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Report of the Director-General

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A New Era of Social Justice

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Contents

	<i>Page</i>
1. A new era of social justice	1
2. Undermining social justice.....	9
3. Social justice as the way forward	38

1. A new era of social justice

The 100th Session of the International Labour Conference and our inheritance

1. This year, the ILO celebrates the 100th Session of the International Labour Conference.
2. Moments such as these are important for any institution, not least ours, as the most senior economic and social organization of the United Nations family. They allow us pause to think about what has been achieved over the years and more importantly to look forward to the challenges ahead and what must be done to rise to them.
3. This Report places squarely before the Conference what I believe to be some key issues confronting the ILO as it approaches its centenary in 2019. They are the result of an inefficient growth pattern that has increased inequality throughout the world over these last 30 years. The task before us is to continue to work together to construct effective responses to these challenges – within the ILO itself, with our national constituency of governments, employers and workers, and through the ILO's cooperation with others. The eight years to 2019 will be of tremendous importance and responsibility for us; a demanding period, just as the last 92 years provide a rich source of experience, lessons and inspiration.

A vision of sustainable development for social justice

4. The world needs a new era of social justice inspired by a vision of sustainable development.
5. An era where people's needs, care for our planet Earth and fairness guide policy making; an era where the benefits of globalization are shared equitably; an era that can spark hope in our youth, creativity in our societies and the credibility of our public and private policies and institutions; an era where the dignity of work is promoted and respected; an era where voice, participation and democracy flourish.
6. Whether this remains just an idealized vision of a desired future, or becomes a practical reality that takes hold in our societies, will depend in many ways on the courage, convictions, ability and will power of the ILO and its constituents and on our capacity to work together and with others to pave the way for this new era. We know from our history that the ILO's tripartism, values and policy tools have the capacity to make change happen. The fact that ours has always been a difficult task anchored in the real life of individual societies, and one which we cannot achieve alone, should not deter us. Just think of Albert Thomas in 1919 promoting the idea that the world needed international labour standards through ILO Conventions adopted by this new, unfamiliar tripartite Organization. And yet today, every country in the world has labour laws influenced to some extent by ILO standards, and our fundamental Conventions have a 90 per cent ratification rate by parliaments, reflecting a near universal acceptance of principles if not always of their implementation.

A new world era is emerging

7. In fact, I believe a new world era has already begun. As the emergence of new eras in the past tells us, they begin with the breakdown of prevailing dogmas and power structures. This is certainly under way. The tightly-knit logic of the Washington Consensus no longer dominates. Power and economic weight are also moving. China and then India will be the world's largest economies in a not too distant future. The centre of economic policy-making previously dominated by the G8 countries is now changing, with the upsurge of large emerging economies expressed in new groupings like the G20, the BRIC, the ASEAN+7 and the Global Governance Group (3G).

8. So the shift is clearly happening, but as is normal in these transitions uncertainty abounds. The contours of the new reality are not clear. Fully fledged alternatives do not appear ready-made. They need to be worked upon. What objectives, what policies, what types of leadership are in the making, are all open questions. Our responsibility is to help to guide this new era towards social justice for a fair globalization.

9. But as we contemplate the way forward, some things are clear:

- We know that the continued growth of inequality and the accompanying social and development imbalances are not sustainable, either socially or economically.
- We know that the sum of economic, social and environmental options and priorities that have dominated policy-making for the last 30 years must change.
- We know from elections, from people in the street and from polls, that the confidence in our governance systems including politics and business (particularly the global financial system) are at an all-time low.
- We know that in too many countries – and especially in developed countries – once a full-scale depression was avoided, “business as usual” policies have come back. In social terms, it means that those working women and men, public servants, pensioners and small enterprises, which had no responsibility for the financial crash, are paying the highest personal costs and nowhere more than for people in those countries facing the pressure of financial markets on sovereign debt.
- And most dramatically, from an ILO point of view, we know that the great majority of working women and men, families, households, and small enterprises in the world, are anxious about their future and even angry because they see that their needs and aspirations are not really a priority. Symbols of this state of affairs are the unacceptably high levels of youth unemployment accompanied by indecent levels of income and wealth concentration.

10. We also see a growing feeling that many governments do not have the strength or the will to rein in the unaccountable power that financial operators have acquired over the life of our societies. We are told that the financial system is still fragile and continues to need an easy money policy in developed countries. At the same time profits and bonuses have come back to near pre-crisis levels as austerity begins to bite into the lives of millions seeking a living in the real economy. What does it all mean in terms of whose interests are driving policy? It looks like some financial institutions are “too big to fail” while many people are “too small to matter”.

11. Another visible preoccupation is the seeming inability of our political system to think long term, to come together on key national and international issues, to reassure citizens that *they* are the priority for policy-making. The fallout from the crisis is treated more as an electoral issue than an opportunity to develop a common approach in defence

of the national interest. Maybe the daring and courageous commitment of Arab youth is giving us a more relevant message: that real change today also demands a new era of peaceful social and popular mobilization that can project the voice and demands of people into the heart of political decision-making.

12. In deciding what our future policies should be, we must recognize that the global political scenario is changing rapidly before our very eyes. We see the growth of populism in Europe and the United States; revolt and revolution in the Arab world; doubts about the underlying fundamentals of both the euro and the dollar; a growing self-assurance in Asia and Latin America, but with persistent inequality; China, India, Brazil and other countries playing a greater global role, and stronger regional and subregional identities in developing countries. Japan's efforts to break free of long-term economic stagnation have been set back by recent tragic events. While growth approaching 5 per cent has returned to pre-crisis rates in Africa, with six of the world's ten fastest growing economies in sub-Saharan Africa, vulnerable employment and informal sector employment are increasing, and poverty rates are not declining.

ILO values and policies are needed more than ever

13. In this context, it is very clear that the Decent Work Agenda and a working ILO tripartism bring the possibility of better, more inclusive growth, of more peace, more equity and rights, less poverty and more stable development in economies, enterprises, workplaces and, ultimately, in society. ILO policies contribute to a world with fewer tensions, greater fairness and strengthened security. These are compelling contemporary echoes of the most striking passages of the ILO's founding constitutional texts. With our values and policies, we are on the right side of history.

14. Yet these last decades have been difficult for us. Dominant economic policy basically disregarded the founding values of the ILO and built an unequal and unbalanced globalization.

15. These policies overvalued the capacities of markets to self-regulate, undervalued the role of the State, public policy and regulations and devalued respect for the environment, the dignity of work and the social service and welfare functions in society. The overriding policy logic was to liberate the private sector to significantly increase investments and job creation. That is certainly an objective we share. But it failed to do this. Global investment rates were constant – or even decreased somewhat – from the 1980s to before the crisis. We have seen a fall in investment to GDP ratios in developed countries where financial market regulations have been substantially eased and a rise in the ratio in emerging economies, many of which did not follow this policy trend. Overall, liberalization of financial markets and the dismantling of international capital controls and accompanying measures to reduce the costs of doing business do not seem to have significantly boosted the global rate of investment.

16. On the contrary, the short-term logic of financial markets undermined the longer term horizon of sustainable real economy enterprises represented in the ILO, expanded the size of the financial sector, astronomically increased the market for “securitized” products and crowded out productive investments.

17. The resulting collapse of the financial system in developed countries generated a global crisis transmitted to the entire world through multiple channels. Although trade continued to increase significantly, it is now some 17 years since the completion of the

last successful global trade negotiations. Both of these key drivers of globalization are in a crisis of legitimacy.

18. Through these difficult times, the ILO persisted. We did not give up. We persistently expressed our conviction that in time our values would be proven right. We should be proud of having stood our ground. We have been a critical voice, sounding the alarm that something was going wrong – and that this had saddled the world with enormous decent work deficits. But beyond criticizing, the ILO’s tripartism has offered positive proposals for change that have been widely accepted by the international community and are the basis of our national work with constituents.

19. These proposals included the notion of universal respect for basic principles and rights at work, decent work as a global goal and a converging objective of all public and private policies, working out of poverty as a key approach to achieve the Millennium Development Goals, fair globalization creating opportunities for all, sustainable enterprises as the foundation of a productive real economy, a Global Jobs Pact in response to the effects of the financial and economic crisis, and a social protection floor for the most vulnerable. These are all policy contributions that can help to shape this new emerging era.

Moving to a new “efficient” growth path

20. We know how difficult it has been to advance on these issues. There are walls of structural impediments in the way of faster progress. They stem from an inefficient growth pattern with weak quality job creation and a marginalization of social and labour policies. As we have highlighted, it is often a growth pattern riddled with imbalances that need to be corrected. Our policy approach not only brings more social justice but also makes economic sense. Without policies consistent with the Global Jobs Pact, the employment and social outlooks would be much worse. Those countries that followed a more inclusive, job-centred strategy have been rewarded with more limited job losses, less social tension and therefore quicker economic recovery.

21. In this regard, I think that it is essential to counter the feeling of powerlessness that sometimes prevails, with people saying “There doesn’t seem to be anything we can do about it. These are powerful forces that are moving on their own”.

22. Well, they are not. They are the results of conscious policies put in place since the early 1980s, and these policies can be changed and must be changed. The way ahead is not to roll back the opening of markets and stifle the potential gains from increased international trade and investment, but by integrating them into balanced solutions based on social justice.

23. Markets always operate within social rules. Rules must respond to individual and societal choices and goals. Present rules are inefficient because they have led to a growth pattern which has generated increasingly unequal results for people and society. The aim of an efficient growth path is to agree on the primacy of the goal of social justice and the contribution of policies that can generate a different set of market outcomes – decent work outcomes. So the criteria for success cannot simply be a high level of growth measured in the narrow sense of GDP, but a broader and much more balanced set of outcomes that people are demanding.

24. Together with clarity on the goals we are pursuing, balance requires convergence, synergy and interaction among different policy areas. This is alien to the prevailing thinking guided by sectoral and piecemeal decision-making. We can have “efficient

growth” by combining the positive effects and dealing appropriately with the trade-offs between the following objectives within specific national and regional contexts:

- ❑ sound macroeconomic policies;
- ❑ higher level of investment and decent work creation through sustainable enterprises in the real economy;
- ❑ promoting inclusive and fair labour markets, including international labour standards;
- ❑ putting the financial system at the service of the real economy;
- ❑ making fiscal policies more progressive.

25. The positive message is that this can be done. I believe it is not beyond human ingenuity to combine these objectives with market outcomes that can lead to the new era of social justice. We can have open economies and open societies that foster fair results and respect for economic, social and cultural rights. But to do so, it is imperative that we establish balance.

- ❑ First, overall balance between the public policy and the regulatory function of the State; the wealth creation and innovative capacities of markets and the democratic voice of society and the needs of individuals, families and communities.
- ❑ Second, balance between the economic, social and environmental dimensions of life – a sustainable development approach.
- ❑ Third, balance between the financial economy and the real economy. The financial system must go back to its core business – lending for innovation, productive investment, facilitating trade and underwriting reasonable consumption needs.
- ❑ Fourth, balance between export-led strategies and the need to expand income-led demand and domestic markets,
- ❑ Fifth, balance between capital and labour, including a closer relationship between productivity gains and wage increases. The share of labour relative to capital in GDP has been declining over the past three decades.

26. As Pope John Paul II reminded us at the Workers’ Jubilee Mass in 2000: “All must work so that the economic system in which we live does not upset the fundamental order of the priority of work over capital, of the common good over the private interest”. Gandhi put it beautifully: “There is enough for everybody’s needs, not for everybody’s greed.”

Avoiding the danger of slipping back to “business as usual”

27. As I have said, the global financial and economic crisis bore out many of the arguments that had been made about the dangers of the current model of globalization. At the moments of maximum danger, when the cataclysm of total financial collapse was real, those arguments became common currency. Acceptance of past mistakes, of excess and irresponsibility and of the need to ensure that things post-crisis would never be the same again, rapidly became the rallying cry of political leaders of all types.

28. Today, as the prospect of immediate global collapse recedes, the costs of the crisis are still felt by millions who have suffered loss of jobs, sharp reductions in living standards, or are facing the prospect of future harsh austerity measures. There should be

no mistake. Acute social crisis is still the reality in much of the world. The wave of popular mobilizations in the Arab world is very much linked to long-term failure to address people's demands for decent jobs and for respect of their fundamental rights. We are still in a situation of great instability and no little danger.

29. Yet the feeling of urgency is draining away. It was acute danger that brought an unprecedented international response – primarily through the G20. As that sentiment recedes, so too can the commitment to act together to bring change. There has been a moment – difficult to define – when the sense of a global crisis became more a sum of national crises which each country had the responsibility to muddle its way out of. A decisive turning point came when the global financial system and its institutions had received sufficient support from governments, when the “too big to fail” banks were saved and could resume their activities unaided at an enormous cost to their citizens and the debt level of many governments. From then on it was a return to “business as usual”.

30. For those who believe that this can be the first crisis in history of comparable magnitude which is unlikely to generate significant policy change, three things are worth calling to mind.

31. Firstly, the sense of injustice, which did not start with this crisis but which was greatly magnified by it, remains acute. Those who feel – with reason – least responsible for it are paying the heaviest price. Secondly, those who – again with reason – are seen as having brought it about seem neither to be significantly affected by it nor ready to revise their behaviour in a way which would help avoid a repetition.

32. Thirdly, the global crisis has had a different impact on different regions of the world. Emerging and developing country economies have recovered more quickly, on the basis of stronger financial regulations and many policies proposed by the Global Jobs Pact. Unsurprisingly, given its genesis at the financial heart of the most advanced industrial and post-industrial economies of the North, it is in Europe, the United States, and Japan – the latter compounded by the impact of natural disaster – that the crisis is leaving its most enduring mark.

33. The effects of these developments on the world of work will surely be felt for many years ahead. The ILO, for its part, is confronted with a situation in which the danger of social regression seems most acute precisely in those developed regions which have historically been most receptive to its basic tenets and most disposed to put into practice its methods of social dialogue and tripartism. Conversely, and more encouragingly, by virtue of their economic strength, of their new-found assertiveness on the international scene, and of developments in their own societies, there is today a real opportunity for social progress in the emerging and developing world which, if realized, could have an enormous positive impact on the lives of countless millions of the world's citizens.

A time for ILO leadership

34. To help to change this situation I believe we at the ILO must have the confidence to play a leadership role in shaping the debate on the public and private policies of the future. But why us? Let me venture some reasons.

- The values and policies we stand for are precisely those that most people believe can bring a fairer and more sustainable future for all. Our proposals make common sense to many people.

- There is explicit support for our policies. As mentioned earlier, the ILO has received widespread governmental backing at the highest level for our approach in the United Nations and regional organizations as well as parliamentary institutions, and within civil society, among others.
- The ILO is a source of balance. Agreement among the ILO's tripartite constituency, grounded in the reality of the real economy, brings balanced approaches to complex problems. This is essential in dealing with the types of imbalances I have mentioned.
- We must apply the positive energy and the decision-making capacity that constituents have shown since the mid-1990s on key ILO policies to help this new era emerge.

35. That is why this 100th Session of the ILC is so important on the way to our 100th anniversary in 2019. It reminds us that we are the heirs of a proud past and the caretakers of a difficult present, immersed in the struggle for a better future that we hope generations to come can be proud of.

36. So let us look at that history and its contemporary meaning.

37. The ILO's history unfolds from those most telling passages which are the Preamble to the ILO's Constitution of 1919 and its annex, the 1944 Declaration of Philadelphia cited in this Report. They remind us of a fundamental and constant proposition by which this Organization must continue to be guided if it is not to lose its way. It is the paramount goal of achieving social justice through all ILO action.

38. Today, it has become imperative to insist again on the practical implementation of the pre-eminent rationale of social justice for our Organization, as further developed by the 2008 ILO Declaration on Social Justice for a Fair Globalization.

39. What is fair and equitable in the world of work can be a matter of justifiable disagreement, particularly where equally legitimate competing interests come into play. In such cases, and where fundamental rights at work are respected, societies have worked out mechanisms to arrive at acceptable solutions on labour market issues which meet the criterion of fairness – and the criteria of economic realism too. These are the mechanisms of social dialogue and collective bargaining which together with international labour standards are the defining identity of the ILO's tripartism.

Looking ahead

40. In Part 2 of my Report, I highlight the data showing rising social and economic imbalances and inequalities of our societies under the model of globalization which has been evolving since the final two decades of the last century. Many stem from developments in the world of work over recent decades. The trends are a cause for serious and urgent concern, as they point to a world that risks becoming unsustainable in many ways – economically, environmentally, socially and politically.

41. In Part 3, I propose that there is an urgent need to chart a new pattern of growth – an “efficient growth” that can deliver on decent work opportunities for all. Globalization based on social justice is the only system compatible with the objectives of the ILO. I conclude that the ILO can and must live up to its proud history by placing the need to shape a new era of social justice firmly on constituents' national agendas and thus also on the table of international policy coherence.

42. In these uncertain and in many ways difficult circumstances, I believe that the ILO's constituents need to reflect deeply on the future role of our Organization in the new era that is emerging. This year's historic Conference provides an opportunity to begin that analysis. It meets at a time when many people are deeply concerned about the future of the global economy and of our planet. For many there is little reason to look to the future with optimism, for whom a good outcome would be personal or collective survival, and who have difficulty believing that their children will live better than they do.

43. It is for them, and for us all, that we need to turn to the task of constructing a new era of social justice. The ILO cannot do it alone and it will not, in any case, be done tomorrow. But for those who are deterred by the magnitude of the task, I would recommend a reading of the Preamble to the 1919 Constitution or the 1944 Declaration of Philadelphia. We are building on the shoulders of those who went before, and our shoulders need to be broad enough to bear the weight – and earn the respect – of those who come next.

44. This reminds us of what the leaders who drafted our Constitution saw clearly: we are part and parcel of social and political processes, which shape both our priorities and our capacity for action at different times in history. We were born out of the social struggles of the nineteenth and early twentieth centuries. More than 90 years down the road, even after many ILO policies have become law and practice, our values and policies are urgently needed for a better, more balanced world.

