

## **SUMMARY OF DISCUSSIONS**

### **DESA Development Forum on Productive Employment and Decent Work**

New York, 8-9 May 2006

#### **Opening Session: Setting the Stage**

In his keynote address, Mr. José Antonio Ocampo, Under-Secretary-General for Economic and Social Affairs noted that the 2005 World Summit had placed the goal of full and productive employment and decent work for all at the forefront of the United Nations development agenda. The Summit had shown that if the first Millennium Development Goal of reducing poverty by half by 2015 is to be achieved, full employment and decent work would need to be at the centre of economic and social policies. Under the prevailing employment and labour market conditions MDGs and other internationally agreed development goals may not be reached in many parts of the world.

Five significant trends were observed in the current global employment situation. First, global unemployment had risen since 1995. However, unemployment had affected 192 million people, or 6.3 per cent of the global work force last year, as compared to 6.0 per cent of the labour force in 1995. This trend indicated that economic growth had not sufficiently led to employment creation. Second, underemployment remained pervasive and was probably increasing worldwide. Poverty had resulted mostly from the inability to secure decent income for those formally unemployed, particularly for those in the agricultural sector and informal economy, and especially in least-developed countries. Third, globalization had led to widened disparities between skilled and unskilled workers, and had contributed to widening inequalities within and among countries over recent decades. Fourth, although the evidence had not yet been clear, shifts in manufacturing and service industries to developing countries may have had positive job creation effects, as had greater trade liberalization. Yet, this had been accompanied by a loss of secure employment arrangements and increasing calls for labour flexibility. Finally, migration had created a climate of vulnerability and insecurity for many migrant workers. There was concern that this vulnerability could spill over in the less-skilled segment of the domestic labour market of recipient countries.

The policy agenda on full employment and decent work carried a number of important dimensions. There was a need to enhance an economic environment at the international level, in areas such as trade, finance, investment, technology and migration that would support the goal of full employment and decent work for all. These international dimensions however, should not dismiss the responsibility of national governments to create conditions for full and productive employment and decent work through sound macro-economic policies, and an overall national development strategy conducive to dynamic employment generation. The prevalence of the working poor in the developing world pointed to the need to create employment sufficient to yield an income above the poverty line. Investing in rural development remained important, together with more support for micro-and small enterprises, and entrepreneurship.

Investments in education and training played a strong role in ensuring a skilled and adaptable workforce; also the rising sense of job insecurity should be managed through strengthened social protection systems. There must be an effort to balance labour market flexibility with social protection as part of the global development agenda. At the same time, there was also a need for enhanced flexibility by involving close labour-business cooperation to adapt to technological changes and increased global competition. Thus, social dialogue could help to ensure that policies are balanced and enjoy wide public support.

Professor Thandika Mkandawire noted that there were some key research activities at the United Nations Institute for Social Development (UNRISD) that had focused on social policy in a development context. Thematic issues included in these activities related to pro-poor macro-economics, gender dimensions of development, democratization, and public sector reform. One of the relevant findings of this research had been that a continuum could be observed between “distributionist” and “productivist” welfare regimes. A focus on only the distributive aspects of social policy would ultimately be economically unstable; on the other hand, a productivist approach would encounter opposition and produce instability, ultimately undermining its objective. One other aspect of the research dealt with social policy in countries that had started industrialization relatively late in their development process. Findings on this research had indicated that welfare measures could be introduced at fairly low levels of national income. Finally, the nature of macro-economic policies consistent with poverty reduction remained subject to debate. It was noted that those countries that were poised to reach the goal of halving extreme poverty in 2015 had adopted policies that diverted from the neo-liberal approach.

Professor Prabhaat Patnaik noted that problems of unemployment and underemployment had been pervasive, both in developing countries as well as in OECD countries. Ironically, the problem of unemployment had also become more accentuated in developing countries that had experienced very high growth rates. Despite strong economic growth in many parts of the world, there may have been a redistribution of existing jobs from some parts of the world to another, rather than the creation of new employment. It was also questioned how greater market flexibility would eventually lead to employment creation, as greater flexibility had in some cases contributed to a reduction of domestic demand, with negative effects on the local employment situation. Other explanations for the low level of employment creation were explored, such as a potential slowing down of the total growth of world demand, and the rapid increase in global labour productivity, trends which would both explain slow growth in employment.

In a presentation on gender dimensions of macro-economic policy and employment generation by Professor Diane Elson, it was noted that women’s labor force participation was still below that of men, and that their formal unemployment rate was higher. Because of a “discouraged worker effect”, unemployment rates further tended to underestimate female unemployment. In a discussion on the link between employment, poverty and gender, it was demonstrated that women were overrepresented among the working poor. This could serve as an illustration of the negative effects of a combination of flexible labour market policies with inadequate macro-economic and social policies. The importance of the issue of unequal division of unpaid work was also highlighted. Increasingly, surveys had become available that were quantifying the contributions of unpaid work of women, a key element of the pursuit of decent work for all.

