

## DECENT WORK: SOME STRATEGIC CHALLENGES AHEAD



REPORT OF THE DIRECTOR-GENERAL

# DECENT WORK

## SOME STRATEGIC CHALLENGES AHEAD

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# I. *Introduction: Taking the Decent Work Agenda forward*

## *Strategic challenges*

1. As I submit this Report to the Conference we find ourselves in the midst of global financial turmoil, soaring food prices and economic downturn. The extent and consequences of the crisis are still unclear, but they are a major concern both for their short-term effects on enterprises and employment and for the longer term insecurities and uncertainties that they bring to workers and their families. In this turbulent world the Decent Work Agenda can play an important part in promoting balance and equity; that is a central theme of this Report, which addresses some of the key strategic challenges facing the ILO and the Decent Work Agenda today. It follows up my Report last year, *Decent work for sustainable development*. Together the two Reports constitute an effort to identify some important issues which require reflection and debate as we prepare our Strategic Policy Framework for 2010–15. I invite all constituents of the ILO to guide the work of our Organization with their views and vision both for the immediate future and for the period up to the middle of the next decade.

2. The world is at an economic, social and environmental crossroads. On the one hand, we witness the transformative powers of economic globalization opening new opportunities for economic growth through technology, investment and trade. On the other, we increasingly hear questions about the quality of economic growth and its impact on the environment as well as on social cohesion and stability, an impact that includes the growth of inequality. These days, we also see real disquiet about the impact of the “financialization” of the economy on the real, productive economy, and consequently, on enterprise and jobs.

3. We have still not come to grips with the best way to harness the potential of globalization to advance people’s real development goals, something which many delegates to the International Labour Conference have called for over recent years. We know we need a better balance between the democratic voice of society, the regulatory function of the State, the innovative, productive function of the market, and the needs and aspirations of individuals, families and communities. The right combinations can sustain broad economic growth, social progress and environmental protection. This report argues that our Decent Work Agenda, because it is a productive vision grounded in the daily

*Looking ahead*

*Choosing directions*

*Balancing priorities*

working life of women and men all over the world, provides a practical approach to balancing these central political objectives of all our countries and of our evolving system of global governance.

**Poverty reduction:  
A first step**

4. This reflects the deep-seated aspirations of people for a fair opportunity to move onwards, to leave poverty behind and achieve secure well-being from which they can reach for personal and family hopes and dreams. The Millennium Development Goals (MDGs) are an essential first step on this path. But escaping extreme material poverty cannot be the limit of our ambitions. Economic indicators, such as the growth of gross domestic product (GDP) per capita, no matter how impressive, fail to capture the full extent of people's development goals. Furthermore material progress itself is not sustainable if the values at the core of our idea of decent work – freedom, equity, security and dignity – are not advancing at the same time.

## ***Progress on the Decent Work Agenda***

**Global support  
for decent work**

5. World leaders have heard your call. In the United Nations, in regional institutions, in debates in your countries, there is strong support for decent work and a fair globalization.

**Decent work: An agenda  
for our times**

6. The political support received by the ILO clearly reflects the fact that decent work is an agenda for our times. What started as an ILO agenda, in my Report to this Conference in 1999, has in just a few years become a sought-after global goal resonating across all regions.

**Evaluating progress**

7. As we look forward to 2015, we should also reflect on how far we have taken the decent work idea and the difficulties and limitations we are facing. You have our regular programme implementation report, which enables you to see how we are using the concept to organize our own work more efficiently and more effectively. I am proud of the way in which the Office, with our tripartite constituents, is developing and applying the tool of Decent Work Country Programmes (DWCPs). As with any new policy tool, as we move forward we are perfecting it on the basis of the diverse experience of our constituents. Our collaboration with other international agencies is moving to a new level, stimulated by the *Toolkit for mainstreaming employment and decent work* drafted by the ILO and endorsed by the UN's Chief Executives Board for Coordination.

**Policy impact  
of the decent work  
concept**

8. I observe country after country, each in its own ways, seeking to retool economic and social policies in search of a balanced outcome. In the reports I receive from ILO staff, in my discussions with many of you, and in my travels to your countries and Regional Meetings, I have noted a deep concern for a strong social focus in economic policies and a sound economic foundation to social policies. Many of you use the decent work concept to build policy consensus and organize the implementation of new or extended programmes.

**Greater policy focus  
on decent work priorities**

9. By comparison with the situation ten years ago there is now greater public policy focus, in more countries, on respect for fundamental principles and rights at work, opportunities for employment through inclusive markets working for all, effective labour market institutions balancing the security of workers and flexibility of enterprises, and broad social protection coverage.

**Policy environment  
changed**

10. I sense that we have helped shift the policy environment to make it more conducive to the growth of sustainable enterprises and decent work. There is still a long way to go because our goal is not just to change policy objectives but to make working life better everywhere.

**But what is the impact  
on working lives?**

11. Are we achieving that goal? A priority for the period to 2015 is to build a system for assessing progress by countries across all the dimensions of decent



work. What you have said in the annual sessions of the Conference and in our Regional Meetings is that some countries are moving ahead on a broad front. Others are experiencing progress in some areas but setbacks elsewhere. A few are regressing alarmingly. All this is set against the background of a rapidly changing world of work and widening social gaps.

12. What I am also hearing is that the times are past when the exclusive concern was to “fix the economy” through structural adjustment in the hope that social problems would thereafter take care of themselves. Trust in the ability of markets to meet the democratic demands of society is waning. Repeated market excesses, including the latest sub-prime crisis, have eroded confidence in poorly regulated markets. Extreme poverty is declining but in a context of rising income inequality in many countries. Furthermore many new jobs are of poor quality. In much of the developing world, most jobs are informal, with street trading the fastest growing occupation. In many industrialized countries precarious work is on the rise, destabilizing the lives of working women in particular.

***Confidence in poorly regulated markets waning***

13. I believe one of the most important features of the Decent Work Agenda is that it enables us to develop pathways through the manifold transitions in the world of work. These pathways can lead towards higher levels of efficiency and innovation, from rural to urban occupations, from agriculture to manufacturing and services, as well as through the various stages of life, from childhood to young adulthood, from school to work, or from work to “active ageing”. As the world economy itself moves towards low-carbon production systems, the Decent Work Agenda and social dialogue can help map out pathways for the adjustment of production and employment patterns and the “greening” of workplaces. We must use this dynamic quality of the Decent Work Agenda to the full in the future.

***Developing pathways towards decent work goals***

14. We still have many difficulties in translating policies into practice, and ministries of employment, labour and social affairs do not always have the authority and resources they need. We know that policies work better when built on strong social dialogue, with representative and democratic employers’ and workers’ organizations negotiating design and implementation. But in many countries the wrenching changes in employment structures over the last two decades have required a major reorientation of the social partners’ strategies for organizing and representation. Reconfiguring tripartism for the twenty-first century on the basis of the enduring values of freedom of association is yet another challenge.

***Reconfiguring tripartism for the twenty-first century***

15. The robust consensus built around the Decent Work Agenda (and all we have achieved together since the approval of the 1998 Declaration) is a tribute to the power of dialogue, itself a hallmark of the International Labour Organization. But in the final analysis it is sound social dialogue at home that is the foundation for international tripartism and for our capacity to be the voice of productive enterprise and employment – the world of work – in the emerging system of global governance.

***Sound national social dialogue: The foundation of the ILO’s global role***

16. This session of your Conference is considering proposals to strengthen the capacity of the ILO to serve its constituents in the context of globalization. A stronger ILO implies continuing reforms on managing resources for effective results, and close collaborations at national, regional and global levels. Across your countries there is a rich and growing body of experience of innovative policies and programmes which provide the elements of decent work pathways. The ILO is an ideal clearing house of information and knowledge on these policies and experiences in the world of work.

***Strengthening the ILO***

17. The ILO has made substantial progress in improving the efficiency of its operations. As the implementation report shows, we are delivering more for constituents while standing still in terms of the real value of our budget. We

***Resources***

will continue to strive for more efficiency but demands for our services continue to rise, to the point where they outstrip our ability to meet justifiable requests for advice or assistance. Inevitably the question of the financial resource base of the Organization will have to be addressed.

***Moving forward*** 18. As we look to the future, we can be confident about the soundness of the reforms we have made together and the reinvigoration of our enduring values and unique tripartite identity that is embodied in the concept of decent work. But we cannot stand still in a world of work that is changing at an unprecedented pace.

***Planning for the future*** 19. The annual June session of the Conference is the apex of the ILO's system of tripartite governance. I hope that this year we will be able to collect a global spectrum of views on where we should be steering our Organization in the period up to 2015. We are building on solid progress. We have a robust, practical and dynamic agenda for advancing decent work as part of the international drive to make development sustainable from economic, social and environmental perspectives. However, the continuing financial turmoil and the risks of a serious slowdown in economic activity in important parts of the world bring new challenges that we must fully take into account.

***Structure of the Report*** 20. The next section of this Report discusses ways in which the Decent Work Agenda can respond to the spreading economic and social impact of the financial turmoil, which was originally triggered by the sub-prime mortgage crisis in the United States and is now threatening to become a full-scale global recession. Recovery measures can pave the way to a more sustainable pattern of global development and a fairer globalization, and will be more effective if they contribute to decent work objectives. The following part of the Report invites discussion on the central role of decent work in social progress both nationally and internationally. This leads to some reflections on how to build a stronger ILO, so as to support constituents in their efforts to enable more working women and men to enjoy decent work.

## **2. The financial crisis: Origins and consequences**

### ***International action needed to limit the damage to the real economy***

21. It is the primary responsibility of other international organizations – the International Monetary Fund (IMF), the Bank for International Settlements, and other forums – to find the appropriate policy solutions to the structural imbalances and the present crisis in the global financial system. But in accordance with the ILO's mandate under the Declaration of Philadelphia to examine and consider the impact of all international economic and financial policies and measures on its values and goals, we must have our own opinion on those issues. It is evident that stability and progress in the world of work is threatened by instability and setbacks in the world of finance. Uncertainty about the cost of access to credit is spreading from the epicentre of the initial turmoil in the United States housing finance sector to other parts of the economy and to other countries. Forecasts of the scale, depth and international reach of the slowdown are increasingly gloomy; the IMF *World Economic Outlook* projects global growth for 2008 and 2009 at 3.7 per cent, and states that there is a 25 per cent chance that global growth will drop to 3 per cent or less in 2008 and 2009, equivalent to a global recession.<sup>1</sup> Unemployment has started to increase in the United States and progress in cutting the numbers of jobless in Europe is likely to be set back. In developing countries, financial crises and economic slowdowns have in the past led to an increase in poverty and informal employment. An added factor this year is the surge in food prices which is hitting low-income groups hard in many countries.

***Threats to stability and progress***

22. The scale of the financial restructuring now under way and the severity of the credit squeeze make the current financial crisis perhaps the most severe since the Great Depression, and may result in markedly slower growth in the United States and other industrialized countries for up to three years.<sup>2</sup> Although major economies in the developing world may have some resilience to deal with the effects of the credit squeeze and slower growth in

***IMF warns of severity of crisis***

<sup>1</sup> IMF: *World Economic Outlook*, Apr. 2008, Executive summary.