45. So, in thinking about our future role, we must act with self-assurance. We must not forget that the ILO is the single most important public-private partnership contributing to global governance in the history of the world. When many of the dysfunctional policies we are trying to change today will have become lost memories, the ILO will still be there. We have been and will continue to be up to the task.

2. Undermining social justice

Imbalances of globalization and inefficient economic growth

46. Market economies can be highly efficient in generating the growth in output that enhances living standards. When we look at averages, this is what has happened. Over the past 30 years, world average GDP per person increased by 40 per cent. Through a combination of policy choices, political changes and technological innovation, globalization has played a role in enabling countries to produce more, reach wider markets, retool productive sectors on the basis of comparative advantage, and strengthen enterprises through exposure to broader competition.

47. But averages are not what most people experience. Markets have tended to produce unequal outcomes. While the rate of growth captures regular attention, it is the pattern of growth and its social consequences that should command closer scrutiny. When we look at patterns of growth from this perspective it is very inefficient.

Globalization with a strong social dimension

48. In my Report to the 1999 session of the International Labour Conference, introducing the notion of decent work, I wrote: “Globalization has brought prosperity and inequalities, which are testing the limits of collective social responsibility. ... Globalization has turned “adjustment” into a universal phenomenon for rich and poor countries alike. ... If present trends continue unchecked the greatest threat we face is instability arising from growing inequalities.”¹

49. The subsequent 12 years have confirmed this proposition.

50. I have been an outspoken critic of this unequal and unbalanced globalization as much as I have been a supporter of a globalization with a strong social dimension.

51. In 2004, we assembled a world-class panel of policy-makers and academics, including Nobel Prize laureates, to produce a robust list of key recommendations to that end. The World Commission on the Social Dimension of Globalization introduced its report as follows: “There are deep-seated and persistent imbalances in the current workings of the global economy, which are ethically unacceptable and politically unsustainable. ... The imbalance between the economy and society is subverting social justice.”² In 2005, the United Nations General Assembly stated: ‘We strongly support fair globalization and resolve to make the goals of full and productive employment and decent work for all, including for women and young people, a central objective of our relevant national and international policies as well as our national development strategies ...’.³ In 2010 the General Assembly recognized slow progress in reaching full and productive employment and decent work for all.”⁴

¹ ILO: *Decent work*, Report of the Director-General, International Labour Conference, 87th Session, Geneva, 1999, pp. 1 and 5.

² World Commission on the Social Dimension of Globalization: *A fair globalization: Creating opportunities for all*, report submitted to the International Labour Conference, 92nd Session, Geneva, 2004, p. 3.

³ United Nations, document A/RES/60/1.

⁴ United Nations, document A/RES/65/1, para. 20.

52. Already in 1995, the World Summit for Social Development, attended by over 120 Heads of State and Government, called for greater attention to people's security and well-being as an outcome of economic growth.

53. As head of the preparatory committee of the Summit, I advanced then some of the themes I have been fighting for all my life. The Copenhagen Declaration on Social Development adopted at the Summit opens, inter alia, with the following: "We acknowledge that the people of the world have shown in different ways an urgent need to address profound social problems, especially poverty, unemployment and social exclusion, that affect every country. ... We share the conviction that social development and social justice are indispensable for the achievement and maintenance of peace and security within and among our nations. ... We are deeply convinced that economic development, social development and environmental protection are interdependent and mutually reinforcing components of sustainable development, which is the framework for our efforts to achieve a higher quality of life for all people."⁵

54. These statements attest to the search, throughout these years, for a pattern of growth with broad opportunity and social progress. Today this debate has intensified as it is increasingly evident that we have an inefficient pattern of economic growth.

Inefficient growth shares out gains unevenly, thereby eroding social cohesion

- Income inequality has risen in most countries, with incomes at the very top running away from average incomes. In developed economies, income inequalities have translated into wealth inequalities and may undermine social mobility in the coming years – the very basis of the social fabric.
- Globally, 80 per cent of the population shares 30 per cent of the world's wealth. Between 1990 and 2007, the bottom 20 per cent of the world's population raised its share of total income up from 1.5 per cent to 2 per cent.
- 3.5 billion persons share as much income as 61 million persons in 2007.⁶
- In the United States, between 1976 and 2007, the income share of the top 0.1 per cent more than quadrupled from 2.3 per cent to 12.6 per cent.⁷
- Poverty (at US\$1.25 a day) is declining, but very slowly to 1.4 billion people in 2005 from 1.8 billion in 1990; at this rate it would take another 88 years to achieve a world without extreme poverty.⁸
- To halve poverty rates by 2015 relative to 1990 (Millennium Development Goal 1) least developed countries (LDCs) would need to double the growth of productive employment (providing income above the poverty threshold) to 7.1 per cent from the current 3 per cent.⁹

⁵ United Nations, document A/CONF.166/9.

⁶ I. Ortiz; M. Cummins: *Global Inequality: Beyond the Bottom Billion*, p. 11, para. (B), New York, UNICEF, 2011.

⁷ A. Atkinson; T. Piketty; E. Saez: "Top Incomes in the Long run of History" in *Journal of Economic Literature*, (2011, Vol. 49, No. 1), p. 6, para. 2.

⁸ ILO estimates based on World Bank data and using a constant elasticity of growth to poverty reduction ratio on average over the last decade.

⁹ ILO: *Growth, employment and decent work in the least developed countries*, Geneva, 2011, p. 22, para. 1 and table 1.8.

- Gender pay differences are narrowing, extremely slowly; at the current rate another 75 years will be needed to bridge this gap.
- Some 75–80 per cent of the world’s population has no access to basic social protection.¹⁰
- Frustrated social aspirations sow the seeds of social and political instability. Many studies have documented the link between high income inequality, social unrest and political instability leading to lower economic growth.¹¹ Recent events in the Middle East and North Africa are a stark reminder of this. The 2011 *World Development Report* shows, through survey data, how in two-fifths of responses, young men identify unemployment and perceived injustice as the major cause of their joining gangs and rebel groups.¹²

The goal of more and better jobs remains a distant reality, aggravated by the global crisis

- Of the 3 billion people at work today, half are in some form of self-employment mostly by necessity, not by choice.¹³
- Informal employment (as a share of non-agricultural employment) averages over 50 per cent in developing regions.
- The incidence of so-called non-standard employment is on the rise in developed economies – a trend which has continued as economies recover from the global crisis.
- Searching for and not finding a job is the fate of some 205 million persons today as measured by the official definition of unemployment; if we add those who are underemployed and willing to work more, and those discouraged from seeking employment, then unemployment numbers could easily double.
- At 12.6 per cent, the unemployment rate among young women and men is globally 2.5 times the adult rate; rates range from 8.3 to 25.1 per cent across regions.
- Globally child labour is declining, yet in 2008 215 million children are still at work, approximately half in hazardous work; some 12 million persons are estimated to work in conditions of forced labour.¹⁴
- The ratification of fundamental labour standards has increased by 53 per cent since 1998 to 1,322 at the end of December 2010, equivalent to 90 per cent of the potential total number of ratifications across 183 member States; yet actual application varies widely between member States, enterprises and workplaces.

¹⁰ ILO: *Social security for social justice and a fair globalization*, Report VI, International Labour Conference, 100th Session, Geneva, 2011 p. 78, para. 210.

¹¹ See International Institute for Labour Studies: *World of Work Report: From one crisis to the next?*, Geneva, ILO, 2010.

¹² World Bank: “Conflict, Security and Development”, *World Development Report*, Washington, DC, 2011, p. 9, feature 2.

¹³ ILO: *Global Employment Trends 2011: The challenge of a jobs recovery*, Geneva, 2011.

¹⁴ ILO: *Accelerating action against child labour*, Report of the Director-General, Global Report under the follow-up to the ILO Declaration on Fundamental Principles and Rights at Work, International Labour Conference, 99th Session, Report I(B), Geneva, 2010; and *The cost of coercion*, Report of the Director-General, Global Report under the Follow-Up to The ILO Declaration on Fundamental Principles And Rights at Work, International Labour Conference, 98th Session, 2009, Report I(B), Geneva, 2009, see p. 5, para. 19.

The economy itself has become more unstable, affecting sustainable enterprises in the real economy

55. Since 1980, on average a financial crisis has rocked the world every three years. This has usually been preceded by large capital movements, rising commodity prices, and interest rate hikes. On average, it takes two years for output and 4.8 years for employment to recover to pre-crisis levels.¹⁵
- In developed countries labour productivity increased at twice the rate of wages in the decade to 2009, with similar trends observed in 16 of 21 emerging and developing countries, thereby shrinking the share of wages in total income and weakening global demand.
 - Globally, the share of investment in GDP has declined by over 2 percentage points between the mid-1980s and 2009;¹⁶ in other words, rising profits have not resulted in greater investment efforts.
 - The share of profits originating from finance, rather than the real economy, rose to 42 per cent in developed countries, up from 25 per cent in the 1980s.¹⁷
 - The share of retained earnings for investment has stayed constant while the share of profits going to the payment of dividends has risen rapidly in developed countries, doubling in the United States to 46 per cent over the period 1980–2008.
 - Small enterprises are the main employment machine; yet their priorities are routinely overlooked in policy-making, regulatory arrangements, access to finance, training opportunities, infrastructure investments and other forms of support.
 - Finally, there are links between inequalities and unstable economies. The 2008–09 global recession is commonly attributed to rising inequality, stagnating median incomes and abundant credit lavished on potentially insolvent households whose income from work had been stagnating.¹⁸ Beyond the global crisis, higher inequalities entail costs in terms of personal security, imprisonment and deterrence. At any given rate of growth, high inequality countries need more time to reduce poverty than less unequal ones.
56. Let us look at some selected evidence in greater detail.

Pervasive and rising income inequalities

57. A large number of countries display rising inequality as measured by the Gini coefficient – about two-thirds of countries with comparable data.¹⁹ In another third, inequality has not increased, or has moderately declined from very high levels. Countries above the line in figure 1 conform to the pattern of rising income inequality between 1980 and 2000. In a typical country, inequality has inched up steadily every year. Over

¹⁵ C. Reinhart; K. Rogoff: *The aftermaths of financial crises*, NBER paper No. 14656, Jan. 2009.

¹⁶ See *International Labour Review*, special issue devoted to the global crisis, 2010, based on IMF statistics.

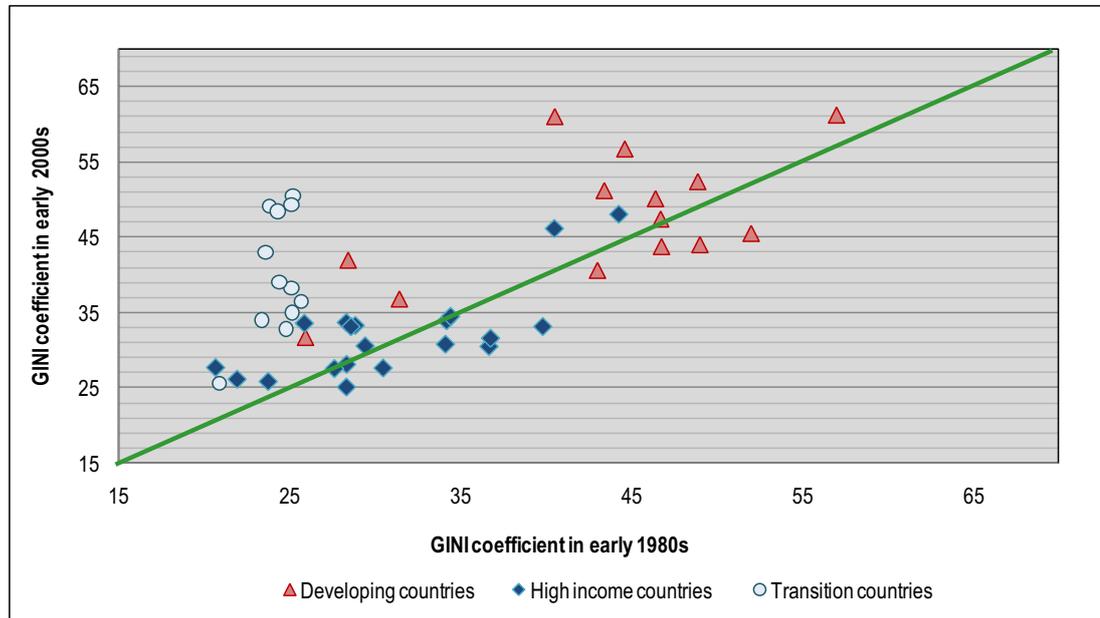
¹⁷ International Institute for Labour Studies: *World of Work Report 2009: The Global Jobs Crisis and Beyond*, Geneva, ILO, 2009, p. 45 para. 2.

¹⁸ International Institute for Labour Studies: *World of Work Report 2008: Income inequalities in the age of financial globalization*, Geneva, ILO, 2008.

¹⁹ The Gini coefficient is a measure of inequality in which zero corresponds to a distribution in which everyone gets equal shares and one to a distribution in which just one person receives all the income. A higher number thus equates to higher inequality.

two decades this translates into sizable shifts in income distribution in favour of those at the top – with much less for all others.

Figure 1. Rising inequality is the dominant trend since the 1980s



Source: WIDER database; ILO calculations.

58. For some years now, what has been happening at the very top of the income distribution has been astonishing.²⁰ In the United States, for example, the share of income going to the top 10 per cent of the population was below 35 per cent during most of the post-war period, started to increase dramatically in the early 1980s and has now reached 50 per cent – a level last seen in the 1920s. In other words, the top 10 per cent of the population has as much income as the remaining 90 per cent of the population combined. This distance between the top 10 per cent and the rest of the population is not unusual in many countries today.

59. The rise in the share of total income going to the top 10 per cent of the population is overwhelmingly accounted for by what has happened to the earnings of the top 1 per cent and, sliced even more thinly, by what has happened to the top 0.1 per cent of the entire distribution. By 2007, the top 1 per cent in the United States accounted for 23.7 per cent of total income in the country.

Rising wage polarization between the bottom and the top

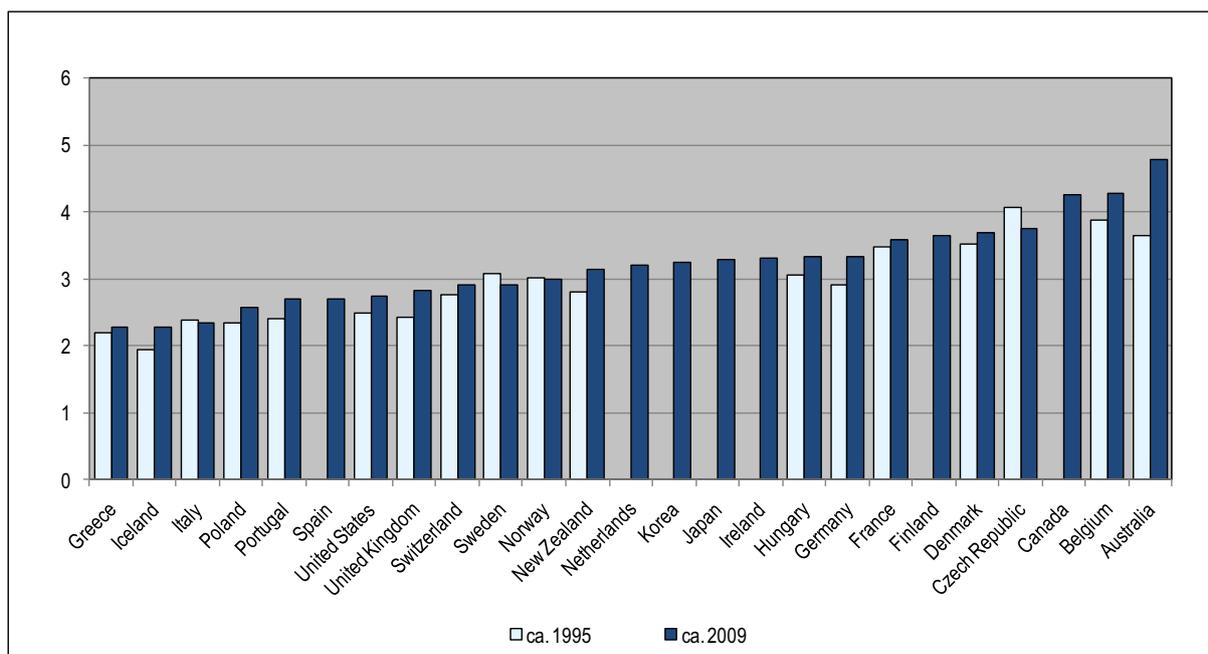
60. Comparing the top and bottom 10 per cent of earnings, (the D9/D1 ratio),²¹ wage inequality has been rising in 15 countries since 1995, but fallen in only four countries

²⁰ See J.G. Palma: “Homogeneous middles vs. heterogeneous tails, and the end of the ‘Inverted-U’: The share of the rich is what it’s all about”, in *Cambridge Working Papers in Economics*, No. 1111, 2011.

²¹ The indicator is calculated as the ratio of the decile limits of the 9th decile (i.e. 90 per cent of all wage earners earn less than this amount) and the 1st decile (i.e. 10 per cent of all wage earners earn less than this amount).

(Belgium, France,²² Ireland and Japan). On average, the ratio increased from 3.00 in 1995 to 3.23 in 2009 (see figure 2). For developing and emerging economies, a slightly more positive picture emerges with declining wage inequality in 11 countries and rising inequality in five countries with available data. The average D9/D1 ratio is above 10 in these countries, far above that seen in industrialized countries.²³

Figure 2. We are growing more unequal
Changes in earnings inequality as measured by the D9/D1 ratio



Note: Decile ratios for industrialized countries refer to earnings of full-time employees only; data for emerging and developing economies are not always strictly comparable due to conceptual and methodological differences.