## **Panel 1: Macroeconomic policy and employment generation**

### **Issues and discussion points**

Twenty-five years after the Washington Consensus, a worldwide counter-movement to the neo-liberal policy prescriptions is gaining momentum. One main focus of this movement is the role of full and decent employment both for the individual and the community. It was pointed out that a historical antecedent for such a double movement was described in Polanyi's *The Great Transformation*, first published in 1944. In the late 19<sup>th</sup> and early 20<sup>th</sup> century, one movement was guided by a liberal, market-oriented philosophy (similar to that embodied in the Washington Consensus), and the other surfaced as a reaction of society to the disruptive effects of the market on the community.

While in the past the liberal approach was promoted by the rigid economic mechanisms of the gold standard, the latter had now been replaced by a network of multinational institutions. The IMF, the World Bank and the WTO are controlling and channeling the economic forces, while social agencies, such as the ILO, ECOSOC, UNDP, UNHCHR, are designed to cushion the social impact of these forces. The countervailing social movements in the past were violent reactions, contributing to the rise of communism and fascism. In the middle of the 20<sup>th</sup> century, however, Keynesian economics seemed to provide a viable alternative from a social development perspective, allowing the reconciliation of market forces and social imperatives.

Today such a conciliatory framework is lacking, and it was highlighted that there was a need for international discussion and agreement on a new alternative that could balance social needs with economic growth. In this context, special attention should be paid to the role of labour market regulations as an integral part of social aspects of human life while allowing for sufficient economic flexibility.

While there was agreement that there was a role for multinational corporations (MNCs) in employment creation, it was pointed out that a host country must choose wisely which industries to invite. Some MNCs may not be welcome, especially in footloose industries that provide little in terms of investment in physical and human assets while triggering irreversible changes in a society's economic and social structure, leaving behind unemployment and a social vacuum when they leave.

Concerning the role of Central Banks in employment generation, panelists pointed out that under the current dominant practice, Central Banks contribute little if nothing to employment creation. In some cases, they are even creating obstacles to more and better employment. Current Central Bank policies, with their widespread focus on inflation targeting (both implicit and explicit), aim to keep inflation in the low single digits, which is often detrimental to growth and employment generation. In contrast, it was noted that available evidence from emerging market countries suggests that moderate inflation below 15 per cent, or 20 per cent, does not have negative effects on growth, and might be good for alleviating inequality and poverty. In addition, the policy of external and internal financial liberalization

reduces the range of policy tools, leaving the short-term interest rate as the only monetary policy tool.

Monetary policy “obsessed” with low inflation tends to create an environment of high real interest rates, acting as a drag on aggregate demand and increasing inequality. In conjunction with tight fiscal policies, austere monetary policy reduces global demand for productive loans, thus adding to global employment problems. In turn, global employment problems reflect both an inadequate quantity and quality of jobs, both of which are keys to reducing global poverty.

It was highlighted that Central Bank policies can affect aggregate demand by stimulating exports through the real exchange rate, and stimulating domestic demand through reducing the cost and availability of credit. Another factor affecting employment, and also sensitive to those policies, is productivity growth. Improving the quality of jobs and maintaining sustainable growth in real wages through public and private investment, and improved export possibilities, are also areas affected by real exchange rate, cost and availability of credit and allocation of credit to different sectors. Therefore, Central Bank policy for employment creation should focus on enabling expansion of aggregate demand, making credit available for sustainable investment and maintaining a stable and competitive real exchange rate to support export demand.

UN-DESA co-sponsored research on alternatives to inflation targeting highlights, the need for developing country-specific targets and policy instruments as well as related institutions. Therefore, a one-size-fits-all policy that consists of only one main target cannot be appropriate, and represents a fundamental flaw in the mainstream/neo-liberal inflation-targeting approach. Overall consensus from different case studies within this research points to a set of broad goals, such as employment generation, investment promotion, productivity enhancement, and stable and competitive real exchange rate, which should be pursued in addition to the goal of attaining moderate inflation.

It was acknowledged that ingrained moderate levels of inflation – while allowing Central Banks to promote growth and employment generation – may increase the risk that supply-side shocks could trigger runaway inflation, as was the case with the oil price shocks during the 1970s and 80s. Possible remedies include tripartite bargaining between Social partners to avoid inflationary spirals, and directed credit allocation to employment generating sectors and firms. The latter could protect employment from the effects of a general credit crunch that would be triggered if policy were to rely solely on the rather blunt instrument of interest rate hikes.

It was also pointed out that – in addition to negatively affecting overall employment outcomes – narrowly defined neo-liberal macroeconomic policies can have gender-differentiated effects. When aggregate demand falls, labour market norms within formal employment often mean that women are last hired, and first fired. In addition, women are crowded into informal employment with low earnings and no social protection.

According to recent research, contractionary inflation reduction not only causes employment to fall relative to long-run trend, it also affects women’s employment

disproportionately. On the other hand, expansionary inflation reduction causes employment to rise relative to long-run trend, and is associated with an increase in the ratio of women's to men's employment. Also, maintaining a competitive exchange rate in periods of contractionary inflation reduction has been shown to offset the disproportionate negative effect on women.