<sup>2</sup> C.M. Reinhart and K.S. Rogoff: *Is the 2007 U.S. sub-prime financial crisis so different? An international historical comparison*, National Bureau of Economic Research, Working Paper 13761, 5 Feb. 2008 version.

industrialized economies, the IMF points out that “the greatest risk comes from the still unfolding events in financial markets, particularly the potential for deep losses on structured credits related to the US sub-prime mortgage market and other sectors to seriously impair financial system balance sheets and cause the current credit squeeze to mutate into a full-blown credit crunch”.<sup>3</sup>

### ***Inflation of the finance sector destabilizes the world of work***

#### ***Money markets lose contact with reality***

23. The weight of financial assets compared to the value of total output as measured in national accounts has grown significantly in the last few years. In 2006 world financial assets (including stock market capitalization, debt securities and bank assets) were equivalent to four times world GDP.<sup>4</sup> On any one day of April 2007 the average daily turnover of interest rate and non-traditional foreign exchange derivatives contracts reached US\$2,090 billion, 71 per cent higher than three years earlier.<sup>5</sup> That is 50 times the value of one day of world exports.<sup>6</sup> Assets managed in hedge funds have increased from US\$39 billion in 1990 to US\$1,900 billion in 2007.<sup>7</sup> In the United States profits of financial companies reached 41 per cent of total profits after tax in 2007, up from 5 per cent in 1982.<sup>8</sup> In New York, one third of all salaries paid were in the financial sectors.<sup>9</sup>

#### ***Unrealistic profit targets distort productive investment***

24. High levels of profits and salaries have become the norm in the finance sector. One consequence of this inflation of financial “market expectations” has been to put great pressure on productive companies’ quarterly results, encouraging short-term tactics to bolster earnings rather than medium-term investment strategies. This “financialization” of the economy has contributed to changing the nature and strategic outlook of enterprises, which in turn has an effect on workers, social dialogue and labour relations and social stability. The attraction of short-term gains from various new financial products and speculative opportunities led to resources being siphoned off from the productive economy. The evolution of the sub-prime crisis into a much wider crisis of structured credits and economic downturn highlights the degree to which large, respectable financial institutions were focused on speculating on pyramids of non-transparent paper transactions to the detriment of the productive economy.

#### ***Exchange rate volatility hurts sustainable enterprises***

25. An added dimension of finance market volatility is evident in the large swings in the exchange rates of major currencies. Disarray among the exchange rates of major currencies directly affects the competitiveness of exports, the trade balances of countries and the sustainability of enterprises. Hard-won joint efforts of managers and workers to improve productivity are seriously affected, with damaging consequences for labour relations and social stability.

<sup>3</sup> IMF: *World Economic Outlook*, Executive summary, op. cit.

<sup>4</sup> IMF: *Global Financial Stability Report*, Washington, DC, 2007, table 10.

<sup>5</sup> R. Stever, C. Upper, G. von Peter: “Highlights of international banking and financial market activity”, Quarterly review, Bank for International Settlements, Basel, Dec. 2007.

<sup>6</sup> WTO: Annual report, Geneva, 2007.

<sup>7</sup> “Plenty of alternatives”, in *The Economist*, 1 Mar. 2008.

<sup>8</sup> M. Wolf: “Why it is so hard to keep the financial sector caged”, in *Financial Times*, 5 Feb. 2008.

<sup>9</sup> J. Gralla: “US financial sector slices 52,500 jobs in 6 months”, 14 Feb. 2008, available at <http://www.reuters.com/article/bankingFinancial/idUSN1355313320080214>.

26. An unstable, volatile and speculation-prone financial system is bad for growth and productive investment. The ILO's constituents in many ways represent the other side of the coin: the innovative, productive economy that generates products and services for the market and jobs for workers. The "real economy" requires a sound and stable monetary and financial system that delivers low inflation, reasonable interest rates and dependable access to credit for productive investment, and does not transmit its own volatility onto the growth and production cycle. From the point of view of the ILO's tripartite constituents, Bob Lutz, Vice-Chairman of General Motors, may have put it best: "Real economic growth is created by value-added production. You cannot create real economic growth by trading pieces of paper. We have to relearn that lesson over and over again."<sup>10</sup>

***Time for the "real economy" to raise its voice***

27. Many reasons can be given as to why all of this happened, but there is one generally accepted conclusion as to the main cause of the situation today: lack of trust. Lack of trust in financial and monetary authorities to detect and deal with a looming crisis in time; lack of trust in the capacity and even independence of rating agencies to evaluate risk; lack of trust among banks to lend to each other, given the absence of transparency as to future potential write-offs; and lack of trust in the self-regulating capacity of financial markets. The result has been a general downturn in consumer confidence.

***Less trust in the financial system***

28. In repairing the damage wrought by financial crisis, fairness is a fundamental consideration. The weakest in society should receive the greatest support. The crisis has prompted many calls for greater transparency, and for better surveillance and regulation of financial markets and institutions, including reforms to the incentives and pay systems of financial institutions. Credit markets are based on trust, and repairing their credibility will require national and international action to deter imprudent lending and encourage investment in sustainable enterprises. Furthermore, recovery measures must address the social, economic and financial imbalances that led to an unstable pattern of global growth.

***Recovery measures should set the course for sustainable development***

29. Large international financial flows associated with greater risks of volatility have exposed the economy to new risks. Since the 1970s over 100 systemic financial crises of various kinds have been recorded. Since 1997 we have experienced the Asian crisis, followed by crises in the Russian Federation, Turkey, Brazil and Argentina, the bursting of the "dot-com" bubble in 2000, and now the sub-prime mortgage crisis in the United States and its reverberations throughout the world. That is a lot in just ten years, and suggests that there are fundamental imbalances in the mechanisms of the new global economy that need attention if recovery from the current crisis is to be durable.

***Escaping from a crisis-prone system***

30. The scale and global nature of the crisis requires a global coordinated response to sustain the world economy. We all hope that measures taken by the US Federal Reserve, Administration and Congress, will avert a deep and prolonged slowdown, and that action by other industrialized countries most directly affected will prevent the crisis from spreading. According to the Managing Director of the IMF, Mr Dominique Strauss-Kahn, "The world economy has entered a difficult phase, with the financial crisis spreading to the real economy. This has become a global problem that requires a global solution. Emerging markets need to join industrial countries in the macro-economic and regulatory policy response. Such a collaborative approach offers the best hope for ensuring the stability of the global economy."<sup>11</sup> The Institute of International Finance, which brings together major commercial

***Global crisis calls for global response***

<sup>10</sup> Quoted in *Newsweek*, 31 Mar. 2008.

<sup>11</sup> In a speech to the Indian Council for Research on International Economic Relations (ICRIER), New Delhi, 13 Feb. 2008.

and investment banks and other financial institutions, has also called for “firm measures aimed at restoring confidence in financial markets, supporting global growth, and maintaining orderly foreign exchange markets”.<sup>12</sup>

***Decent work policy initiatives are part of a coherent response***

31. The capacity of the multilateral system to cooperate in facilitating the emergence of a coherent policy response to a global slowdown is an issue of central importance to the ILO, its constituents and its multilateral partners. Indeed, if the financial turmoil is a symptom of a failure to address global imbalances, a durable recovery will require a much higher degree of international policy coherence than has been achieved in recent years. Policy initiatives within the framework of the Decent Work Agenda could be an important component of such an international policy response.<sup>13</sup>

***Global growth and the build-up of economic and social imbalances***

***Growth of world economy fuelled by international market opening***

32. In the four years from 2003 and the recovery from the bursting of the dot-com bubble, global growth averaged above 5 per cent. Developing countries averaged between 7 and 8 per cent after 2004, with Asian and CIS countries achieving even higher rates (between 8 and 10 per cent). Exports have grown faster than world GDP, at close to 7 per cent per year. Cross-border direct investments have been growing by nearly 13 per cent per year. The world export to GDP ratio is projected to rise from 20 per cent in 1995 to 30 per cent in 2015.<sup>14</sup> Values on equity markets have registered average gains of over 8 per cent per year. Foreign direct investment (FDI) inflows reached US\$1,306 billion in 2006, a threefold increase over 1996. Developed country enterprises continue to dominate global investment outflows (84 per cent of the total), although the share of FDI outflows from developing regions is rising.<sup>15</sup>

***Big surpluses and deficits build up***

33. During the upswing, however, economic imbalances between countries have grown. Three countries (China, Germany and Japan) account for close to half of all world capital outflows; one country (United States) imports close to 60 per cent of all capital. Emerging markets and developing countries received total capital inflows of US\$993 billion in 2006, but outflows amounted to US\$1,724 billion, leading to a total net transfer of financial resources from emerging markets and developing countries to developed countries of US\$731 billion in 2006.<sup>16</sup> This is more than seven times total official development assistance (ODA). Workers’ remittances, at US\$199 billion, also dwarfed ODA in 2006. At the same time official lending declined significantly and repayments on loans from public creditors increased sharply. Many countries have been accumulating large foreign exchange reserves, in some cases to avoid multilateral borrowing in the future. Low-income countries continue to rely on multilateral lending as the principal source of new capital. More imbalances have come about as a result of the recent sharp rise in energy and food prices. African ministers of economy and finance have stated that “the recent hike in international food

<sup>12</sup> Policy letter to the Chairperson of the IMF International Monetary and Finance Committee, 3 Apr. 2008, available at: <http://www.iif.com/>.

<sup>13</sup> The Governing Body’s Working Party on the Social Dimension of Globalization discussed a paper at its March 2008 meeting on *Current prospects and policies for decent work: The challenge of multilateral cooperation and policy coherence for a fair globalization*, GB.301/WP/SDG/1.

<sup>14</sup> World Bank: *Global Economic Prospects 2008*, Washington, DC, 2007.

<sup>15</sup> UNCTAD: *World Investment Report*, Geneva, 2007, Chapter 1.

<sup>16</sup> IMF: *Global Financial Stability Report*, 2007, op. cit.

prices, which could represent a structural shift with long-term implications, poses a significant threat to Africa's growth, peace and security".<sup>17</sup>

34. Poverty, as measured by the standard US\$1 and US\$2 a day poverty levels, has declined significantly in recent years. Eighteen per cent of the total population of developing regions was estimated to be living on US\$1 a day or less in 2004, down from 28.7 per cent in 1990.<sup>18</sup> The absolute number of people living in poverty is also declining. From 1.2 billion in 1990, the number fell to below 1 billion in 2004. Current projections indicate that the Millennium Development Goal of halving the proportion of persons living in extreme poverty is likely to be met in the aggregate for the world by 2015, although sub-Saharan Africa in particular is unlikely to reach this target<sup>19</sup> and the full impact of rising food prices has yet to be measured. Some food producers will gain from high prices, but the overall effect on poverty will certainly be adverse, with many millions of people pulled back below the poverty line.

***Numbers living  
in extreme poverty fell ...***

35. A growth rate of 5 per cent per year of average per capita income, a rate achieved by developing countries as a group since 1999, implies a tripling of income within a generation (25 years). As we well know, however, average income growth gives an incomplete picture. The number of people living on less than US\$1 per person per day is declining much more rapidly than the number of people living on less than US\$2 dollars. This is to be expected as those escaping extreme poverty join those living on between US\$1 and US\$2 a day. This suggests that even if current projections hold true, we will still witness substantial relative and absolute poverty in 2015, when over 2 billion people will still be living on less than US\$2 a day, that is, one in every three people in the developing world.<sup>20</sup> Furthermore, approximately half of total poverty in poor countries is transient, as opposed to chronic, poverty (people moving in and out of poverty as a result of changing conditions, be it employment, health, life risks or new opportunities).<sup>21</sup> That means that many more people experience poverty, or are vulnerable to it, than are living below the poverty line at any given time.

