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JOB CREATION AND EMPLOYMENT SECURITY IN THE ERA OF GLOBALIZATION

*Information document submitted by the
INTERNATIONAL LABOUR ORGANIZATION (ILO)*

INTRODUCTION

The theme of "Job creation and Employment Security in an Era of Globalization"¹ for discussion and resolution in its Standing Committee on Sustainable Development, Finance and Trade is an issue at the core of the ILO's mandate and an area of privileged cooperation between the IUP and the ILO.

In his address to the second world conference of Speakers of Parliaments in September 2005 in New York, Juan Somavia said that in order to reinforce multilateralism, *"we need to further strengthen the relationship with the Inter-Parliamentary Union and the parliamentary dimension. The United Nations needs more substantive interaction and coordination with you - tapping the vast source of political and technical expertise"*.

The issue of employment and employment security in an era of globalization is precisely a field of such more substantive interaction. This was recognized in the October 2006 IPU paper on increasing collaboration with the UN: *"The issue of employment connects with national policies like few others. It is present in almost every single election campaign and looms large in most political debates. It is an issue where parliaments have a significant role to play through their legislative and oversight functions"*.

Indeed, the employment/ employment security question in an era of globalization looms so large that it may decide on the results of popular votes and elections not directly linked to it. An example is the rejection of the European constitution in two countries which were among the founding members of the European Union: polls showed that first among the reasons why people rejected the constitution was the fear of job loss or the degradation of working conditions in the wake of globalization.

¹ Inter-Parliamentary Union, "Job Creation and Employment Security in the Era of Globalization." Report prepared by the Co-rapporteurs Mrs. Elizabeth Salguero Carrillo and Mr. Osamah Abu Ghararah, C-II/116/R-rev, Geneva 2007.

We endorse large parts of the analysis contained in the report prepared by the IUP for the 116th Assembly and are glad that the work of the ILO was widely used as a reference for this document, especially the report of the World Commission on the Social Dimension of Globalization "A fair globalization: creating Opportunities for All".²

Indeed, in the three years since the publication of the latter report, the debate about globalization has moved from a sterile confrontation between those "for" and those "against" to a more constructive examination of how to shape a fair globalisation. Or in other words, as you rightly state in your report: "...to move from sterile debates about the negative aspects of globalization to positive action, notably in the field of labour" And it is now widely recognized that employment, employment security and decent work are in fact the core issues that have to be efficiently managed in order to achieve a fairer globalization.

The report on a fair globalization looked at the issues at stake and proposed that the multilateral system endorse decent work as a global goal. For the world parliaments and the IUP one finding of the report is particularly important: the evidence suggests that the problems of globalization have not so much to do with globalization as such, but with "deficiencies in its governance". This puts much of the blame of suboptimal outcomes, especially those in the labour market, to the policy level, both in the national and in the international arena.

Employment and employment security are indeed important topics, and the above shows that besides economics, politics matters. Parliaments are at the head of the legislative process and scrutinize government policies. While they exert these prerogatives mostly nationally, they can also influence the policy orientation of national delegations in international organisations and assemblies. They are thus an important actor for ensuring that the shaping of globalization results in increased fairness. They can contribute to convince the national and multilateral system of the need for more policy coherence and thus also to deliver on what people around the world want and what has become a global goal: decent jobs and employment security. There is also political action of parliament that will contribute directly to shaping globalization: one of the four basic objectives of the decent work agenda is the establishment of minimum floors in the globalized world and this floor includes labour rights and standards. By ratifying these standards, not only but especially those pertaining to the fundamental rights at work, parliaments can substantively contribute to a fair globalisation.

In this context of an increased perception of employment as being central for the welfare of people and for development it is important to reiterate that in fact the decent work agenda, which drives the work of the ILO, has become a global goal, and employment is a fundamental pillar of decent work.³ It is a productive factor for economies and the main source of income for most people. However, in a more volatile environment of increasingly open economies, while jobs and job creation are at the centre of economic and social policies, employment alone can only partially deliver on worker's security. Thus there is an interest in a more encompassing goal, decent work, which integrates also the quality and security aspects of employment.