To promote gender equality in employment, policy should therefore avoid contractionary inflation reduction with uncompetitive exchange rates. This is in line with the call for a broader set of central bank policy goals and a wider range of instruments. In addition to appropriate macroeconomic policy, however, there is a need to eliminate discrimination against women in labour markets and to promote reconciliation of paid work and unpaid work. Regarding the latter, there is a role for fiscal policy, as public investment can contribute both to lessen the burden of unpaid work and to promote paid work among women.

### **Key conclusions and recommendations:**

The following concrete outputs, steps and measures were recommended to assist national policy makers in mainstreaming employment and decent work in macroeconomic policy-making:

- Participants called for increased international cooperation and agreements on managerial practices and labour standards, in order to harness investment by MNCs for the generation of decent employment.
- Participants agreed on the need to support the re-emergence of national development banks, as they could play an important role for credit allocation and employment creation. In addition to providing “patient capital”, they could lend administrative support to small and medium enterprises.
- It was noted that there was a need for further research on the role of unpaid work and for a broader dialogue between ECOSOC and the Bretton Woods Institutions. Specific questions were raised regarding the status of unpaid work, and the need to reconcile paid and unpaid work was highlighted.
- It was suggested to broaden the international dialogue to cover the whole nexus of employment, migration and development.

### **Panel 2: The effects of structural reform on employment**

#### **Issues and discussion points**

The panel explored ways in which structural reforms affected employment opportunities in developing countries and suggested ways to mitigate those effects. Structural reforms were to have had, by and large, a negative impact on employment creation and the quality of employment, while transitions from labour-intensive to capital-intensive production processes may have intensified those processes.

There was general consensus on the weak link between trade and economic growth in

many developing countries. Increased trade openness in many developing countries resulted in large adjustment costs, including increased income inequality, unemployment and limited creation of decent jobs. Yet, initial conditions, including the quality of institutions, also affected the impact of trade liberalization on investment, growth and employment creation.

Financial liberalization has been encouraged with the expectation that it would provide more opportunities to attract capital for investment, economic growth and employment creation in developing countries. This objective has largely been unmet because financial flows have been increasingly volatile and in many cases have caused disruptions in the productive sectors of these countries. Indeed, volatility of capital flows left many developing countries vulnerable to financial crises, which resulted in increased unemployment, growth of the informal sector, lower wages, and increased poverty. Moreover, developing countries experienced lags in the recovery of real wages and employment in the periods after financial crises.

Financial and trade openness often imposed two main constraints on developing countries. First, Governments were compelled to reduce fiscal expenditures in order to keep inflation down and retain the confidence of foreign investors, even in the presence of underutilized capacity and large-scale unemployment. Policies often turned out to be deflationary, prompting reductions in consumption and hindering employment creation. Second, economies have become more dependent on externally-determined technological change and sources of productivity growth. These factors in many cases have led to a decrease in the demand for labour in developing countries, whose social effects were even higher when growth in the labour force exceeded growth in demand for labour. In addition, surges of capital inflows have been as damaging as capital outflows, since impacts on exchange rates and the opportunity cost of maintaining increased reserves were high.

Policy options in developing countries were constrained by the conventional “macroeconomic policy trilemma” whereby countries were unable to simultaneously maintain an open capital account, have stable exchange rates and keep an independent monetary policy regime. The standard neoclassical solution to this problem was the relaxation of one of these constraints. A different approach would be not to seek for corner solutions, but rather more intermediate ones, including managed exchange rates aiming at a stable, but competitive real exchange rate and associate fiscal and monetary policies with a social pact among government, workers and employers to keep inflation at bay.

In this context, also the need for some degree of capital control was emphasized. Such capital controls should discriminate between direct investment and financial capital flows and consider the potential of different types of flows to contribute to employment creation. Along these lines, it was suggested that Governments can adopt short- and long-run policies to mitigate the adverse impact of economic opening. In the short-run, Governments can increase public-sector expenditures where underutilized capacity exists, particularly in rural areas where unemployment levels may be the highest, to generate employment and increase incomes. Supply-side management (provision of grains from stocks and other essential commodities, for example) can be used to offset potential inflationary pressures from increased expenditures. In the long-run, the introduction of labour-saving technologies and potentially destabilizing capital flows should be monitored and controlled appropriately by the authorities to prevent increases in

unemployment.

In general, social development should not be the residual of macroeconomic policies. Labour market policies should be mainstreamed into a broad and coherent concept of macroeconomic stability and development, including a universal approach to social protection (rather than targeting). This mainstreaming of employment policies should be tailored to the needs and institutional settings of each country.

It was recognized that an international financial system consistent with employment objectives should provide: a) liquidity when needed, b) stability for global markets, and c) enough space for policy autonomy for all countries. Policy coherence needed at three levels for an international financial system more efficient with respect to growth and employment: a) policies in industrialized countries, b) multilateral rules, and c) policies in developing countries.