***... but many  
in the developing world  
are still vulnerable***

36. Poverty remains high in developing countries among working-age women and men, especially where the formal economy is small. The number of people working and living with their families on a daily income of less than US\$2 per person is over 80 per cent in sub-Saharan Africa and South Asia, around 50 per cent in South-East Asia, and 22 per cent in Central and South-Eastern Europe and the CIS countries. Most of the working poor are likely to eke out a living in the informal economy. In labour force surveys they are usually counted as "own-account workers", and it is notable that this category has grown faster than employees in recent years, especially in the poorest countries. The average proportion of own-account workers was 33 per cent of world employment in 2006, with the largest numbers in sub-Saharan Africa (48 per cent) and in South Asia (47 per cent). Own-account workers, workers in small and very small enterprises, and casual wage workers, form a large

***Working poverty  
remains high***

<sup>17</sup> UNECA and African Union Commission, First Joint Annual Meetings of the AU Conference of Ministers of Economy and Finance and the ECA Conference of African Ministers of Finance, Planning and Economic Development, Draft 2008 Ministerial Statement, Addis Ababa, 2 April 2008.

<sup>18</sup> World Bank. Global Economic Prospects 2008, op. cit., Table 1.5.

<sup>19</sup> World Bank: *Global Monitoring Report 2008: "MDGs and the environment"*, Washington, DC, 2008.

<sup>20</sup> An additional caveat is that global estimates for poverty are calculated using a notional exchange rate called "Purchasing Power Parity", which takes price differences into account. These parities have recently been recalculated using new and more complete information on prices and consumption patterns. New poverty estimates will also be made and are likely to suggest higher figures both for the 1990 base year and recent years. The pace of decline may, however, be similar.

<sup>21</sup> S. Dercon and J. Shapiro: *Moving On, Staying Behind, Getting Lost: Lessons on poverty mobility from longitudinal data*, Global Poverty Research Group, Oxford, Mar. 2007.

majority of those working in the informal economies of the developing world.<sup>22</sup>

**Poverty and low pay persist in some rich countries**

37. In industrialized countries levels of relative poverty (based on a threshold of 50 per cent of the median income<sup>23</sup>) reached 10.6 per cent across 20 OECD countries in 2000, up from 9.4 per cent in the mid 1980s. Across 24 OECD countries the incidence of low pay (the percentage of workers earning less than two-thirds of median earnings) has remained above 17 per cent.<sup>24</sup> In the European Union, while employment expanded robustly between 2000 and 2006 at a rate of nearly 6 per cent, over half of the total employment generated was part time.<sup>25</sup> Between 1979 and 2005 pre-tax income for the poorest households in the United States grew by 1.3 per cent a year, middle incomes before tax grew by less than 1 per cent a year, while those of households in the top 1 per cent grew by 200 per cent pre-tax and, more strikingly, 228 per cent post-tax. The result of this lopsided distribution of income growth was that by 2005 the average after-tax income for the bottom fifth of households was US\$15,300, for the middle fifth US\$50,200 and for the top 1 per cent just over US\$1 million.<sup>26</sup> This type of distribution is mirrored in a number of other countries.

**Growth under finance-driven globalization widens social divides**

**Market pressures and policy shifts cause increase in inequality**

38. Growth, particularly in the last five years of “financialization”, has failed to reach working families in many countries, both developed and developing. In some countries, it is the sharp rise in earnings of the highest paid, particularly the top 1 per cent of income earners, that has stretched out pay gaps.<sup>27</sup> Other frequently cited possible explanations for the increasing inequality include skill-biased technological change, trade liberalization and financial openness, including foreign direct investment. It is notoriously difficult to disentangle one element from another, but it would appear that the wage premium for skilled workers in high demand in the labour market has been “bid up”, perhaps by a combination of these forces. In addition, labour market reforms designed to promote flexibility and lower labour costs, cuts to welfare benefits, less progressive tax policies, weaker collective bargaining and social dialogue, and the neglect of minimum wages, have all contributed to weakening the position of the lower 50 per cent of income earners in most countries.<sup>28</sup> On the other hand, there have been some positive experiences with the adaptation and modernization of labour market institutions and regulation through social dialogue and the flexicurity approach. We return to these questions in the next section.

**Intensified competition puts pressure on work relations**

39. The expansion of trade, of global production systems, and of international capital movements, has greatly intensified competition among workers across labour markets. The heterogeneity of employment has increased, weakening

<sup>22</sup> Data from ILO: *Key Indicators of the Labour Market*, 5th edition, 2007.

<sup>23</sup> The median income is that income level which half the population is above and half below.

<sup>24</sup> OECD: *Employment Outlook*, Paris, 2007, Table H.

<sup>25</sup> European Commission: *Employment in Europe*, 2007.

<sup>26</sup> J. Bernstein, Senior Economist at the Economic Policy Institute, Washington, DC, in testimony to the Subcommittee on Labor, Health & Human Services, Education, and Related Agencies, 13 Feb. 2008. See [http://www.epi.org/webfeatures/viewpoints/20080213\\_bernstein\\_testimony.pdf](http://www.epi.org/webfeatures/viewpoints/20080213_bernstein_testimony.pdf).

<sup>27</sup> A. Atkinson: “The distribution of earnings in OECD countries”, in *International Labour Review*, Vol. 146, No. 1-2, Geneva, 2007.

<sup>28</sup> Statement by Juan Somavia, Director-General of the International Labour Office, to the International Monetary and Finance Committee and Development Committee (Washington, DC, 20-21 October 2007), available at: <http://www.ilo.org/public/english/bureau/dgo/speeches/somavia/2007/imfcdc.pdf>.



by the same token the bargaining position of labour. The balance of power has shifted to the detriment of labour, favouring in particular enterprises that can outsource production. As enterprises face new and more acute competitive pressures, they have become more sensitive to labour costs and to fixed costs in general, particularly in more employment-intensive sectors.

40. Globalization has created important economic channels between countries. These can stimulate growth but also propagate recession. Developments in labour markets are affected by developments in other markets and also influence important drivers of growth such as consumption and saving. Furthermore, trends in developing countries, especially the largest, increasingly interact with those in the G8 and other industrialized countries.

***Roots of crisis  
in unbalanced  
globalization***

### ***Crisis provokes a policy rethink***

41. As the gravity of the financial crisis has gradually become clear, central banks have acted in concert to ensure that banks have access to sufficient liquidity to meet their obligations. In addition, the US Federal Reserve cut official interest rates substantially. Other central banks have also cut their rates, although less sharply, or, in the case of the European Central Bank, refrained from raising them. Lower interest rates may not, however, be enough to stimulate a turnaround in the economy, because with falling demand businesses may not be ready to invest. Similarly, lower interest rates may make it easier for firms and households to scale back their debts but do not necessarily encourage them to spend. Moving towards a more expansionary fiscal policy is therefore another option for governments.

***Central banks lead  
concerted action to halt  
spread of financial bust***

42. On 13 February 2008, President Bush signed an Economic Stimulus Act injecting US\$152 billion into the economy through tax cuts to households and businesses and increases in unemployment and veterans' benefits. This is equivalent to about 1 per cent of US GDP and will start to take effect in mid-year. The package was initially proposed in mid-January and passed rapidly through Congress with bipartisan support. Few other countries have adopted similar measures, although the United Nations has recently argued that "A global demand stimulus will be needed if the slowdown in the United States economy is not to slip into a recession and spill over to the rest of the world".<sup>29</sup> The United Nations suggested among other things stepping up public spending on social security, health and education services, especially those geared to the rural population in countries like China, and an end to monetary tightening in Europe and Japan.

***As threat of recession  
looms, policies change***

43. Lower interest rates, a fiscal boost and a lower dollar all counteract the slowdown in the US economy, but underlying imbalances, particularly between domestic savings and consumption, the government deficit and the balance of payments current account, may remain, and the US economy may not resume the role of "spender of last resort" in the global economy.<sup>30</sup> This would also call into question reliance on exports as a key driver of growth in a number of developing countries and the extent to which surplus countries will continue to finance the US deficit, not least because returns on government bonds are low and the US dollar is weak.

***Preparing for a possible  
prolonged slowdown  
in the United States***

44. Exports to the United States and other industrialized countries have been an important component of developing countries' recent surge in growth.

***Broadening foundations  
for global growth***

<sup>29</sup> United Nations: *World economic situation and prospects*, 2008, pp. viii–ix.

<sup>30</sup> The phrase "spender of last resort" has been much used to describe the US economy but was coined in a note for the Levy Institute by Wynne Godley and Bill Martin in 1999 entitled: "How negative can US saving get?".

China and South-East Asia have gained an important position in the trade of manufactured goods and have also contributed to commodity exporters' growth as a result of their high demand for fuel and raw materials.<sup>31</sup> While other factors have also contributed to the acceleration in developing countries' growth, including policy reforms to stimulate domestic investment and competition, the effect of reduced export markets on overall economic performance is a cause for concern. Looking to the short- to medium-term policies that might reduce and counteract the spillover effects on developing countries of measures to rebalance the US economy, an important role could be played by reducing dependence on exports as a driver of growth by stimulating domestic consumption and job-creating investment, especially in countries with the fiscal and foreign account space to do so. Such policies could also focus on the employment and social protection needs of lower income women and men who, from a macroeconomic perspective, have a high propensity to spend.

***Stabilizing the system***

45. Financial instability affects growth, income and employment not only in the short term but also in the longer term, as we saw, for example, in the aftermath of the Asian financial crisis.<sup>32</sup> Policy initiatives within the framework of the Decent Work Agenda can be an important component of an international policy response.<sup>33</sup>

***Boosting purchasing power of the less well off***

46. Developing social security systems with a wider coverage in developing countries tackles both the social and the economic imbalances that weaken the sustainability of development. Middle-income developing countries, in particular in Asia, have high savings rates (up to 25 per cent of GDP in some cases), in part as an answer to the lack of universal health and old-age insurance, as well as to cover education costs. Well-designed social security systems give better overall protection and release income for consumption, thus stimulating domestic and global demand. Minimum wage fixing policies can also compensate for the weak bargaining position of the lowest paid workers and ensure that the benefits of growth are more equitably shared between workers and employers.

***Policies to promote sustainable enterprises***

47. Side by side with measures to extend social protection, many countries could develop measures to promote an environment conducive to the creation and growth or transformation of enterprises on a sustainable basis combining the legitimate quest for profit – one of the key drivers of economic growth – with the need for development that respects human dignity, environmental sustainability and decent work. The ILO's strategy for the promotion of sustainable enterprises, developed and agreed at the 2007 session of the International Labour Conference,<sup>34</sup> could be used by many countries to help ensure that private investment, especially by smaller businesses, is at the heart of strategies to avert recession or stimulate a rapid recovery if it occurs. I believe that the ILC conclusions on sustainable enterprises can play a major role in the policy integration of our four strategic objectives, as well as providing a sound basis for cooperation with other international organizations.

