

Globalization and inequality

Globalization poses major challenges to multilateral system

1. There is widespread anxiety over the effects of globalization on the lives of ordinary people across the world. The advantages of open economies and open societies are an accepted reality for most. What is now becoming increasingly evident is that the benefits are not reaching enough people. Globalization has created extraordinary new opportunities for businesses and consumers, which have been a major driving force behind recent growth in the world economy. But the inequality of opportunity has been just as extraordinary, both within and between countries. There is a growing recognition that unless questions of unfairness and inequality are addressed by the global community, the process of international integration itself may be rejected by increasing numbers of countries and people. Imagination and creativity will be needed to meet the overriding challenge: that markets must work for everybody. This paper shows how the ILO's past and present efforts can contribute to this goal.

Spreading and deepening growth

2. In spite of the undoubted benefits that trade liberalization and other aspects of globalization can confer in terms of a better allocation of resources, greater economic efficiency, and higher growth, it has failed to deliver fully on the goal of "raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand".⁽²⁾ Evidence is accumulating that globalization is widening inequalities between industrialized and developing countries.⁽³⁾ In particular, the least developed countries have remained largely excluded while the gains enjoyed by the rest of the developing world have been small and much less than hoped for at the conclusion of the Uruguay Round. This gives strong support to efforts to make a possible Millennium Round also a Development Round. Improved market access, more extensive transitional arrangements, and greater technical assistance for developing countries are all important prerequisites for faster growth and thus poverty reduction.

Rapid change in the world of work

3. But growth is not enough. Although causation is by no means clearly established in all cases, globalization has been accompanied by a host of social problems, many of which are related to the world of work. In many countries increased global competition has led to job losses which have often been concentrated in particular industries and communities, thus magnifying their negative impact in media depictions. At the same time, the compensating mechanisms promised through market forces, namely the creation of new jobs and the smooth redeployment of displaced workers to these, have often been weaker and slower than anticipated. In these circumstances the overall employment situation has deteriorated. In many developing countries without systems of unemployment insurance or adjustment assistance to workers, the social pain of these labour market developments has been particularly acute. In addition, hundreds of millions of the working poor and their families on the margins of developing country labour markets, are largely bystanders rather than participants in the growth of the world economy.

Impact of intensified competition on labour markets

Growing sense of insecurity

4. The emerging global economy has brought increased uncertainty and insecurity. They are no longer the sole preserve of the socially excluded. Today they reach deep into middle-class attitudes and reactions. Many parents fear that their children may not have a better life than their own. Business leaders in traditional industrial and manufacturing sectors have doubts about where their business are heading. Many workers, in both North and South feel caught in a race to the bottom, and believe that intensified global competition is exerting downward pressure on working conditions and labour standards.

Weakened bargaining position of workers

5. Intensified international economic competition has brought about increasing recourse to flexible employment arrangements that are often less secure and provide fewer social benefits than regular jobs. Another problem area has been the rise in income inequality that has been observed in many developing and industrialized countries. The causes of this phenomenon are still poorly understood but one contributory factor is the weakening of the bargaining strength of labour. This has come about because of the increased exit options available to capital in a globalizing world economy. In some cases, violations of core labour standards relating to freedom of association and the right to bargain collectively on the part of governments seeking to attract foreign investment have made matters worse. The reduced bargaining strength of workers often results in their being denied a fair share of the gains from openness to international competition and economic growth.

With global integration of production, smaller businesses, especially in the developing world, struggle to survive

6. The liberalization of foreign direct investment has added to the competitive pressures faced by local firms, including small and medium enterprises, especially in developing and transition countries. While the longer-term benefits of this process are likely to be positive, they initially cause job losses through the restructuring and loss of market share among local producers. In addition, there have been cases where new job creation by foreign firms has been less than anticipated due to the adoption of technologies that have been more capital and skill-intensive than warranted by underlying factor proportions in developing countries.