### **Key conclusions and recommendations:**

The following policies were recommended to assist national policy makers on reducing the negative effects of structural reforms on employment:

- Demand- and supply-management policies should be used effectively to address employment problems in developing countries. Those policies are most likely to work in countries where there is significant underutilized capacity.
- Significant complementarities between economic, financial, social and labour-market policies for employment creation should be coordinated in order to reduce adverse impacts of increased volatility of capital flows and trade openness on employment.
- Social pacts should be a mechanism to include employment and income-distribution objectives in the design of fiscal, monetary and exchange rate policies. This will increase the policy space that can be used to address employment objectives in developing countries. Nonetheless, social pacts cannot replace social investment and development objectives, which are directed to address the root causes of financial instability.
- Policies should be tailored to the specific economic realities and institutional settings of individual countries. Thus a “one-size-fits-all” approach will not be appropriate.

### **Panel 3: Labour market flexibility and decent work**

#### **Issues and discussion points**

In the era of globalization, there has been a growing need to conciliate the promotion of decent work and productive employment with the increase of flexibility of employment. In the discussion, three major areas were highlighted in which a case could be made in favor of economic development with decent work, notably in the case of developing countries, namely on the basis of economic theory; on the basis of empirical evidence in OECD countries, and third, with specific reference to the developing countries.

The first argument was based on a number of theories that emphasized the importance of establishing minimum levels of security for workers, in order to achieve economic development, in opposition to the common perspective of a trade-off between economic efficiency and social justice. In the 1970s, the international economic crisis challenged the virtuous cycle of a welfare state with fast and stable growth, experienced by developed economies during the decade before. Thus, workers' security was perceived as detrimental to job creation, growth and innovation. The reform of the labor market was undertaken to increase its flexibility and to incentive job-creation. However, this perspective might not be adequate anymore: low wages and poor working conditions are no more an optimum for firms, given the endogeneity of work intensity, commitment and productivity.

A second important argument stemmed from the empirical evidence that some labor securities, i.e. "flexicurity", a combination of flexibility with minimum workers security, in OECD countries, have delivered better outcomes than conventional flexibility. In fact, the countries that had more fully deregulated their labor markets did not have the best performances in terms of job creation, innovation and growth. Income security associated with freedom granted to firms in their employment decisions has proven to be a successful model.

Finally, in the specific case of developing countries, a strategy to balance security and flexibility is also possible with an employment diagnosis and an alternative institutional design. Although the promotion of workers' security may simultaneously improve the welfare of the country as a whole and its macroeconomic performance, each country has specific structural obstacles to the implementation of decent work and security. For instance, workers' security can be made difficult by the fact that governments and public administrations do not have enough resources, ability or even legitimacy to introduce wide labor standards. On the other hand, the search for wage flexibility might be irrelevant if market rigidities are not an important constraint to growth. If for example unemployment levels are high because of insufficient local demand, employment levels and profit rates can even be increased by strengthening a form of workers' security. Thus, each country had to follow its own path towards better security for workers and find its own mix of security and flexibility.

Although security may be costly in the short run, it was an investment in social capital formation, and could contribute to an endogenous process of growth. According to research done in OECD countries, "flexicurity" delivered better outcomes than conventional flexibility. It was a tool to deliver tailored solutions for social justice and the protection of workers.

In the past decades, market economies had generated a lot of risk, destroying and creating jobs at the same time, with even higher levels of turnover in small firms. The costs of turnover were larger in developing countries, especially in unskilled, intensive labour industries and among informal workers. At the same time constant turnover was also a source of growth, forcing existing firms to be more productive or face obliteration. The very process of growth-generated risk could not be assumed by markets alone. Only by providing proper insurance, workers would be willing to accept the risks generated by economic growth.

Developing countries faced higher unemployment risks while at the same time lacking



the institutional arrangements to mitigate those risks. In these countries there is usually no coverage for unemployment insurance, little presence of services helping workers to find jobs or training and no arrangements for collective bargaining. These countries, also characterized by a very fragmented welfare state, had strong need to develop a system covering all workers with a combination of different programmes.

Employment protection legislation could be easier to implement than unemployment insurance since it required firms to pay for the unemployment they generated and pooled risk within the firm. Unemployment insurance, on the other hand, was very demanding institutionally; it could lead to excessive turnover and put too much pressure on the state in addition to pooling risks across workers.

There were also numerous risks associated with employment protection legislation, including: reduction in the creation of formal salaried jobs, increase in the size of the informal sector, inability to increase workers' labour share and slowing down of the investment and output growth. In addition, employment protection reduced employment of the young, women and unskilled workers relative to the adults, men and skilled workers and in OECD countries, it had been associated with higher unemployment duration.

It was necessary to rethink the labour reforms that concentrated mainly on greater market flexibility towards the improvement of income protection for workers. Country-specific situations should warrant the adoption of specific approaches, be it employment protection legislation, unemployment insurance or unemployment insurance accounts. There were always trade-offs associated to each approach, but learning from experience was vital.

The goal of decent work included flexibility, security and development. Initially, international institutions advocated labour market flexibility to improve performance. Gradually the debate on market flexibility recognized the tension between economic and social goals, and flexibility became synonymous with unfettered markets. Thus, while market flexibility was popular among employers, it was viewed with suspicion among workers.