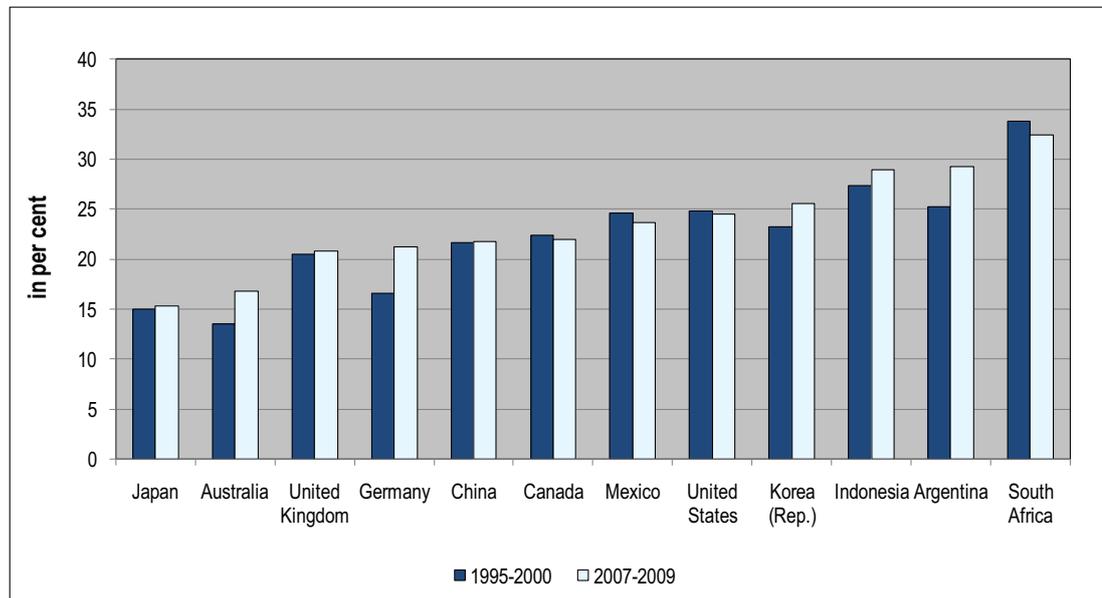
Source: OECD database on earnings distribution and ILO Global Wage database.

61. One consequence of increasing wage dispersion is a rising proportion of people on low pay; a pattern observed in 25 out of 37 countries with data available (figure 3).

²² Recent information for France suggests, however, that the shares of those at the very top (0.1 and 0.01) rose sharply between 1998 and 2005. See presentation by Francois Bourguignon at the OECD Forum on Tackling Inequality, 2 May 2011.

²³ Note that data for emerging and developing economies are not always strictly comparable due to conceptual and methodological differences.

Figure 3. More women and men have low-paying jobs
The share of low-pay in selected countries (defined as the proportion of persons earning less than two-thirds of median wages)



Source: ILO Statistics.

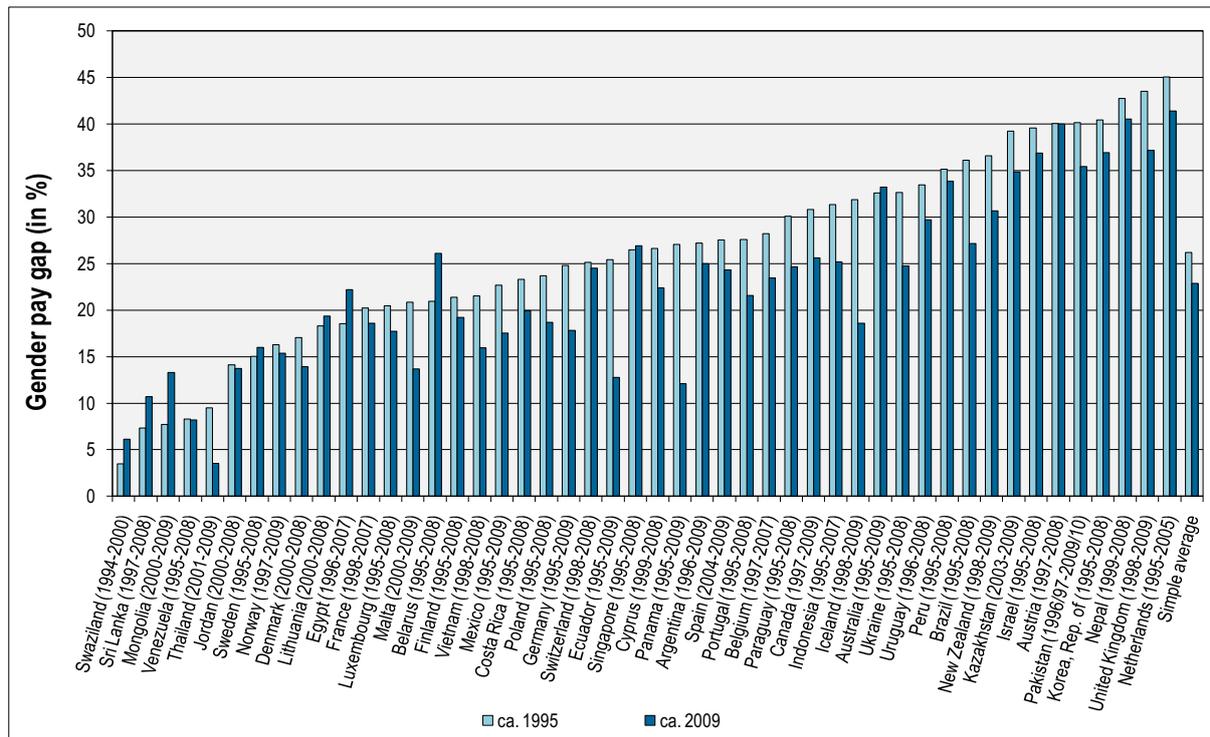
62. There are multiple explanations for polarization, and globalization holds a prominent place. Even more important today is what can be done about it.

Persistent pay inequality between women and men

63. On average, the shortfall of women's earnings compared to men's was 22.9 per cent during the period 2008–09 (figure 4). This is an improvement over the gap observed in 1995 (26.2 per cent). A positive trend can be observed in 39 out of 48 countries. Nonetheless, at the current pace of progress it would take more than 75 years to apply the principle of “equal remuneration for work of equal value” promoted in the widely ratified Equal Remuneration Convention, 1951 (No. 100). Women shoulder a disproportionate amount of unpaid care work and tend to work fewer hours than men. However, even on an hourly basis, women in the European Union earn on average 17.1 per cent less than men.²⁴ Differences in education or experience can often account for some of the wage differences, but this explanation has lost credibility in view of women's educational achievements and the closing of the gender gap in work experience.

²⁴ Refers to 2009 for the European Union of 27 countries. See Eurostat, as cited above.

Figure 4. Women’s earning are catching up with men’s but very slowly
Evolution of the gender pay gap, ca. 1995 to ca. 2009

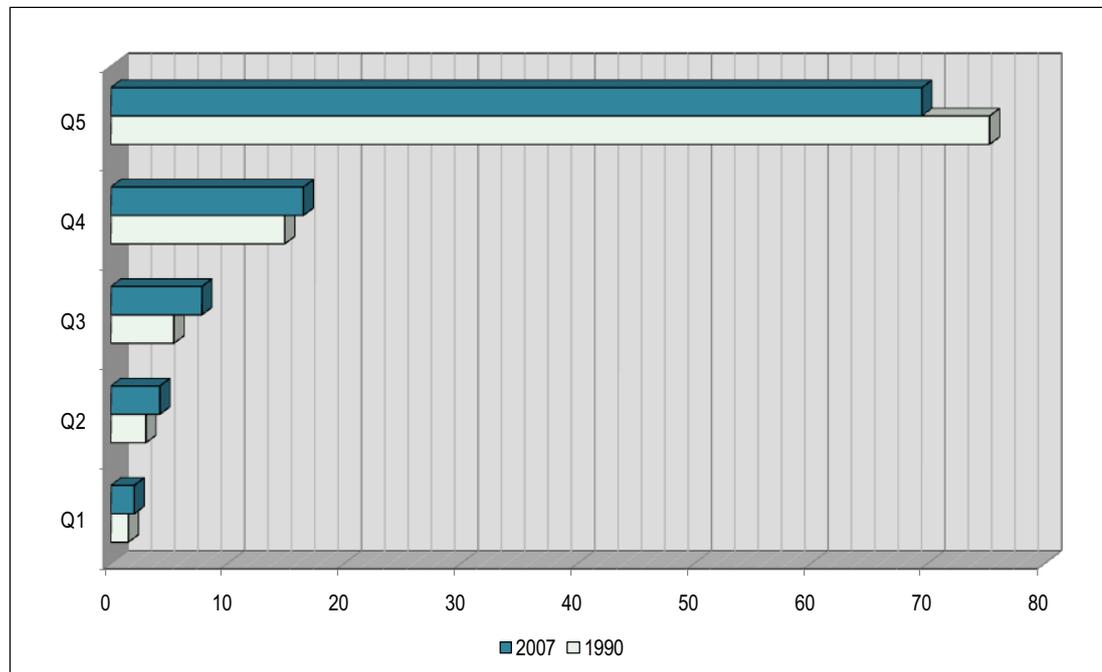


Source: ILO Statistics; Eurostat.

The world is a highly unequal “country”

64. We live in a highly unequal world where 80 per cent of the world’s population shares 30 per cent of the world’s wealth, with 70 per cent accruing to the top 20 per cent (figure 5). Even more graphically, the wealthiest 61 million (1 per cent of the world’s population) have the same amount of income as the poorest 3.5 billion (56 per cent of the world’s population). If the world were a country it would rank among a few highly unequal countries (or stand out in the top right hand corner of figure 1).

Figure 5. The world, if we think of it as a country, is dramatically unequal
Global income distribution (population quintiles, 1990 and 2007, in PPP constant international dollars)



Source: I. Ortiz; M. Cummins: *Global Inequality: Beyond the Bottom Billion*, New York, UNICEF, 2011. See pp. 7, 9.

Finance squeezes the real economy

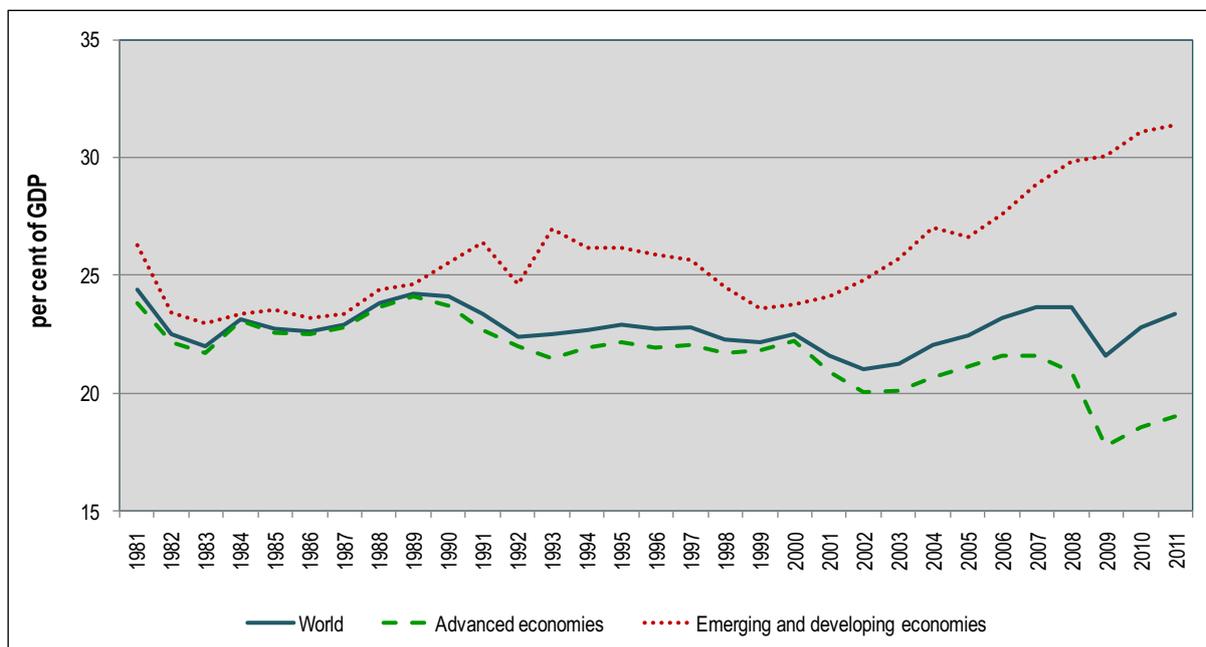
65. A clear winner of the unsustainable globalization we are witnessing has been finance.

66. The trend towards the “financialization” of the economy has a number of consequences. The share of profits originating from finance, rather than from the real economy, rose to 42 per cent in developed countries in 2007, up from 25 per cent in the 1980s. The weight of finance in the economy suggests that its role has “morphed” from servicing the financial intermediary needs of the real economy into a main driver of the economy pursuing its own development.

67. Another indication is the distribution of enterprise profits, especially the share going to the payment of dividends, which has doubled in the United States to 46 per cent in the period 1980–2008, from 23 per cent during the period 1946–79. Conversely, the share of retained earnings (for investment) has stayed constant over the same period at 18 per cent of profits (after taxes). A similar trend is observed in Europe.

68. A third consequence is the declining share of investment as a percentage of GDP, especially in developed countries. The trend is depicted in figure 6.

Figure 6. The fall in the investment ratio in developed countries has not been balanced by an increase in the emerging world: Investment (as percentage of GDP), 1981–2011



Source: IMF: *World Economic Outlook* database, online.

69. The share of growth going to investment has declined in developed countries (by 3 percentage points over the period) while it has increased in the more recent period in emerging and developing countries. Less investment implies fewer jobs, especially of the type accessible to the bottom 90 per cent of the working-age population.

70. Conversely, more dividend payments and high to very high pay packages in the financial industry contribute to the skewed income distribution documented above.

71. A fourth consequence is a decline in entrepreneurship and new business formation linked to the distortions attributed to an oversized financial sector.²⁵

Wages lagging behind labour productivity growth

72. Globally, the relationship between labour productivity and wages has considerably weakened in the past decade.

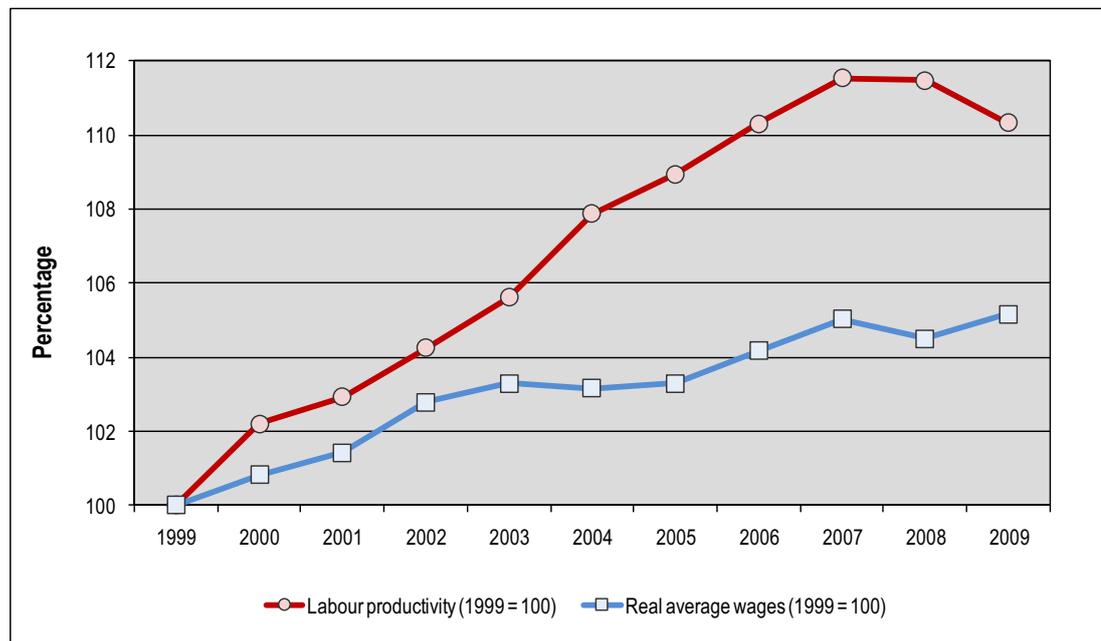
73. Labour productivity is running ahead of wage increases in a large number of countries. In developed countries labour productivity grew by 10.3 per cent over the past decade, roughly twice as fast as wages (figure 7). ILO estimates show that in 16 of a sample of 21 emerging and developing countries, a similar pattern prevails.

74. Overall, 17 out of 24 countries with data going back to the early 1980s registered a falling wage share, although with substantial cross-country variation. A close look at the data reveals that structural changes in the economy – such as a shift towards more capital-intensive sectors – are not the main cause behind the decline in wage shares. Rather, the downward trend has been caused by falling wage shares *within* sectors.²⁶

²⁵ P. Kedrosky; D. Stangler: *Financialization and its entrepreneurial consequences*, Kauffmann Foundation, March, 2011.

²⁶ ILO: *Global Wage Report 2010–11: Wage policies in times of crisis* (Geneva), Ch. 2 and Technical Appendix II.

