of globalization in terms of higher growth, higher levels of employment and higher standards of living, triggered by rapid technology transfers, a fast pace of investment and global access to information, as well as an enhanced fiscal space for social protection, will only materialize in politically and socially stable societies.

Economic growth and the gains from internationalization have left some countries and some groups of the population behind. Globalization has stimulated major changes in working lives, and provoked widespread fears in some countries that it results in employment losses and the degradation of working conditions for a significant number of people. This has aroused public discontent in certain developed and developing countries.

Public perceptions do not always mirror the actual situation correctly. Many factors, and not just globalization, influence the process of job creation and destruction. Nevertheless, evidence is strong that many developing countries either remain on the margins of the global market or have failed to find ways to ensure the spreading of the benefits that international economic integration can bring.

The global labour market is still characterized by a large degree of un-/underemployment and the opening up to international markets has not generated enough formal sector jobs. Instead, productive resources have often remained underutilized and GDP and employment growth seem to have become disconnected in some parts of the world.

Notable differences in labour market performance between countries have triggered an intensive debate in recent decades on the potential detrimental effect of extensive social protection schemes on the economy and labour markets (the *welfare state debate*). Closer analysis reveals a first set of explanations as to why some countries have been successful in labour market reform and in mastering the adaptation processes, and why others have not. Combining sound macro-economic policy with labour market and social policies which, through social dialogue, trigger both flexibility and security appears to be a cornerstone of success.

However, the ageing of the workforce will expose welfare state arrangements in industrialized countries to expenditure pressures, and governments in developing countries are concerned that the introduction of such arrangements will hamper the competitive position of their economies. Labour and social standards are consequently coming under pressure in the former, and basic social protection is not advanced in the latter. Labour market segmentation has occurred in both industrialized and developing countries, creating or exacerbating a situation in which workers in the informal or low-income sector, or in flexible forms of employment, are exposed to increasingly insecure labour and social conditions.

This paper makes the case that adjustment strategies that resort exclusively to low labour standards and poor social protection are not able to bring about economic and social progress. It is a clear message of research and global experience that economic development goes hand-in-hand with a stepwise raising of standards, a fair distribution of income and wealth and social inclusion. Instead of following a “low road approach” of reducing labour costs by reducing wages, investment in human resources and labour and social protection, a “high road” approach to decent work would appear to be more promising. Improving labour and social standards and better economic performance are complementary.

Social transfers are effective in their prime aim – reducing the numbers of the poor – and are thus crucial in building societal stability, which is in turn a prerequisite for all long-term investment. There is no automatic trade-off between equity and efficiency when it comes to social protection and economic performance, provided that social transfer systems are well designed and managed.[1] Recent OECD research has shown that active labour market policies reduce the impact of external shocks on unemployment in both the short and the long term. Flexicurity strategies have revealed that social protection, when combined with labour market policies that invest in people and economic performance, can be reconciled with good economic performance. Proactive social security benefits, which avoid the negative incentive effects and long-term costs of reactive social security, can foster sustainable economic growth by investing in the productive capacities of people and by facilitating necessary labour market adjustments. Recent literature has consequently pointed to a positive economic impact of social protection.

Private enterprises and public governance are also complementary. To be successful, market economies require a good and reliable governance structure. Some basic rules for good governance are thus critical for economic and social success:

1. governments must be capable of action to enforce legislation, provide services of common interest, collect taxes and contributions and safeguard the social inclusion of vulnerable groups;

2. they have to be accountable, decision-making procedures need to be transparent and checks and balances have to be in place;

3. policies must be predictable and consistent so as to generate trust and the conditions for productive investment; and

4. there must be social dialogue to manage conflicts of interests: social dialogue has been a cornerstone of economic success in a number of European countries.

There is obviously no single social model. Countries are free to choose their own paths. However, some elements of balanced national growth strategies seem to be sufficiently universal:

- *Investing in human capital,* inter alia through social transfers and labour market policies that facilitate education and life–long learning;
- *Introducing institutional arrangements* on the labour market that reduce inefficiencies and the under-utilization of productive resources on labour markets through active labour market policies and in-work benefits for low-paid workers;
- *Securing labour market transitions and flexicurity*, through income and employability protection that facilitate rapid labour market integration for those adversely affected by structural change;
- *Activating groups that do not at present participate* through the provision of opportunities for skill acquisition and economic advancement;
- *Providing income transfers* for those who are unable to participate on a permanent basis;

[1] A recent ILO/WTO study (2007) arrives at a careful conclusion in this context "...there are indications that the trade-off between equity and efficiency need not to be steep and that win-win strategies exist where policies that are good for equity are also good for growth" (p. 85). Cichon and Scholz (2006) conclude on the basis of a econometric analysis that "there is virtually no direct relationship between per capita GDP or the rate of growth and the level of social expenditure. Ireland and Luxembourg, for example, have similar long-term growth rates, while the average social expenditure ratio in Ireland is 4 percentage points lower than in Luxembourg."(p.11), and they conclude that "high social expenditure and top economic performance can co-exist".(p.15).

- *Promoting good governance and social dialogue aimed at finding each country's individual strategy for mutually reinforcing growth, employment and social protection*.

These are the elements of a balanced strategy aimed at economic growth, full and productive employment and universal social protection, or in other words at achieving all the dimensions of the ILO's Decent Work Agenda. Finding a balance between labour market and social protection policies through good governance and social dialogue ensures that labour market and life risks, the burden of adjustment, as well as the proceeds of growth and development are shared fairly between individuals, workers, employers and the state. Only the fair sharing of risks and rewards ensures the long-term national and international stability that is a prerequisite for development. The strategy applies to both industrialized and developing countries. It aims to provide greater levels of security, confidence and dignity and to improve the welfare of all people in a changing world.

Structure

The structure of this paper is as follows. The first section covers global economic trends and the perceived and observed effects of globalization. Section 2 then deals with labour market developments, putting forward the argument that combinations of activating labour market policies and measures that offer workers security in transitional stages of their careers are crucial factors for success. Section 3 looks into working conditions in a competitive global economy[2] and argues that, to sustain competitive advantages, countries need to upgrade the skills and motivation of their labour force. Social protection is the subject of section 4. The main point is that there is not a necessary trade-off between social protection and sound economic performance, and that social protection is instead a precondition for social and economic development. Section 5 addresses issues related to governance. Markets fail when certain basic conditions of governance are not met, and social institutions, which allow for social dialogue, are among these conditions. Section 6 concludes by drawing together some essential points as a basis for an agenda for socially balanced economic growth.

[2] Friedman (2006).