² World Commission on the Social Dimension of Globalization, "A fair globalization", ILO, Geneva, 2004.

³ The three others are (fundamental) standards and rights at work, social protection and social dialogue. See *Decent work*, report of the Director General to the 87th session of the International Labour Conference, ILO, Geneva, 1999.

A global jobs crisis

Not long ago, the director general of the ILO, Juan Somavia, declared that we live in a time of a global job crisis. Indeed, the global employment situation remains of deep concern. While there has been improvement in the global labour market in 2006, resulting in more employed in 2006 than ever before, the number of unemployed (now 195 million) and also the number of working poor living on US\$2 (now 1.37 billion) has continued to increase. One quarter of the world's labour force or around 700 million workers are either unemployed or live on less than \$ 1 a day.⁴ About half of the unemployed are youth and also women in many parts of the world still remain an underpaid and overworked human resource and constitute 60 per cent of the working poor. These findings confirmed the trend of the past several years in which robust economic growth has failed to translate into significant reductions in unemployment or poverty among those in work. The pattern looks set to continue in 2007, with a forecast growth rate of 4.9 per cent⁵ likely to ensure that unemployment remains at about last year's level. The persistence of joblessness at this rate is of concern, given that it will be difficult to sustain such strong economic growth indefinitely. And there is also concern that growth itself has become less labour intensive,⁶ so that in the future it would be necessary to have even higher growth rates for creating the same amount of jobs.

There is of course a wide gap between and within the world's regions. For example in Africa there are both high shares of working poor and high unemployment. The growing number of natural and man made-made crises have also disastrous impact on the employment and labour market situation. Climate change has already affected the economies and labour markets of the world and is bound to exert even more impact in the future, affecting especially the poor.

A pressing issue is overcoming these fundamental disequilibria in the global labour market- one of the underlying reasons for the decent work gap- which threatens the achievement of the Millennium Development Goals and the peace and security of the world today. The challenge is not just of creating any employment – women, men, youth and unfortunately children in most parts of the developing world are working hard every day – but decent work, defined as "opportunities for men and women to obtain productive work, in conditions of freedom, equity, security and human dignity". In other words employment that productive and freely chosen, provides adequate remuneration, gives access to social protection and allows grievances to be voiced, gives fairness of treatment and a sense of security. Job creation must be promoted simultaneously with fundamental rights at work.

Creating a national and international environment conducive to "full and productive employment and decent work for all" requires a policy framework that encompasses demand-side and supply-side measures, macro and micro-level policies, as well as quantitative and qualitative aspects of employment. A well functioning labour market is an essential ingredient for developing a sound investment climate and can play a critical role in stimulating growth and poverty reduction.

⁴ See the ILO's *Global Employment Trends Brief, January 2006 and 2007*, Geneva at <http://www.ilo.org/public/english/employment/strat/stratprod.htm>.

⁵ IMF, *World Economic Outlook*, Washington, September 2006, <http://www.imf.org/external/pubs/ft/weo/2006/02/data/index.aspx>.

⁶ Peter Auer and Rizwan Islam: *Economic growth, Employment, Competitiveness and Labour Market Institutions* in: *The Global Competitiveness Report*, World Economic Forum, Geneva, 2006.

Decent work and the global employment agenda

Decent work sets the overall framework and is a longer term development goal, both on the national and the global level.⁷ Its employment component, the "Global Employment Agenda (GEA)" whose objective is to place employment at the heart of economic and social policies, has been adopted by the ILO's Governing Body in March 2003. For implementing the decent work and the employment agenda "decent work country programmes" were developed. The contribution of the GEA to this implementation process is centred on six key areas of action: economic policies for growth and employment, enterprise development policies, education, skills and employability, labour market institutions and policies, governance and social protection. In the following, the six policy areas of the implementation document of the GEA are discussed in more detail.

1. Policies to achieve economic growth and influence the demand side

A high rate of economic growth can be an engine to expand the demand for jobs. Even though the relationships between growth and job creation and growth and poverty reduction are complex and far from automatic, a high growth rate creates a more favourable environment to achieve employment and poverty reduction objectives.⁸

The modern economics of growth recognizes five main sources of growth: investment, human capital, productivity, trade/integration and institutions/governance.⁹ In addition, aggregate demand, including consumption, plays also a key role in the growth process.