Figure 7. Real wages lag growth in productivity
Productivity and wage growth in developed countries (1999 = 100)



75. The decoupling of wage growth from productivity growth implies a falling wage share, with direct implications for aggregate demand globally. When the shortfall in wages is met through debt-fuelled consumption, this can lead to an unsustainable build-up of household debt; this was one of the proximate causes of the global crisis.²⁷

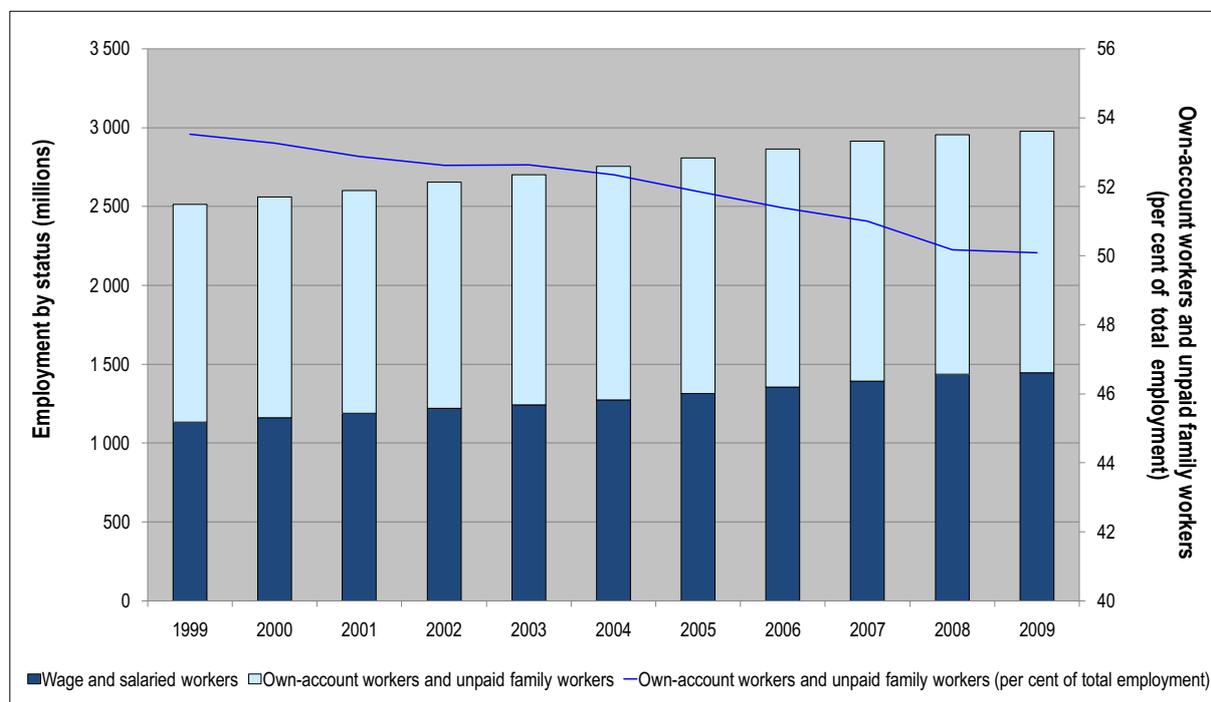
A slow rise in wage employment

76. Today, 3 billion persons get up every working day to go to work. That is two in every three persons aged 15 to 64 years in the world. The world's labour force grew by 496 million in the decade to 2009. The increase will reach 357 million in the decade to 2020, with some 57 per cent aged 15–39 years.

77. The growth in the labour force can be disaggregated into growth in wage employment and in own-account and contributing family work. The latter is mainly work done within households such as on small, often subsistence family farms and in the urban informal economies of the developing world. Wage employment expanded by 322 million between 1999 and 2009, reaching 50 per cent of total employment, while the number of own-account workers and contributing family workers increased by 146 million. Women's share in such work has declined more rapidly than men's. Figure 8 gives some insight into this trend.

²⁷ See M. Kumhof and R. Rancière: *Inequality, Leverage and Crises*. IMF Working Paper WP/10/268 (Washington, DC, IMF, 2010).

Figure 8. Slow shift from subsistence household economy to wage work
Wage employment and own-account workers and contributing family members in the world, 1999–2009



Source: ILO: *Global Employment Trends*, Jan. 2011.

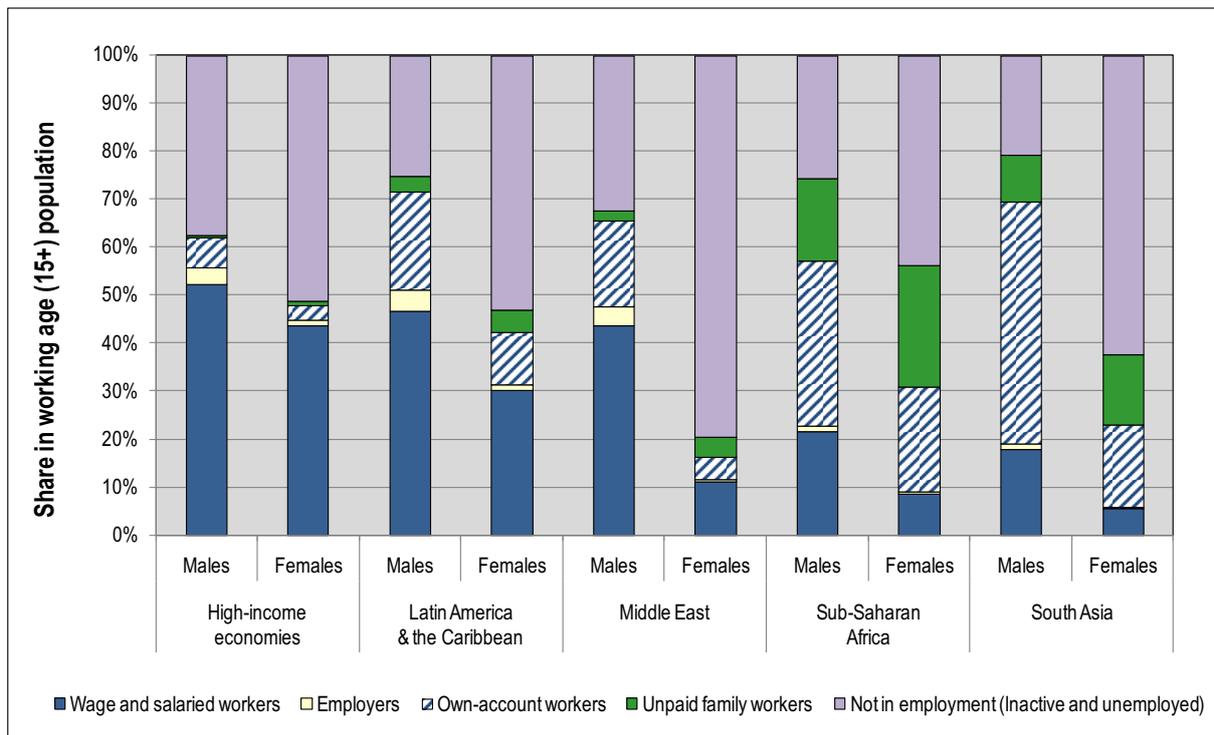
78. Historically, the share of wage employment in total employment rises with per capita income. As economies diversify out of agriculture and the size of the informal economy falls, the share of own-account workers and contributing family members tends to decline. It remains the case that in 2009, 50 per cent of workers around the world – an estimated 1.53 billion – were in own-account and contributing family work, down modestly from 53.5 per cent in 1999.

79. At this rate, how long would it take to reduce the share of own-account work in the world to the more or less 20 per cent share that currently exists in developed countries? About 100 years!

80. Nor is the shift away from own-account and contributing family work homogeneous across regions. The regions with the largest shares of own-account workers and contributing family work saw the least progress in terms of a shift towards wage employment. In South Asia, 100 million more workers were own-account workers and contributing family members in 2009 than in 1999, with wage employment accounting for 30 per cent of total employment growth. In sub-Saharan Africa, more than 64 per cent of the region's growth in employment over the period was in own-account and contributing family work.

81. As figure 9 shows, women are disproportionately engaged in own-account and contributing family work. In sub-Saharan Africa, only around 15 per cent of women are in wage employment, versus 29 per cent of men.

Figure 9. The share of women in wage work remains unchanged in most regions
Male and female status in employment by region

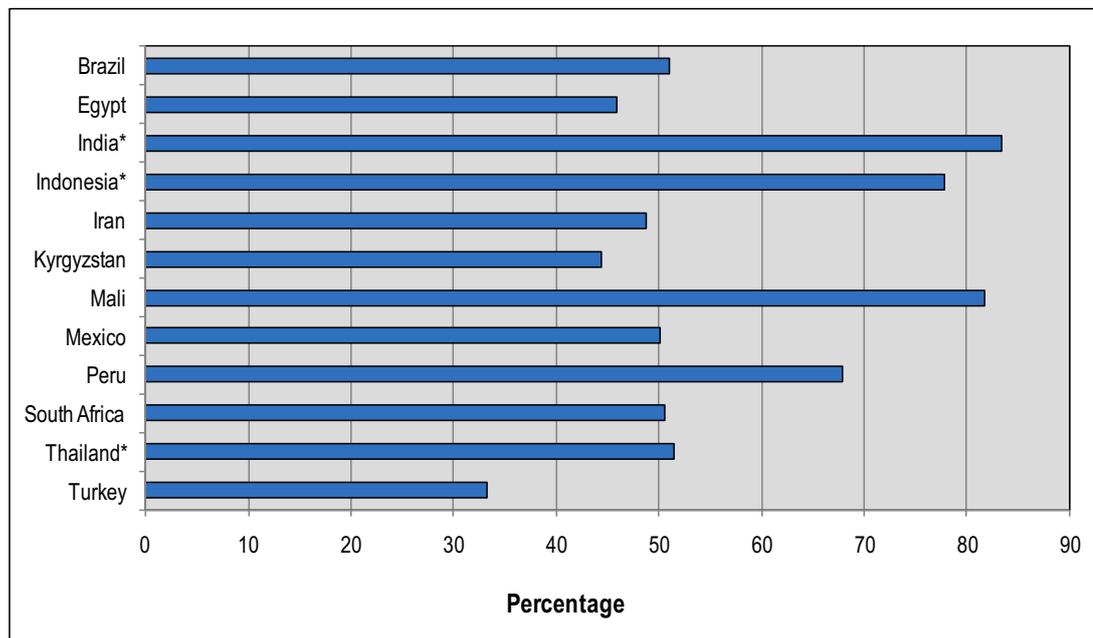


Source: ILO: *Global Employment Trends*, Jan. 2011.

Persistent informal employment

82. In the developing world, whether in paid jobs or in own-account work, over the past ten years, the majority of these 496 million workers have been absorbed into the informal economy. In a sample of 12 emerging and developing countries shown in figure 10, the share of informal employment in non-agricultural employment was 57 per cent. On average, one third of informal employment is in wage employment and two-thirds in own-account work.

Figure 10. The informal economy is a “normal” source of employment in many countries
Share of informal employment in non-agricultural employment (ca. 2000), selected countries



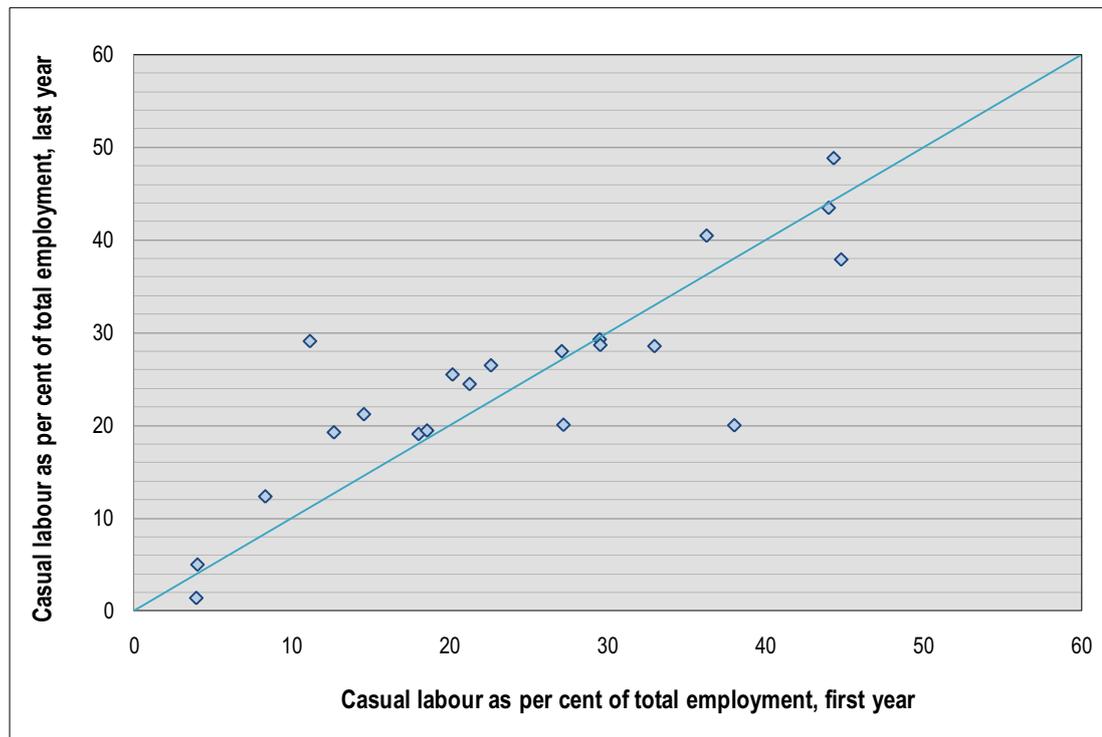
Note: * Data for late 1990s.

Source: J. Charmes: “Concepts, Measurement and Trends” in *Is Informal Normal? Towards More and Better Jobs in Developing Countries*, J.P. Jütting and J.R. de Laiglesia (eds), OECD. See Ch. 2, p. 34, table 2.1.

83. Casual day labourers in developing countries often have the lowest earnings of any status of employment – and no job security whatsoever. Their numbers are also increasing (figure 11). For the countries in the sample²⁸ many more are above the line, showing that there has been an increase over time in the share of casual wage labour in total employment.

²⁸ List of countries and episodes: Argentina (1998–2003); Botswana (1996–2006); Brazil (2001–03); Chile (1996–2003); China (1990–2003); Costa Rica (1990–2003); Ecuador (1990–2003); El Salvador (1995–2003); Honduras (1996–2003); Indonesia (2001–03); Jamaica (1998–2002); Mauritius (1995–2008); Mexico (1991–2003); Panama (1991–2003); South Africa (2001–07); Sri Lanka (1997–2007); Thailand (1990–93); Turkey (1998–2007); Uruguay (2000–03); Viet Nam (1996–98); Zambia (1990–2000).

Figure 11. Casual labour is increasing in many countries, circa 1999–2000
Casual employment as a per cent of total employment



Source: ILO Statistics, estimates.

84. Casual or precarious wage employment is by no means confined to developing countries. In Europe eight employed persons in ten are in wage employment. However, increased flexibility in recent years has contributed to a greater diversification of employment status, resulting in an increase in non-permanent, non-full-time forms of employment. In recent years, approximately 22 per cent of employees have some type of non-standard employment contract (or no contract at all). In the prime-age group (25–49 years), about 72.5 per cent of workers could not find permanent jobs and are in involuntarily temporary employment. This is shown in table 1.

Table 1. Most temporary workers would prefer a full-time job
Atypical wage employment in selected European countries

	Wage workers in total employment (%)	Type of contract			Involuntary temporary employment (%) (aged 25–49 years)	
		Indefinite contract	Temporary contract	No contract	2000	2009
		% of wage employment	% of wage workers	% of wage workers		
EU 25	82.2	76.4	15.1	6.8	62.3	72.5
Bulgaria	84.5	59.8	21.3	6.3	67.7	78.0
Germany	89.5	76.7	10.3	3.8	34.8	41.1
Ireland	81.0	46.3	13.7	27.7	55.7	78.6
Italy	68.0	52.4	15.2	6.1	61.5	75.9
Poland	76.2	52.2	24.0	5.8	57.6	77.1
Slovenia	89.8	68.2	14.5	9.5	53.3	62.0
Spain	80.1	52.3	25.3	8.1	96.3	92.2
Sweden	91.4	77.1	12.6	0.2	65.5	69.9
United Kingdom	84.6	56.5	16.7	14.1	53.5	61.0

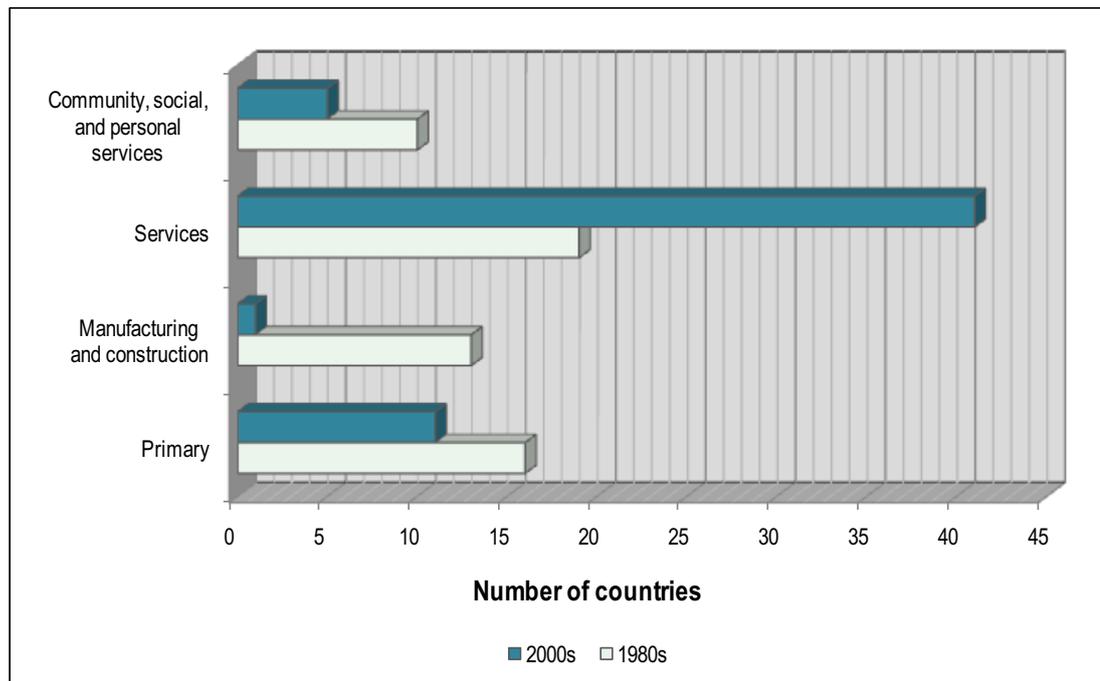
Source: European Foundation for the Improvement of Living and Working Conditions: Fourth European Working Conditions Survey, 2005; Eurostat for involuntary temporary employment data.