1. Growth, globalization and real and perceived global imbalances

Between 1980 and 2005, world GDP increased at an average annual rate of 3.5 per cent. In some countries, growth rates were much higher than in others. In the EU15, for example, annual growth rates averaged 2.2 per cent during this period, and average GDP growth in the United States was 3.1 per cent. Some emerging economies achieved impressive growth rates – even when account is taken of their sometimes rapid population growth. GDP per capita growth in India, for example, averaged 3.4 per cent over the period 1990-2004. Over the past one-and-a-half decades, the People's Republic of China has even seen an average GDP per capita growth rate of 8.6 per cent.[3] On the other hand, there has been a wide divergence of GDP growth rates (per capita) over the same period, and large parts of the world have performed far less well than the ones listed above.[4]

International trade and capital flows have intensified over recent decades. Trade as a percentage of global GDP increased from 28 per cent at the beginning of the 1970s to 58 per cent at the end of the 1990s. Between 1985 and 2002, world GDP increased 2.5 times – the inflows of portfolio investment increased 5.3 times and the inflow of FDI by 10.9 fold.[5] Countries that have opened their borders to flows of commodities, services and financial resources have experienced higher growth rates than the ones that have not. This has been a topic of intense research over the last decade,[6] and the statistical evidence seems to indicate that there is a positive correlation between economic growth and international trade.

In countries that have participated in the globalization process, this has given rise to a rapid rate of social and economic change. While the potential benefits of these changes are large, not everyone has benefited, and this has generated social tension. Public discontent with globalization has been intense, with mass demonstrations and even fights in the streets of Seattle, Prague and Milan as the sad landmarks. In European countries, anti-internationalization sentiments have been voiced in elections in various countries. There is accordingly increasing awareness of the need for decisive political action to shape a fair globalization that offers opportunities for all. People in many countries, and most prominently in "old industrialized countries", have sensed or even experienced that their employment and social security, and with it their general confidence in the future, is being challenged. Shops have been closed down, jobs have disappeared and real wages have stagnated. Internationalization has been an obvious target for this discontent, as no great effort has been made to defend it against these accusations. Decision-makers in a number of countries were among the first to present unpopular measures, such as decisions to cut back state aid to outdated industries and to reduce funding for welfare arrangements, as the unavoidable consequences of international integration. The public has thus often perceived international competition as a *race to the bottom*, leading to resistance and resentment. Yet such public discontent is not really supported by the facts and, as claimed by the report of the World Commisson on the Social Dimension of Globalization, the problem is not so much globalization as such, but the governance of globalization. This also means that politics and policies matter.

Most trade and investment flows remain within regions or relatively stable groups of trading partners. For example, 81 per cent of total outward United States FDI went to high-income countries. The poorest developing countries accounted for 1 per cent of total outward

[3] These figures have been calculated from the IMF World Economic Outlook Database, April 2007.
[4] World Bank (2006), pp. 62-66.
[5] Sengenberger (2005).
[6] See for example: Dollar and Kraay (2004) and Milanovic (2005).

investments.[7] But it is true that international trade has introduced an element of competition between countries. The effects have not been restricted to sectors that are directly exposed to trade. Indeed, the empirical literature has found evidence that sectors which tend to be shielded from international competition have also been influenced.[8] However, even in an extremely open economy such as the Netherlands, the number of jobs that have disappeared due to the shifting of industrial activities to low-wage countries has been estimated to be an average of 9,000 jobs a year during the period 2001-2004 – or only around 1 per cent of the total annual job turnover rate in the Dutch labour market (Dutch Ministry of Economic Affairs, 2005).

Although, in the case of the industrialized part of the world, a number of welfare gains can be identified due to the opening up of international borders for capital and labour flows, gains in other parts of the world seem to be limited. In the economically less advanced parts of the world, the economic benefits of globalization are much less visible. However, there are examples of economies that have fared well. Some of these – the first movers, such as South Korea and Singapore – have become well-known success stories in the global competitive arena. Other countries have opened up more recently, and this perhaps accounts for the often severe imbalances in the distribution of gains and losses between individuals and groups in these societies. In several of these countries, inequalities in income, education and health status are growing once again.[9] Brazil, China, India and South Africa are all examples of countries that have seen improvements in average incomes, while the GINI coefficients either remain high (Brazil and South Africa - both 0.58, compared to 0.33 in India), or are moving in the wrong direction, as in China where it increased from 0.28 in 1981 to 0.45 in 2003.

2. Growth, productivity and employment

2.1 Globalization and labour market patterns

In a large number of countries farmers and farm workers still do not have access to the technological knowledge that they need to make agriculture more productive. Those that are making progress often find themselves with a pool of redundant workers migrating to overpopulated urban areas where they have poor perspectives of putting their skills to productive use. The ILO estimates that global unemployment increased from 100 million in the 1990s to 195.2 million in 2006. Almost half of these are young people in the 15 to 24 age group. Moreover, underemployment is a serious problem. The ILO has further estimated that about one-third of the global labour force is either un- or underemployed. The share of working poor (people who are poor despite having a job) in low and middle-income countries decreased between 1996 and 2006 but remained with 47.4 per cent very high.[10] In Brazil, the figure stands at 5.1 per cent, and in China it is 19.1 per cent. India has a share of working poor of 45.5 per cent and some African countries – such as Nigeria and Mali – have shares as high as 75 per cent.

Despite opening up to internationalization, and sometimes achieving high GDP growth rates, real wage and employment growth rates have fallen behind in many developing countries.

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[7] Ruigrok and Van Tulder (1995) were among the first to make this point. The figures are derived from Sengenberger op. cit.

[8] *Trade and employment: Challenges for policy research*, Joint ILO/WTO report, Geneva, 2007, provides examples of these studies (see page 28 and 29).

[9] World Bank, op. cit., provides ample evidence.

[10] See ILO (2007b) table 7, p.11. The poverty line used to determine the number of the working poor is the indexed US$2 a day line.

The opening up to international trade has caused entire industries to collapse. The textile and clothing industries in some African countries, for example, vanished in less than a decade due to the fact that these countries were used as a dumping ground for second-hand clothing from the North,[11] as well as cheap imports from countries like China. Latin American countries such as Argentina, Brazil and Mexico, have implemented liberalization and privatization policies. Yet, with unemployment rates of 9.7 per cent in Brazil and 15.6 per cent in Argentina, the recipe has failed to remedy labour market deficiencies.[12] The countries that have performed well in terms of labour market performance are the ones that that have opened up their economies gradually.[13]

One reason for the disappointing experiences may have been the false assumption that the market forces of globalization would solve the problems that were caused by failing governance. However, unregulated markets do not function as well as some economic scholars have expected. The World Bank provides some telling examples of the problems faced by people when markets fail.[14] The consequence is widespread underutilization of productive resources – which is one of the root causes of poor employment performance in most developing countries.

2.2 De-linked GDP growth and employment growth

Concerns have been voiced as to whether economic growth still leads to full employment. Economic growth has decelerated in the industrialized countries. After the *golden age* (the period between 1950 and 1973), GDP growth rates decreased decade after decade. The structure of employment changed – job opportunities moved from high-productive manufacturing industries to (allegedly) low-productive services. And workers followed suit, or entirely disappeared from the labour force. Indeed, the 1980s and 1990s saw vast numbers of older and less skilled workers in a number of European countries being laid off and becoming dependent on welfare schemes. This helped to nurture the idea that economic growth and full employment have become disconnected, giving rise to the idea of *jobless growth* - at least in terms of jobs in the formal economy.