A strategic focus on the links between the macro and the micro economy, employment, a well functioning labour market and a sound investment climate is key to developing a national employment strategy.

Economic stability as reflected in key macroeconomic indicators is important for economic growth. The question is how best to stabilize and how to balance economic stability with social objectives.¹⁰ Stabilization "at all costs" can prove to be economically inefficient and socially inequitable as the experience with structural adjustment programmes in some countries has shown. Fiscal space for critical public expenditures such as education and public health should be preserved, as poverty reduction strategies now clearly reckon. But also shorter term business cycle downturns may often warrant anti-cyclical policies.

Financial policies are another important area for economic growth. Financial services liberalization may lead to increased competition and financial deepening but also to increased volatility. Attention should therefore be given to the quality of financial institutions and the sequencing of policies.

⁷ It was recognized as a global goal by the UN World Summit of 2005.

⁸ For an analysis of the employment-poverty-development linkage see Islam R. (2006), *Fighting Poverty: the Development-Employment Linkage*, Lynn Rienner, Colorado, London.

⁹ For recent reviews of and contributions to this literature see Dani Rodrik (2003), *In Search of Prosperity. Analytic Narratives on Economic Growth*, Princeton University Press, Princeton, New Jersey; Elnahan Helpman (2004), *The Mystery of Economic Growth*, Harvard University Press, Cambridge, Mass.; OECD (2004), *Understanding Economic Growth*, Palgrave, MacMillan, Hampshire & New York.

¹⁰ See Muqtada, M. (2003), "Macroeconomic stability, growth and employment: Issues and Consideration beyond the Washington Consensus", *Employment Paper 2003/48*, Employment Sector, ILO, Geneva.

Trade liberalisation can be an effective way of promoting competition in the national market and access to external markets, creating opportunities for business, expanding exports and imports, and promoting investment and job creation. However, demand-side opportunities are not sufficient if countries do not have the supply capacities to respond to increased market opportunities, thus there is a need for enhancing them through consequent capacity building policies. Trade liberalisation, which creates winners and losers require consequent trade adjustment packages, comprising among other elements effective active labour market policies for reallocating displaced workers in security...¹¹

National employment strategies must be concerned with the employment content of growth, which has been declining globally and in specific regions and countries. This relationship, called also the employment-elasticity of growth, can be influenced by a number of factors acting simultaneously and sometimes in opposite directions: technological change and higher productivity; the sectoral mix in the pattern of growth of an economy between labour-intensive and capital-intensive sectors; labour market duality between a growing number of workers with excessively low productivity (informal economy) and those with high productivity. Countries placing employment at the centre of their development strategies, and wanting to use the employment route to poverty reduction, have to allow for balancing policies and incentives across relevant sectors (labour-intensive vs. capital-intensive; formal vs. informal) so that the growth is as job-rich as possible in a context of accelerating technological change and productivity. Labour intensive investment policies add to increasing the growth-employment relationship.

2. Enterprise Development

A significant source of new employment are the creation of new enterprises and the expansion of existing enterprises, most often small and medium-sized enterprises in the private sector, but also cooperatives and similar for profit or non-profit organizations. Enterprise creation, innovation and business growth are an important part of employment policies that can address one of the endemic problems of developing countries: the lack of supply of formal jobs. Higher rates of enterprise creation are associated with higher levels of employment. Policies to promote entrepreneurship begin with the educational system where young women and men are introduced to business and entrepreneurial culture so that they can consider self-employment as a career option. The policy and regulatory environment must not create excessive barriers and burdens for informal economy operators to grow and enter the formalised economy. There is a need for intelligent regulation, which contributes to balance the social objective of ensuring that rights at work and protection are ensured, while avoiding that new business growth is inhibited by unwarranted regulatory and administrative burdens. A central role for governments is to lower the costs and unnecessary bureaucratic hurdles to enterprise creation and facilitate access to markets, credit and management training so that businesses can provide productive employment. Investment fuels business growth and is encouraged by macroeconomic stability, as well as by transparent, corruption-free government structures, and where property rights are clear. The absence or inadequacy of institutions guaranteeing and enforcing such rights is a brake on the engine that drives employment growth. Enterprises and their workers will also be helped by an effective, service and infrastructure providing public sector, which can also be –as is shown by many countries- an important source for employment.