A rising share of employment in services

85. Taking a 20-year perspective on the sectoral distribution of employment illustrates the rising importance of employment in services. This is shown in figure 12 for a sample of 58 countries with available data.

Figure 12. Service sector jobs on the rise

The major sector for employment for 58 countries in the mid-2000s compared with the mid-1980s



Source: ILO Statistics, estimates.

86. In the mid-2000s, services, including employment in trade, restaurants, transport and communication, finance and real estate, became the dominant employer in 41 of the 58 countries in the sample. Manufacturing and construction was the major employer in 13 countries in the mid-1980s, but remained so in only one country of the sample in the mid-2000s.

87. This positive “ripple effect” of productivity and growth in one sector on the rest of the economy depends upon the extent to which structural transformation in the rest of the economy is proceeding along the same employment-absorbing, output-expanding, and productivity-increasing lines – the “readiness” of these sectors, so to speak. However, when labour is displaced into low productivity occupations then overall growth may be weakened.²⁹

88. Historically, the service sector tends to expand as countries produce more and become richer. But there are other transitions at work, as the service sector has become more important even in poorer countries. Services occupy the major share of employment even in many developing countries. All too many of the jobs are in the urban informal economy, which often simply means a migration of poverty from rural to urban, and from agriculture to services.

89. For the poorest countries, low-productivity work and the absence of economic diversification appear to go hand-in-hand – and nowhere more clearly than in LDCs. In these countries the effort to ignite structural change and to catch up with the rest of the

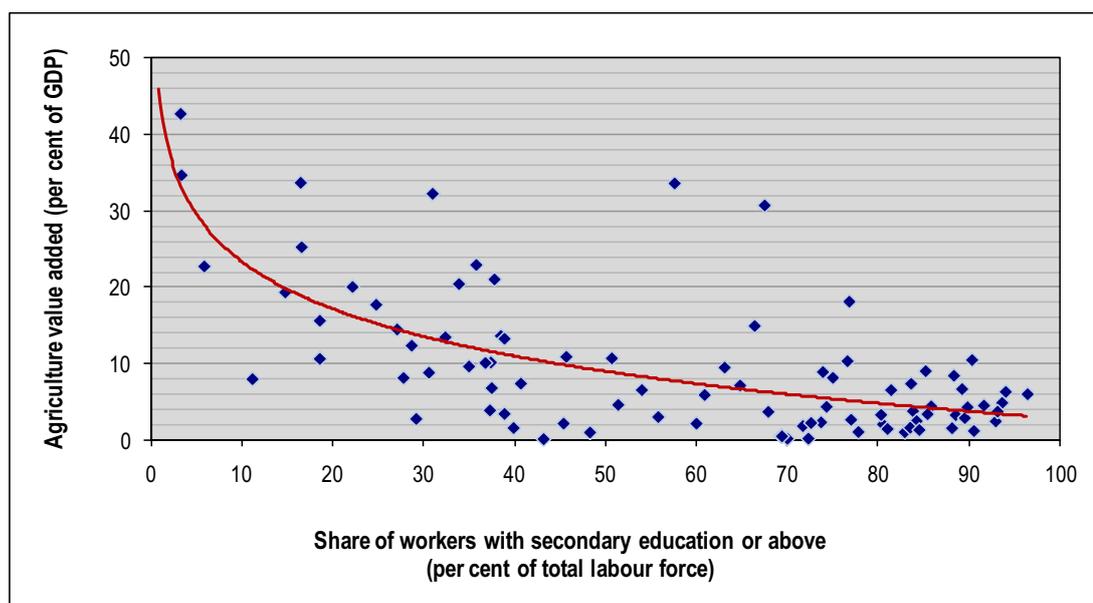
²⁹ M. McMillan and D. Rodrik: *Globalization, structural change, and productivity growth*, Geneva, ILO–WTO, forthcoming.

developing world through the classic channel of exports of manufactures poses arduous challenges.³⁰

Skills development can lead to structural transformation

90. The level of education and the level of productivity and incomes are closely correlated (see figure 13). A strong educational base allows a country to move into new, more value-adding activities and sectors, and to do so more rapidly.

Figure 13. Structural transformation and education go hand-in-hand



Source: ILO calculations based on World Bank Development Indicators 2011.

91. The evidence convincingly points to broader education enrolment preceding shifts into higher value added production. For example, industrial upgrading and growth in the Republic of Korea, Costa Rica and China, followed a dramatic reduction in the share of the population without schooling or incomplete primary education. These countries adopted a forward-looking approach and promoted diversification into higher value added products and technologies by investing in upper secondary and post-secondary education.

92. A strong educational base can accelerate the sectoral transformation of output and employment. There is a demand side to this change, but there needs to be a ready supply side to make it happen. Without adequate education and skills, such transformation that does occur is more likely to be from agriculture to the urban informal service.

³⁰ D. Campbell: *Employment-led growth and growth-led employment in the recovery* (Geneva, ILO, 2011), Ch. 8.

Globalization and its bearing on patterns of employment

93. In the future, global employment patterns will continue to be largely shaped by globalization.

94. For many developing countries, getting a foothold in the competitive global market for manufactures is more difficult, now that some of them have been able to do so with such efficiency and such an accumulation of productive resources. The barrier to entry is higher for any would-be emulators of the Asian miracle. Those same barriers to entry could well fall in the same successful developing country exporters in which they have arisen, as they too will want to import from even lower cost countries.

95. The share of manufacturing employment has declined rapidly in the more developed countries, often leading to the replacement of good, well-paid jobs with much less well-paid jobs in services.

96. Shaped by demography and rapid growth, countries such as China are reaching a “turning point” leading to rising wages and income. This will lead them to become importers of labour-intensive goods which they have become too wealthy to produce. Other developing countries should not discard the potential of attracting investment and promoting exports of labour-intensive manufactures in their own trade and industry policies and job-creation strategies.

97. Beneficial economic diversification through structural transformation, and the paid, “regular” jobs that such diversification has historically brought, appears to be more difficult to attain in the current global pattern of growth. In all countries, enterprise, employment and labour market policies need to be formulated in local sectoral terms taking into account global trends.

Has full employment disappeared?

98. Full employment was an explicit and active objective of government policy during the three decades following the Second World War, when productivity, employment and wages grew at sustained rates without inflationary pressures. This was the time when the ILO adopted the Employment Policy Convention, 1964 (No. 122), calling on governments to declare and pursue an active policy for full, freely chosen and productive employment.

99. Since the 1980s this policy has been overtaken by a concern for raising the flexibility of the labour market.

There are insufficient jobs for all working adults seeking one

100. The standard indicator here is the level of unemployment. That it remains stubbornly high is bad enough; worse still is the fact that it hides a broader indication of labour underutilization – time-related underemployment, a measure of those who are in fact “employed” but for far fewer hours than they would wish to be. Table 2 shows that when the unemployment rate is added to the rate of time-related underemployment, a greater indication of labour underutilization than just unemployment is the result and is often far greater.

Table 2. Unemployment is the tip of an iceberg of underemployment
Unemployment and time-related underemployment, 2009, selected countries and regions (in per cent)

Country	Unemployment rate (ILO definition)	Time-related underemployment rate (TRU/Total employment)	Unemployment + TRU economically active population	Difference (in per cent of unemployment rate)
Russian Federation	8.5	0.8	9.3	9.1
Slovenia	5.9	0.6	6.5	10.3
South Africa	24.0	4.8	27.6	15.1
Mexico	5.5	1.0	6.4	16.3
Poland	8.2	1.5	9.6	16.5
Turkey	14.2	3.0	16.8	18.2
Colombia	12.0	4.4	15.9	32.4
Brazil	8.1	3.1	10.9	34.7
European Union (27)	9.0	4.5	13.1	45.9
United States	9.3	6.4	15.1	62.1
Argentina	8.7	11.1	18.8	116.5
Australia	5.6	8.1	13.3	136.6
Indonesia	8.0	14.5	21.4	167.0
Peru	8.4	15.4	22.5	167.8

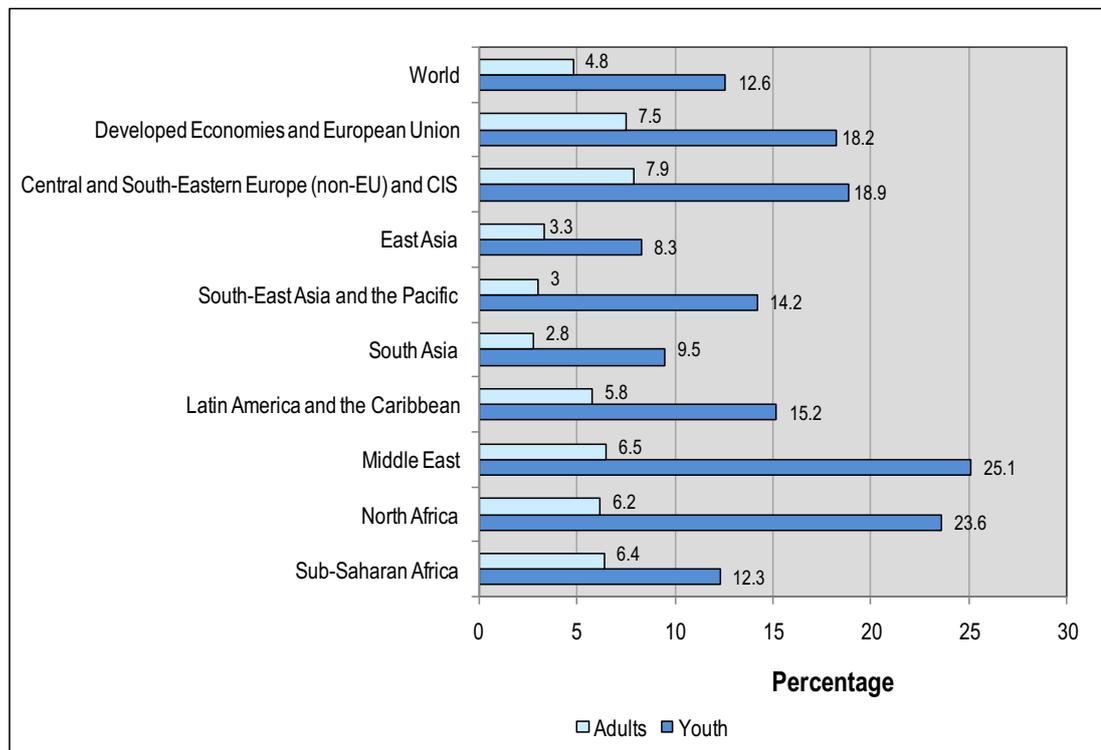
Source: ILO Statistics.

101. A broad measure of unemployment (the unemployed plus underemployed plus persons not currently actively looking for work but available and wanting to work, as defined by the United States Bureau for Labor Statistics), gives an average for 27 countries of 16 per cent in 2009 (third quarter) as compared to 8.9 per cent for the conventional ILO definition of unemployment.³¹

102. The deficit in employment opportunities is nowhere greater than for young people. Their unemployment rate is always a multiple of adult unemployment rates, but it is particularly pronounced today. As figure 14 shows, youth unemployment is highest in the very regions where social unrest has recently erupted. It would be hard to consider this to be a coincidence.

³¹ OECD: Supplementary material to the *Employment Outlook 2010*, Paris, 2010.

Figure 14. Young women and men are much more likely to be unemployed than adults
Unemployment rate for youths and adults 2010 (in percent)



Source: ILO: *Global Employment Trends 2011*, pp. 62 and 63, table A3.

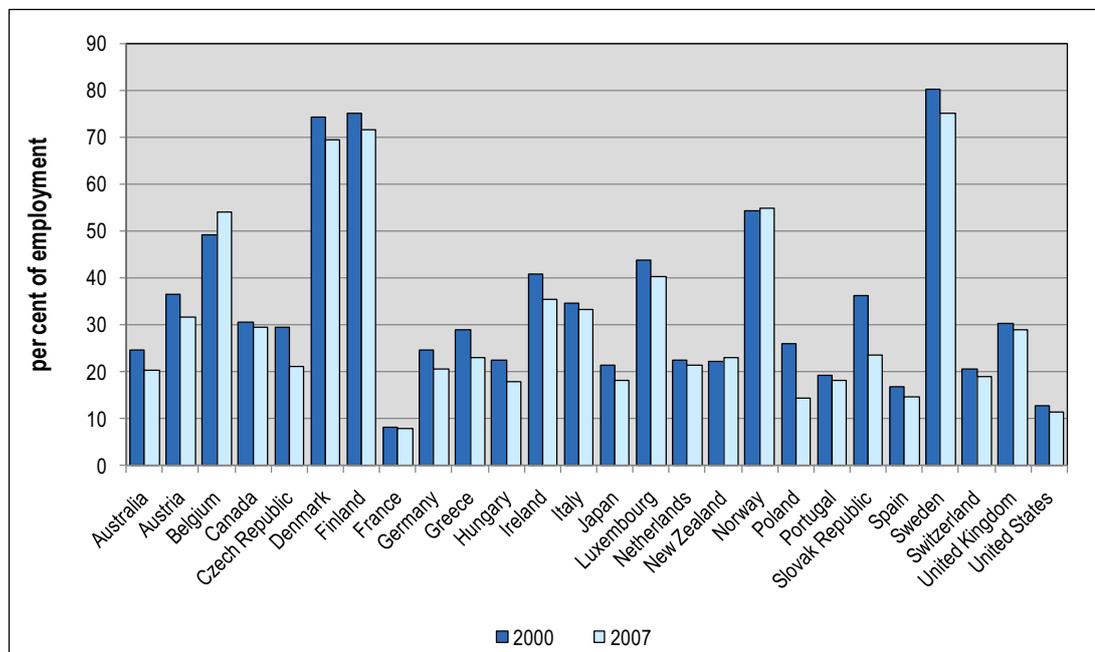
Declining trade union membership and collective bargaining

103. Trade union membership is on the decline in many countries, mostly as a result of public policies and multiple changes in employment. Nevertheless trade unions remain significant actors. Of a sample of 26 developed countries, trade union membership averaged 30.7 per cent of all employed in 2007, down from 34 per cent in 2000. The range varies from 8 per cent in France to 75 per cent in Sweden, with a median at 23 per cent (figure 15, panel A). However, median collective bargaining coverage was much higher at 62 per cent in 2007 (figure 15, panel B).

Figure 15. Union membership is declining but coverage of collective agreements stays up in developed countries

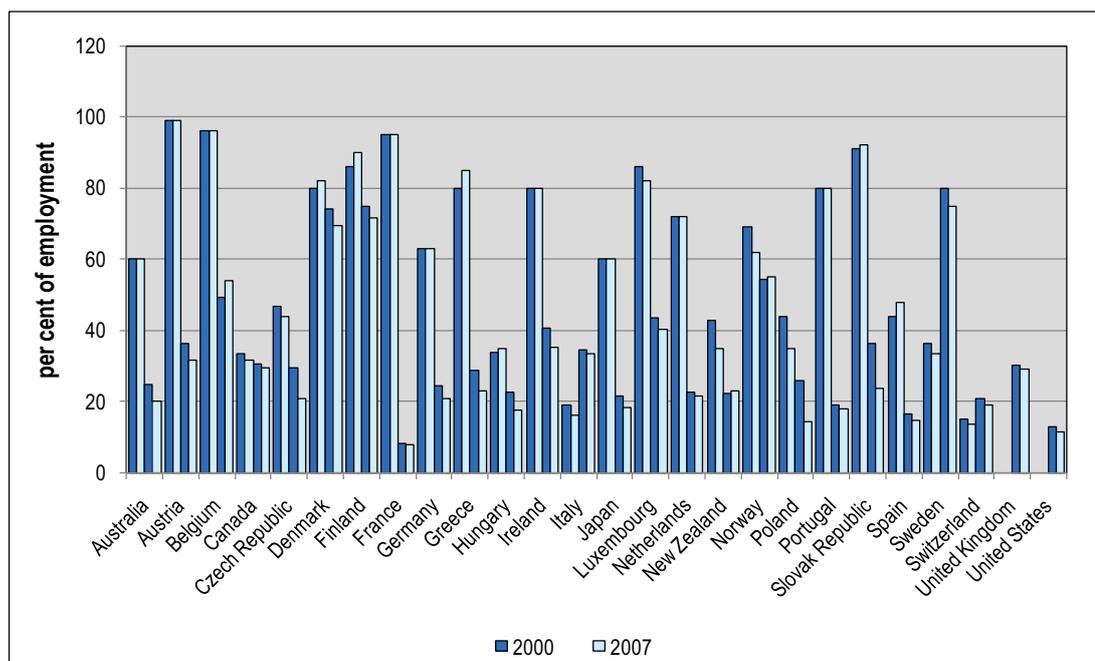
Trade union density and collective bargaining in developed countries

Panel A: Trade union density



Source: Visser, ICTWSS database.