Impact of global financial markets

7. By far the biggest impact on social development has come from the effects of increased financial liberalization, especially the freeing of capital accounts. This has led to the growing frequency and severity of financial and economic crises in the 1990s. As shown by the recent Asian crisis these events have resulted in sudden and severe economic downturns that have inflicted heavy social costs. Apart from exposing the dire consequences of neglecting social protection, the crisis has also highlighted the value of sound labour market institutions, especially systems of collective bargaining, dispute prevention and resolution, and social dialogue, in both preventing and coping with the consequences of economic crises.⁽⁴⁾

The role of the ILO

Reinvigorating the contribution of the ILO

8. In the face of these formidable social and labour problems there is much that the ILO can do and indeed has done. The new thrust of the ILO's programme, which has received the full support of its three constituents -- employers' and workers' organizations and governments -- is to promote opportunities for [decent work](#) for all women and men. Decent work means work which is carried out in conditions of freedom, equity, security and human dignity.

Four strategic objectives

9. How can the goal of promoting decent work be achieved? In the ILO it is seen as the synthesis of four strategic objectives:

- achieving universal respect for fundamental principles and rights at work;
- the creation of greater employment and income opportunities for women and men;
- extending social protection; and,
- promoting social dialogue.

These objectives are closely intertwined: respect for fundamental principles and rights is a precondition for the construction of a socially legitimate labour market; social dialogue the means by which workers, employers and their representatives engage in debate and exchange on the means to achieve this. Employment creation is the essential instrument for raising living standards and widening access to incomes, social protection the means to provide security of income and of the working environment. In addition, gender equality and development are themes that cut-across the strategic objectives.

An enabling environment for productive investment

10. The focus on decent work naturally implies a major emphasis on enterprise development and the importance of creating an enabling environment for productive investment. Training and skills development and support for emerging small and medium-sized companies are critical. But enterprise development in an open world economy encompasses new challenges not least of which is to go beyond the outmoded idea that entrepreneurship and worker organization are conflicting objectives. Uncertainty for business and for working families is a drag on adaptation which can only be overcome by a broader vision of the productive value of policies that promote both social justice and innovation. Increasingly, enterprises are recognizing that sound social policies and industrial relations are good for business. And they are naturally turning to international bodies like the ILO to help work out responses to these challenges.

Translating a global perspective into national policies

11. The ILO's four strategic objectives can provide the social foundations of the global economy. This interdependence between social and economic progress has been widely reflected in the ILO's work. A clear indication of the ILO's concern has been the decision of its Governing Body to establish a Working Party on these issues which began its work in 1994. In this framework studies on the social impact of globalization were conducted in seven countries and the reports discussed in tripartite meetings held in each country.⁽⁵⁾ The results of the studies demonstrate the potential benefits from trade liberalization and globalization, but they also highlighted the need for policies to address negative distributional and labour market impacts. Several countries have initiated follow-up activities with the assistance of the ILO and other UN agencies in order to implement a policy response to these challenges.

Core labour standards

Promoting basic human rights at work

12. The first ILO strategic objective concerns *fundamental principles and rights at work*, and a major contribution of the ILO has been the promotion of core international labour standards: freedom of association and effective recognition of the right to engage in collective bargaining, together with the elimination of forced or compulsory labour, child labour and discrimination in employment or occupation.

Global objectives require system-wide follow-up

13. The 1995 Copenhagen Social Summit identified the seven basic ILO Conventions on these issues as the social floor of the emerging global economy. By doing so, it highlighted the principles and rights they contain as global objectives to be pursued by the international community as a whole. The WTO was one of the first to grasp the significance of this, when trade ministers meeting in Singapore in 1996 renewed their governments' commitment to the observance of internationally recognized core labour standards, and affirmed their support for the ILO's work in promoting them. The ILO has moved forward since Copenhagen and Singapore to adopt the [1998 Declaration on Fundamental Principles and Rights at Work](#) and its Follow-up, a reaffirmation of core ILO values by the countries of the world.

The ILO Declaration: a decisive step

14. This new ILO Declaration is a decisive step towards universal respect of these rights even by countries which have not ratified the relevant Conventions.⁽⁶⁾ This is accomplished by two elements:

- it recognizes that all ILO Members (who are also in general members of other international organizations) have by their very acceptance of the ILO Constitution an obligation to respect, realize and promote freedom of association and the effective recognition of the right to engage in collective bargaining, together with the elimination of forced or compulsory labour, child labour and discrimination in employment or occupation; and,
- it is accompanied by a follow-up designed to concretely follow and encourage countries' efforts towards these objectives. The success of this promotional approach, which explicitly rules out the use of the Declaration for protectionist purposes, will of course depend on the mobilization of sufficient support and assistance both within the ILO and in other organizations.