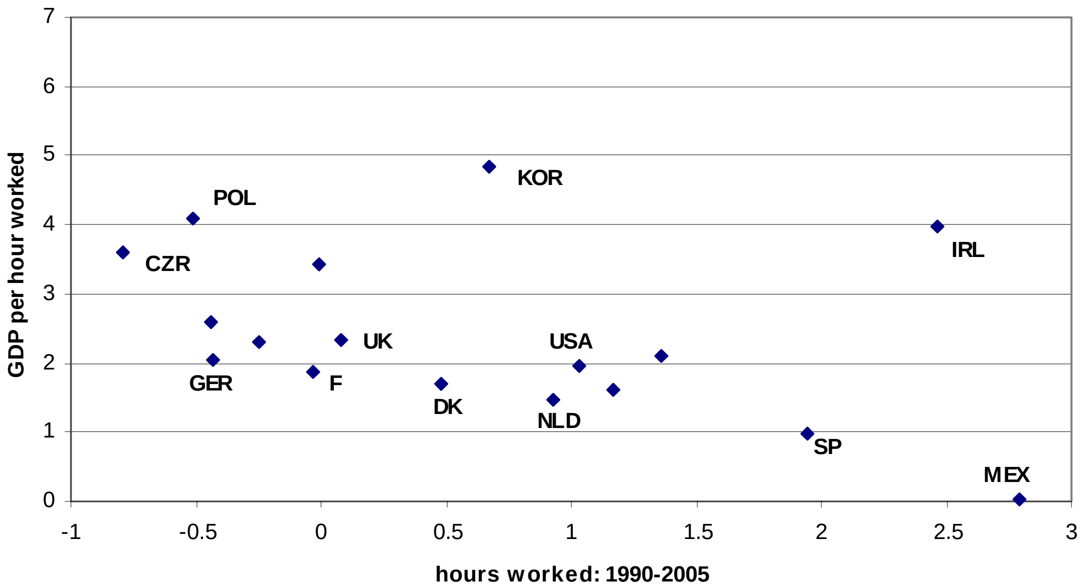
[11] World Bank, op. cit.

[12] Berg et al. (2006), provide an extensive analysis of the labour market consequences of the economic reforms in Argentina, Brazil and Mexico. Their argument is that the reforms did not have a specific employment policy target. It was assumed that labour market performance would improve automatically after the reform measures, but this assumption did not materialize.

[13] This, for example, as Chaudhuri and Ravaillon (2007) argue, lies behind the success of the “awakening giants” China and India in Chaudhuri S. and Ravallion M. Partially Awakened Giants: Uneven Growth in China and India, World Bank, 2007.

[14] World Bank, op. cit. p. 91.

Figure 1: Annual growth rates in hours worked and labour productivity



Once again, there is not a perfect match between perceptions and economic facts. It may be observed that most countries managed to combine employment growth with labour productivity growth. Figure 1 shows that high productivity increases can coincide with reduced working hours. The exceptions are the countries which moved from a centrally planned to a market system and experienced a huge restructuring of outdated industrial sectors, and where large numbers of jobs were lost. Recent research has explored this issue in greater depth (Auer and Islam, 2006). It is true that the global employment intensity of economic growth declined in previous decades. However, there are differences in timing, as well as differences between countries, within countries, between sectors and even within sectors. The extent to which output growth is or is not *jobless* is determined by technological developments and changes in the structure of demand.

2.3 Policy responses: Facilitating adaptation processes

During the 1990s, the observation that levels of (long-term) unemployment had increased in European countries, and that in the United States employment was growing while real wage levels stagnated,[15] triggered an intense debate about the welfare state. The median real wage level in the United States at the end of the 1990s was below the level in 1973, whereas the level of structural unemployment fell during the 1990s. European countries, on the other hand, experienced rising levels of structural unemployment. The debate focused around the issue of whether there was a trade-off between employment growth and labour productivity growth.

The perception was that the United States had opted for the path of allowing the market to determine earnings differentials, thus creating low-wage jobs, for example in personal services (jobs without opportunities for skill enhancement), as firms could hire and fire workers without high costs. Residual welfare state provisions, with low levels and a short duration of benefits, forced people to accept such jobs. Some writers dubbed this the *low road*.[16] In the meantime, European welfare states were perceived to have taken the *high road*. They placed emphasis on high-skilled, high-productive labour and social insurance schemes,

[15] For example, S. Nickell (1997).
[16] This phrase was coined by Gordon (1996).

which allowed people to search for suitable jobs and engage in training programmes. However, it turned out that a large number of workers did not have access to the high road. This included, in particular, older workers and workers who had not acquired an educational level that equipped them to perform well in productive jobs. The labour force participation rates of older workers (aged between 55 and 64), for example, tend to be 5 to 20 per cent below the average rates (for all ages) in most industrialized countries.

Today, the picture has become more diversified. Labour productivity growth in the United States has accelerated. Labour market policies have also developed further. The United States has implemented in-work benefit schemes, the emphasis of which is on lifting households above the poverty threshold, provided that able household members participate in the labour market. Of the European countries, Ireland and the United Kingdom have followed this example. *Mutual obligations*, activating the non-active, have become the cornerstone of welfare policies in these countries. Elsewhere in Europe, several countries have succeeded in improving their economic and labour market performance. In particular, the Scandinavian countries and the Netherlands have done well in this respect. These countries have implemented labour market policies that aim to facilitate transitions from one job to another. These policies have greatly contributed to redressing the insecurities of workers in increasingly open economies. But they do not just benefit workers. Globalization has rendered product markets volatile, requiring rapid adjustment of production processes and capacities. Investment is attracted by labour markets in which firms have efficient and socially acceptable mechanisms to adjust their labour force, labour costs and working time to economic circumstances.[17]

Increased labour force participation features prominently on the EU Lisbon agenda. Full and productive employment offers the tax base that will be required to meet the needs of an ageing society. Vast numbers of workers will pass the retirement threshold in the coming decades. At first sight, the industrialized economies may find it easier to combine higher productivity and full employment due to the numerical decline in the size of their labour force. However, the question remains as to whether today’s labour reserve is suitable for tomorrow’s jobs without further investment in human capital. Active labour market policies aimed at securing professional career trajectories, upgrading skills and achieving the rapid reintegration of those who drop out of the productive process will be needed, even if there is a convergence between the numerical size of labour demand and labour supply.