¹¹ See: Trade and Employment: challenges for policy research, ILO/WTO, Geneva, 2007.

3. Raising Educational levels, Skills and Employability

Education, skills and employability are a central component of employment strategies. *For an individual*, his or her education, skills and competencies define her capacity to make use of job and income opportunities, and to adapt to the changes in the labour market and work organization brought about by technology and globalization. Investing in knowledge and portable vocational and "foundation" skills is one of the most effective ways of enhancing the employability of the poor to participate in growth and globalization. *For companies and organizations*, the skills of managers and workers and firm-specific knowledge are key determinants of firm-level productivity. Workplace and organisational learning are essential in maintaining workers' employability in knowledge economies and the firm's capacity to absorb and master new technologies to innovate and remain competitive. *For economies*, a skilled and knowledgeable workforce improves the investment climate, is a major determinant of sectoral and economy-wide productivity and, therefore, of economic growth and job creation potential. Improving the efficiency of training policies and training institutions and supporting equal access to education, training and decent work opportunities create a more employable workforce, which supports growth and competitiveness in open economies. These policy choices require large investments in human capital.

4. Well functioning labour markets, labour market institutions and policies

Globalization and technological change are causing national economies to be exposed to more intense competition. Firms have to adjust more frequently their operations and their labour force to meet fluctuations in demand and boost productivity. But simply responding to firms' need for flexibility, without taking care of the worker's need for security, would be socially inefficient and would have negative effects at the individual as well as the macroeconomic level. There is a need for a well-functioning labour market with institutions and policies that do not hinder necessary economic adjustment of firms, while ensuring income and employment security to workers.¹²

Such new security is nowadays often referred to as "flexi-curity", which aims at providing labour market security in combining the employment security of an employment relationship with a firm or the public sector, with security "beyond" the firm, provided by the social protection system.

It is important, giving the often imprecise definition of flexi-curity, to emphasise the combined nature of the new security put in place before our eyes. Employment security will indeed remain at the core of the employment system, because stable employment relationships are both providers of productivity¹³ and security. However, in the global economy the traditional security of employment with firms has relatively receded and labour markets have consequently become more volatile and flexible thus requiring putting in place protection beyond the protection of the regular employment relationship. The flexibility and security that this combination provides to workers allow them to move to new growth sectors, and this is

¹² The ILO has contributed substantially in the discussion on adjustment, flexibility and workers protection in the framework of globalized economies. See Auer, P. and Cazes, S. (2003), *Employment Stability in an Age of Flexibility*, ILO Geneva; Cazes, S. and Nesporova A. (2003), *Labour Markets in Transition: Balancing Flexibility and Security in Central and Eastern Europe*, ILO, Geneva.

¹³ Auer, P., Berg, J. and Coulibaly, I (2005): "Is a stable workforce good for productivity", *International Labour Review*, Volume 144/3. In this context we note that the report of the IUP for this assembly, while not dismissing the use of flexible contracts, states that "Contracts of indefinite duration should continue to constitute the standard form of employment relationship between employers and employees" (para72).

important for the long-term economic development of a country. Firms and the public sector, which are embedded in adequate safety nets, geared towards labour market integration, can also better adjust their workforce under conditions of social responsibility than firms located in countries without safety nets.

However, especially in developing countries, labour market entry of large cohorts of young workers occurs in parallel with the loss of jobs in existing firms. In these countries, combining labour market policies with employment security in order to trigger labour market security becomes even more urgent. Pursuing flexibility and security in these cases could, simply mean that those young people, who cannot enter the labour market spontaneously, are equipped with the necessary skills to enter. Employers might then enjoy some advantages when employing them such as temporary wage or training subsidies. Given some safeguards, this could also apply to the informal sector, which is prevailing in these countries.

