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Statement by

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The global economy has proven surprisingly robust, recording increases in world output of around 5 per cent in each of the last two years. As noted in the WEO economic growth exceeded expectations in the second half of 2005 despite higher oil prices and natural disasters. It is a concern however that global imbalances continue to expand and that growth in several of the largest Western European countries remains sluggish. This partly reflects subdued consumption expenditure and may be related to fears about declining job security.

On the brighter side, the up turn in global growth is not confined to developed countries. In fact several large emerging economies continue to record impressive economic growth. Equally important relatively high growth rates have been recorded in several African, West Asian and Latin American countries in the last few years. This is encouraging after several decades of disappointing performance. The challenge now is to ensure that this is growth spurt is sustained and translated into improved labour market performance and higher living standards. Economic growth is not an end in itself but a means to an end.

This will not be an easy task. As the WEO indicates the recent improvements in many developing countries are closely associated with rising demand for raw materials and improvements in the terms of trade for commodity producers. In a number of countries growth is concentrated in a few capital intensive sectors of the economy, like mining and hydrocarbons, which have benefited from booming prices. Unfortunately these industries usually have weak production linkages with the rest of the economy and the dramatic price increases for base metals has already intensified the search for substitutes in industries like construction.

Moreover the oil and mining sectors are traditionally capital intensive with relatively low employment elasticities. This helps explain why faster output growth has not been translated into improved labour market performance. In fact global unemployment increased slightly in 2005 to reach a new peak of 192 million. But more importantly, the extreme working poor (living on less than $1 a day) are nearly three times as many as the global unemployed, and half the global labour force do not earn sufficient to lift themselves and their families above the $2 a day threshold. With such a large proportion of the global labour force poverty stricken it is important to recall the necessity of sustaining high global growth for many years and of finding national policy packages that increase the employment content of growth.
The prospects for economic growth and labour market trends in developing countries over the medium term will depend, at least in part, on how the income generated by export-orientated sectors during the current commodity boom is utilized. It is imperative that significant proportions of the wealth now being generated spill over into the domestic economy, in the form of both local investment and consumption of domestically produced goods and services. If the bulk of the increased profits flow out of these developing economies, they are unlikely to shift on to a sustainably higher growth path. As the WEO points out commodity prices remain highly volatile so unless growth becomes more broadly based and economies more diversified we are unlikely to witness labour demand expanding by the magnitude necessary to significantly dent unemployment and underemployment levels.

If however higher profits are reinvested in domestic projects a virtuous circle involving increased growth, investment and employment can be initiated. Similarly if local workers receive their fair share of the recent income gains the repercussions for the local economy can be much more positive. Increased remuneration for low and semi-skilled workers enhances the likelihood that demand is boosted for local labour intensive services and goods. Consequently sound labour market institutions and appropriate wages policies can play a significant role in determining the distribution of income and thus the prospects of transforming recent “windfall” gains into sustainable higher growth patterns.

This issue of the WEO focuses special attention on the relationship between globalisation and inflation. Greater price stability in the last decade or more has delivered important benefits. These conditions have been conducive for improved business confidence and private investment in at least some countries. Reduced inflation is also advantageous for low income consumers and particularly the poor who need to survive on fixed incomes. Consumers in some countries have benefited from a much wider, and often cheaper, choice of commodities and services provided by the private sector. Lower inflation, and reduced public borrowing in many countries, has also contributed to lower interest rates which benefit borrowers both large and small. In industrialized countries, these same conditions have helped many workers and their families accumulate important assets including equities and have helped expand home ownership. Consequently in many industrialized counties total wealth in middle income families has increased.

The WEO analysis considers only a part of the nexus between globalisation, labour market developments and inflation. To the extent that recent labour market reforms are considered, the relevant chapter suggests that if anything the demise of centralized and coordinated wage bargaining may exacerbate wage pressures and place upward pressure on inflation. Recognition of these down side risks associated with decentralized wage bargaining systems is desirable even if labour market pressures on inflation are currently negligible in most countries.

During the mid decades of the twentieth century many industrialized countries established a framework of employment rights and a range of labour market institutions to promote inclusion and equity through the world of work. It often included labour legislation, labour inspection, labour courts, conciliation and mediation services and measures to facilitate the organisation of workers and collective bargaining. In some countries it also included institutions for determining minimum wages and wage adjustments, and the use of remuneration adjustments in the public sector to influence bargaining patterns throughout the economy. Several countries also created forums for regular consultations between governments, trade unions, employers and civil society over broad economic and social policies. A number of developing countries followed this lead and established similar labour legislation and institutions. These institutions and policies
increased employment and income security and helped ensure that work was decent for the vast majority of people in developed countries. They often had a substantial impact on the distribution of incomes and aggregate demand within societies. They are also often credited with fostering industrial harmony, promoting human capital development, facilitating structural change and improving productivity.