3. Globalization, working conditions and segmented labour markets

3.1 Global trends in labour protection

Workers are not a commodity, and labour markets do not operate just like other markets. Is it inevitable for countries to pass through lengthy transition periods in their industrialization process, characterized by the prevalence of work for seven days a week, 16 hours a day, sweat shops and child labour? Looking around, and taking stock of the current state of affairs in the world, it is tempting to think so, especially when we see transnational enterprises opening up plants in low-wage areas, countries offering favourable tax regimes and governments making concessions in labour legislation or in the enforcement of labour standards. The relocation of economic activities to some developing countries is sometimes accompanied by more hazardous working conditions compared to those of the countries of origin. Prominent examples are the working conditions of personnel on vessels sailing under the flags of low-

[17] See for example: Saint-Paul (2002).

wage countries with little or no labour regulation, and hazardous and unhealthy manual labour in the ship-breaking industries in South Asia.[18]

Some developing countries argue that labour standards are unaffordable until a higher level of economic welfare has been attained. They follow the development paradigm of “grow first, redistribute later”. These countries do not want to sacrifice their perceived comparative advantages. However, the same arguments have been voiced in industrialized countries. It is often feared that competition from countries with low labour costs does not allow more developed countries to improve or even maintain their labour and social standards – at least not for all workers.[19] Consequently, there has been a development towards segmented labour markets in industrialized countries. The upper segment – not subject to global competition – is characterized by well-paid jobs, with sound social protection against a wide range of contingencies and legal protection in the area of working hours and dismissal. Nevertheless, even in this segment working conditions have deteriorated. Mental health problems have increased, with particular reference to work-related stress and musculo-skeletal diseases. But large numbers of people – in most cases less skilled, but also from minority ethnic backgrounds – fall into another segment. In this lower segment, pay is lower and jobs are insecure, sometimes hazardous, without much legal protection against dismissal, and with variable and often long working hours. One indicator of the phenomenon of segmentation is the shift from formal employment to so-called “virtual” self-employment that is being seen in some countries of Europe. The virtual self-employed are persons who provide services under a self-employment contract, rather than a normal employment contract, and consequently enjoy a much lower level of labour and social protection.[20]

This segmentation also applies to developing countries, where the informal economy could be regarded as the equivalent of the lower segment in the dual labour markets of the industrialized countries. In this informal segment, which in many developing countries covers over 50 per cent of the economy, working conditions tend to be precarious. Workplaces are undefined, working conditions are often unsafe and unhealthy, incomes are low and irregular, working hours are long and access to social protection and training facilities is practically non-existent. Informal activities have tended to expand rather than diminish over recent decades. Informal enterprises often provide products and services through subcontracting arrangements with formal enterprises, not only for the domestic market, but also for export. Workers are hired as own-account workers, rather than under formal contracts. The establishment of export processing zones in a number of countries with lower levels of labour protection compared to the rest of the country bears the risk of a gradual undermining of overall national levels of labour protection.[21]

3.2 Policy responses: The need for governance in labour protection

Competition should occur between firms, not between countries. The work of Michael Porter has uncovered numerous examples of international firms that perform well and that are subject to strict environmental and social standards in their home countries. These firms have learned to seek their competitive edge, not in low labour costs, but in technological and organizational improvements (Porter, 1990). Governments have a responsibility to protect labour, not to market it as a cheap and tangible production factor. If countries want to gain a competitive advantage built on labour, it should be sought through developing a highly

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[18] Sengenberger, op. cit.
[19] Sengenberger, op. cit. p. 9.
[20] See Eyraud and Vaughan-Whitehead (2006), pp.9,10.
[21] Sengenberger op. cit.

productive workforce with a high level of education and health; a workforce that is intrinsically motivated to collaborate and that shares enterprise objectives. People can only be expected to *work towards* enterprise objectives when their enterprises internalize the well-being of their workers, in the same way as they look after shareholders.

But enterprises, if left to themselves, are unlikely to introduce high levels of labour protection for their entire workforce due to short-term profit myopia. Governments have to provide a framework that motivates enterprises to seek competitiveness through higher productivity, rather than cheap labour.

It is not a coincidence that enterprises in the *open economies* in Europe, guided by a sound legal context, have implemented high standards of occupational health and safety regulations. The Nordic countries rank among the best in terms of collective organization, industrial relations and social dialogue. Minimum wage standards are high, the dispersion of earnings is low and extensive training facilities are provided. The Nordic countries were found to perform best on a combination of performance indicators covering labour market security, employment protection, workforce representation and the maintenance of skills and income.[22] High labour standards, which motivate enterprises to seek their competitive advantage in maintaining a well-protected and highly skilled labour force and good sustainable economic performances, are mutually reinforcing; both the *scope* and *need* to upgrade working conditions increase with economic internationalization.

4. Growth, inequality and social protection

4.1 The social effects of social protection[23]

Social security systems providing social transfers are instruments for the alleviation and prevention of poverty; they work directly and fast in a way that the putative benefits of the "trickle down" effects of economic growth cannot match. Long experience in OECD countries shows that social protection is a powerful tool to alleviate poverty and inequality: it has reduced poverty and inequality in many OECD countries by almost 50 per cent.

There is no successful industrialized country in Asia, Europe, Oceania and North America that does not have a fairly extensive social security system. There has been a widespread consensus in most industrialized countries that the social protection of their population should be improved as societies grow more prosperous. Many of the most successful economies in the world, such as Denmark, France, Germany, Norway, Sweden and the Netherlands, also have the highest social expenditure when measured as a percentage of GDP (generally between 25 and 30 per cent). These economies are also traditionally open economies and had been subject to international competition for decades before globalization became such a significant topical issue. They also share the common characteristic that they all started to introduce their social protection systems about a century ago – that is, when they were poor. Providing social security was and is part of their development paradigm.

However, as marked differences in the performance of social protection systems within the EU demonstrate, there is no homogeneous approach to employment, income policies and

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[22] See Sengenberger, op.cit. p. 61 quoting two ILO studies, i.e. *Economic Security for a Better World*, ILO Geneva, 1994 and Egger, Philippe and Werner Sengenberger (1992) *Decent Work in Denmark: Employment, Social Efficiency and Economic Security*. ILO Geneva.

[23] The following section draws on arguments dreveloped recently in the ILO Supplemenantary Note (2007) that was submited to the G8 Labour Minister's meeting in Dresden, 6-8 May 2007.

social protection policies. Income inequality in the Nordic EU Member States and the Netherlands (with GINI coefficients ranging between 0.225 and 0.261) is much lower than in some other countries, such as the United Kingdom, Ireland and the United States (where the GINI coefficients are well above 0.3). Moreover, the percentage of poor in the total population is around 5 per cent in the Nordic EU Member States, compared with 11 per cent in the United Kingdom and 15 per cent in Ireland. All these countries have high labour force participation rates, which means that these differences do not have their origins in differences in the proportion of economically active persons. The percentage of children that grow up in poor households is around 3 per cent in the Nordic countries, compared to 16 per cent in Ireland and the United Kingdom and 22 per cent in the United States. The percentage of the elderly living below the national poverty line is 1.6 per cent in the Netherlands, but is 35.5 per cent in Ireland.[24] When these figures are compared with the resources spent by these countries on social transfers – 24 per cent on average in the Nordic countries and the Netherlands, compared with 17 per cent in the three Anglo-Saxon countries[25] – then it is difficult to escape the conclusion that investing in social protection is effective in reducing income inequality and poverty.