The forms of flexibility included employment protection, wage flexibility, internal or functioning flexibility and supply side flexibility. Employment protection could be viewed as ambiguous since it reduced inflows and outflows from employment and limited firms' ability to adjust to changing circumstances. Wage flexibility included coordinated wage bargaining, while internal and functional flexibility of firms allowed for readjustment in the use of resources. Both workers and firms' flexibility on workers' behalf was of essence here.

In a globalized world, both wages and conditions of work had to adapt to changing circumstances. The evidence of the impact of flexibility on employment was far from clear. According to studies, there was no significant relationship between employment protection legislation and unemployment. Moreover, higher labour protection did not contribute to lower unemployment. Lesser flexibility in wages was not related to overall levels of unemployment either. Thus the empirical evidence to support the relationship between flexibility and employment was weak. There was a positive relation, however, between tenure on the job and increase in productivity in firms.

There were different outcomes of liberalization in different countries. In some developing countries, liberalization and greater elasticity brought about growth in unemployment and decline in employment creation; in others, the opposite was true. In industrialized countries it was the macroeconomic framework that drove the outcome. Even in relatively inflexible economies, adjustment was taking place.

### **Key conclusions and recommendations:**

- Modern theories that have emphasized the importance of establishing minimum levels of security for workers to have an economic development: low wage and poor working conditions are no more an optimum for firms, given the endogeneity of work intensity, commitment and productivity. Some labor securities, i.e. “flexicurity”, in OECD countries have delivered better outcomes than conventional flexibility. In the specific case of developing countries, a strategy to balance security and flexibility is possible with an employment diagnosis and an alternative institutional design.
- The idea of decent work offered a framework for social policy to integrate several broad policy goals that were widely shared. The core rights at work, namely freedom of negotiation, dignity of work, and its contribution to social integrity were all elements of social work agenda. It was important to build coherence recognizing the multiple effects and trade offs.
- The achievement of the goals of the decent work agenda, namely employment, rights at work, social protection, social dialogue, gender equality, security and dignity with a goal of flexibility, security and development, required a coherent social model, and policies and institutions that were able to achieve balance between economic and social goals.

### **Panel 4: Formalizing the informal sector?**

#### **Issues and discussion points**

In the panel discussion, it was acknowledged that the informal sector was a significant source of employment in developing countries and particularly for women and youth. The costs and benefits of participation in the informal economy, as well as the incentives and disincentives to formalization, were highlighted. The discussants also identified some of the major challenges to formalizing the informal sector.

There were several schools of thought that focus on informality, but their attention was concentrated on narrow aspects and did not address the issue as a whole. She pointed out that the informal sector was large and heterogeneous, and stressed that the definition should be expanded to include self-employed persons in small unregistered or unincorporated enterprises, such as employers, own account operators and unpaid family workers, as well as wage workers without legal protection for formal and informal firms, households, or with no fixed employer.

There were numerous benefits to operating informally including tax avoidance,

competitive advantage, flexibility and convenience. The costs of informality involved high costs of capital, electricity and transport, lack of social protection, capital, training or mobility prospects as well as a lack of legal status and bargaining power. In the context of decent work, formalization brought enforceable contracts, access to formal financial services, legally recognized rights, access to public infrastructure, services, social protection and membership in formal associations.

It was argued that the goal of formalization should be to minimize the hidden costs and biases of working informally and to maximize equitable relations among all economic actors. Formalization could also increase the productivity and competitiveness of informal enterprises and would offer protection and rights that many workers in the informal sector do not have.

It was also stated that the process of formalization required a paradigm shift from regulation and taxation to more inclusive and participatory process where formal employment opportunities could be expanded. She noted that more incentives were needed to encourage informal enterprises to formalize. Thus, labour market regulations should create incentives for socially responsible employment practices and provide basic worker benefits and rights for informal workers. Mechanisms and financing arrangements should be created to provide social protection to all workers. Participatory policy processes and inclusive rule-setting institutions that included representatives of informal entrepreneurs and informal wage workers should be promoted as well.

In a different presentation, it was noted that government policies towards informality had so far ranged from persecution to recognition. There was a need, however, for a new approach towards informality focused on regulations adapted to people's needs or different regimes modifying the common system in relation to labour standards. One of the solutions would be the introduction of progressive compliance, such as inspections instead of sanctioning. In such a scenario, legal requirements would become goals and progress towards the compliance with them could be subject to monitoring and oversight.

Formality could be viewed as a way to achieve inclusion. Strategic options to regulate formality as a means of inclusion involved introduction of dual preferential regimes, improvements in business accounting, simplifying of bureaucratic procedures, labour legal protection recognition and better practices, recognition of property rights as a way to have access to credit, recognition of labour relationships and special considerations for unique working conditions of street vendors. An alternative approach to formality could shift from the interests of insiders to the benefits of outsiders and from the focus on obligations to the focus on informal workers entitlements.