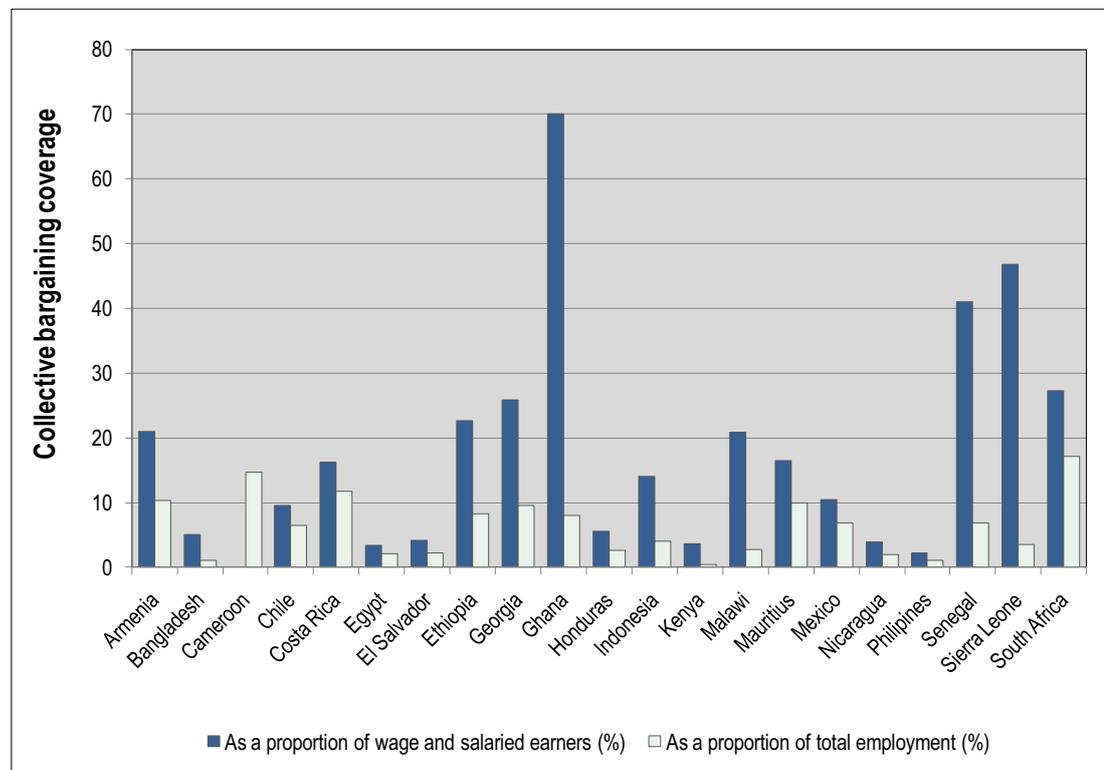
Panel B: Collective bargaining coverage



Source: Visser, ICTWSS database.

104. In emerging and developing countries, coverage of workers in wage employment by collective agreements tends to be limited (figure 16), averaging 18.6 per cent across 22 countries.

Figure 16. Lower coverage of collective agreements in the developing world



Note: Kenya: Proportion of private sector wage workers only.

Source: Hayter, S.; Stoevska, V. 2010.

Social dialogue and collective bargaining contain wage inequality

105. Collective bargaining has an important role to play in strengthening the link between wages and productivity growth. Collective bargaining ensures workers' share in the productivity gains, and thereby also contributes to productivity. Collective bargaining contributes significantly to lowering wage inequality. Some key findings are shown box 1.

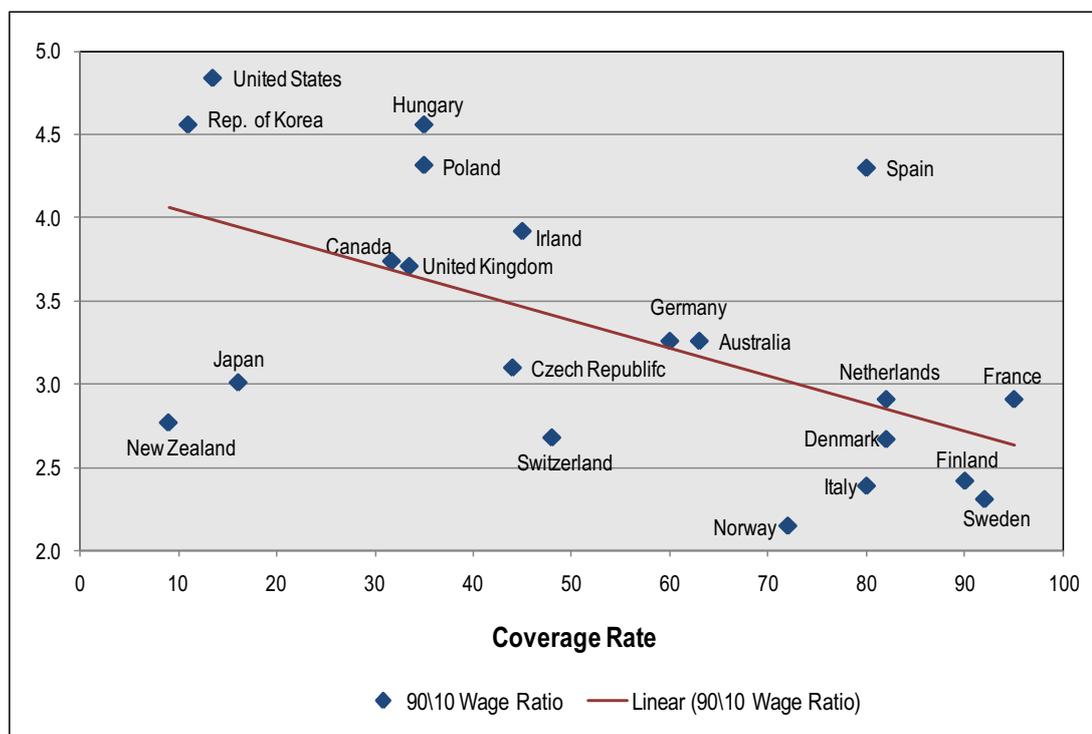
Box 1
What is the empirical record of trade unions and collective bargaining on wage inequality? Main empirical conclusions

- ❑ There is a positive union/non-union wage differential, i.e. unions raise wages beyond what the “market” might determine.
- ❑ Unionization does not lower employment levels or increase unemployment nor, in developing countries does unionization reduce the size of the formal economy and expand the size of the informal economy.
- ❑ Unions and collective bargaining “compress” wage distributions, thereby reducing wage inequality.
- ❑ Compression upwards from the bottom earnings deciles dominates the union wage compression effect.
- ❑ In high-income countries, the wage-compression effect in the unionized sector dominates the disequalizing effect between unionized and non-unionized sectors such that overall wage inequality declines.
- ❑ The magnitude of the positive effect on wage equality depends upon the level of collective bargaining (more centralized), the degree of bargaining coordination (more coordinated), and the extent of collective bargaining coverage (more extensive).
- ❑ Because of low union density and coverage in developing countries, the within-sector effects of collective bargaining are unlikely to affect aggregate outcomes.
- ❑ Unions and minimum wages reduce the male–female earnings differential.

Source: Hayter and Weinberg (eds), forthcoming 2011.

106. These findings are substantiated by the relationship between collective bargaining coverage and wage inequality (figure 17). Higher collective bargaining coverage rates usually go hand-in-hand with greater wage equality.

Figure 17. Wage distribution and collective bargaining coverage, ca. 2006



Source: S. Hayter and B. Weinberg (eds): *Mind the gap: Collective bargaining and wage inequality*, forthcoming 2011.

Massive gaps in social protection coverage

107. Around 75–80 percent of the global population does not have access to adequate social security coverage.³² Many do not have access to essential health care. For others, a lack of minimum income security for those with insufficient earnings capacities translates into poor nutrition, health, and education, leading to poor productive capacities for themselves and their children.

Social protection is an investment in people

108. Well-designed social security benefits are one element of policies promoting productive employment, gender equality, social cohesion and sound economic growth. Social protection enhances participation in the labour market, by enabling women and men to engage in productive employment and contribute to economic development, as various examples from countries as diverse as Bangladesh, Brazil, India, Mexico and South Africa, show.³³

109. Social protection empowers individuals to seize market opportunities and enhances their productivity. It is a powerful instrument for reducing poverty; it encourages school enrolment and discourages child labour. Social protection acts also as an economic stabilizer of fluctuations in economic activity, a role well illustrated during the recent crisis. It is an ingredient of a more inclusive growth strategy, widening the distribution of the benefits of growth.

A tool for redistribution

110. Countries differ remarkably in the extent to which they use their tax and transfer systems to reduce inequality. Figure 18 provides Gini coefficients for market incomes (total size of the bar) in 24 countries, mostly from the 2000s.³⁴ The graph then shows the amount by which transfer receipts and income taxes and mandatory social insurance contributions reduce inequality. The overall result is a much lower Gini coefficient for disposable incomes.

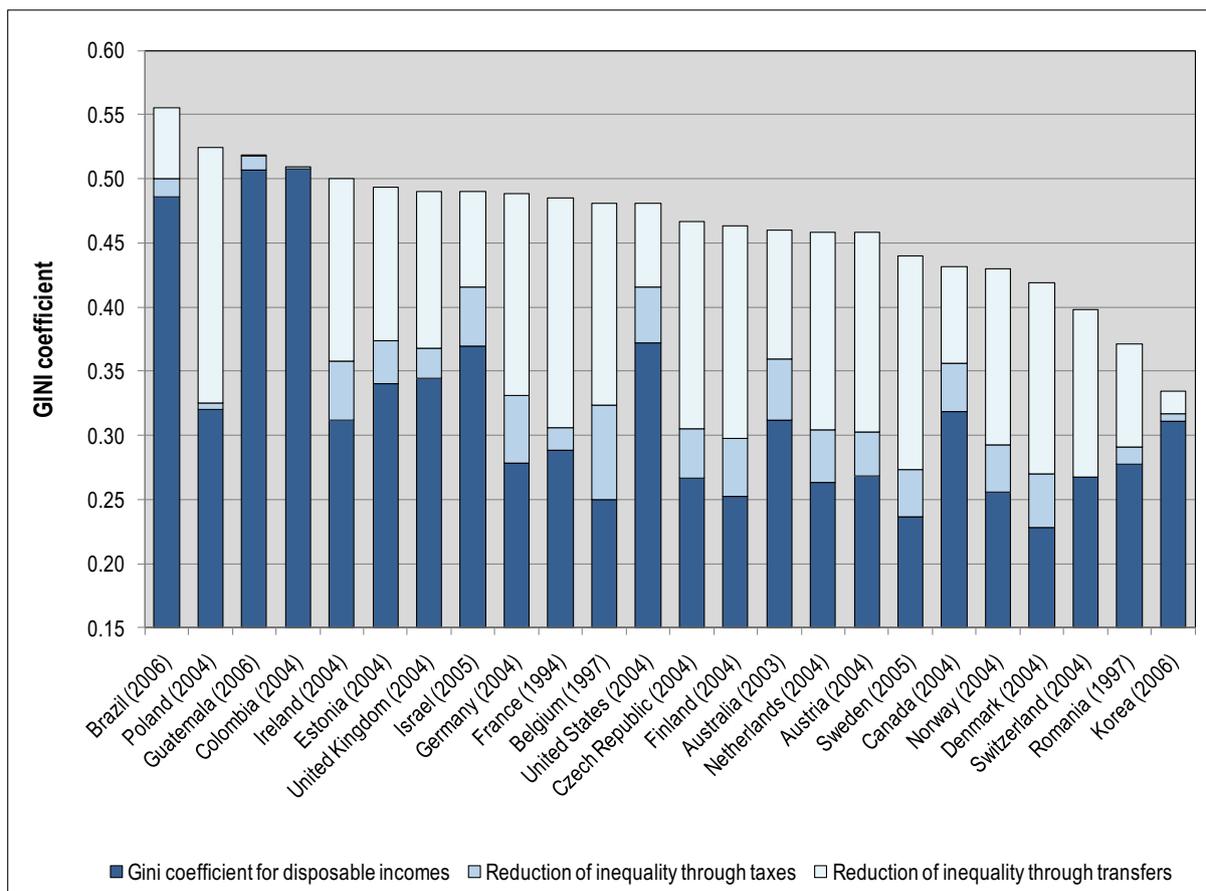
111. Cross-country differences in the Gini coefficient for disposable incomes are, to a significant extent, driven by the magnitude of redistribution. For instance, the United States and Belgium share the same Gini coefficient for private sector incomes (0.48); nonetheless, taxes and transfers are far more redistributive in Belgium than in the United States.

³² ILO: *World Social Security Report 2010–11: Providing coverage in the time of crisis and beyond* (Geneva, 2010), p. 33, para. 2.3.

³³ ILO: *Effects of non-contributory social transfers in developing countries: A Compendium* (Geneva, 2010).

³⁴ For the purposes of this report, the term “market incomes” includes income from employment, property income and private transfers (such as alimony payments).

Figure 18. Income transfers and taxes reduce income inequality
The impact of taxes and transfers on income inequality in 24 countries (ca. 2000s)



Note: The total height of the column corresponds to the Gini coefficient for market incomes (i.e. before taxes and transfers).

Source: Luxembourg Income Study (LIS) Database (multiple countries, analysis of micro-data).

112. In Latin American countries the tax and transfer systems lead only to a negligible reduction in inequality. Programmes targeting the poor, such as the Brazilian “Bolsa Familia” and other transfer programmes, reduce inequality significantly, yet inequality remains comparatively high. The Republic of Korea has the lowest pre-tax, pre-transfer inequality, reducing the need for redistribution.

Is extension of coverage affordable?

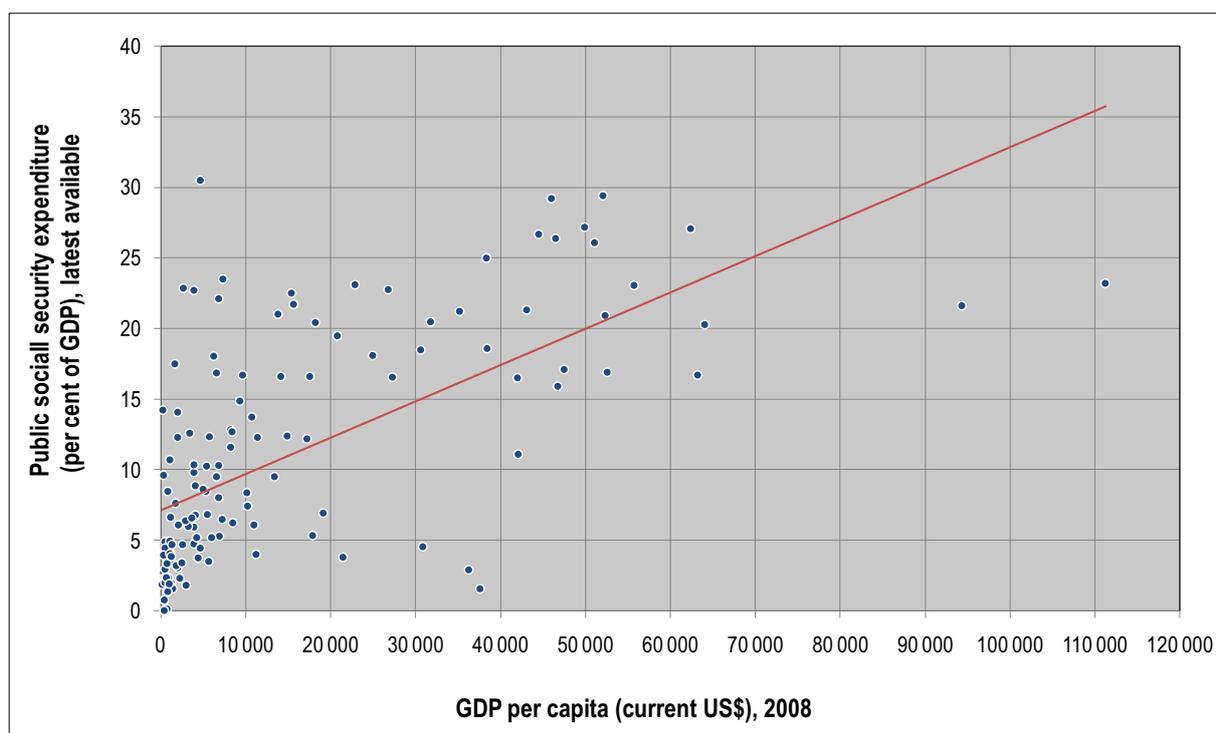
113. Societies contribute a larger share of GDP to social protection as their level of income rises (figure 19). Nevertheless, outlays on social protection as a share of GDP, at per capita incomes of US\$10,000 for example, range from less than 5 per cent to over 15 per cent; at per capita incomes of US\$30,000 they range from 5 to over 20 per cent. Social and political choice prevails, rather than only economic argument.

114. The message is that countries do not need to wait to become wealthy before they make a commitment to social protection, but should rather start investing in social protection early on in order to achieve broad-based and sustainable growth.

115. Our estimates show that a social protection floor, consisting of a minimum level of income security for children, older women and men and poor workers, in 49 LDCs would cost about US\$46 billion per annum.³⁵ These resources would provide a very substantial contribution to the achievement of MDG 1 by pulling about 442 million people out of extreme poverty in the first year. The cost of this package (8.7 per cent of the GDP of all LDCs) would necessitate a gradual implementation if it were to be fully financed from national budgets.

116. India's Commission on Enterprises in the Unorganized Sector found for example, that a basic package of social protection could be offered to over 300 million Indians in the informal economy at a cost not exceeding 0.5 per cent of GDP.³⁶

Figure 19. Poor and rich countries invest in social protection
Investing in social protection across the spectrum of income levels



Source: ILO: *World Social Security Report 2010–11*, Geneva, 2010 and World Bank Development Indicators 2011.

A silent revolution: Progress is being made in extending social protection

117. There is evidence over time of progress in the extension of social protection, and while there may be a distance to go, such evidence is encouraging, notably in many countries of the global South.