***Human resources development***

48. Investment in human resources development and linking it to enterprise needs is another important means of preparing economies for recovery. In

<sup>31</sup> The United States was the destination of 21.4 per cent of all China's exports in 2005, compared to 8.5 per cent in 1990, according to the UNCTAD *Handbook of Statistics*, 2006.

<sup>32</sup> ILO: *Growth, investment and jobs: The international financial dimension*, Governing Body, 294th Session, Geneva, Nov. 2005, GB.294/WP/SDG/2(& Corr.).

<sup>33</sup> The UN Commission for Social Development in February 2008 adopted a comprehensive resolution on promoting full employment and decent work for all which highlights the interconnection between the ILO's Decent Work Agenda and the UN's International Development Agenda (E/CN.5/2008/L.8).

<sup>34</sup> ILO: *The promotion of sustainable enterprises*, Report of the Committee on Sustainable Enterprises, International Labour Conference, 96th Session, Geneva, 2007.

many countries skill shortages have been a growing source of imbalance throughout the economic upswing.<sup>35</sup>

49. Infrastructure investment can be an important direct stimulus to employment. Such investment programmes should ideally be initiated early in the downswing to take effect when most needed. Since many countries are looking to renew their infrastructures as part of strategies to reduce greenhouse gas emissions, programmes to create “green jobs” (jobs that are economically and environmentally sustainable) could be part of the strategy to counteract a slowdown. For example, investment in building insulation has proved to be a valuable source of employment in the construction sector as well as making a significant contribution to energy saving. There are similar opportunities in other sectors.

50. Balanced growth within countries makes an important contribution to a more stable international economic environment. At the international level, greater policy coherence between trade, aid, and financial policies is required to address global imbalances, as highlighted by the World Commission in its 2004 report and re-emphasized by many participants at the ILO Lisbon Forum on Decent Work for a Fair Globalization.<sup>36</sup> Financial markets are the most integrated part of the global economy. The credit squeeze is affecting investment and consumption, and thus production and employment, both in the richer countries and, through the trade channel, developing countries. Increased coordination is needed to maximise the impact of policy initiatives. The ILO’s Decent Work Agenda offers policy tools that have heightened relevance in a period of slowing growth, such as those developed under the Global Employment Agenda,<sup>37</sup> as well as mechanisms of social dialogue and international labour standards for developing consensus over priorities. In the near term, an important objective for ILO constituents is to embed decent work into both multilateral cooperation and national policy responses to the global downturn. Discussion within national tripartite bodies as well as at the International Labour Conference will contribute to this effort.

***Getting on  
to a sustainable  
development path***

***The contribution  
of the Decent Work  
Agenda to recovery  
measures***

<sup>35</sup> This issue is on the agenda of this year’s session of the International Labour Conference. Report V (*Skills for improved productivity, employment growth and development*) discusses it in depth.

<sup>36</sup> ILO: *Report of the ILO Forum on Decent Work for a Fair Globalization*, Governing Body, 301st Session, Geneva, Mar. 2008, GB.301/WP/SDG/2(Rev.).

<sup>37</sup> ILO: *Employment strategies for decent work country programmes: Concepts, approaches and tools for implementing the Global Employment Agenda*, Governing Body, 295th Session, Geneva, Mar. 2008, GB.295/ESP/1/1.

### **3. Decent work at the heart of social, environmental and economic progress**

***Decent work is connected to many other goals***

51. The progress we have made in developing action in favour of decent work now opens new opportunities. We can strengthen and consolidate the Decent Work Agenda by creating connections with many other goals in a wide range of situations. I believe that decent work pathways towards economic growth and social progress exist in all countries. It is a universal, integrated agenda, but one which can be tailored to specific needs – needs which reflect the life cycles of families, the collective aspirations of communities, and the development priorities and goals of countries. Because of its scope and central importance, decent work makes a major contribution to these wider goals. At the same time, by highlighting the centrality of decent work we can make the case that action in other fields should contribute to progress on rights at work, employment, security, representation and dialogue. At a time when the world is looking for new, more stable and equitable approaches to growth and development, the Decent Work Agenda offers balanced alternatives.

***Surveys confirm the widespread demand for decent work***

52. Decent work is a fundamental democratic demand and recent global opinion surveys provide valuable information on the nature of that demand. The 2007 Pew Global Attitudes Survey in 47 countries suggests that job satisfaction plays an important role in explaining overall happiness.<sup>38</sup> The World Values Survey asked representative samples of the population in 79 countries around the world about desirable job attributes. The three most frequently mentioned are a decent income (more than eight persons in ten), employment security (more than seven persons in ten) and intrinsic qualities such as matching the worker's ability, being interesting and offering the individual an opportunity to achieve something (over six persons in ten).<sup>39</sup> Surveys also show that rising inequality is an important concern for a large majority of citizens.

<sup>38</sup> Pew Global Attitudes Project: "Happiness is increasing in many countries – But why?", 24 July 2007, available at [www.pewglobal.org](http://www.pewglobal.org).

<sup>39</sup> European Values Study Group and World Values Survey Association: *European and World Values Surveys Four-Wave Integrated Data File 1981–2004*, 2 May 2006.

In a Globescan public opinion survey of 34 countries in December 2007, some 64 per cent of those questioned considered that the economic benefits of growth have been shared unfairly.<sup>40</sup>

53. Such a convergence of views comes as no surprise for the ILO. We know well that people seek to move on in life and build a better future for their families and themselves, in a fair society which provides opportunities for all. These surveys consistently reveal that decent and productive jobs are a priority for people around the world, in developing and in industrialized countries alike.

***Decent work: A priority for people everywhere***

## ***A life cycle perspective***

54. As we evaluate policy options for the future, I want to highlight one aspect that makes the decent work vision a particularly powerful tool for both developing and developed countries: the life cycle approach.

***The life cycle approach: A powerful tool***

55. As people and families pass through the different transitions of the life cycle, their needs and aspirations change, and at every stage of our life cycles we can identify critical decent work dimensions. At some stages the priority may be social protection, at others employment; there is always a question of rights, of representation and of gender equality, with a balance that changes over time.

***The balance of decent work needs changes throughout life***

56. At birth and in early childhood, the key decent work issues are protection and the rights of the child and mother. There are vital questions here concerning maternity protection and childcare, and working-time arrangements of both fathers and mothers. There is also the crucial question of social assistance to deal with the financial needs of childbirth and parenthood, as these are times when families can slip into poverty.

***At birth and in infancy, protection is needed for children and parents***

57. Throughout childhood, questions concerning the working time of parents remain, reflecting the importance of family responsibilities. Decent work includes a balance between family, society and enterprise. The rights of children then come to the fore, including the right to education and personal development, which is incompatible with child labour. Again, there are issues of social security, including child allowances, or special policies which provide educational alternatives to child labour.

***The needs of childhood are incompatible with child labour***

58. The transition from childhood to youth and labour market entry is a crucial one for the Decent Work Agenda, involving as it does the development of skills and capabilities, equitable and non-discriminatory access to labour market opportunities, arrangements for initial work experience and apprenticeships, job orientation and assistance, and respect for a range of basic rights. This is about the pattern of job creation and the ways in which it reflects the needs of young women and men. It is also about ensuring labour market opportunity for groups with particular needs – those with disabilities, for instance.

***Labour market entry for young people requires focused policies***

59. In adulthood, the full range of decent work policies is relevant. It includes respect for rights at work and gender equality, organization, representation and dialogue, adequate policies for conditions of work and safety and health, and social security to deal with the contingencies of working life including ill health and unemployment. It is about realizing aspirations in work and achieving a balance between work and family on the basis of gender equality. It is

***For adult workers, a range of decent work policies is needed***

<sup>40</sup> BBC: "Widespread unease about global economy and globalisation: Global Poll", London, 7 Feb. 2008.

about the creation of enough productive and high-quality employment, and providing opportunities for access to all. It may also be about the protection of migrants, the ability to develop and apply new skills, and ways to increase productivity and incomes.

**Security in retirement** 60. Finally, in the transition to retirement there is a need to ensure adequate pensions and provide adequate care. It may also include the continuation of contributions to the community after retirement, adapted to needs, aspirations and abilities.

**A coherent, collective response is needed** 61. A decent work approach can and must offer a consistent and balanced response to these different situations because they are interconnected. Child labour undermines subsequent skills development and careers; adequate pensions are closely connected with other social security arrangements throughout an individual's working life. The situations of parents and children, men and women, are interdependent. What is needed is a collective vision that considers these different demands together. That in turn calls for social dialogue, which can reflect the interests, needs and contributions of the different workers' and employers' groups involved, as well as those of the State.

**The ILO offers policies and expertise based on the notion of a productive economy** 62. For all of these stages in working life, the ILO offers gender-sensitive policies and expertise, including key Conventions which address different aspects of the life cycle – maternity protection, child labour, protection of young people, and so on. But most importantly, it believes that all these objectives must be achieved through the workings of a healthy and productive economy in which the promotion of sustainable enterprises is the economic conduit towards more jobs, increased productivity and higher incomes, and forms the foundation of a growth pattern based on an expanding real economy.

## Sharing in progress

**Decent work is a vital contribution to poverty reduction ...** 63. In my recent Reports to this Conference I have emphasized the contribution of the Decent Work Agenda to poverty reduction and to the realization of the MDGs. This is a vital contribution. Employment is the surest way out of poverty. Social security also plays a vital role – and in last year's Report I highlighted the need for a social floor. Respect for rights at work is a precondition for progress, and social dialogue is the means by which the ILO's tripartite actors participate in the development of policy and its implementation.

**... but society's goals go much further** 64. No one, however, can reasonably argue that development stops with the eradication of poverty. The MDGs, important as they are, are a point of departure, not the point of arrival. Democratic demands as revealed by public opinion surveys, national election debates, and, sometimes, street protests, point to aspirations for upward social mobility and decent work which go far beyond merely obtaining an income just above the poverty level. A similar observation can be made for national ambitions. Few countries limit them to the mere elimination of poverty.

**Decent work helps spread the benefits of progress** 65. The *decent work advantage* lies in its ability to contribute across the board. Decent work is vital for poverty reduction. But it is also a means to spread the benefits of progress widely, providing the framework for a balanced, inclusive pattern of growth and development. It is the key foundation of social mobility and the aspiration of millions of people worldwide to achieve and hold on to middle-class well-being.