Reforms of labour market institutions and regulations in the last two or three decades were designed to promote numerical, functional and labour cost flexibility at work. Almost everywhere the role of the State in labour relations has declined. These reforms were not unrelated to globalisation. In fact many governments opted for deregulation because of perceived pressures on their international competitiveness and the desire to attract foreign direct and portfolio investment after they had open their capital markets.

Simultaneously, globalisation was creating dramatic changes in the workplace. In the pre-globalisation period formal labour markets, and the institutions that regulated them, coincided with product market competition. Both were contained largely within national frontiers and workers were largely sheltered from external competitive factors. In contemporary markets the expansion of global trade, the development of global production chains and massive international capital movements mean that workers must compete with other workers who are very distant from their own national boundaries. At the very least, enterprises have increased potential to alter the location of production or the source of their inputs. The extent to which enterprises have actually taken advantage of these additional choices and moved production to new locations remains a moot point. However to a large extent it is this potential for firms to move or rapidly alter their production chain, rather than realised movements, that have weaken the bargaining position of labour and tilted the industrial relations playing field to the advantage of employers.

Consequently intensified competition is reflected in downward pressure on remuneration packages for non-managerial and non-professional workers in many countries. Other labour market strategies exist for enterprises facing intensive international competition. In recent decades many corporations have sought to reduce labour costs and enhance their international competitiveness through a dramatic expansion in atypical forms of work, including part-time, casual, and short-term work. Also on the increase is home work, zero-hours contracts, contract labour and agency work. There are also various other forms of disguised employment relationships where workers are re-labelled as “self-employed”. These workers are not eligible for many of the rights and benefits that apply to regular employees doing the same types of work.

Globalisation, and the associated need to constantly improve competitiveness to maintain market share, is also reflected in increased intensity of work, tighter deadlines and faster production processes. New working time patterns include flexible working hours, flexible working weeks, flexible working years, flexible contracts, flexible places of work and flexible working lives. Often, but certainly not always, flexible working arrangements have adverse consequences for family life and local communities.

Labour market developments in industrialized countries help explain the changes in the inflation-output elasticity’s that are reported in the WEO. Certainly it would appear that real incomes of many unskilled and semi-skilled workers failed to keep pace with productivity improvements. Data presented in the WEO from industrialized countries clearly indicate that workers only received a fraction of the benefits they might otherwise have expected from improved productivity over the course of the 1990s. As noted in the WEO, “the most noticeable feature of
cost developments is the greater decline in unit labour cost increases compared to producer price inflation… As a result, the labour share has been declining over the 1990s”.

While this may be conducive for eliminating inflationary pressures and stimulating investment the fact that it was accompanied by record level profits and a rapid growth in salaries, share options and bonuses paid to executives meant that the income distribution widened appreciably in many countries. These trends in relative remuneration have significant implications for perceptions of fairness. They help explain another important development highlighted in the WEO, namely the strong re-emergence of protectionist pressures in many countries and the threat this poses to a successful conclusion of the Doha trade round. The preservation of open economies and the participation of a wider range of countries in increased international trade are highly desirable. – A new approach to labour markets which aims to balance better security and flexibility is warranted and would contribute to creating the conditions needed to manage the adjustments consequent on further market opening.

It would appear that these concerns are being recognised and terms like fairness, equity and redistribution have re-entered the debate among development economists. For example, last year’s World Development Report declared that “equity is complementary, in some fundamental respects, to the pursuit of long-term prosperity”. Moreover, the same World Bank publication suggested that some forms of redistribution - of access to services, assets or political influence - can increase economic efficiency. This same publication explored the extent to which denial of workers' rights and inadequate labour regulations increase inequality and harm economic development. The decision by the International Finance Corporation to require that its clients respect a number of basic labour and social as well as environmental standards is a significant development that could be developed for lending by other multilateral institutions.

The WEO discusses the need to rectify unsustainable balance of payments positions in many countries especially China. External imbalances are in part a reflection of internal imbalances. The promotion of sound labour market institutions and appropriate wages policies in China may help to rectify widening income inequalities, boost consumption expenditure and encourage imports. Thus helping to recycle the massive balance of payments surpluses that have been accumulated in the last decade and which represent a significant threat to stability in the global economy.

It is evident from the above that many of the issues and challenges discussed in the WEO and last year’s WDR are related to employment and decent work. These themes are certainly receiving wide attention at present. In 2005 over 150 Heads of state and governments decided to support the objective of fair globalisation, full and productive employment and decent work for all in the Outcome Document from the UN World Summit. Attention is now focused on appropriate ways to implement these commitments, on a system-wide basis, for example through the forthcoming ECOSOC Ministerial meeting in July.

Given the widespread concern with global economic imbalances and increasing income inequality, as well as the desire for a successful conclusion of the Doha round and preservation of relative price stability, further investigation of the relationship between growth, investment and employment is warranted. This could be topics for further joint research and policy discussion between the World Bank, IMF, ILO and other institutions in the context of calls for enhanced policy coherence at the international level.