And there are positive examples of successes with modest universal social benefit systems in Africa, Latin America and Asia.[26] In Brazil, Mauritius, Namibia, Nepal and South Africa, for example, basic universal pensions have shown positive poverty alleviation effects. Valuable experience has been gained regarding the potential role of other social transfers in combating poverty in countries such as Brazil and Mexico and in parts of India. All the experience shows that implementing basic social security systems in low-income countries can make an enormous contribution to achieving the First Millennium Development Goal of halving poverty by 2015.

4.2 Economic effects of social protection

During the 1990s, there was a lively academic debate as to whether income inequality is conducive or detrimental to economic growth.[27] Some argued that extensive welfare state regimes led to labour market rigidities, welfare losses (due to microeconomic behavioural responses) and excessive administrative costs, while others emphasized different mechanisms, such as the role of welfare state arrangements in allowing individuals to take risks and in facilitating economic restructuring, and hence in fostering economic performance. The perceived need to contain social security expenditure became even more pronounced when globalization took off in full force at the beginning of the new millennium. The pressure to perform in a global competitive environment led to a one-sided view of social security as a cost to society, rather than a potential benefit and an investment in economies and people.

The international social protection policy debate has thus become a debate on fiscal and economic affordability. In the developed world it is a double-edged debate. On the one hand –

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[24] These figures are from the OECD Social Indicators database. Smeeding (2006) provides figures from the Luxembourg Income Studies database – his figures point to the same differences between these countries.

[25] Adema and Ladaique (2005). The figures represent net direct public social expenditure. Apart from public schemes, some countries operate private social insurance schemes. This is the case, for example, in the Anglo-Saxon countries, but also in the Netherlands. Differences between countries in terms of their total social expenditures are therefore less than the public figures suggest. It appears, however, from the listed figures in the main text representing the macro social impact (in terms of poverty reduction) that these private schemes do not target as well as the public schemes do.

[26] Van de Meerendonk et al. (2007).

[27] Cichon and Scholz (eds.) op. cit., and Van de Meerendonk et al., op. cit., review the literature of the past 1½ decades on the impact of social protection (and social insurance schemes in particular) on economic performance.

on the revenue side – real or perceived global tax competition between countries and growing informality is perceived as limiting the fiscal space for transfers, while on the other hand – on the expenditure side – the ageing of the population and new health hazards lead to higher dependency levels and health care costs and are hence seen as inevitably driving up expenditure levels. In the developing world, the fiscal space debate is a debate on economic and fiscal affordability, but also implicitly an opportunity cost debate. It is argued that scarce public resources can better be invested elsewhere where they would create more economic growth, which would in the long run be more beneficial to the welfare of a population than allegedly "unproductive" transfer payments – largely to people working and living in informality.The outcome of the debate remained inconclusive for a long time.[28]

More recent literature has focused on the reverse relationship between economic growth and social outcomes. In several economic journals, articles have been published discussing whether economic growth in developing countries benefits the poor. Some have argued that it does. However, most recent studies have cast doubt on this *trickle down* effect.[29] It is indeed doubtful whether growth automatically benefits the poor. The statistical empirical evidence of the last decade shows that economic growth does not automatically reduce poverty without the existence of employment promotion and income re-distributive mechanisms (such as social security systems), as otherwise countries with the same levels of GDP per capita would not experience a wide range of different levels of poverty and inequality. And persistently high levels of poverty would not be seen in certain countries with relatively high levels of GDP per capita. Within international institutions including the World Bank, this insight has gained substantial weight, as testified by the *World Development Report* 2006 on equity and development. The *World Development Report* points to a wealth of evidence indicating that economic growth in a large number of countries has not translated into a reduction of income disparities. The World Bank also provides solid evidence indicating that income inequality lowers the effectiveness of economic growth in reducing poverty.

Ever since Arthur Okun's 1975 paper, entitled *Equity and efficiency: The big trade-off*, there has been a debate as to whether the two are indeed opposed. The increasing availability of statistics in the past decade-and-a-half now means that we are in a much better position to attempt to reach a final judgement on the issue. Research on EU countries has indicated that some countries manage to perform well in terms of both economic efficiency and equity, while other countries fail in this respect. This warrants the conclusion that there is no genuine trade-off and that it is possible to achieve sound economic performance while maintaining a fairly extensive welfare state (for example, along the lines of the European social protection models).[30]

[28] Cichon and Scholz (eds.) op. cit.

[29] See for example: Collier and Dollar (2004), and Dollar and Kraay, op. cit., who argue that growth trickles down to the poor - whereas Son and Kakwani (2006) do not find evidence for that. In fact, Son and Kakwani argue that in less than half of the 'growth spells' that have been researched by them economic growth benefited the poor at least as much as the average. Son and Kakwani call this "pro-poor growth" as opposed to "anti-poor growth" in most of the investigated spells.

[30] Sapir (2005). More recently, Canoy and Smith (2006) have argued that one should not be too optimistic in expecting that EU countries can converge to the Nordic model. However, as Canoy and Smith argue, it is possible for countries to modernize their welfare state institutions and to achieve more efficiency - without sacrificing social objectives - in their own manner.

Figure 2: There is no trade-off between social expenditure and labour market performance[31]