## ***Dealing with inequality***

66. One of the principal obstacles to social mobility today is rising inequality. There are wide variations in income inequality around the world, as table 3.1 shows. In some regions, especially in continental Europe, inequality remains low, but in many other parts of the world, it is strikingly high. What is more, as I pointed out in the last section, inequality is rising. Regional economic commissions, research institutions, the international financial institutions and the media are documenting a steady rise in income inequality within countries. The trend has also been noted by the IMF, which in its last *World Economic Outlook* commented that: "... income inequality has risen across most countries and regions over the past two decades ...".<sup>41</sup> Globally the share in total income of the bottom 80 per cent of the population declined to 53.7 per cent from 56.5 per cent between 1990 and 2000. The United Nations has noted that in developing regions the share in national consumption of the bottom fifth of the population declined from 4.6 to 3.9 per cent between 1990 and 2004.<sup>42</sup> There is also widespread evidence of a declining share of labour in national income. In OECD countries the share declined from 58 per cent in the period 1971–75 to 52 per cent during the period 1996–2000.<sup>43</sup> A declining labour share has also been observed in Latin America since the early 1980s, in Africa since the mid-1970s, and in the Middle East.<sup>44</sup>

***Levels of inequality are high in many regions and generally rising***

67. Countries undergoing rapid economic transformation are particularly vulnerable to increasing income inequality. In China and India, for instance, rates of economic growth, and consequently of income growth, vary significantly between regions.<sup>45</sup> In China, inland regions have performed less well than coastal ones. In India, eastern states have performed less well than western and southern states. In both countries the rate of growth of agriculture has lagged behind that in manufacturing and services. In general, urban areas have seen a more rapid rise in incomes than rural ones – a pattern which is extremely common around the world, and which will be addressed in this session of the Conference in the general discussion on the promotion of rural employment for poverty reduction.

***Rapid economic transformation is a factor***

68. Public policy has paid particular attention to two issues: raising the incomes of those in extreme poverty, and reducing inequality through progressive taxation. On the first, the IMF report quoted above notes that average real incomes of the poorest segments of the population have increased in all regions, which would be consistent with some degree of policy success. But on the second issue, there is clear evidence that tax systems are becoming less, rather than more, progressive,<sup>46</sup> and high income inequality poses important wider policy issues in its own right. Less inequality would make faster poverty reduction possible, because a larger share of the benefits of growth would reach the poor. In addition, social cohesion is increasingly undermined by extreme income polarization, with potential threats for the future. This is true both for countries with historically high income inequality as well as for countries where inequality is increasing rapidly.

***Public policy is needed***

<sup>41</sup> IMF: "Globalization and inequality", in *World Economic Outlook*, Washington, DC, Oct. 2007.

<sup>42</sup> United Nations: *The Millennium Development Goals Report*, New York, 2007, p. 8.

<sup>43</sup> A. Guscina: *Effects of globalization on labor's share in national income*, IMF Working Paper (IMF, Washington, DC), 2006.

<sup>44</sup> M. Lübker: *Labour shares*. Policy Integration Department, Technical Brief No. 1, ILO, Geneva, 2007.

<sup>45</sup> S. Chaudhuri and M. Ravallion: *Partially awakened giants: Uneven growth in China and India*, World Bank Policy Research Working Paper No. 4069, Nov. 2006.

<sup>46</sup> See for instance R. Torres: *Towards a socially sustainable world economy: An analysis of the social pillars of globalization* (ILO, Geneva, 2001).

**Table 3.1. Inequality has a strong regional pattern**

Gini coefficient *	Degree of inequality	Regional pattern
<0.3	Low	Mainly central, north and northwest continental Europe
0.3-0.4	Moderate	Mainly southern Europe, "Anglo-Saxon" countries, Baltic states, some in Asia
0.4-0.5	High	Other CIS countries, many countries in Asia, Latin America and Africa
>0.5	Very high	mainly Latin America and Africa

\* The table is mainly based on data from the Luxembourg Income Study, Key Figures (version of 31 December 2007), and the UNU-WIDER World Income Inequality Database, Version 2.0b, May 2007. It uses the most popular measure of inequality, the "Gini coefficient", which was first introduced almost 100 years ago by the Italian statistician Corrado Gini (1884-1965). The coefficient summarizes the extent of inequality in a single number that can theoretically take any value between zero (perfect equality, everybody has the same income) and one (perfect inequality, all income goes to a single person). All estimates are based on national coverage of the entire population and refer to disposable incomes, after taxes and social transfers; the income-sharing unit is the household, and the unit of analysis the person. These coefficients do not take account of the availability of public goods (education, health) which vary between countries and income groups.

***There is intense media interest in this subject***

69. Media headlines echo such concerns. Between 18 August 2007 and 18 February 2008, some 1,936 articles and news features were published on income inequality in 24 major newspapers using the three working languages of the ILO. That makes for an average of over three articles per week per newspaper. According to a recent article in the *Financial Times* on growing inequality, "This is potentially dangerous territory. For as Bill Gross, managing director for Pimco, the world's biggest bond fund, has argued: 'when the fruits of society's labour become maldistributed, when the rich get richer and the middle and lower classes struggle to keep their heads above water as is clearly the case today, then the system ultimately breaks down; boats do not rise equally with the tide; the centre cannot hold'".<sup>47</sup>

***The Decent Work Agenda can play a constructive role***

70. Discussion of inequality is usually confined to the issue of income and to overall measures such as the Gini coefficient. But much more can be learned if we open this box and improve our understanding of the different components of inequality and the factors behind it. The Decent Work Agenda helps us to do exactly that. Inequalities in access to work and employment, in its remuneration, in rights at work and in social protection, go a considerable way towards explaining income inequality. And social dialogue among the actors concerned can help establish common perspectives on how to move towards greater equality. Progress towards decent work goals can therefore make an important contribution to equity objectives. We can see this by considering a number of important components of the Decent Work Agenda.

***Public transfers for social assistance and social security***

***Social protection and social assistance mitigate inequality***

71. Successful policies have shown that redistribution through progressive taxation and social transfers can have important impacts. On average, the tax and transfer systems of industrialized countries reduce Gini coefficients by some 0.16 points.<sup>48</sup> In middle- and low-income countries the impact is less – for example, in Latin America tax and transfer systems reduce the Gini coefficient only marginally, on average by 0.02 points (from a starting point of much higher inequality). Nevertheless social transfers play an important role in that region. Programmes such as "Bolsa familia" in Brazil and "Oportunidades" in Mexico, for example, provide a means to target social transfers at

<sup>47</sup> J. Plender: "Mind the gap", in *Financial Times*, 7 Apr. 2008.

<sup>48</sup> The Gini coefficient in industrialized countries would typically be in the range 0.38 to 0.48 before tax, 0.22 to 0.35 after tax. See V.A. Mahler and D.K. Jesuit: "Fiscal redistribution in the developed countries: New insights from the Luxembourg Income Study", in *Socio-Economic Review*, Vol. 4, pp. 483–511, 2006.



the poorest. It is estimated that one fifth of the observed reduction in income inequality between 1996 and 2004 in these countries can be attributed to these programmes.<sup>49</sup> Data from the Economic Commission for Latin America and the Caribbean (ECLAC) indicates that on average in Latin America, for the bottom 20 per cent of households, half of total income is accounted for by transfers and half by income earned through work. The share of transfers gradually declines for subsequent quintiles from 30 per cent in the second, 22 per cent in the third and 16 per cent in the fourth.<sup>50</sup> Data from Chile show a sharper decline, from 63 per cent in the bottom decile to less than 10 per cent above the sixth.<sup>51</sup>

72. In other words, state transfers in these countries play a significant role in compensating for the failure of the market to deliver sufficient income to the poor.<sup>52</sup> And while it is often argued that low-income countries cannot afford universal social security systems, ILO research, on which I reported to the Conference last year, shows that a basic package could be delivered for 3 to 7 per cent of GDP in low-income Asian and African countries, with a considerable positive impact on poverty, equity and growth.

***This is affordable even in low-income countries***

### ***Action against discrimination and child labour***

73. While we cannot put figures on the outcomes in this area in the way that we can for social security, action against discrimination is by its very nature action to reduce unacceptable inequality. Gender inequality is a particularly important source of inequality overall, and is often poorly measured. Child labour is clearly a cause of subsequent labour market inequality because it prevents those who suffer it from acquiring education and vocational skills. Eliminating these labour market inequalities therefore helps to reduce inequality overall.

***Action against discrimination reduces unacceptable inequality***

### ***Inequalities between formal and informal work***

74. An important component of inequality in many developing countries lies in the differences in productivity, incomes and standards of working life between formal and informal work. Evidence from India suggests that over 98 per cent of those below the US\$1 per day poverty line were in the unorganized sector, as opposed to 80 per cent of those living on more than US\$2 per day.<sup>53</sup> In Brazilian cities, wages in informal work were 35 per cent lower than in formal work in 2005.<sup>54</sup>

***The formal–informal divide is an important dimension of inequality***

75. Raising standards and incomes in informal work is a central challenge for the Decent Work Agenda. This is not easy, but there are many innovative approaches being developed at the ILO, through microcredit, small enterprise development, training, organization and other forms of action. Taken together, these have the potential to make an important contribution to equality objectives as well as directly to the employment, productivity and incomes of those concerned.

***The Decent Work Agenda must meet this challenge***

<sup>49</sup> R. Veras Soares et al: *Evaluating the impact of Brazil's Bolsa Familia: Cash transfer programmes in comparative perspective*, Evaluation Note No. 1, International Poverty Centre, Brasilia, Dec. 2007.

<sup>50</sup> ECLAC: *Social Panorama of Latin America*, preliminary version (summary), Santiago, 2007.

<sup>51</sup> CASEN survey, Ministry of Planning, Chile, 2006.

<sup>52</sup> The relatively small impact on the overall measure of inequality can no doubt be largely traced to tax systems that are much less progressive than in industrialized countries.

<sup>53</sup> A. Sengupta, K.P. Kannan and G. Raveendran: "India's common people, who are they, how many are they and how do they live?", in *Economic and Political Weekly*, 15 Mar. 2008.

<sup>54</sup> Fundação SEADE: "Pesquisa de Emprego e Desemprego", Sao Paulo, 2005 (<http://www.seade.gov.br/produtos/ped/metropolitana>).

## ***Unequal skills and capabilities***

***Equal access to capabilities are also important***

76. Another important source of inequality lies in the distribution of skills and capabilities in the workforce. As noted above, the pattern of global growth seems to be biased towards higher skills, tending to concentrate benefits on a small proportion of workers. But above all, in most countries the educational and training qualifications of the workforce are very uneven. More equitable training systems and better education would certainly make a considerable contribution to reducing income inequality. These issues will be addressed in the Conference discussion on skills for improved productivity, employment growth and development.

***Tripartite commitment to decent work therefore makes an important contribution to equity goals***

77. I could continue to give examples. Many aspects of the Decent Work Agenda contribute directly to a fair and egalitarian pattern of growth and development. Greater emphasis on decent work can therefore provide additional support to this objective. As always, the key element is social dialogue. Tripartite commitment to decent work policies which would reduce inequality or prevent its increase can make an important contribution to more equitable development paths, and differences in this commitment among countries may be part of the reason for the regional pattern of inequality we are now seeing.

## ***Broad-based prosperity and the growth of the middle class***

***The emergence of a middle class ...***

78. It is commonplace to point to the emergence of a middle class in China, India and other fast-growing developing countries. This development replicates a process which occurred much earlier in already industrialized countries and in higher-income parts of Latin America.

***... creates new social perceptions and aspirations***

79. For the large numbers of poor and “near poor”, the horizon of upward social mobility is shaped by their perception of an attainable middle-income status. It is about moving “up the ladder”. At the same time, for large numbers of middle-income families in high-income countries there is an underlying fear of social regression or moving “down the ladder”. One of the most recurrent comments in this respect is the fear that “my children will not have the same quality of life that I have”. Economic and social policies need to respond to these goals and perceptions.