Renewed drive on child labour

15. Another major development was the unanimous adoption by the 1999 International Labour Conference of a [Convention](#) on the worst forms of child labour (forced labour, sexual exploitation, illicit activity and dangerous work),

extending and reinforcing the ILO's capacity to tackle these intolerable practices. The ILO's International Programme for the Elimination of Child Labour ([IPEC](#)) is now active in over sixty countries.

Core labour standards and globalization

16. The observance of fundamental principles and rights at work is of major significance in the context of globalization. First, it will directly hasten the elimination of the most inhumane labour practices such as the worst forms of child and forced labour that have outraged the conscience of the international community. Secondly, through guaranteeing freedom of association and the right to bargain collectively it will create the negotiating power necessary to eliminate the many forms of unacceptable labour practices that still exist, whether in export industries or elsewhere in the economy. Thirdly, this countervailing power will contribute significantly to a redressal of the central problem of an uneven distribution of the gains from trade and economic growth. Fourthly, there are wider benefits to be reaped such as the contribution of a free labour movement, independent employers' organizations and the absence of discrimination to ensuring greater democracy, more transparent (and hence more efficient) public policies, and better social protection.

Defusing tensions in open world markets

17. In all the above ways improved observance of core labour standards can make a significant contribution to alleviating many of the social problems that are at the root of the disenchantment with globalization in general. Moreover, apart from defusing a potential backlash against globalization, building a consensus for observance of fundamental principles and rights at work across the world will eliminate an important source of friction that could disrupt further moves to open world markets.

Promotion of employment

Creating the environment for employment growth ...

18. The second strategic objective is the *promotion of employment*. The emphasis given by the ILO to this objective is based on its central position as a source of livelihood and social integration. But at the same time, without full employment or at least steady growth in employment creation, which in turn is largely dependent on a global economic environment that promotes sustainable growth, improving labour conditions and achieving other social objectives will be extremely difficult.

... In the context of an integrating global economy

19. The promotion of employment is closely related to the process of integration in the global economy. International flows of capital, knowledge and labour all critically affect the potential for employment growth, but also underlie the increase in competitive pressures and the widespread need for industrial restructuring. So the evolution of the international trading environment is a key element to take into account in the design of employment strategy.

Working with governments, business and unions

20. The ILO has outlined its approach to the challenge of employment and insecurity in the various World Employment reports which stress the need for comprehensive employment strategies. In its current work, the ILO is concentrating on assessing four crucial determinants of employment within an expanding knowledge-based economy: globalization, macroeconomic policy, the transformation of production systems and enterprise strategy, and human resource development. A major concern is equality of access to employment and labour markets, particularly gender equality. In order to mainstream employment objectives into national strategies it is undertaking country employment policy reviews which deal with national problems of employment, unemployment and poverty in an integrated manner. These reviews are undertaken jointly, with the governments and with the employers and workers organizations of the participating countries, so as to ensure that the national employment strategy is not only technically and financially feasible, but also actively involves different social actors to reach a broad consensus.

Social protection

Rethinking social protection to answer concerns about security

21. The third strategic objective concerns *social protection*. For globalization to work, people must feel secure and must be able to take advantage of new and changing opportunities. If there is one demand that is universally shared, it is for security -- and this is a demand which encompasses the workplace and the labour market, income and consumption, the family and integration in society. Decent work implies security in the workplace, and security of livelihood.

New approaches linked to fundamental changes in world of work

22. And yet socio-economic insecurity is growing. Some of the new anxieties reflect economic trends, including changes due to globalization and increasing instability of international financial markets. Others have their roots in some labour market developments, including the spread of more flexible and informal forms of work. Much anxiety results from the inadequacy of social protection systems, including the fact that a growing majority of the world's population is excluded from coverage by statutory social security schemes, notably most of those in informal production and employment.

Building a social security platform for economic change

23. These trends and policy failures make it urgent to look for new and innovative ways of promoting socio-economic security as the basis of social justice and economic dynamism. Basic security for all is essential for decent work and decent societies, and for sustainable development. Creating basic security is advantageous for employers, who can secure more cooperation and efficiency, vital for workers, because it is a dimension of human dignity, and essential for governments, which can thereby achieve a better balance between competing policy objectives.