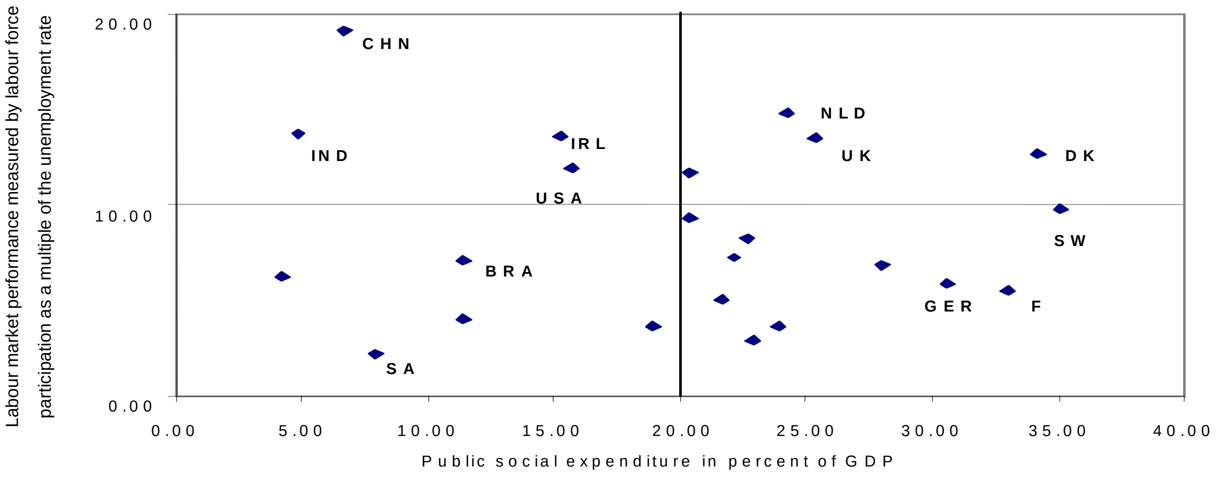

Figure 2 shows that countries can combine a wide range of labour market performances with a wide range of public social expenditure, or in other words there is no automatic trade-off between public social expenditure and labour market performance as one indicator of economic performance. Countries may be observed in all four quadrants of the Figure. There is also ample evidence that countries with identical levels of social spending experience a wide range of different levels of GDP, which contradicts the hypothesis that there is an automatic negative link between economic performance and levels of income redistribution. On the other hand, there is also a fairly strong positive correlation between productivity per hour and per capita expenditure on social protection in OECD countries.

Furthermore, social protection is an investment in productivity. Social protection is effective in reducing poverty. The World Bank stated in its *World Development Report 2005* that poverty is a risk to security and that lack of security is a hindrance to the investment climate (World Bank, 2005). Furthermore, only people who enjoy a minimum level of material security can afford to take entrepreneurial risks (OECD DAC, 2006). Social security benefits (which do not establish disincentives to work) can facilitate the adjustment of labour markets in the industrialized and the developing world. As mentioned before, they can thus help to facilitate the public acceptance of the global changes in production processes triggered by globalization. The existence of collective security systems can help to maintain competitive wage levels as, in their absence, individuals would have to seek higher incomes to finance individual or private risk-coping mechanisms out of the current incomes. Furthermore, only healthy and well-nourished people can be productive. Only people who have enjoyed at least a minimum level of schooling – facilitated by child and schooling benefits – can work their way out of poverty successfully. Many people would not be able to afford that level of schooling without family cash benefits.

Obviously, at early stages of economic development the financial and fiscal space is more limited than in its later stages, so the introduction of social security benefits has to be

[31] Gross public social expenditure has been plotted against an indicator that has labour force participation rates in the numerator and unemployment rates in the denominator (both from 2003 or the most recent year available). See Van de Meerendonk et al. (2007) for more background information. Data have been obtained from the OECD/SOCX and ILO/SSI databases for social expenditure and ILO/KILM database for labour market statistics.

sequenced by order of priority. But recent ILO research has clearly shown (Pal et al., 2005; and Mizunoya et al., 2006) that even the lowest income countries can afford some level of social protection. ILO actuarial calculations have shown in the case of 12 developing countries that some form of basic social security can be afforded by virtually all countries. The effects of a basic benefit package on poverty reduction could be quite dramatic. Gassmann and Behrendt (2006) show that the combination of a modest cash benefit for children and a modest pension, which could be an entry level benefit package for poorer countries, could reduce the numbers in poverty by about 40 per cent – a major contribution to the achievement of the first MDG. This set of benefits would cost not more than about 4 per cent of GDP.

Later on in development there may be a saturation point for social expenditure beyond which it becomes economically and socially counter-productive due to disincentives and the crowding out of other public expenditure. That will depend on specific national circumstances and the design of the transfer systems and affiliated incentives, for example, whether the system creates incentives for staying in or taking up work. The ageing of populations and the consequential reduction in the size of the labour force calls for a close review of the incentives that need to be built into systems to maintain or reduce dependency levels without depriving those in need of necessary levels of protection.

Thus, good economic performance and high social expenditure can coexist and be mutually supportive. What matters is making sure that "the right things are done right", or in other words, that transfers are designed and administered properly.

4.3 Policy responses: The design of the welfare state matters

Design matters, or in other words, public policy matters. Tax and benefit measures have an impact on economic incentives and hence on behaviour. It therefore all comes down to minimizing the detrimental short-term impact of social expenditure on incentives and maximizing the longer-term impact in terms of investment in economic durables and human capital. Social protection programmes need to be efficient – but when they are efficient, they are also affordable.[32] A number of ILO studies have shown that it is feasible for low-income countries to operate social protection schemes that cover the entire population.[33]

It may be appropriate in this respect to distinguish between *proactive* and *reactive* social security. The latter may lead into a vicious circle in which expenditure on social benefits crowds out expenditure on alternative social programmes with a higher investment content – such as active labour market measures, health care, education and subsidies for families with children. This crowding out affects a country's potential for growth both directly – by lowering the productive skills of the current and future workforce – and indirectly – through its effect on social capital.

The consequences of neglecting these linkages and proactive benefits (such as education and health care) may remain hidden for a long period. Moreover, the results of long periods of underinvestment are of a long-term nature and cannot be undone in one or two decades. It takes generations to build up the intellectual and social capital that is required for a productive

[32] This is the key message in Cichon and Scholz (2006). Their paper provides ample evidence suggesting first that social protection expenditure is positively related to high levels of per capita GDP, and second that cutting back social expenditure does not lead to higher economic growth rates.

[33] Pal et al. (2005), Gassmann and Behrendt (2006), and Mizunoya et al. (2006). Townsend (2006) advocates the introduction of social insurance schemes in developing countries. Like the other ILO studies, Townsend also calls for support from international donors.

workforce. Children who are not allowed to attend school, because their labour is needed to cover shortfalls in household income, cannot become productive workers as adults and will not earn sufficient income for their families. And children who are raised on the brim of starvation will not develop the intellectual and physical capacities needed for them to make a difference for their societies when they reach their prime age.

In the *World Development Report* 2006, the World Bank labelled these circles *inequality traps*. These include inequalities that persist across generations. Examples from developing countries include test scores from children in Ecuador: at the age of 3 there are no systematic differences in scores between children from low- and high-income households. At the age of 6, however, the differences in test results have become so wide that low-income children will never manage to close the gap. These inequality traps are not confined to developing countries. For example, measures of inter-generational earnings mobility – such as inter-generational earnings elasticity – point to a substantial difference between Finland and Sweden, on the one hand, and the United Kingdom and the United States, on the other. In Sweden, the inter-generational earnings mobility indicator is around 0.2, while in the United States elasticity is around 0.6. This means that American low-income households are not upwardly mobile: it would take an average low-income child the equivalent of five generations to close the gap with the median earner.[34]

An extensive literature review of the impact of social insurance schemes on economic performance has recently led to some interesting conclusions.[35] First, social transfer schemes have important *dynamic* effects on economic variables – both negative and positive, depending on their design. Second, the welfare state debate in industrialized countries cannot simply be transposed to developing countries. For example, social transfers in industrialized countries may, if wrongly designed and implemented, create disincentives to work and may over-fulfil their protective objectives.[36] With regard to developing countries, the literature however points to their role in easing credit constraints for poor households, thereby enabling these households to undertake productive investments. At the same time, there is a strong consensus among economists that the social model and sound economic performance can be reconciled. Social protection is not the consequence of economic growth, it is a condition for achieving it. But, just as in the case of occupational safety and health measures, market forces alone will not achieve the necessary conditions due to short-term economic myopia. Markets need the support of good governance.