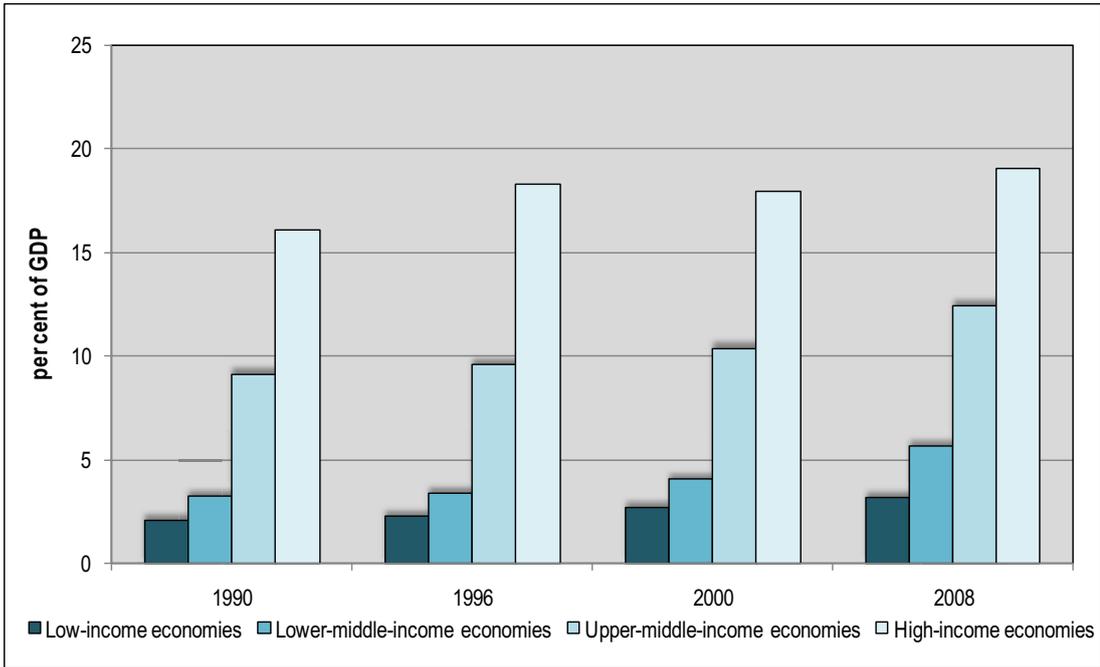
³⁵ ILO: *Can low-income countries afford basic social security?*, Social Security Policy Briefings 3 (Geneva, 2010).

³⁶ *The Challenge of Employment in India: An Informal Economy Perspective*, National Commission for Enterprises in the Unorganized Sector, Vol. 1, main report, Apr. 2009.

118. Countries at all income levels are increasing their outlays on social protection, with lower and upper middle income countries making particularly notable strides on public social expenditure as a percentage of GDP (figure 20).

119. However, the pace of change is a concern. Assuming that poorer countries were to continue to increase the share of GDP allocated to social security at the rate observed between 2000 and 2008, it would take more than 20 years for lower middle income countries to reach the average share of GDP spent by upper middle income countries (12.4 per cent). Low income countries would require about 65 years to reach this level.

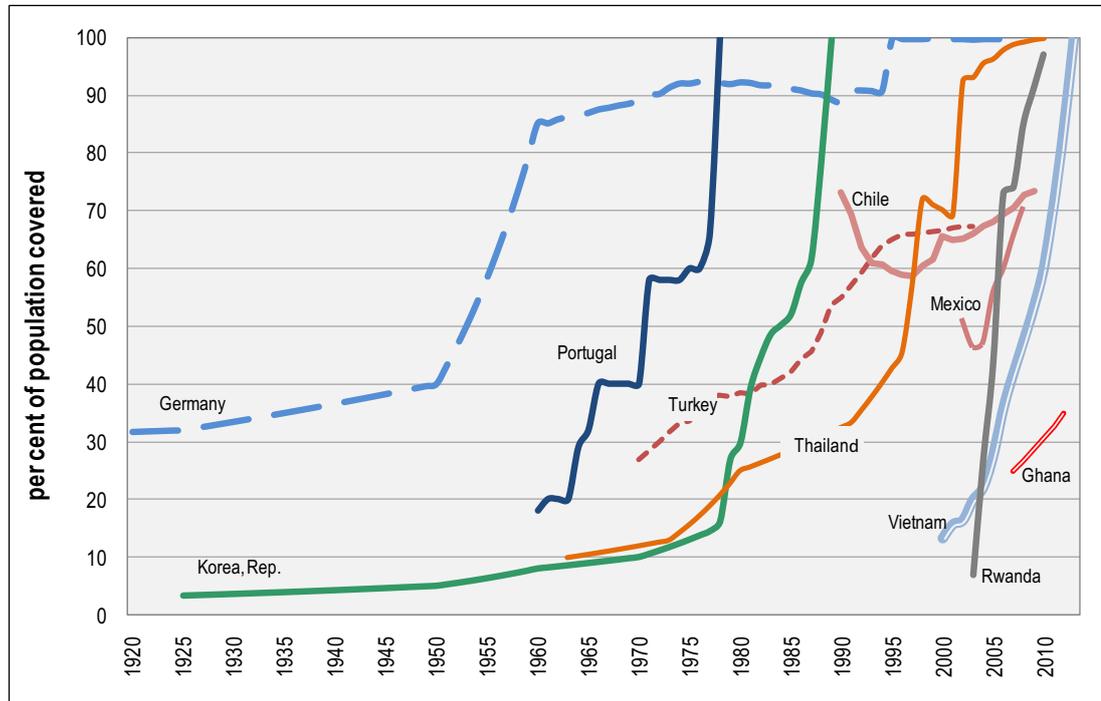
Figure 20. Steady progress in levels of social security spending in the developing world
Public social security expenditure (per cent of GDP)



Sources: OECD database on social expenditure; ECLAC/CEPALSTAT and ILO social security database.

120. Expenditure is one measure of efforts being made by countries to expand social protection; more telling are the outcomes. A pertinent indicator is the share of the population protected. For this there are examples in selected countries of rapid expansion of a minimum level of income security and effective access to health care for all (figure 21). In addition, many countries are also striving towards higher levels of protection and adequacy of benefits. ILO social security standards guide the expansion of coverage and the increase in levels of protection.

Figure 21. Health coverage rising rapidly in many countries



Sources: OECD health data 2010 and national sources of countries.

Social protection is good for growth, social cohesion and people's security

121. The United States social security system was the product of the Great Depression; the expansion of European social security systems was an outcome of the devastation of the Second World War; and Thailand's unemployment insurance provisions arose in response to the Asian financial crisis of the late 1990s. Now, as then, in the wake of new crises, demands for social justice are on the rise. The ILO is at the forefront of this effort.

3. Social justice as the way forward

122. The previous chapter provided a detailed analysis of the process of inefficient growth which preceded the global crisis. Inefficient growth has not happened because our values have become outdated in our 92 years of existence. On the contrary, they are more broadly shared than ever. There is increasing support for the ILO's Decent Work Agenda.

A way forward is possible by building the foundations of a new growth model

123. Given that we know that most people share ILO values, and that we hold them to be powerfully meaningful in our lives, we must make our markets and our institutions serve these values better. This has always been the ILO way, in cooperation with others.

124. Once again, we are at one of those turning points in history that do not happen all that frequently – one where discredited paradigms seem clear enough, but where the contours of a new paradigm have yet to take clear shape. We were not there even five years ago.

125. Our duty is to move to a more balanced growth path. To do so, the goals of growth have to be rethought. The measure of success used to be high levels of growth, not the outcomes of this growth for people and society, which were increasingly unfair and unsustainable. There is broad agreement that growth is necessary – but not as an end in and of itself, and certainly not the inefficient growth we have had over the past 30 years.

126. To be truly efficient, growth has to be founded on goals which meet people's needs: sustainable development in its combined economic, social and environmental dimensions; the reduction of key imbalances, identified in my introductory chapter, between finance and the real economy, between rich and poor, between capital and labour; and the achievement of decent work for all women and men.

A new growth model is urgently needed in order to promote social cohesion

127. Progress towards efficient growth is too slow. In fact, these still early months of recovery show abundant evidence of a return to business as usual. A lifeline was tossed to a drowning financial sector; the patient, now recovered, is returning to its old self. Yet it was that old self that caused it to drown in the first place. The full lessons of the crisis have yet to be learned.

128. A return to business as usual would aggravate the risk of social unrest. In countries still struggling to overcome the global crisis, social cohesion is understandably undermined by the prospect of prolonged unemployment. In many of the countries where growth has resumed, the trend of increasing inequalities continues and everywhere young people are disproportionately affected by the lack of decent work opportunities. There is growing frustration, and even anger, among many people who face the prospect of either unemployment in their own country, or emigration to countries where conditions have become tougher and xenophobic attitudes have intensified.

129. The prevailing paradigm of macroeconomic thinking has ended up squeezing working women and men to reduce costs, when what we need is a policy strategy which, in the words of the Philadelphia Declaration, creates conditions in which “all human beings, irrespective of race, creed or sex, have the right to pursue both their material well-being and their spiritual development in conditions of freedom and dignity, of economic security and equal opportunity”. It is people who need to be made the centre of growth, rather than adjuncts to a growth process that has become gravely inefficient because it does not respond to people’s needs.

130. This situation is a time bomb, as recent events in the Arab world have highlighted. It is our collective responsibility to prevent a social crisis.

131. A return to business as usual will also deprive the world economy of sustainable growth prospects. Joblessness and low-quality job traps are an obstacle to future growth. Paradoxically, when the lag between wage growth and productivity gains becomes a structural feature of the economy, business investment is affected.³⁷

132. So the key objective is to shape policies in such a way as to produce high levels of growth but with different market outcomes: decent work market outcomes and an efficient growth pattern that responds to people’s needs.

Policies should tackle inefficient growth at its roots

133. Inefficient growth was the product of “failure by design”.³⁸ To start with, there was inadequate management of markets as drivers of what people really need – decent jobs, a stable environment for sustainable enterprises, and equal opportunities. The assumption was that growth would automatically pave the way for more and better jobs, higher incomes commensurate with productivity gains, and thereby social progress. The more government intervention in the operation of markets in the form of social protection, wage policy and stability-oriented regulation, the less business investment, economic growth and job creation. In fact, the result has often been unstable growth and growing inequalities leading to lagging social progress.³⁹

134. Inefficient growth reflected a deeper flaw in the conventional policy strategy. Economic goals have taken precedence over social and environmental ones. Growth was inefficient because it was conceived in isolation from everything else. Nations have been ranked on the basis of their growth record, irrespective of the sustainability of that growth, who benefited from it, or the possible damaging effects on other countries.⁴⁰ Environmental damage generated by inefficient growth is affecting all countries, including those that did not participate in that type of growth. The effects of the global

³⁷ See J.M. Keynes: “An economic analysis of unemployment”, in *Unemployment as a world problem*, by J.M. Keynes, K. Pribram [and] E.J. Phelan. Philip Quincy Wright (ed.), University of Chicago Press, (1931). Also M. Kalecki: “The maintenance of full employment after the transition period”, in *International Labour Review*, Vol. 52, 1945, pp. 449–464.

³⁸ J. Bivens: “Abandoning what works (and most other things, too)”, 6 April 2011, EPI Briefing Paper No. 304, Washington, DC, Economic Policy Institute.

³⁹ ILO: *World of Work Report 2008: Income inequalities in the age of financial globalization* (International Institute for Labour Studies), 2008. *Growing Unequal? Income Distribution and Poverty in OECD Countries*, OECD, 2008. *Global Poverty and Inequality: A Review of the Evidence*, Francisco H.G. Ferreira and Martin Ravallion, World Bank, 2008.

⁴⁰ J.E. Stiglitz, A. Sen, J.-P. Fitoussi. Report by the Commission on the Measurement of Economic Performance and Social Progress.

crisis have been borne disproportionately by those who did not benefit from inefficient growth.

135. Given increasing evidence that growth was inefficient, why is it so difficult to reform it? And why are we still facing the prospect of a return to business as usual, even though the world economy is still recovering from the biggest economic crisis in modern history? I believe that an important reason is that the voice of the real economy, represented by the tripartite ILO constituents, is not sufficiently heard. The result is that, within countries, the kind of balance in policy-making which would help to drive shared prosperity is often lacking. Likewise, at the international level, key issues with significant repercussions on enterprises and workers, such as international financial regulation, are sometimes discussed within the narrow confines of technocratic groups.⁴¹

136. Policies for efficient growth have to address these three design flaws.

First, by strengthening the framework for productive investment

137. A fundamental requirement of efficient growth, and a key component of the ILO agenda, is adequate investment in the real economy.⁴² We lowered taxes to boost investment; we deregulated labour markets to make them more flexible, and thereby to boost investment; we curbed freedom of association and collective bargaining to stop these “market distortions” from discouraging investment; we let productivity gains far outstrip the growth of wages, in order to boost investment; we upped the payout of dividends with the same goal in mind.

138. And yet, globally, these policies did not produce more investment. The investment rate increased in emerging economies, notably China, and fell in developed economies. Much of the increase in profit rates went into the payment of dividends and financial operations, rather than into productive investment in the real economy.

139. The conclusion to draw stares one in the face: these were the wrong policies. They encouraged inefficient growth. They led us out of balance, a balance that now needs to be restored.

140. ILO evidence highlights the role of an enabling environment for sustainable enterprises. Sound credit policies, predictable taxation systems, public investment which “crowds in” private investment, and a stable macroeconomic environment, are all important ingredients of productive investment and efficient growth.

141. An income-led strategy would also pave the way for higher productive investment. ILO estimates show a close correlation between gains in real income and the rate of investment relative to GDP. Income-led growth serves two purposes: it ignites aggregate demand through the consumption channel, but it also sets the stage for future growth through the savings channel. Debt-led growth leads us along quite the opposite path and we have just been there. Debt-led growth creates castles in the sand – or, to use the more common metaphor, asset bubbles.

142. The following policy areas could be considered for improving the outlook for productive investment, thereby making growth more efficient:

⁴¹ R. Lall. *Why Basel II failed and why any Basel III is doomed*, Oct. 2009, GEG Working Paper 2009/52.

⁴² In its review of 13 country experiences of sustained growth, the Growth Commission found that high rates of saving and investment were a characteristic ingredient of success. See World Bank: *The Growth Report: Strategies for Sustained Growth and Inclusive Development*, 2008, p. 24.

- Promoting an enabling environment for sustainable enterprises, notably by reducing inefficient financial intermediation, and making tax systems more favourable to real investment rather than financial investment and capital gains.⁴³
- Making growth more income led, notably by addressing the progressive concentration of wealth among high-income people with a low propensity to consume,⁴⁴ and by strengthening the link between wage growth and productivity gains.⁴⁵
- Promoting stable funding sources for small enterprises. All the evidence we have shows that the most significant source of new employment will come from entrepreneurship and small and medium-sized enterprises (SMEs) in the private sector, including cooperatives or similar organizations which are a rapidly expanding part of the economy.⁴⁶
- Boosting rural and agricultural development, including through targeted public investment programmes.⁴⁷
- Improving the rules governing product markets: when the State is left out of the picture, markets tend to be guided by the interests of powerful groups. The result is that new initiatives are inhibited and resources are badly allocated. Smart regulations are needed to ensure a proper framework for markets to create wealth and serve the real needs of people.

143. Further light needs to be shed on the factors behind real investment performance and its impact on jobs and incomes. The ILO should prepare a study on this issue jointly with other international organizations and present the main findings at the next session of the Conference.

Second, putting the financial system at the service of the real economy

144. Poorly governed financial markets are a major source of inefficient growth. Financial institutions can still make money out of risky operations and shift any major losses on to governments. When governments, in turn, face unsustainable deficits, they engage in austerity measures – affecting economic recovery and jobs – while the placements of financial institutions remain fully guaranteed. The regulatory framework needs to be strengthened to ensure that banks fulfil their original role of channelling savings into investment in the real economy.⁴⁸ There is too much volatility in international capital flows, destabilizing the real economy of emerging and developing

⁴³ See S. Khatiwada: *Did the financial sector profit at the expense of the rest of the economy? Evidence from the United States*, International Institute for Labour Studies, Discussion Paper DP 206 2010. See also R.G. Rajan: *Fault lines. How hidden fractures still threaten the world economy*, June 2010 (Princeton, N.J: Princeton University Press).

⁴⁴ A.B. Atkinson, T. Piketty and E. Saez: “Top Incomes in the Long Run of History” in *Journal of Economic Literature* 2011, 49:1, 3-71.

⁴⁵ Brazil provides an important recent example in this regard. See ILO: *Studies on growth with equity – Brazil, an innovative income-led strategy*, 2011.

⁴⁶ G. Buckley, J.M. Salazar-Xirinachs and M. Henriques: *The promotion of sustainable enterprises* (Geneva, ILO, 2009), p. 3.

⁴⁷ D. Campbell: *Employment-led growth and growth-led employment in the recovery* (Geneva, ILO, 2011), Chapter 8.

⁴⁸ International Institute for Labour Studies: *World of Work Report 2010: From one crisis to the next?*, (ILO, Geneva, 2010). See Chapter 5, “Reforming finance for more and better jobs”.

countries. Rating agencies continue to be remunerated by the institutions which they are supposed to rate.

145. It is high time to move ahead with the reforms promised in the G20 and mentioned in my report to the Conference in 2010, notably the following:

- ❑ Making it more difficult for financial institutions to realize profits out of risky operations, and to transfer any losses from such operations to the taxpayer – and, eventually, sustainable enterprises and workers in the real economy. Failure to address the “too big to fail” problem is bad for efficient growth.
- ❑ Involving financial institutions in the resolution of sovereign debt crises. This can be done by giving debt resolution a longer timeframe and making space for the immediate measures needed to stimulate sustainable growth and jobs. A politically and socially viable process of fiscal consolidation needs to take place in the context of a stable recovery of global growth. Social dialogue is essential to avoid an explosion of social unrest.
- ❑ Re-establishing normal credit flows – where needed – and giving full support and incentives to a financial system at the service of the real economy as a driving force for a strong, sustainable and balanced pattern of growth; channelling savings into lending for innovation, investment, trade and consumption (what some call “boring banking”).
- ❑ Re-introducing the separation which existed between commercial banking and investment banking, and in particular regulating the possibility for banks to speculate for their own account using customers’ deposits; ensuring that so-called non-banks, such as hedge funds or investment banks, are subject to more stringent regulation of their activities, which would also help to stabilize the real economy.
- ❑ Adopting measures that deter “speculative” capital flows, as has been successfully done in a number of emerging economies such as India and in Latin America.⁴⁹ An additional measure would be to introduce a financial activities tax along the lines suggested by the IMF, or an international tax on financial transactions, as proposed by the ITUC.
- ❑ Significantly enhancing the supervisory and monitoring capacity of public agencies, national and multilateral, in relation to financial regulation, including cross-border activities, but also with respect to public debt and deficits, while developing agreed forms of multilateral surveillance.
- ❑ Reviewing the accountability system and increasing the transparency of rating agencies for their actions and decisions and their potential conflicts of interest.