***How large is the middle class?***

80. There are as many estimates of the size of the middle class as there are authors. This is by definition a relative notion which will vary from one country to another. One approach is to consider that it refers to a middle-income group clustered around the median income. By one measure, the proportion of the population with incomes of between 75 and 125 per cent of median income (in a given country) ranges from a low 22 per cent of total population in Latin America to a high of 35–40 per cent in OECD countries, with other regions in between.<sup>55</sup>

***Between 20 and 40 per cent of people might be considered “middle income”***

81. Another way is to consider that the middle class starts above the US\$2 a day poverty line. According to one study of 13 developing countries, between 23 and 40 per cent of the population has an income of between US\$2 and 4 per day or annual per capita income of between US\$730 and 1,460.<sup>56</sup> In low and

<sup>55</sup> N. Birdsall: *Reflections on the macro foundations of the middle class in the developing world*, Working Paper No. 130, Center for Global Development, Washington, DC, Oct. 2007, available at [www.cgdev.org](http://www.cgdev.org). The middle class is much more than simply the middle-income group, but that group is a useful first reference point for thinking about how prosperity spreads throughout societies.

<sup>56</sup> A. Banerjee and E. Duflo: *What is middle class about the middle classes around the world?* MIT, Cambridge, MA, Dec. 2007.

lower middle income countries this tracks closely the 75–125 per cent of the median income referred to above.

82. Whatever the exact numbers, the middle class is large and growing. The construction of a broad-based prosperity is to a significant extent dependent on upward mobility into this group, and on its share in the benefits of growth and development. This presents particular policy challenges for the Decent Work Agenda.

***Challenges for decent work***

83. First, as the data on income transfers show, as people move from low to middle incomes, reliance on state transfers is likely to decline and market mechanisms tend to become more important. At the same time, the middle class is more likely to be effectively protected by minimum wage policy, to meet working conditions standards or to benefit from (contributory) social security. In Latin America, the middle quintile receives twice as much from social security as the bottom quintile, and the top quintile four times as much as the middle one.<sup>57</sup> A balance of decent work policies is required to meet the needs of the different groups concerned and support upward movement. Policy experience in combining the productivity of markets with active social and labour policies therefore provides a key knowledge base for equitable and balanced economic and social policies.

***The need for balance between the roles of the State and the market***

84. Second, as a group the middle class is likely to be better educated, more articulate and better organized than the poor. But its demands will depend on the occupational profiles of those concerned. Public sector workers are likely to have different needs and aspirations from those of private sector white collar workers or skilled workers in the formal sector.

***The middle class may be better organized and represented, with diverse demands***

85. Third, the middle class, too, is disadvantaged by high inequality because the benefits of growth are often concentrated at the top of the income scale. Moreover, some groups of middle-income workers are particularly vulnerable to changing global markets. Insecurity for them may be a new life circumstance, while insecurity for the poor is a permanent fact of life. A balance is required in redistributive policies to take account of the needs of both the bottom and the middle groups.

***It may also be disadvantaged by the pattern of distribution***

86. Sharing the benefits of growth widely is not a substitute for an agenda of poverty reduction but an indispensable complement to it. The growth of the middle class in already industrialized countries has been an important political and economic stabilizer, and a means to spread wealth and participation. This can be seen, for example, in the long period of sustained growth in Western Europe after the Second World War until the 1970s, a period characterized by falling unemployment, widening participation, a sharing of productivity gains, supportive state policy and cooperation between workers, employers and governments. The ILO's constituents have played an important role in such situations throughout the history of the ILO, by improving conditions of work, establishing conditions for socio-economic security, universalizing rights and building participation and dialogue. There is now a need to defend these advances in the face of global pressures, while ensuring that similar progress is embedded in development paths.

***Need for reflection by the ILO's constituents on how to respond to these challenges***

87. This has important implications for the International Development Agenda and the reduction of poverty. The MDGs must continue to be a central objective of international cooperation, but not the only one. As seen by many, the MDGs are minimum development goals that must give people a strong social floor as they move up the ladder of opportunity. We probably

***The MDGs should lead to a ladder of opportunity***

<sup>57</sup> ECLAC: *Social Panorama of Latin America*, 2007, op. cit.

have to start thinking, when we review the MDGs in 2010, that the international community should also set a path towards developing a strong global middle class.

## ***Realizing rights at work***

### ***The central importance of rights at work***

88. The foundation of an equitable pattern of progress lies in the realization of human rights, and rights at work are among the most important of these.

### ***Now is a good time to examine progress on the exercise of key rights***

89. We have the privilege this year of celebrating the 60th anniversary of the 1948 Universal Declaration of Human Rights, the 60th anniversary of the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87), and the tenth anniversary of the 1998 Declaration on Fundamental Principles and Rights at Work. This provides a unique opportunity to look into the exercise of these rights. The principles of freedom from slavery, freedom of association, the right to social security, free choice of employment, and equal remuneration for work of equal value, are all well established in internationally ratified instruments, in much national legislation and in even more national practice.

### ***Accelerated ratification of fundamental international labour Conventions ...***

90. In early 2008 the eight fundamental Conventions had registered a total of 1,293 ratifications, a 50 per cent increase over the 859 ratifications (of what were then seven fundamental Conventions) registered in 1998. We are just 155 ratifications away from universal ratification of all the fundamental Conventions by the 181 member States of the ILO. Over 70 per cent of ILO member States have ratified all eight fundamental Conventions and over 80 per cent have ratified at least one in each of the four groups of fundamental Conventions.

### ***... testifies to increased commitment***

91. The significance of this hugely encouraging outcome must be fully appreciated. In 1998 the intent of the Declaration on Fundamental Principles and Rights at Work was to promote broad application of the principles concerned, even in the absence of formal ratification of the relevant Convention. But in practice, more and more countries are accepting the commitments implied by ratification, and where they need help to meet their obligations they are turning to the ILO for assistance. The strength of our supervisory machinery, coupled with practical guidance through technical cooperation, is regularly praised. The Office must obviously continue to ensure the highest level of professional integrity, competence and transparency in servicing the supervisory machinery.

### ***This is unfinished business but there are grounds for optimism***

92. Freeing the world from the scourge of forced labour and the worst forms of child labour remains unfinished business. The number of people in forced labour was estimated in 2005 at 12.3 million.<sup>58</sup> In 2004, ILO estimates suggested that 218 million children aged 5–17 years were still trapped in child labour – a declining trend but still an enormous problem. As more and more women enter the labour market, traditional sources of discrimination tend to weaken but new sources emerge, typically linked to the functioning of the labour market. The fundamental democratic right to freedom of association is regularly flouted. But we can legitimately look forward to the day when massive exploitative and abusive employment will be a thing of the past.

<sup>58</sup> ILO: *A global alliance against forced labour*, Global Report under the follow-up to the ILO Declaration on Fundamental Principles and Rights at Work, International Labour Conference, 93rd Session, Geneva, 2005; *The end of child labour: Within reach*, Global Report under the follow-up to the ILO Declaration on Fundamental Principles and Rights at Work, International Labour Conference, 95th Session, Geneva, 2006.

93. The role of the ILO is to bring together the will of countries intent on action with international expertise and the resources of donor countries needed to achieve this. Your strong support for the programmes to eliminate child labour and forced labour bears this out.

***The ILO plays an important role with your support***

94. In view of what remains to be achieved, I propose that we together set a goal of universal ratification of the eight fundamental Conventions by 2015. I know this raises different types of problems in different countries, but it would be an extraordinary assertion of collective commitment by the ILO's tripartite constituencies.

***Target: Universal ratification of the fundamental Conventions by 2015***

95. But we know that ratification is not enough. If these fundamental rights are to fully play their role at the heart of shared economic and social progress, at the core of the Decent Work Agenda, they must reach all workers. A basic cause of inequality is unequal respect for rights – in many parts of the world, rights are truly applied only in a relatively small formal sector. A first priority, then, must be to guarantee respect for these rights in the informal economy, through new and imaginative measures. Unequal respect for rights at work also particularly concerns women, migrants and indigenous peoples, among others. But the fundamental rights are universal rights, and their application must be universalized. That is now the challenge.

***Beyond ratification: ensuring respect for rights throughout society***

### ***Creating opportunities for all through sustainable enterprises and inclusive labour markets***

96. In Brazil, the Government has recently launched a debate on “inclusive markets” and “policies of inclusion”, including through the market. Facilitating access for the many Brazilian entrepreneurs working in small businesses to training, technology, knowledge, credit and networks is an important element of that policy. In the words of Roberto Mangabeira Unger, Minister for Strategic Affairs: “That’s what we have to do in many dimensions of national life, not simply regulate or compensate for the inequalities of the market but reinvent and reorganize the market to make it inclusive ... an industrial policy of inclusion is an early move in that direction”.<sup>59</sup>

***A Brazilian initiative calls for more inclusive markets***

97. The Conference discussion and resolution on sustainable enterprises last year provides an important frame of reference. It sets out 17 essential conditions to provide a favourable environment for the growth of sustainable enterprises, through the promotion of entrepreneurship, fair competition, investment, technology, skills and responsible governance. The resolution points out that “business tends to thrive where societies thrive and vice versa. This requires social and economic inclusiveness, as well as equity in the distribution and access to resources. Women’s economic empowerment is crucial for sustainable societies. It requires equal access to entrepreneurship opportunities, financial services and labour markets”.<sup>60</sup>

***The 2007 session of the ILC: Discussion of sustainable enterprises provides guidance***

98. The ILO is active in many of these areas, including support to small and medium-sized enterprises, microfinance, training and the integration of sustainable enterprise policies in Decent Work Country Programmes. These are powerful means to support an equitable, broad-based pattern of growth and development built around productive and inclusive markets.

***Existing ILO action in this field***

99. Inclusive labour markets also call for effective labour institutions which support enterprises and the market economy in ways compatible with demands

***The need for balanced labour institutions***

<sup>59</sup> Interview transcript in *Financial Times*, 10 Dec. 2007.

<sup>60</sup> ILO: Report of the Committee on Sustainable Enterprises, *Provisional Record* No. 15, International Labour Conference, 96th Session, Geneva, 2007.

for freedom, equity, security and dignity. The issue is to seek out the right balance between democratic voice, state regulation, and the power of the market to promote efficiency and production. The goal, as stated in the Brazilian policy, is a market which *includes*. Much inequality comes from exclusion from opportunity, or from markets which concentrate benefits on a few. Shared progress must come through widespread market opportunity, on terms which are fair.

***The positive role of labour institutions is insufficiently recognized***

100. It is therefore surprising that in much economic literature and political debate, labour market institutions are better known for their costs and their alleged inflexibility than for the protection they provide and their inherent adaptive capacity. The literature showing that various labour institutions have a positive effect on distributional outcomes (their intended purpose), but no significant effect on aggregate levels of output or employment, is much less prominent.<sup>61</sup>

***They are required for both efficiency and security***

101. Labour market institutions, in a broad sense, are there to provide voice, stability and legitimacy, and so permit enterprises to operate efficiently in open market economies subject to rapidly evolving and competitive environments; and they provide workers and families with the protection and security they need and are entitled to. It has been said that such institutions are to markets as language is to communication – the one does not work without the other.