5. Markets, governance, trust and social capital

5.1 The complementary role of the private and the public sector

In the 1980s and 1990s, the relationship between government and the market, or in other terms the boundaries between the public and the private domain,[37] became an issue in

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[34] World Bank, op. cit. p. 34-35 and 46-47. The closer this elasticity is to zero, the more mobile society is supposed to be.
[35] Van de Meerendonk et al., op. cit.
[36] For example, De Jong et al. (2006) found evidence of 'overshooting' in disability insurance schemes, and Gruber and Wise (2006) found similar evidence in (early-) retirement schemes.
[37] This debate followed – with a considerable time lag – the thinking of Ronald Coase, who argued that within organizations it is efficient to use other (more hierarchical) decision-making and coordination mechanisms than the price mechanism that governs market transactions. His views became the point of departure for economists in the 1980s and 1990s to rethink the relationship between government and the market: the boundaries between the public and the private domain. The point that these 'neo-institutionalist economists' make is that there are market

economic theory. It was recognized that the factors that cause markets to fail – such as information deficiencies, transaction costs, incomplete contracting – are the same as the ones that hamper the performance of government. One of the main insights from this strand of literature – corroborated through a series of recent experiences of failing markets[38] – is that, in order to perform well, markets require sound public monitoring and supervision structures. Sound governance is aimed at preventing market failure. Markets and governments need each other.

The question that remains is what kind of governance framework is required for markets and how it can be established? Economic growth, employment and social security are embedded in a governance framework that is characterized by built-in institutional stabilizers.[39] Institutions generate path dependencies, which impose limits on the extent to which they are able to adapt or change. Global or even European convergence towards a social protection model, for example, whether it is the Nordic welfare state, an archetypical European model or any other model, is unrealistic. Southern European countries do not have the social, cultural and historical background that would be required to switch to a Nordic model, and the same is true for developing countries.

It is therefore far more realistic to reach a consensus view on certain basic principles or core values of sound governance. On that basis, all countries can subsequently develop in a direction that fits their historic path and meets their socio-cultural preferences.

5.2 Four principles of good governance

A first principle would be that government must have a *capacity to act*: for example, the capacity to enforce legislation and collect taxes effectively is a necessary requirement. From a social perspective, government needs to attend to issues pertaining to: (i) the regulation of markets (for example in the case of child labour and workers' rights); (ii) universal access to basic needs and the protection of vulnerable groups; and (iii) service provision where markets for certain services do not or cannot exist.

But – and this would constitute a second principle – government also needs to be *accountable*. The World Bank observes that "unequal power shapes institutions and policies that tend to foster the persistence of the initial conditions."[40] This is called *government capture*. Government in these cases does not act in the general interest, but in the interests of powerful groups. This happens in all regions, but the most serious examples are found in developing countries. In some Asian countries, over 50 per cent of stock market capitalization is controlled by the ten richest families. Concentration of economic power of this order in any country, whatever the level of development, can affect the political process and lead to decision-making structures that exclude voices from the poorest end of the income spectrum. This in turn highlights the relevance of initiatives such as those in Kerala (India) or Porto Allegre (Brazil), where bottom-up popular participation in the public decision-making process has been successfully organized.[41] For example, the Porto Allegre initiative involves local citizens in setting budget priorities, starting at the neighbourhood level and taken through to the municipal level through elected neighbourhood representatives. The initiative has been

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failures and at the same time there are 'government failures'. References include Williamson (1985), Sappington and Stiglitz (1987), Tirole (1994), Prendergast (1999), Acemoglu (2002) and Dixit (2002).

[38] The Enron scandal is just one out of numerous (often smaller) examples in which it turned out that markets cannot perform without public checks and balances.

[39] A. Hemerijck (1992) has coined this concept.

[40] World Bank, op. cit., p.20.

[41] World Bank, op. cit., p.70-71.

replicated throughout Brazil and the evidence shows that it has led to enhanced pro-poor expenditure. It has also been argued that the economic take-off in the 1980s in China and India bears some relationship with reforms in government that introduced some checks on high-level decision-making (Keefer, 2007).

Third, policies need to be *predictable* (in terms of the protection of property rights, including intellectual ownership and contracts) and *consistent* over a longer period of time.[42]

And last, but certainly not least, participative and democratic partnership is also an important element of good governance. In the context of labour market and social policies, social dialogue has proven to be conducive to the achievement of sound economic performance. There are various channels through which social dialogue has: improved managerial decision-making due to the use of worker knowledge and experience; solved conflicts of interest through consultation and negotiation rather than expensive strikes; and rendered business and profits more predictable, thereby favouring the investment climate. Collective bargaining has helped in some cases to contain inflation, rather than to cause it, and tripartite consultation tends to stabilize macroeconomic conditions.[43] Social dialogue is an important characteristic of several European countries that have been successful economic performers in recent decades, such as Austria, Denmark and the Netherlands (Auer, 2000). A recent ILO study argues that economic restructuring policies in Argentina, Brazil and Mexico during the 1990s would have benefited greatly from an environment in which government and the social partners were able to negotiate the required labour market conditions.[44]

This relates to the issue of building trust and social capital (Knack and Keefer, 1997). Social dialogue is difficult to achieve when there is no trust. Building trust and social capital is connected with the reduction of inequalities. Some countries have a long way to go in this respect. For example, UNDP has found that the poor tend to be the ones that suffer most from corruption – in terms of bribes paid and the settlement of disputes, the cost to the poor (also in absolute terms) is much higher than to the non-poor.[45]

The failure to acknowledge that markets need to be embedded in a broader framework lies at the root of disappointing experiences of structural reforms in a large number of developing countries. Countries that did foresee at an early stage that markets require sound social safeguards, including public policies designed to build and preserve human capital, have emerged as sustainable economic strongholds.

The issue of the relationship between the market and public interest is also at the core of the current debate within the EU concerning the status of Social Services of General Interest (the social SGIs).[46] Efforts to reconcile the competitive market with the European Social Model could, when successful, offer an example for countries throughout the world. This issue has also been at the heart of ILO thinking for decades.

[42] Van de Meerendonk (1997) describes how subsequent Dutch cabinets over the 1980s and 1990s pursued a consistent line of macroeconomic, fiscal and labour market policies, which after 1½ decades led to economic success.
[43] Sengenberger, op. cit.
[44] Berg et al. (2006).
[45] UNDP *Human Development Report*, 2003.
[46] See EU Comission (2006).