Reasons for growing informality include globalization, the weakening power of the state to enforce regulations and the emergence of new forms of organization from below. Informality could be handled either broadly or sector-specifically. There was a threat that formality could be further encouraged if different standards towards formal and informal sectors were applied. The pervasiveness of the informal sector was a reflection of the failure of the existing economic models. The balance between rights and productivity needed to be addressed, and the realization of property, citizen, and workers rights would empower people and offer a path to formalization.

While for many it was cheaper to stay informal, the imperative of creating decent work was a path towards formal working conditions and social protection.

In the discussion, it was suggested that formalization of the informal economy was only possible with transparent governance, a strong state and a well-developed rule of law which recognized property rights and could enforce contracts. It was also noted that the informal sector greatly contributed to economic growth, development and employment creation and informality was caused by the lack of capital. An observation was made that there had been a nexus between decent work, migration and informal sector, since the remittances sent home by immigrants often came from the informal sector. The representative also called upon ECOSOC to guide the high-level dialogue and work toward finding comprehensive migration policies and clear away misconceptions about migrants.

Because formalization had many meanings, it was concluded that there could be many incremental steps to be taken to extend benefits of formal employment to informal workers before fully integrating them into the formal economy such as sequencing benefits before compliance. Labour market regulations should create incentives for socially responsible employment practices and provide basic benefits and rights for informal workers. Mechanisms and financing arrangements should be created to provide social protection to all workers. Informal entrepreneurs should be included in the policy-making process, and rule-setting institutions should promote the needs of informal entrepreneurs and informal wage workers. A new approach towards informality should focus on regulations adapted to people's needs. Different regimes should modify the common system in relation to labour standards. Finally, attention should be given to tolerance and compliance with fundamental labour rights, freedom of association and collective bargaining, reduction of entry costs for all to the formal economy, simplification of rules and procedures and redesign of mechanisms of access to formality.

### **Key conclusions and recommendations:**

- Labour market regulations should create incentives for socially responsible employment practices and provide basic benefits and rights for informal workers.
- Mechanisms and financing arrangements should be created to provide social protection to all workers. Informal entrepreneurs should be included in the policy-making process, and rule-setting institutions should promote the needs of informal entrepreneurs and informal wage workers.
- A new approach towards informality should focus on regulations adapted to people's needs. Different regimes should modify the common system in relation to labour standards.
- In the informal economy, attention should be given to tolerance and compliance with fundamental labour rights, freedom of association and collective bargaining, reduction of formality entry costs for all, simplification of rules and procedures and redesign of mechanisms of access to formality.

## **Panel 5: Social Protection Options**

### **Issues and discussion points**

The rise of a more inclusive developmental welfare state in some parts of East Asia since the Asian economic crisis of 1997-98, permits to reconsider the neo-liberal argument of the existence of a trade-off between economic development and social security. Although this kind of empirical evidence has been observed in several Asian economies before, the analysis of the economic, social and political factors that have favored this transformation can be very insightful for other developing economies.

The reform of the developmental welfare state in these countries is firstly associated to a shift of the economic development strategy from an extensive production system to a more competitive production system, after the economic crisis of 1997-98. Although the social policy continues to be subordinated to the economic development strategy, the developmental welfare state had to become more inclusive, universalizing access to social services and enhancing job capability as a way to introduce more competitiveness in the production system and face the global competition.

A second factor underlying this transformation was the weaknesses of the previous developmental welfare state model to face the Asian economic crisis in 1997-98. Before the economic crisis, the developmental welfare system, built on the idea of full employment and discouraging dependency on the state, was particularly selective. The social insurance programme, mainly for industrial workers, required that people had paid contributions prior to entitlement to social benefits. While the number of unemployed was small, the protection of a selective group of people was not considered a major problem. However, with the Asian economic crisis, the increase of unemployment has challenged this selective social system: the welfare state did not help those who lost their jobs. In response to this situation a new public assistance programmes had to be introduced, recognizing entitlement to benefits as a social right and raising the level of benefits to the most vulnerable.

A last factor that contributed to the introduction of a more inclusive social policy was the process of democratization. The first developmental welfare state was sustained by an authoritarian government which suppressed dissenting voices. With the political process towards a more democratized society, in 1997 the new government has organized a tripartite committee, the Employees-Employers-Government Committee, to forge a social consensus for reform. This broad-based social consensus for reform has been possible notably with the creation of a package of social protection measures for the unemployed. Though, the reform of the developmental welfare state had to be carried out through democratic politics.

Another presentation focused on the need to provide social security to all as a crucial investment in poverty eradication. Social protection and social security (the two terms were used interchangeably) can be defined as a set of formal or informal income transfers in cash or in kind

that facilitate access to health and social services as well as to basic income security to cope with certain life risks that could lead to a loss of income.

Social security has merits which are often not acknowledged. In particular, it has significantly reduced poverty and income inequality in OECD countries. It was noted that if 2 percent of global GDP would be invested in social protection, poverty could be eradicated. Nevertheless, social security was underutilized in national anti-poverty and development strategies.