In any case, an important condition for the success of such "flexi-curity" solutions to solve labour market problems is that a social safety net, comprising active and passive labour market policies and an effective employment service, exists. Indeed, such a safety net should not be considered as a temporary crisis solution, but as a permanent institution, whose function is to provide labour market security in more open and thus more volatile labour markets. Designing and implementing effective flexibility-cum-security solutions, which combine employment security and social protection, obligatory implies negotiations between the two sides of industry and the state. Effective tripartism can aid the acceptance of change, improve the design of regulations and policies, ensure sustainable financing and make such solutions sustainable even in times of political change.

5. Governance and Empowerment

The governance dimension of how to achieve a fair globalization have been clearly outlined by report of the World Commission on the Social Dimension of Globalization.¹⁴ The report contends that the problems of globalization have not so much to do with globalization as such, but with "deficiencies in its governance". In short: policy and politics matter!

An important result of the general development debate confirms such views and a strong and direct causal relationship between good democratic governance and better economic performance has been found.¹⁵ But governance does not only concern government. The social partners, i.e. the interest representation of workers and employers and their dialogue, sometimes bipartite, sometimes tripartite together with the government, are important actors in the field of governance. Social dialogue has been found to be important to develop and articulate consensus and implement policy at the global, regional, national and local levels. Especially in the field of employment and employment security, the social partners have a strong role to play: They can exert direct influence on the governance of labour markets by engaging in collective bargaining, through participation in boards of labour market institutions like the public employment service, the unemployment benefit system or training boards and social and economic councils. By promoting participation, representation and empowerment of individuals, social partners, together with governments, parliaments and the civil society can create the processes and institutions necessary to mobilize social actors, manage conflict, promote social inclusion, and ensure adhesion to and sustainability of the visions and

¹⁴ WCSDG "A fair globalization", ILO, Geneva, 2004.

¹⁵ Daniel Kaufmann (2003): "Rethinking governance: Empirical lessons challenge orthodoxy", World Bank Institute, March.

programmes adopted. Concerted efforts to improve governance and social dialogue are thus an essential part of the growth, competitiveness and employment agendas of countries. Parliaments can foster tripartism by giving active encouragement to strong employer and worker organisations by inviting their views on key issues of economic and social issues in order to render effective legislative processes on new issues such as the modernization of labour law and its implementation.

An important part of such governance processes at all levels (local, national, regional and global) is policy coherence.¹⁶ While coherence does not mean that diverging interests become one, discussions, negotiations and sometimes only mutual information between stakeholders becomes an essential part of the development process.

6. Social Protection

Social protection is a critical factor in the management of change as it can enhance the dynamism of the economy and the mobility of labour. Social protection encompasses policies that insure a series of risks, such as health, old age, family, maternity etc. but also those that insure against labour market risks, such as income loss of those who lose jobs or cannot enter the labour market, more directly pertinent for the Global Employment Agenda.

Indeed, people who face loss of income by losing jobs and have no other protection for them and their families are joining the ranks of the poor whenever a crisis hits. Social protection provides the basic means for social inclusion but also helps to stabilize the economy, for example, by providing income during recessions.

In the developed world, transition countries and parts of the developing world, social protection faces the problem of workforce ageing, which is increasing the financial strains of welfare systems. In other parts of the world one has to deal with large cohorts of unemployed and underemployed youth that would need additional help in order to integrate the labour market.

A general challenge is that less than 20 per cent of the world's population is properly covered by social protection, which limits, for example, the scope of labour market security along the flexibility and security nexus. This implies some sequencing in policies: workers and their representatives are naturally reluctant to accept more flexibility in the labour markets if no other security than a job exists: creating the safety net should therefore be the priority aim.

Thus, by a variety of both social and economic reasons, in many developing countries an affordable social protection system needs to be put in place. Although this will entail some costs, these costs will be repaid by increased worker's welfare, increased worker's health and the beneficial effects of these on productivity. While the question remains, how to initially finance the system, recent research of the ILO's social protection sector has shown that these obstacles are not insurmountable.

¹⁶ WCDSDG op.cit.