Anticipating dangers for most vulnerable

24. These are domains where the ILO's work on social protection, including social security and safety at work, plays a vital role. For instance, in the wake of the Asian financial crisis the ILO's work has demonstrated the need for institutions for security -- such as unemployment insurance -- to be in place ahead of the crisis in order to reduce its impact and ensure that the costs are not borne by the poor and vulnerable.⁽⁷⁾ In developing countries social protection can bolster stability, minimize social unrest and help countries adjust more easily to economic, social and political change. ILO efforts to render workplaces safe, to defend basic conditions of work, to put in place institutions to ensure income security in sickness and old age, therefore also contribute to economic development, enabling industries and enterprises to restructure and raise efficiency, and workers to accept change more easily. In this way, people's security makes an important contribution to the stability of the global economy.

Social dialogue

New forms of social partnership in the era of globalization

25. The fourth strategic objective refers to *social dialogue* between labour, management and government in its many forms around the world. Achieving the objectives of decent work for all requires strong social partners and effective social dialogue. Despite the ILO's past efforts, and efforts of the ILO's tripartite constituents, there remains a widespread lack of recognition, understanding and support for the important role of social dialogue, especially social dialogue involving workers' and employers' representatives and government, related to the design and implementation of critical economic and social policies.

Involving those most affected by globalization in policy-making

26. There are too many important social and economic decisions affecting the work and lives of people that are taken without consulting those most concerned. Those involving the global economy are an obvious case in point. This weakens the credibility of the social partners and has negative consequences for the economic and social development these decisions are intended to promote, because of the lack of commitment and ownership among the people who in the end are affected by them. As the issues with which social actors are concerned increasingly relate to or are affected by international economic developments, these will occupy an ever larger space in national and local social dialogue, and dialogue on these issues will take on increasing importance at the international level, where the ILO remains the primary forum. The ILO's work in this field involves reinforcing the capacities of worker and employer organizations, as well as governments, for analysis of these issues, and promoting dialogue through the development of institutions and mechanisms at national and international levels. In these efforts, the ILO's tripartite constituents draw upon and interact as appropriate with other actors in civil society.

Historical perspective

Recalling the lessons of the past

27. Underpinning the four strategic objectives which constitute the axes of its current work, is the ILO's longstanding recognition that its own efforts need to be supported by multilateral cooperation and the right economic and financial policies. As noted in the Preamble to the ILO's Constitution adopted in 1919, "the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations which desire to improve the conditions in their own countries". The two decades before the First World War were a period of very rapid expansion of world trade. The appalling conditions of work prevailing at the time and the interaction between labour standards and international competition were major motivations that drove efforts during that period to set up an international mechanism to promote social justice. The ILO's normative activities were the product of these efforts. They are based on a system of voluntary obligations, which once accepted, are subject to systematic and democratic supervision. The ILO's perspective has always been long term. It is based on international consensus as well as national dialogue.

The original vision of the role of the ILO in the post-1945 international architecture

28. This perspective was reinforced by the experience of the 1920s and 1930s when the abuse of human rights and the rise of protectionism paved the way to world war. When the ILO adopted [the Declaration of Philadelphia](#) in 1944, it broadened its mandate beyond direct labour policies to include the examination of and consideration of economic and financial policies in its work. That Declaration, which was incorporated into the ILO Constitution in 1944, contains several injunctions to the ILO to deal with the interrelationship between economic and financial policies on the one hand and labour and social policies on the other. After defining the fundamental objective as that of attaining conditions under which "all human beings, irrespective of race, creed or sex, have the right to pursue both their material well-being and their spiritual development in conditions of freedom and dignity, of economic security and equal opportunity" the Declaration went on to state that "all national and international policies in particular those of an economic and financial character, should be judged in this light and accepted only in so far as they may be held to promote and not to hinder the achievement of this fundamental objective". It further states that "it is the responsibility of the International Labour Organization to examine and consider all international economic and financial policies and measures in the light of this fundamental objective". In addition the Declaration pledges "the full cooperation of the ILO" with international bodies entrusted with the responsibility for "measures to expand production and consumption ... and to *promote a high and steady volume of international trade*" (emphasis added).