The first main challenge to social security are the so-called affordability arguments, i.e. that an equity-efficiency trade-off exists which implies that a large welfare state is not compatible with a productive economy; that social expenditures are too expensive for developing countries; that ageing presents an unsolvable problem and that expenditures will become unmanageable in the future. However, there was positive correlation between productivity and social expenditure per capita in OECD countries. Although the causality is unclear, the mere existence of a correlation between the question of the equity-efficiency trade-off was of sufficient interest. Evidence from two countries in Africa showed that child benefits and pensions had reduced poverty by one-third to 40% at a cost of less than 5% of GDP. It was noted that the cost of a basic package of social protection will be reduced over time and advocated that development aid be used to complement domestic resources for social protection and thus focus it on where it achieves the most. With respect to the problem of an ageing labour force for social security systems, it was stated that the dependency rate could be stabilised by increasing the labour force, e.g. by increasing the retirement age.

With respect to the second challenge to social security, i.e. the assertion that globalization will limit fiscal space and will lead to a 'race to the bottom', while there was evidence that the levels of pensions and health benefits were declining, there were few objective reasons to assume that fiscal space would collapse completely. A sustained reduction in pension levels over the next decades would lead to an increase in old-age poverty at the heart of the European welfare states.

It was also pointed out that since a trade-off between equity and efficiency was questionable, some level of social security was affordable at any level of economic development, and as social security reduces poverty and inequality, social security should be seen as an investment in people, states and the global community, and not as a burden. This shift in perspective from social protection as a cost to an investment needed to be accompanied by a change in the paradigm from social protection as a selective system which covers only civil servants and private sector employees to a system of "progressive universalism" in which all population groups are covered. To achieve this, one could start with basic health care for all, child benefits conditional on schooling, self targeting social assistance, and universal benefits in old age, disability and in the event of a loss of breadwinner. Evidence had shown, for example, that old age assistance to grandmothers in particular has benefited entire families.

Governments were asked to accept global responsibility for social security for all. This would require strengthening international standards to defend a global social floor, creating the

fiscal space for social transfers (e.g. through debt relief and ODA) and supporting national administrations in improving resource allocation and mobilization mechanisms.

### **Key conclusions and recommendations:**

- The financial crisis of the late 1990s marked structural changes in the social protection strategies of some countries in East Asia. Structural reforms in the economy were accompanied by democratic transitions that resulted to changes in the social protective system from being selective to being inclusive in nature. There was agreement in further exploration of an inclusive developmental welfare system that would focus on economic and social development.
- Social security systems showed underutilized potential for achieving the goals of poverty reduction. A detailed case was made on the affordability of the introduction of those systems in developing countries, deconstructing the widespread belief that globalization and increased international competition, or demographic changes taking place, would make those systems unaffordable.

### **Panel 6: Generating employment**

#### **Issues and discussion points**

Over the past two decades, there had been a major shift in the development paradigm and development policy towards market liberalization and a reduced role of Government in the setting of economic and social policies. Only South and East Asia had experienced sustained economic growth in that period, and it appeared that it was precisely the best growth performers which have not pursued those policies. Moreover, despite rapid economic growth, performance in terms of reducing inequality had been mixed.

On the basis of a number of case studies, three different types of employment trajectories followed by developing countries were identified. The first type of transition is generally referred to as industrialization. It is characterized by a rapid decline in the share of agricultural employment and a shift of workers into industry and services. The prerequisites for industrialization are rapid growth and a high output elasticity of employment. The classical example of this type of highly poverty-alleviating growth had taken place in some East Asian economies in the 1960s. In current times, despite their high economic growth rates, China and India had not achieved this type of growth, since both countries were unable to generate employment rapidly. This was attributed to the particular type of integration into the global economy followed by these two countries. Integration required reform of the old state-owned enterprises and resulted in shedding of excess workers. In India, the jobs that were created (e.g. in the ICT sector) did not create jobs for the poor but rather for the educated.

A second type of transformation was the development of rural non-farm industries, exemplified by Bangladesh. However, this type of transition has had a strong disequalizing effect on the income distribution because the income generated has mainly accrued to the relatively well-off. A third scenario was a rise in the agricultural share of employment. Although economic

theory suggested that economic growth was not possible by following such a strategy, seven out of the thirteen case study countries experienced this. This type of transition occurs when there are no incentives for firms to industrialize or export and people move into agriculture as a survival mechanism.

In the past four decades, most countries have liberalized their trade and financial markets, made important efforts to control runaway inflation and had privatized many public assets. In the political sphere, most parts of the world have been witness to a tendency to move towards democratization and a relevant growth of civil society organizations. Many nations now permit more diversified forms of civil engagement than they did decades ago. Other characteristics of the last decades had been the diversification of economies and the fast growth experienced by many formerly low income countries. Except for Africa, all the other regions of the world are now less dependent on agriculture. The emergence of other sectors has varied, depending on the country's context. Another element that has varied has been the resilience of countries and people against crisis and shocks.