CONCLUSION

These six areas of action are not independent from each other. Depending on the development level and the main binding constraints of countries, one or the other area might have priority for action but ideally they must all be addressed simultaneously. Macro-and micro policies, education, training and employability and labour market institutions and policies, enterprise development, social protection and –as a process variable, governance- must go hand in hand, requiring a high degree of policy coherence at the local and national level.

There is also a strong gender dimension in both the decent work agenda and the GEA. In fact the gender dimension is mainstreamed in all four dimensions of decent work and all policies have to take into account the specific problems that women face in regard to employment, social protection, the social dialogue and labour rights in general.

At the international level, such combined policies are implemented through action on decent work country programmes, the main ILO delivery instrument for decent work and employment. The ILO is presently working with partner agencies under the umbrella of the Secretary-general's Chief Executives' board (CEB) on a toolkit to assist the mainstreaming of decent work as a system wide goal that is vital to accelerating progress towards the MDGs.

With the decent work agenda, accepted as a global goal by the world community, the ILO provides a coherent development agenda, which integrates the economic and the social dimension of development in a complementary manner. Just like the European Employment Strategy is embedded in a more comprehensive policy agenda, the Lisbon agenda, the Global Employment Agenda is embedded in the Decent Work Agenda. Employment is a central pillar of decent work; and while the social dialogue, rights and standards at work and social protection have their own and independent function, they all need employment at the core for truly delivering on decent work. While the employment situation has not improved everywhere, there is also some reason for optimism in the current situation in the world economy and on world labour markets. Now that the world community has given some new directions for development, centred on employment and decent work, it is important to refine the instruments and to implement them.

Juan Somavia has repeatedly said that the ILO cannot deliver an ambitious objective like the decent work agenda on its own. It requires strong international and national collaboration. In his address to the speakers of Parliaments in October 2005 he listed five areas in which the support of parliaments can make a difference:

"First, make all major policies — particularly sound macroeconomic, investment and social policies — converge around employment and enterprise creation as a central national development objective. We must ask, how will this legislation, this project, this policy reform improve the quantity and quality of jobs?"

Second, promote employment-rich investments: agricultural and rural development, where the majority of people in poverty live; labour intensive infrastructure which can create three times as many jobs with the same level of investment, productivity and quality standards; upgrading the unprotected informal economy where nine out of ten new jobs are found in too many developing countries; and empowering and expanding opportunities for women.

Third, build a fair globalization grounded in economic opportunity and social justice. Among other things, that means fairness for farmers forced to compete against a billion dollars a day in agriculture subsidies; fairness for enterprises to compete on a level playing field and gain market access; fairness to end the crushing debt burden; fairness to fulfil commitments on development assistance; and fairness for displaced workers in the global production systems. Without fairness and opportunity, there is no peace.

Fourth, good governance at every level. Many nations are making progress. But good national governance must be accompanied by good global governance. We don't have it when international organizations dole out piecemeal, fragmented, parallel, and sometimes, conflicting policy advice or conditionalities to countries today. You can raise the political demand for international organizations to come together within their mandates to promote quality global growth, higher job creation and the enabling environment for investment and entrepreneurship.

Fifth, focus on young people. As the Secretary-General said last month: "Youth employment offers the most obvious bridge between the development and security agenda... Little progress will be achieved unless youth are provided with the resources, self-esteem and dignity which decent work can provide." We have an opportunity and obligation to instil hope and possibility for the Millennium Generation—the future leaders of the world. And if we can reduce the youth unemployment rate by just half, we will add at least 2.2 trillion dollars to the global economy.

These are but five concrete ways to advance the crucial agenda to deliver dignity and advance people's security. All of this is possible. There is no mystery in how to get it done. But we are lagging behind in delivering solutions that people are waiting for. And on each, your vital voice can make a profound and lasting difference."

Finally then, the collaboration between the ILO and the IUP and the national parliaments can be a cornerstone in this endeavour. The support of your organisation for the ILO goal of decent work, for implementing "opportunities for men and women to obtain productive work, in conditions of freedom, equity, security and human dignity", will help the people in the world to be sheltered from the negative effects of globalization and allow them to reap more of the positive effects.