***Building balanced labour institutions is a major focus of the ILO's work***

102. Much of the ILO's work is about establishing, through tripartite negotiation, a balanced set of labour institutions and helping to put them in place. This includes much protective legislation, regulations to support good practice or prevent unacceptable behaviour, patterns of organization, policies and programmes. It covers labour law, collective bargaining, occupational safety and health regulations, working time and periods of rest, trade union representation, employment protection and unemployment benefits, as well as skills development and social protection in a broad sense, public works and employment guarantee programmes.

***This must be based on social dialogue among tripartite actors***

103. Balance in these institutions can be achieved only through dialogue between governments, legislative authorities, and representative organizations of employers and of workers, using the flexibility that characterizes ILO Conventions and Recommendations in the light of national and local conditions. This is not always easy and in many countries dialogue is blocked, but only such dialogue and negotiation can ensure that labour institutions, like any other institutions, respond to changing circumstances.

***The ILO's focus on effective institutions to support decent work goals***

104. What is the issue here? First, it is that for most people, sharing in progress comes through participation in enterprises and markets; second, that those markets depend on a variety of institutions if they are to function well; third, that the institutions should be deliberately inclusive, widening access rather than narrowing it, limiting inequality and promoting wide representation. At the same time, institutions imply costs, and may serve the narrow interests of particular groups. There may be trade-offs. Employment protection may, for example, imply less employment creation, and excessive regulation may inhibit enterprise development. The ILO's work must explore these issues in greater depth. We must not be trapped in polemics about institutions being "good" or "bad". What we need to do is to identify and develop those institutions which most effectively support decent work goals and sustainable enterprises, and that requires a strong empirical research programme to back up our operational instruments.

<sup>61</sup> R. Freeman: *Labor market institutions around the world*, NBER Working Paper 13242, July 2007, Cambridge, MA. See also D. Kucera and J. Berg (eds): *In defence of labour institutions*, Palgrave/ILO, 2008.

## ***Decent work and the green agenda***

105. The ILO has been consistently advocating sustainable development and linking its social, economic and environmental dimensions. I represented the Economic and Social Council of the United Nations at the Earth Summit in Rio de Janeiro in 1992 and subsequently represented the ILO at the “Rio+10” Summit in Johannesburg in 2002, arguing for sustainable production and consumption patterns. Over the last decade the world has been in denial about both sustainable development and social justice, wanting to believe that these problems would somehow resolve themselves through economic growth and globalization.

***The environmental pillar of sustainable development***

106. The ILO has no mandate on climate change per se. But the profound changes in the economy will have major impacts on employment and the way people earn a living. I addressed this issue in my Report last year. The reality of climate change and the recognition of the “inconvenient truth” – that it is due to human activity and unsustainable production and consumption patterns – are bringing the imperative of sustainable development to the fore in public opinion, in policy-making, and increasingly in business circles.

***Climate change and the world of work***

107. In the ILO we are already active, in this area. For example, we are helping people to recover after natural disasters which are becoming more frequent and more severe. ILO-supported public works programmes are helping to create jobs by restoring natural resources, thereby making rural communities and coastal areas less vulnerable. We have gathered valuable experience of economic diversification in order to provide alternative livelihoods for the most vulnerable through small enterprises, local economic development, cooperatives and microfinance. Our experience with the combination of grass roots and national social security systems will be very relevant to averting large-scale disruption and environmental migration in the future.<sup>62</sup>

***From environmental crisis reconstruction ...***

108. Green jobs are not a passing fashion. They are part and parcel of the transformation of our economies. The very notion of green jobs signals the opportunity presented by the changes that are needed. The numbers of new green jobs in sectors like renewable energy, recycling or natural resource management should make a transition possible in which more jobs are created than lost. This is essential. Otherwise the transition would almost be socially impossible. For industrialized countries, much research has been done and we can be reasonably confident. But a lot more work will be needed to trace such a transition path for developing countries and show that it is compatible with economic growth, poverty reduction and social development. The essence of our approach is that the axis, the centre of the transition towards a greener economy, will be the enterprise. And we believe that the transition – which may be a complex and difficult one – can be made smoother and more stable through social dialogue and a strong tripartite approach. That, I believe, can be the ILO’s most important contribution.

***... to green jobs and sustainable enterprises***

109. The most important condition will probably be the full participation of the ILO constituents in making and implementing decisions at international and national level. Their involvement leads to more informed decisions and more effective policies and programmes. It also helps to resolve conflicts and builds the consensus and social support that is indispensable for staying the course.

<sup>62</sup> For more information, see ILO: *Global challenges for sustainable development: Strategies for green jobs*, background note for G8 labour and employment ministers’ meeting, Japan, May 2008.

## ***Building coherence***

***The ILO has been promoting coherent economic and social policies***

110. By virtue of its tripartite composition and mandate anchored in the productive system, the ILO has consistently placed a particular premium on coherent economic and social policies. The ILO-convened World Commission on the Social Dimension of Globalization was among the first in 2004 to call for new initiatives to strengthen global policy coherence in support of decent work in the context of the new challenges posed by globalization. It was recognized that for the Decent Work Agenda to prosper and become a strong pillar for a fair globalization, policies, action and institutions directly related to labour markets are not enough. What is needed, at global and country levels, is the convergence of mutually reinforcing policies in a whole range of spheres that impact on production, enterprises and workers: financial, fiscal, economic, trade, investment, technology, agriculture, health, education, housing, and many others.

***This has high-level political support***

111. Progress has certainly been made. Over the last few years we have witnessed overwhelming support for decent work at the highest political level, from the leaders who subscribed to the 2005 World Summit Outcome, from regional institutions, and from the UN Economic and Social Council. In June 2007 the leaders of the G8 called for greater coherence in global policies to deal with the social dimension of globalization.

***Coherence at the heart of the ILO involvement in UN reform***

112. The ILO has been fully involved in United Nations system reform, from global and regional policy initiatives and alliances, to joint operations at country level. We have been relevant partners contributing our expertise and our tripartite constituency. A series of policy coherence initiatives has been organized at the initiative of the ILO in collaboration with the main multilateral organizations, and a *Toolkit for mainstreaming employment and decent work*, developed in collaboration with the UN system, provides a practical instrument to screen economic and social policies in terms of its contribution to the goal of decent work for all. The *Toolkit* fosters policy coherence as well as knowledge sharing and mutual learning and capacity building.

## ***National coordination***

***A wider range of national partners is needed in this endeavour***

113. In order to make further progress in reassessing economic and social policies to achieve full employment and decent work for all, we must recruit more players to our team. I am thinking in particular of our colleagues who influence, design and implement critical macroeconomic, trade and industry policies. Increased collaboration is required between labour ministries and ministries of finance, economy and planning, to ensure that flexibility with regard to fiscal, monetary and other policy parameters is maintained in the longer term and that these policy instruments are adjusted and focused on jointly determined employment and labour market targets.

***This will often call for upgrading of labour ministries***

114. In many countries enhanced collaboration between finance and labour ministries will be feasible only if the technical skills and resources of the latter are substantially upgraded. Labour ministries require access to adequate economic expertise to expand collaboration with their colleagues in the key macroeconomic ministries. This would entail increased financial resources for labour ministries but probably also alterations in the skill profiles of staff and improved access to training and retraining for existing staff.

***Employment impact analysis of macroeconomic policy is needed***

115. As the necessary skills are acquired, labour and finance ministry officials should jointly make employment-impact analysis an explicit element of macroeconomic policy decision-making. This would mean that governments systematically assess, and inform the general public of, the expected short- and



long-term implications for employment and social protection of the various domestic economic policy options. Implementation of this recommendation would require development of the necessary analytical tools to measure both the initial and second-order employment effects of policy reforms.

## ***Global coherence***

116. Achieving international consensus that we should have a world characterized by fair globalization, full employment and decent work, was a critical first step. President Zoellick of the World Bank has called this an “inclusive, and sustainable globalization”. The challenge now is to transform this goal into a set of workable and deliverable policies and measures, both globally and in each country.

***Need for workable policies at global level***

117. This, too, will require a team effort. Fortunately the signs of greater cooperation are multiplying. Over the last few years the ILO and the UN Department of Economic and Social Affairs have worked in close collaboration on a number of subjects. Work is ongoing with UNIDO on small enterprises. The ILO and UNEP are jointly engaged in the promotion of “green jobs”. As I mentioned before, the transition to clean energy has immense implications for industry. The technical expertise of UNEP and that of the ILO, coupled with social dialogue, could greatly assist enterprises, workers and governments in preparing for this major transition.

***Teamwork in the UN family is growing***

118. The Bretton Woods institutions are paying more attention to fundamental principles and rights at work in their policy and operational work. The procurement policies of the World Bank now include requirements to abide by the ILO’s fundamental Conventions. The International Finance Corporation (IFC) and the ILO are partners in a project now being implemented in several countries to promote the application of the fundamental Conventions and improve working conditions in global supply chains. On the other hand, there are still some difficulties to be resolved regarding the labour component of the World Bank–IFC *Doing business* reports.

***The international financial institutions are part of this effort***

119. Many of you have welcomed the close collaboration between the WTO secretariat and the ILO. The labour market challenges of trade liberalization are now better understood. Openness to trade undeniably leads to considerable labour market adjustments, with employment gains and losses. Alongside the detailed ongoing negotiations of the Doha Development Round many countries are better prepared to grasp the likely adjustments required in the labour markets. Much more work is needed to support countries with up to date knowledge and experience so that they can tailor labour market policies and measures to support expansion in some sectors and manage contraction in others. Skills shortages are a common occurrence, as are industrial restructuring, closure of enterprises and opening of new ones.

***Existing collaboration with the WTO has been fruitful ...***

120. The ILO and WTO could work together to provide training, knowledge and other support, to improve evaluation of actual or potential consequences for the labour market of trade agreements, including bilateral ones. For example, they might consider establishing a joint research programme and forum to discuss objectively the impact of proposed trade reforms on the quantity and quality of employment in all countries that would be affected by such reforms.

***... and could be extended***

121. New approaches might likewise be developed with the IMF and World Bank to review the employment consequences of far-reaching international financial and development reforms. Closer integration across relevant international institutions should help to maximize the positive global employment implications of international policy shifts.

***There are similar possibilities with the World Bank and the IMF***

## 4. A stronger ILO

***Strengthening ILO capacity is an ongoing priority***

122. Strengthening the ILO's capacities has been a central priority ever since we introduced strategic budgeting and results-based management in the 2000–01 budget. Since then, I have regularly reported to the Governing Body on advances made in ILO reforms – many of them suggested by constituents. But as we know, there is always an ongoing process to further refine and reform the ILO's tools and institutional framework.

### ***Strengthening the ILO's unique tripartite governance***

***For a stronger tripartite ILO ...***

123. This session of the Conference will continue a debate initiated last year on strengthening the ILO's capacity to assist its Members' efforts to reach its objectives in the context of globalization. As I indicated in my Preface to last year's Report V, this debate considers "how the tripartite mechanisms of the Organization can be used with added strength in the twenty-first century".

***... we must use the full potential of the ILO's mandate and mechanism***

124. The issue can be put as follows. The ILO has a formidable mandate, of obvious relevance to today's main economic and social policy issues. The tripartite ILO offers a unique mechanism for debate and follow-up on critical issues with an impact on decent work, globally, regionally and within countries. The central question is this: how are we to use the full potential of both mandate and mechanism to accelerate progress towards decent work?