It was pointed out that despite these positive facts, there were reasons for concern. In Sub-Saharan Africa, economies have been relatively stagnant. Jobless growth in Latin America has led to rising inequality, and in many other regions that are growing fast, including China and South Asia, inequality is increasing. Traditional livelihoods are not sustainable, due to in-country market penetration and globalization, which are eroding livelihoods or the returns of those livelihoods. Countries with weak infrastructure and institutions are unable to attract investment, and even in those countries with relatively better infrastructure, the poor have less access to infrastructure and services, due to spatial inequality, informal status and unaffordability. Basic education alone is no longer sufficient to increase job creation, skills demands are also increasing in the job market.

The role of government was not as positive as it would have been desired. Monopoly over the use of force is not always used for the benefits of people. In most places of the world, trust in public institutions is low. Weaker governments have proven to be more amenable to elite capture and rent-seeking, and in many countries, public actions, such as re-classification of public assets, and licensing, were seen as an important source of wealth creation of government officials.

In a separate presentation, it was noted that poverty had been increasing in Africa over the last three decades. Root causes of poverty lie in the inability to create a large number of decent jobs to cope with increasing labour force. Despite recovery in rates of economic growth over the last decade, growth failed to generate employment. Even fastest growing economies in Africa were not able to create jobs, producing a situation where high levels of economic growth coexist with high poverty. The political declarations on employment creation as key to fighting poverty have not been translated into actions. Analysis of 21 PRSPs reveals their weak employment content. The fact that development strategies do not consider job creation a priority explains why the employment intensity of the growth process is very weak.



During the interactive dialogue, it was noted that to facilitate growth of the rural non-farm sector, efforts needed to be accompanied by initiatives that could promote the growth of financial institutions to provide savings and microcredit.

### **Key conclusions and recommendations:**

- Providing access to land, and the need for large-scale interventions to ensure a positive impact of rural non-farm industries, the need to better balance stability and growth, and the importance of better managing the integration into the formal economy were mentioned as important elements of any employment generation strategy.
- Agriculture development was the backbone of rural employment, and several actions were needed to create decent jobs in rural areas. These included: completing the demographic transition through reduction of fertility and improvement of health and education; focusing more on quality of jobs rather than quantity; structural transformation based on agriculture and developing linkages with other sectors of the economy; integrating agriculture in development strategies; allocating sufficient resources to agriculture to sustain livelihoods and addressing land-related challenges, particularly property rights, and using technological progress to modernize agriculture; expanding rural non-farm activities to amplify the effects of agriculture growth, and improving quality of human, social, physical, financial and natural capital; and improving political and economic governance to rebalance the allocation of resources between rural and urban sectors of the economy in favour of rural areas.

### **Closing Session**

Mr. Jomo Kwame Sundaram, Assistant-Secretary-General for Economic Development presented a summary on the findings of the Forum. Over the course of the two days, it had become clear that more and better employment is a key pathway to poverty reduction. However, growth did not necessarily lead to employment creation, much less good jobs. Growth as a result of globalization in particular, was associated with risks, including job-turnovers. Employment issues represented a point of intersection between economic and social policies. Interventions in labour markets did not necessarily lead to unemployment, and social protection or other social expenditure needed to be seen as an investment, not as a cost or burden.

Several panelists presented evidence that challenged core assumptions of neo-liberal economists regarding employment levels, labour standards and labour markets, including the notion that growth would automatically lead to employment creation. The assumed trade-offs between employment protection and employment levels, between labour market interventions and employment levels, between equity and efficiency, between labour standards and foreign direct investment, and between development and stabilization were also challenged. There had also been challenges on the notion that social protection and other labour market interventions were not affordable; and that there was a “one size fits all” policy prescription, without regard for country-specific economic, social, and cultural realities. It was noted that the evidence cited in support of these assumptions was often quite inconclusive.

A number of issues that needed further inquiry were also mentioned. These included the question of regulation of the informal sector; issues related to property rights and its relationship

to employment creation; and the use of micro-credit as a tool to generate employment and reduce poverty. There was also a need to further study consultative mechanisms at the national level, such as social compacts or councils, as more effective means for labour market intervention and regulation.

In his closing remarks, Mr. José Antonio Ocampo, the Under-Secretary-General for Economic and Social Affairs thanked speakers and participants for their active contributions to the Forum. He noted that recent findings by DESA had demonstrated that service sector productivity was a good indicator of a country's labour market performance, as it was strongly linked to the country's quality of work. In this way, the achievement of the goal of full employment and decent work could be better measured at the country level.

The current international trade structure had made all countries vulnerable to increased job insecurity; while some had clearly benefited from globalization, other countries had witnessed a large reduction of available jobs in some sectors. The volatility of international capital movements had added to the insecurity. It was found that there was potential for a more active role of central banks towards employment generation, in addition to their pursuit of monetary and fiscal stability. Short-term macro-economic policies, such as exchange rate policies, had in some cases been overemphasized as a means to address trade balances.

There had been extensive debate on the possible ways to combine labour flexibility with security for workers, and a number of observations on this topic had been offered. While many developing countries' objective was to build a social protection system, developed countries were rationalizing existing systems. There was also a discussion on selectivity versus universality of social protection systems; in heterogeneous economies, solutions may differ by sector and their different types of workers. Finally, suggested solutions for labour market institutions and interventions needed to be based on the particular history and context of each country.