Third, through inclusive and fair labour markets, including international labour standards

146. The Decent Work Agenda can be instrumental for achieving efficient growth. Conventional wisdom was that inclusive labour markets, which provide quality jobs, social protection and worker rights, would perform poorly. In my Report to the Conference in 1999 and in the associated debate, I strongly warned against this view and advised in favour of solid labour market institutions, with respect for worker rights within the framework of an open market economy.

⁴⁹ See IMF Global Financial Stability Report, *Durable Financial Stability: Getting There from Here*, Apr. 2011, in particular Chapter 5. J.A. Ocampo, K.P. Gallagher and S. Griffith-Jones: *Damming Capital*, Project Syndicate, 2011.

147. Since then, experience has demonstrated the validity of our views. So-called “flexible labour markets” are a crucial characteristic of inefficient growth. They are associated with greater job precariousness, the de-linking of labour incomes and productivity developments and weaker incentives to invest in worker skills, ending up with wider income inequalities as described in the previous chapter. Such an approach has also been associated in some countries with relatively high employment levels. But it is interesting to note that employment levels are no lower in countries with strong, well-designed labour market institutions.⁵⁰ In addition, inequalities are lower in these countries and competitiveness does not suffer.⁵¹

148. More importantly, systematic deregulation has not contributed to higher levels of investment in the real economy, either in developed economies or in developing countries, where informality has tended to increase.

149. The following elements of the Decent Work Agenda are especially important for making growth more efficient:

- Improving investment and labour regulations where needed, in order to facilitate the creation by enterprises of good jobs and reducing job precariousness and informality. Recent reforms in Brazil, one of the few countries where the incidence of informal employment has been cut significantly, in the context of high growth and job creation, are an example of what can be done in the emerging world. China recently strengthened its labour contract regulations with a view to fighting undeclared work and protecting people. Among developed economies, it is interesting to note that countries which recently reinforced labour market institutions, such as Austria and Australia, have weathered the global crisis much better than others.⁵²
- Engaging a tripartite dialogue in each country on wage-setting mechanisms in order to build a better connection between labour incomes, including wages and incomes of the self-employed, and productivity. It is also important to look at ways to remove obstacles to the effective coverage of collective agreements. Coverage was increased in Uruguay, where the labour market remains dynamic.
- Building strong institutions to assist in the creation of new businesses, including through long-term partnerships between banks and enterprises. Germany and the Republic of Korea offer lessons to build on.

150. The availability of well-designed social protection makes markets work better and also redistributes some of the inequalities they tend to produce. Nobel Prize Laureate Christopher Pissarides has shown that unemployment benefits are crucial to supporting efficient transitions and good matches between jobs and skills.⁵³ On receiving the Decent Work Research Prize, Nobel Laureate Joseph Stiglitz eloquently highlighted the role of social protection as an automatic stabilizer in the face of the global crisis.⁵⁴

⁵⁰ OECD: *Employment Outlook 2006 – Policy lessons from reassessing the OECD Jobs Strategy*. Also T.S. Aidt and Z. Tzannitos: “Trade unions, collective bargaining and macroeconomic performance: A review”, in *Industrial Relations Journal* 39:4, 258–295, 2008.

⁵¹ K. Schwab (ed.): *The Global Competitiveness Report 2010–2011*, World Economic Forum, Geneva, Switzerland, 2010.

⁵² See ILO: *Making recovery sustainable. Lessons from country innovations*, Geneva, 2011.

⁵³ C.A. Pissarides: “Why do Firms offer Employment Protection?” Centre for Economic Performance, London School of Economics, *Economica*, 77 (October 2010), 613–636.

⁵⁴ J. Stiglitz: “The global crisis, social protection and jobs”, in *International Labour Review*, 2009.

151. Conventional wisdom was that social protection would reduce work incentives, raise costs and eventually affect employment. There are many recent examples that support the opposite view. In recent years, major innovations have taken place in this area, especially in emerging and developing countries.⁵⁵ They include cash benefits conditional on children attending school and receiving health care, public works programmes for jobseekers, and employment guarantees in rural areas. In developed economies, much has been learned regarding the provision of adequate benefits combined with activation policies in order to support the unemployed in obtaining new jobs, and the use of social protection to reintegrate into the labour market people who would otherwise be excluded, for instance, lone parents or young people who are neither in education nor in the labour market.

152. In view of their potential contribution to efficient growth, some of the key ILO policy tools could be given greater attention, notably:

- Building a social protection floor for the most vulnerable, consistent with the ILO initiative in this area, as this will help to achieve more income-led growth.
- Ensuring that all jobseekers in developed economies have access to income support combined with re-employment services.
- In emerging economies with fiscal space, progressively expanding the coverage of targeted programmes for jobseekers with a view to achieving full coverage within a reasonable time period.
- Promoting a “working out of poverty” approach to accelerate progress on the Millennium Development Goals.⁵⁶

153. Inefficient growth also resulted from inadequate application of core labour standards as embodied in the 1998 Declaration on Fundamental Principles and Rights at Work and the ILO core Conventions which underpin it. Fundamental principles and rights at work are not just human rights. They also provide the basic framework for market forces to operate efficiently and fairly. Without freedom of association and the right to collective bargaining, market incomes will tend to deviate from productivity trends, which as already noted is a key imbalance that preceded the global crisis.⁵⁷ Discrimination, forced labour and the worst forms of child labour violate human dignity and as such are intolerable. They also represent a waste of human resources and productivity. In this respect, I note with satisfaction that ratification of the ILO core Conventions has improved significantly.

154. This is well understood by countries which have started to integrate fundamental principles and rights at work in their regional trade agreements. Over 30 per cent of regional trade agreements concluded between 2005 and 2009 include labour provisions, compared to less than 5 per cent in the agreements signed before the Copenhagen Social

⁵⁵ See ILO: *Studies on growth with equity*, Brazil, Germany and Indonesia.

⁵⁶ Growth, Employment and Decent Work in the Least Developed Countries. The study on Growth, Employment and Decent Work in the Least Developed Countries has been prepared for the Fourth UN Conference on Least Developed Countries (LDC/IV) to be held in Istanbul, 9–13 May 2011.

⁵⁷ Aidt and Tzannatos, *ibid.*; ILO *Freedom of association: Lessons learned*. Global Report under the follow-up to the ILO Declaration on Fundamental Principles and Rights at Work, International Labour Conference, 97th Session, Geneva, 2008; OECD: *International trade and core labour standards*, 2000; *How do trade union rights affect trade competitiveness*; Policy Integration Department Working Paper No. 39, Geneva, 2004; J. Berg and D. Kucera (eds): *In defence of labour market institutions. Cultivating justice in the developing world*, Palgrave, 2008.

Summit, which highlighted the global importance of core labour standards.⁵⁸ In 60 per cent of cases, labour provisions refer to ILO instruments. Developing countries are increasingly involved in this pattern: today, nine South–South trade agreements include labour provisions (compared to none only ten years ago). The 2008 Declaration on Social Justice for a Fair Globalization echoes this trend and states that “the violation of fundamental principles and rights at work cannot be invoked or otherwise used as a legitimate comparative advantage”. This does not mean a return to protectionist solutions, which would of course damage growth prospects, especially for developing countries. Indeed, the 2008 Declaration also rightly stresses that “labour standards should not be used for protectionist trade purposes”.

155. To further reinforce international labour standards, thereby supporting a return to efficient growth, and inspired by the Pittsburgh G20 Declaration, the following could be considered:

- I invite all countries which have not done so to ratify all the core ILO Conventions within a reasonable time period. G20 countries could play a lead role in this regard.
- Within the framework of an open trade system, the ILO should be available upon request to help in the implementation of labour provisions in bilateral and regional trade and investment agreements. This will also help ensure coherence with global ILO instruments in the context of open trade systems.
- As part of the forthcoming recurrent report on fundamental principles and rights at work, we look at ways to further strengthen ILO monitoring and implementation mechanisms. This could encompass the establishment of an ILO tribunal, as provided for in the ILO Constitution.

Fourth, sound macroeconomic policies, including progressive fiscal policy

156. If markets were not designed to work for people, it was because the order of priorities was wrong. Too much priority has been given to macroeconomic policies over social and environmental ones. All too often, the debate within countries has focused on the mix between financial, fiscal and monetary policies. Employment, social and environmental policies were lower priorities. It was possible to achieve overall price stability, balanced budgets and profitable banks, and yet relatively less progress was made in creating good jobs in sustainable enterprises, building well-designed labour market institutions and social protection, as well as strengthening worker rights and effective social dialogue. It is not surprising that economic growth went hand-in-hand with growing inequalities, stagnating or falling investment shares and volatile economic growth.

157. The prevailing paradigm puts the cart before the horse. It assumes that a healthy macroeconomy comes about from squeezing working women and men to encourage demand. But in fact it is the health – financial, physical, and moral – and the security of working women and men – “middle-class aspirations”⁵⁹ – that create the demand, and, from that, a healthy macroeconomy.

⁵⁸ See ILO: “Rebalancing globalization: The role of labour provisions in existing international trade arrangements and development finance policies”, *World of Work Report 2009*.

⁵⁹ A.V. Banerjee and E. Duflo: “What is middle class about the middle classes around the world?” in *Journal of Economic Perspectives*, 22(2): 3–28.

158. Fiscal policy is a case in point. A funding base is essential to support the programmes needed to serve people's needs and achieve efficient growth. Yet the conventional view was that taxation should be curbed and not overly progressive so as not to damage fiscal balances and investment prospects. The result has been greater inequities in access to social protection, with higher income groups able to afford private provision, while others have access to only limited public social protection. And the model failed to raise investment levels.

159. It is therefore imperative to improve policy coherence within countries, in different fields:

- Making full employment a priority macroeconomic goal alongside sound fiscal and monetary management.
- Making full employment, along with low inflation and financial stability, a goal of central bank policies. This is already the case in some countries like the United States and, more recently, Argentina.
- Helping to establish budget priorities by identifying the employment effects of different government spending and tax programmes as part of the normal parliamentary process. This has started to happen in the Republic of Korea.
- Within the context of fiscal stability goals, making taxation more progressive in order to fund key programmes like education, social protection, and employment-intensive infrastructure for businesses. This would at the same time support redistribution goals.
- Involving social partners in the definition of the policy strategy, as was done by some countries in the aftermath of the global crisis and as attested by the launch of the Global Jobs Pact in 2009. This effective way of ensuring policy coherence has stood the test of time. Let us use it!

And fifth, key steps in promoting multilateral policy coherence

160. Improved coherence between economic and social goals within countries has to be a big part of this institutional change but this must also be reflected in the way our multilateral institutions function.

161. The specialization in the work of international bodies, embodied in their mandates, mirrors that of ministries in national governments and is a reflection of the value of expert knowledge. However, specialization brings the risks of compartmentalization and policy incoherence.

162. The priorities in promoting multilateral policy coherence are:

- coherence across a range of policies, especially those connecting people's aspirations for social justice with management of a global market economy;
- effective coordination of policies and their implementation.

163. An important step was taken at the Pittsburgh Summit of September 2009, when the G20 stated "We also welcome the recently adopted ILO resolution on Recovering from the crisis: A Global Jobs Pact and we commit our nations to adopt key elements of its general framework to advance the social dimension of globalization". The ILO, as one of the international organizations invited to support the G20, does so on the basis of a policy approach endorsed by all its member States and the world trade unions and employers' organizations. At the heart of a new policy framework for inclusive and

sustainable growth is the overdue recognition that employment and social policies are key components of macro policies. They should be at the centre of policy-making, not peripheral to it.

164. This was the challenge that brought the IMF and the ILO together for the joint Conference on the Challenges of Growth, Employment and Social Cohesion in Oslo on 13 September 2010. Our objective was to improve the integration of employment and social policies with international and national macroeconomic policy strategies so as to address the urgent need to improve the capacity of economies to generate enough good jobs – decent work – to meet societies’ needs.⁶⁰ This requires a better understanding of the forces at work in the global economy, and of the factors that contribute to them, both globally and nationally, and of the ways in which a wider array of policy tools can contribute to better outcomes for people, communities and global sustainable development.

165. The IMF and ILO agreed at the Conference to work together on policy development to explore the concept of a social protection floor for people living in poverty and in vulnerable situations, within the context of a medium- to long-term framework of sustainable macroeconomic policies and strategies for development, and on policies to promote employment-creating growth. There was also agreement on the central role that effective social dialogue can play in building the consensus needed to tackle the difficult adjustment challenges created by the crisis, and to ensure that the social consequences of the crisis and its aftermath are taken fully into account. The two institutions also agreed to continue and to deepen their cooperation in support of the G20 and its Mutual Assessment Process aimed at ensuring strong, sustained and balanced global growth.

166. The Oslo Conference was particularly noteworthy because of the agreement reached by the two institutions to work together on new policy approaches with a focus on employment, social protection and decent work. The IMF itself is active in rethinking macroeconomic policies, questioning the consensus which prevailed until the crisis, that policy should be concerned with one target, inflation, and one instrument, the policy interest rate. These are welcome developments which challenge the ILO to ensure that such rethinking places full employment, fairer income distribution, better wages and strengthened social protection as policy priorities.

167. In many ways the Declaration of Philadelphia (1944) in our Constitution foresaw this when it asked that “... all national and international policies and measures, in particular those of an economic and financial character, should be judged in this light and accepted only in so far as they may be held to promote and not hinder the achievement of this fundamental objective; ...”, the “fundamental objective” being the right of all human beings to pursue both their material well-being and their spiritual development in conditions of freedom and dignity, of economic security and equal opportunity.

168. All too often policies are putting the burden of adjustment on working families when onerous public and private debt originated in the disastrous lending practices of major financial institutions. It is time to reconceive adjustment policies as policies that adjust to people’s needs and aspirations for decent work and a better life for themselves and their children. A further key step is therefore to strengthen respect for fundamental principles and rights at work as set out in the ILO’s 1998 Declaration. They are the foundation on which is built the capacity of working women and men to ensure that their

⁶⁰ *The Challenges of Growth, Employment and Social Cohesion*, joint IMF–ILO discussion paper, Sep. 2011.

needs and aspirations for decent work are expressed and heard. Without these rights, society and the economy tip all too easily into unsustainable inequality and imbalance.

ILO values are more important than ever!

169. This is the time to strengthen the ILO. Our values, principles and standards command wide support and appeal. The ILO Decent Work Agenda is increasingly a reference point in policy discussions in all regions. And the ILO, in cooperation with other international organizations, can contribute significantly to the achievement of efficient growth.

170. More countries, and our constituents in those countries, wish to embark upon more balanced policies, combining economic growth and productivity with decent work and, social advancement. They want to achieve results; they need to innovate; they need to find solutions in a diversity of situations and in rapidly changing circumstances; they want to learn from each other. The ILO is the place to turn to. Our knowledge and analysis are widely sought on good practices and policies for achieving that objective. This capacity is essential to the ILO's continuing relevance and needs to be consolidated and enhanced.

171. Space for adaptation and flexibility is essential for quick reaction and effective response to emerging needs and crises, but also to foresee risks and potential upheavals, and to prevent or reduce damage in the world of work. We must increase our capacity to think and act preventively. We have all witnessed the importance of the ILO's timely and deep involvement in calling for a social dimension of globalization; using decent work as a framework for a balanced set of policies to confront the financial and economic crisis; the key role of our standards supervisory mechanism; and the quick reaction capacity in responding to the demand for change in the Arab world.

172. The ILO has had two distinctive features, habitually picked out as its unique "comparative advantages", which have enabled it not only to defend social justice but also to build them into its own work. These are its tripartite composition and its function as a standards-making body.

173. Despite the struggle facing trade unions worldwide to maintain their strength in the face of economic and political adversity and a drift away from collective organization by business, the fact remains that the ILO brings together large membership-based organizations which have no parallel in other parts of society. They are permanent and important actors in society with which many people identify and to which they look even when they are not members. They ground the ILO firmly in the real economy, and through their advocacy ensure that the outcomes of the ILO's work bear the seal of legitimacy and the imprint of the quest for social justice through balanced policies.

174. The added value of tripartite consensus is real, and it grows in proportion to the difficulty of the matter under consideration. That is borne out by the fruits of the long experience of tripartism in many of the ILO's member States, and most recently by the experience of the global crisis. Where tripartite trust and mechanisms are in place, they have shown their worth.

175. That reflects the basic reality that, where difficult decisions are unavoidable, people more readily accept them when they have been party to their formulation. It also needs to be remembered that, when times are good, tripartite involvement is an equally effective guarantor of the fair sharing of benefits.

176. It is these features of tripartism which make international labour standards not only the cornerstone of ILO action but also the concrete international expression of shared notions of social justice in the world of work. Their value as such can hardly be overestimated.

177. Here I see the paramount necessity to find common ground on the basic rationale of the ILO's standard-setting function and the ways in which that common purpose should strengthen our Organization. At a time when interest in the role of international labour standards in the globalized economy is intense, all three constituents have a vested interest in moving forward.

178. In these troubled times, I truly believe that the ILO has the values to support a shift away from a policy paradigm which is both discredited and inefficient. Constructing a new pattern of growth through rapid and sustained increases in decent work is urgently needed. It should fully mobilize the representatives of the world of work assembled at the 100th Session of the International Labour Conference; it should also fully mobilize the highest political authorities in every country, in regional institutions, as well as in multilateral institutions.

179. This is a challenge which honours our legacy. But I have no doubt that, if we act with self-assurance on our values and policies, our vision will pave the way for a more prosperous world for all.