6. By way of conclusion: A Decent Work Strategy for Balanced Growth

The previous chapter argued that markets need to be embedded in a governance framework to be efficient. The risk is that unregulated markets may not lead to economic growth, as productive resources tend to be underutilized. The opening of economies to international competition in recent decades has not led to full and productive employment across the board – indeed, in a large number of countries, it has not led to economic growth at all. Large population groups have suffered falling incomes and severe losses in their social and economic security. In the industrialized countries, economic growth slowed down after 1973 and, in the process of structural change in manufacturing industries, large numbers of workers lost their jobs.

New opportunities were created in the service sector, but these new jobs were not open to all redundant workers, and the jobs tended to be less secure than those that had been lost. In the developing countries, the opening up to international competition did not lead to sufficient growth in formal sector jobs, but instead to a large movement into the informal sector. In some countries, entire industries disappeared in less than a decade. The picture for both categories of countries is of the underutilization of productive resources –particularly of human capital. Adjustment processes in labour markets show that – if left to themselves – these process can lead to sub-optimal outcomes with respect to employment and productivity levels. Active employment and labour market policies are needed to create additional productive jobs and to facilitate the adjustment processes and avoid waste due to the underutilization or the wrong use of productive resources.

Welfare state arrangements aim to provide security against specific contingencies. They range from regulations to secure working conditions and protection against dismissal, to financial arrangements compensating for income loss due to unemployment. However, existing welfare state provisions have come under pressure. Some of this is the consequence of design failures that have resulted in unsustainable measures, hence the need for reforms. Much of the pressure, however, has come from the idea that labour standards and social protection do not go together with sound economic performance. It was believed that the benefits of economic growth would automatically *trickle down* to all, including the poor. The experience of two decades, however, does not provide grounds for much optimism that this theory of the *invisible hand of welfare* really does.

Instead, there is convincing evidence that social protection arrangements are effective in reducing income inequality and poverty. The empirical evidence also indicates that economic growth alone is not sufficient to achieve these objectives, and that some form of redistribution through basic social security mechanisms is affordable already at early levels of economic development. Moreover, recent literature suggests that wide initial income inequality makes it more difficult to lift poor households above the poverty threshold through the trickle-down effect and that social and labour protection are a condition for, rather than an impediment to growth.

Industrialized countries with extensive welfare state systems tend to have open economies. These countries have apparently managed to combine sound economic performance and high labour force participation rates with social protection and high labour standards. Providing social protection is part of their development paradigm. They have clearly demonstrated that countries can grow with equity. Indeed, the available evidence indicates that social protection expenditure has had a positive impact on economic growth, provided that social protection schemes have been well designed and managed. It is no coincidence that welfare state programmes were established in most OECD countries at the same time that industrialization accelerated. In some developing countries, social protection schemes have been introduced which provide basic universal coverage. This has not negatively affected their economic performance.

However, the best form of social security remains a decent job. While social protection is a mechanism to provide income to poor households or people who can no longer participate in the labour market, and to those who face employment market risks, it is increasingly evident that participation in fairly paid employment with decent working conditions offers a dignified route out of poverty. The activation of social protection with a view to facilitating access to employment opportunities should therefore be a basic orientation of social protection policies.

It has been seen that markets need institutions to perform well. Social protection is one of these institutions. Social protection reduces uncertainties and hence diminishes the transaction costs of necessary economic and labour market adjustment processes. Social and labour market institutions in a number of industrialized countries have been reformed to meet the need for the flexible adjustment of markets to volatile economic developments.

A new balance now needs to be found – a new combination of macro-, employment, labour market and social policies that simultaneously pursues and facilitates full and productive employment and protects people against traditional risks (such as sickness, unemployment, invalidity and old age) and from new ones emerging from technological and organizational change and internationalization, while at the same time meeting modern preferences for social arrangements in such areas as combining work and family life, permanent education and caring for parents and children. The ILO’s Decent Work approach epitomizes the concept of complementary labour market and social protection policies. It is a strategic concept that seeks to achieve social and economic goals simultaneously and coherently, rather than focussing on one isolated policy objective.

Social and labour market policies and institutions can be designed in a way that serves both social and economic objectives. Moreover, welfare state arrangements – including labour market policies focussing on activation – and competitive markets are in many ways complementary.

There is no single model towards which all countries need to converge. Even among countries with similar economic and social strategies as like the Nordic, there are broad differences in the fine-tuning of policies and the design of social institutions (Auer, 2006b). Countries can therefore pursue their own paths and seek policies and institutional arrangements that fit their historic and cultural backgrounds. The examples referred to above include the social protection schemes implemented in some African countries and the conditional transfer schemes in Mexico and Brazil. These schemes have their point of departure in the principles underlying social security schemes in industrialized countries, but are not just copies. Their design has taken into account the fact that needs in developing countries are different and that the mechanics – in terms of the incentives triggered by these schemes – are also different from those in industrialized welfare states.

Several elements would, however, seem to be sufficiently important and universal to a policy agenda that balances the objectives of growth, high employment and social protection to merit enumeration:

- Investing in human capital:
  - *This starts with enabling all children to attend school and higher education and making sure that teachers are present and qualified. It also includes*

ensuring gender balance in education.[471] *And it includes the availability of facilities throughout working life to enable people to maintain and upgrade their skills.*

- Introducing institutional arrangements on the labour market that reduce inefficiencies and the underutilization of productive resources:
  - *This could include the activation of social security benefits through investment in active labour market policies for the unemployed and in-work benefits for low wage workers.*
- Securing labour market transitions and flexicurity,
  - *This can be achieved through modernized labour contracts, which allow for adjustments when needed, and income and employability protection that facilitate job search, professional reorientation and rapid labour market integration for those adversely affected by structural change.*
- Activating groups that are not currently participating:
  - *This leads to social inclusion and provides opportunities for skill acquisition and economic advancement.*
- Providing income transfers for those who are unable to participate on a permanent basis:
  - *This is a human right and fosters societal coherence and social stability, which are themselves productive factors.*
- Establishing a framework for sound governance with appropriate checks and balances and a platform for social dialogue:
  - *This enables all groups in society, and not just the wealthy and powerful, to have a say in policy-making.*

These are the elements of a balanced strategy aimed at economic growth, full and productive employment and universal social protection, or in other words at achieving all the dimensions of the ILO's Decent Work Agenda. Finding a balance between labour market and social protection policies through good governance and social dialogue ensures that labour market and life risks, the burden of adjustment and the proceeds of growth and development are fairly shared between individuals, workers, employers and the state. Only a fair sharing of risks and rewards ensures the long-term national and international stability that is a prerequisite for development. The strategy applies to both the industrialized and the developing countries. It is aimed at providing greater levels of security, confidence and dignity and at improving the welfare of all people in a changing world.

[47] World Bank, op. cit.

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