***Strength comes from debate leading to guidance ...***

125. The Organization's ability to engage in topical, substantive tripartite debates that lead to practical guidance is a fundamental strength. We can resolve to make full use of this authority.

***... so we must widen the scope and impact of debate***

126. The space for in-depth policy discussions must be expanded to enable the Organization to develop more proposals for national constituents to consider. The links between the Conference, the Governing Body and national tripartite discussions must be made more visible. At each level the discussion should lead to a clear and traceable result, including follow-up on the part of the Organization and the Office.

***Improvements in the Conference should be followed by similar improvements in the Governing Body***

127. The structure and functioning of the Conference has recently been reviewed and adapted. There is a broad consensus on the new format. A similar exercise is required for the Governing Body. The mandates of its committees, procedures for setting the agenda, the scope of decisions and their follow-up, as well as procedures for informal consultations, all require analysis and consultations in order to improve the functioning of the Governing Body.

128. A key responsibility of the Governing Body is to review the results achieved through the ILO programme and budget. The Governing Body has recently made suggestions as to the kind of information and reporting it requires to fully exercise this responsibility. This includes both summarized information on targets achieved and resources expended and more in-depth analysis of the impact of ILO action.

***An important role of the Governing Body is to review results***

### ***A stronger knowledge base for the ILO's work***

129. At the 2007 session of the Conference, the Committee on Strengthening the ILO's Capacity concluded that:

The ILO must improve its knowledge, skills base, data-gathering and processing as well as analytical capacities in all areas, both at headquarters and in the regions. The ILO's research and policy development should be of the highest quality and should be tested against impact consistent with its objectives and delivery of the Decent Work Agenda. By these means, the ILO will enhance its efforts to become a global centre of excellence. The tripartite structure of the ILO gives it a unique comparative advantage and credibility in drawing lessons from its research and the results of country studies.

***The 2007 session of the ILC underlined the need for an improved ILO knowledge base***

130. Within the ILO, different activities require different types of knowledge.

- Much of the ILO's work is built around the development or promotion of particular policy instruments in areas ranging from microfinance to anti-discrimination law. The need here is for accurate knowledge on the impact of such policies.
- Support to sustainable enterprises requires adequate knowledge of the relationships between investment, skills, productivity, employment creation and other decent work outcomes in enterprises of different sizes and types – particularly the connections between good economic, social and environmental performance.
- The development of Decent Work Country Programmes points to another type of need, because such programmes comprise a package of activities aimed at different dimensions of decent work. They therefore need to be based on an understanding of how policy interventions in different fields interact, and which constellations of policies are most effective in generating progress towards decent work goals.
- The development of international policy perspectives requires understanding of a different order, covering broader economic and social relationships such as the factors responsible for change in the global economy and the implications for employment or poverty.
- The development of international labour standards calls for analysis of a different type – identifying gaps in legal and regulatory frameworks, exploring ways in which they might be filled, designing the corresponding international instruments and investigating how they can be better applied.

***Different types of knowledge are needed***

131. The ILO is heavily dependent on an adequate foundation of research to deliver this knowledge. At the same time, the labour and social policies at the heart of the ILO's agenda raise complex and often poorly understood issues. Questions such as the conditions under which universal social protection or full employment can be achieved, the optimal design of legal instruments for labour market regulation, or the development of institutions to increase the synergy between economic and social goals, are central concerns for the ILO's constituents, but the knowledge base and resources which the ILO can use to address them are insufficient and need to be reinforced.

***This calls for adequate research***

132. The ILO therefore needs both to consolidate existing knowledge and to try to fill gaps in that knowledge. It needs to strengthen its capabilities, in

***Clear goals should be set***

terms both of staff capacities and of the external networks on which it can draw. We should aim at the following:

- Better knowledge to guide organizational strategy and policy development.
- Improved knowledge support to ILO operations, policy advice and technical assistance, especially at country level, including providing the means to assess progress towards national decent work goals.
- Global recognition of the ILO as a centre of excellence in all areas of its mandate.
- Improved research capacity on labour and social policy issues among constituents and at national level.

## ***Managing ILO resources effectively***

### ***Managing the ILO's resources: The priorities***

133. Managing the human and financial resources of the International Labour Office in support of the Decent Work Agenda presents sizeable challenges in the current context of rapid technological change, new geopolitical patterns and increasing sophistication of public debates on social, economic, labour and environmental matters. I identify four main areas here.

### ***Ensuring that a new generation of high-calibre staff can take over***

134. The first is to manage the generation change in ILO staff. As staff born in the late 1940s and early 1950s pass into retirement, a new generation is coming up to take their place. Attracting young and talented people from diverse geographical backgrounds and offering them good career prospects through 2030 and beyond is an overriding objective. The skills profile of ILO staff should be adapted to the future requirements of the Organization.

### ***Improved means of delivering the ILO's knowledge***

135. The second challenge is to confirm the ILO's position as the pre-eminent service organization delivering information on the world of work. Analysis, data, reports, fact sheets, reviews of recent trends and online databases, are among the web-based knowledge products and services in which the ILO must continue to invest, drawing on the knowledge strategy outlined above. Ease of access to ILO knowledge will be a primary consideration.

### ***Improving the transparency and relevance of result-based management***

136. Results-based management is the established methodology for the ILO's programme and budget and for reporting on achievements. The third challenge is to deepen and refine this approach, and this includes simplifying it. The Strategic Policy Framework and the programme and budget should be built around stable and simple indicators of desirable end results. It should be easy for anyone to understand what the ILO does, how resources are used and what results have been and can be achieved. It is essential to ensure that constituents' guidance is effectively incorporated into this process, through the Conference, the Governing Body and Regional Meetings, and Decent Work Country Programmes.

### ***Deepening effectiveness and efficiency***

137. The fourth challenge is to deepen effectiveness and efficiency in ILO operations, broadly defined as transforming human and financial resources into services and products to enable constituents to achieve identifiable results with strong impact. High-quality, cost-effective services to constituents should be the overriding goal. The paramount tasks include:

- Achieving an optimal structure of offices in regions and countries.
- Controlling the balance between administrative and technical expenditure.
- Harmonizing ILO business practices with those of the wider UN system, where this is justified and feasible.
- Adapting the size and composition of programmes to future requirements.

## ***A resource base commensurate with the ILO's role***

138. In the ILO Governing Body there is a long-standing debate on the Organization's resource base. The "zero real growth" discipline of the ILO regular budget has been in effect for more than a decade. Total resources of the Organization have increased only through additional extra-budgetary resources, including the newly established Regular Budget Supplementary Account.

139. The broader question remains as to whether the ILO's resource base is adequate for the role constituents want it to play. Total contributions to the UN system for operational activities amounted to US\$15.7 billion in 2006. Some 68 per cent of that total went to four agencies (in decreasing order of importance: UNDP, WFP, UNICEF and UNHCR). The ILO's share (combining core and non-core contributions) was just under 3 per cent. The distribution of expenditure in 2006 by broad programme categories gives priority to health, humanitarian assistance, general development assistance and education, which together account for 64 per cent of the total. The share allocated to employment was 0.7 per cent and to social development 2.4 per cent.<sup>63</sup>

140. It is hard to escape the conclusion that the priority defined by the UN Economic and Social Council, of making full and productive employment and decent work a central objective of relevant national and international policies, is inadequately reflected in actual expenditure across the UN system.

141. Budget allocations express priorities. It is our common responsibility to reflect together on how to ensure that the priorities of the ILO and its constituents are given the appropriate weight.

***The ILO's resource base is static ...***

***... and small as a proportion of the overall UN effort***

***This expenditure pattern does not reflect the priority given by ECOSOC to decent work***

***We need to consider how to redress this situation***

## ***Celebrating the ILO's 90th anniversary***

142. The year 2009 will mark the ILO's 90th anniversary, and I have taken advantage of this occasion to launch the ILO Century Project. This looks back at the achievements of the ILO, examines the factors which have enabled our Organization to make progress towards its goals of social justice and decent work, and looks forward to the decade leading up to the ILO's centenary in 2019. The ILO has played a vital role in developing and supporting national and international policies in very different circumstances. Its tripartite capability, the strength of its values and the power of its instruments, have made it a central actor through boom and depression, war and peace, decolonization and globalization, progress and setbacks. The ILO has shown a remarkable capacity to adapt to changes in the global and national environment – changes which it has in turn influenced in no small measure. It must maintain this capability if it is to continue to play the same crucial role in the coming decades.

143. The ILO Century Project is based at the International Institute for Labour Studies, but commits the Organization as a whole – both Office and constituents – to promoting better understanding of our knowledge base and to ensuring that our actions, methods and successes are widely known, not least among those who participate in our meetings and Conference. We should reach the centenary with a consolidated foundation on which to build further into the twenty-first century.

***The ILO Century Project celebrates the 90th anniversary by looking forward in the light of past achievements***

***This project engages the whole Organization***

<sup>63</sup> Based on UN General Assembly, Economic and Social Council: *Comprehensive statistical analysis of the financing of operational activities for development of the United Nations system*, doc. A/62/74-E/2007/54, 3 May 2007.

***For April 2009,  
I propose a worldwide  
programme of tripartite  
events***

144. The last week of April 2009 will be the 90th anniversary of the final approval by the Versailles Peace Conference of the ILO's Constitution. During that week, I am inviting all constituents to hold high-level tripartite events and debates within each country on issues of interest to you within the general framework of "Social dialogue for decent work and a fair globalization", and to bring the conclusions to the 2009 session of the Conference. This global celebration on the contemporary meaning of our mandate will continue our tradition of building perspectives and solutions through dialogue. By being concentrated in a single week, it could have a truly global impact.

## 5. ***Conclusion: Towards the Strategic Policy Framework***

145. The preparation of the next Strategic Policy Framework covering the period 2010–15 provides a unique opportunity for constituents, working together, to forge a strong consensus on where we want to see this Organization in 2015. We look forward to a stronger ILO, working in close coordination with stronger constituents, empowered through dialogue, to consolidate and advance the Decent Work Agenda.

***The Strategic Policy Framework will help us build a stronger ILO***

146. The message of this Report is that the Decent Work Agenda makes the ILO a central actor in many domains. Recovery from the global slowdown requires a decent work perspective. Decent work provides pathways to help reduce poverty and inequality. It must be part of the global agenda for environmental and social sustainability. Our credibility comes in part from our mandate, but also from our tripartite constituency. Many broader goals cannot be achieved without the contribution of sustainable enterprises growing in a favourable social and economic environment; nor can they be achieved without the effective participation in dialogue and decision making of representative organizations of workers. By bringing these actors of the production system together with governments, the ILO offers a unique forum and distinctive instruments.

***The Decent Work Agenda makes the ILO a central actor***

147. On the basis of what we have already achieved and the improvements that we still need to implement, I look for your reflections on how best to take advantage of this strength to realize our principles, disseminate our values and achieve our goals. In which directions should we build our capabilities? What are the central issues we must address if the ILO's goals, values and instruments are to remain at the centre of national, regional and global agendas? How can we address them better? This is today's challenge, and if we meet it over the next decade the ILO will reach its centenary empowered to pursue its global effort to advance the social and economic goals of women and men, of workers, families, enterprises, communities and nations.

***We must pursue the effort to empower the ILO***