A more effective international system

Shaping forces of international market for social development

29. Substantial as these ILO contributions outlined earlier have been, their impact could have been enhanced through greater policy coherence within the international system. A basic reason for this is the interdependence between economic and social policies. Social progress is in many ways dependent on a high and stable level of economic growth in the world economy. This is a prerequisite for achieving full employment which plays a strategic role in giving people a sense of participation in society and a direct claim to the fruits of economic progress.

Recognizing value of social capital in market systems

30. Less-well recognized, but in fact no less important, is the value of social capital for economic efficiency. Economic growth that does not deliver commensurate social progress is likely to breed political and social instability that will halt the process. In particular, the economic liberalization that is required to sustain high economic growth will not be viable without simultaneous action to contain its negative social effects. Another important connection between the economic and the social lies in the fact that enlightened social policies such as investments in human development have a high pay-off not only in social but also in economic terms. Moreover, democratic and transparent governance, including the sound labour institutions that are an important component of it, constitute the essential underpinnings for the efficient functioning of markets, for achieving continuous improvements in productivity, and for maintaining social justice and stability.

The need for integrated solutions

31. The integrated problems of economic growth and development therefore cannot be tackled with sectoral solutions. Development is not just about trade, or just about investment, or just about production. It is about all of these things, but

also about building social and economic institutions for governance and participation. It is about employment and social integration, about creating economic incentives which promote social goals. It is about investing in capabilities -- skills, knowledge, health. It is about looking for synergies between social and economic progress. In the field of work of the ILO, that means, for instance, showing that safer jobs are more productive jobs; that child labour undermines longer term economic capability; that effective policies for gender equality lead to more dynamic economies; that a more secure population is also more willing to adjust to economic needs. In such an integrated response, the goal of decent work provides a way to build social standards into development and into effective participation in the international economy.

Identifying and developing social and economic policy synergies

32. As part of this agenda, the international community has to develop more effective ways of encompassing the interdependence of social and labour objectives on the one hand, and the dynamics of the global economy on the other. The frameworks which govern and regulate the global economy, whether they concern trade, international capital flows, international migration, communications, or intellectual property cannot be interpreted only in economic terms. Their social impact is an essential part of their legitimation, and a major factor in their evaluation. At the same time, the design of social and labour policy has to take into account their direct and indirect economic effects. Good social policy is an integral part of economic efficiency.

Getting started

33. This sets an agenda both for the international community and for its national counterparts. The different organizations and agencies of the international system bring different perspectives to bear on these issues. By working together, we can show better how different dimensions of economic and social progress are mutually supportive and contribute to a process of development in which everyone participates and benefits. The ILO has already been actively involved in analysis and discussion of the social dimensions of globalization for many years. Because of its tripartite structure, the ILO is well placed to contribute to objective assessments of these issues. The next stage will be to promote policy synergies among the organizations which deal with international aspects of economic and social policy in order to address the social impact of globalization.

Next step: a multilateral initiative

34. The ILO is prepared to participate in a multilateral initiative which would permit more integrated approaches to be developed at different levels, such as:

- inter-organizational efforts to pool knowledge and undertake joint research;
- analytical frameworks for international policy development;
- policy packages at the national level, encompassing the international and macroeconomic issues as well as development, poverty reduction and decent work.

The future agenda of research and technical assistance will need to support these new policy developments. This is the challenge the international community faces in the opening years of the new millennium, and one in which the ILO is prepared to play its part.

Notes

1. For further information on the ILO and its Decent Work Programme see www.ilo.org. [\(Back\)](#)
2. This quotation is from the preamble to the WTO. Similar goals can be found in the founding charters of other international economic organizations. [\(Back\)](#)
3. See [UNDP Human Development Report 1999](#). [\(Back\)](#)
4. See ILO Governing Body Symposium on the Social Impact of the Asian Crisis, March 1999, [GB.274/4/4](#). [\(Back\)](#)
5. ILO: Country studies on the social impact of globalization: Final report, [GB.276/WP/SDL/1](#), Nov. 1999. [\(Back\)](#)
6. See ILO briefing note on international labour standards. [\(Back\)](#)
7. See E. Lee: *The Asian financial crisis: The challenge for social policy*, ILO, 1998. [\(Back\)](#)