

# "DECENT WORK" AND DEVELOPMENT POLICIES \*

**Gary S. Fields  
Cornell University**

**Revised Version: September, 2001**

## **ABSTRACT**

The ILO aims to assure "Decent Work for All" through four strategic objectives: full employment, improved levels of socio-economic security, universal respect for fundamental principles and rights at work, and the strengthening of social dialogue. This paper elaborates on four dimensions of the Decent Work agenda: making more precise in operational terms the notion of decent work, developing an integrated approach to economic and social policy in the context of Decent Work, formulating an empirical approach for assessing the effects of economic growth on Decent Work in today's globalized world, and outlining the structure of subsequent country reviews.

## **I. Introduction**

The International Labour Organization is the United Nations specialized agency which seeks the promotion of social justice and internationally recognized human and labor rights. Ever since its founding in 1919, the organization has sought to "improve the situation of human beings in the world of work." It seeks to position itself as "the global reference point for knowledge on employment and labour issues; the centre for normative action in the world of work; a platform for international debate and negotiation on social policy; and a source of services for advocacy, information and policy formulation." (Report of the Director General, 1999, p. 5.)

In 1999, the ILO further set a new mission: "Decent Work for All." Decent Work aims to secure decent work for women and men everywhere. The objective is not just the creation of jobs but the creation of jobs of acceptable quality. These aims are pursued through four strategic objectives: full employment, improved levels of socio-economic security, universal respect for fundamental principles and rights at work, and the strengthening of social dialogue. (ILO, 1999).

Decent Work is a new and welcome way of achieving the ILO's historic mission. Decent Work has shifted the focus to outcomes: what kinds of work people are doing, how remunerative and secure this work is, and what rights workers enjoy in the workplace. This redirection of ILO energies raises a new set of issues, which I have been asked by the ILO to address here.

---

\* This essay was commissioned by the International Labour Office.

The first task is to make more precise in operational terms the notion of Decent Work. Accordingly, Decent Work is set in the context of core labor standards including full employment, but it goes beyond that to include also the returns from employment.

The second task is to develop an integrated approach to economic and social policy in the context of Decent Work, as requested by the Working Party on the Social Dimension of Globalization in November, 2000 (ILO, 2000). To some, economic and social policies are distinct entities. In my view, however, this dichotomy is a false one. Rather, economic and social policies are both development policies, as is Decent Work. They all share a common purpose: improving people's economic and social well-being through economic development. Wise policies cannot be formulated until it is known what it is the country is trying to achieve. Decent Work helps specify what the development objective is.

The third task is to formulate an empirical approach for assessing the effects of economic growth on Decent Work in today's globalized world. Two contradictory prior hypotheses are brought to the table. Some contend that economic growth creates more jobs and improves conditions for those already employed. On this first view, economic growth and improved employment conditions go hand in hand. Others, though, contend just the opposite: that in today's globalized world, wages and other labor costs must be held down in order to maintain existing markets and penetrate new ones. On this second view, economic growth and decent work are competing objectives. A third purpose of this paper is to discuss what kinds of data might be brought to bear to adjudicate between these alternative views and to present the results of prior studies on this subject.

The fourth task is to outline the structure of subsequent country reviews. The ILO plans country-by-country assessments of progress towards decent work. This paper suggests what might be highlighted in these reviews of country experiences and country policies. A structure is proposed comprising five key data needs and three key policy areas. The five factual areas are changes over time in:

1. Employment and unemployment.
2. Job mix.
3. Earnings levels.
4. Poverty.
5. Inequality.

The three policy areas are:

1. Labor demand and policies that affect private sector and public sector job creation.
2. Labor supply and policies that affect the quantity and quality of available labor resources.
3. Labor market functioning -- in particular, market and non-market institutions that determine wages, non-wage benefits, and other ways in which demand and supply intersect.

The main points are highlighted in a brief conclusion.

## **II. Operationalizing "Decent Work" for Policy Purposes**

Three elements are essential to the achievement of Decent Work objectives. These are the need for jobs, the honoring of core labor standards, and the pursuit of further improvements in job quality. Because beyond some point, the achievement of one of these objectives may come at the expense of another, the idea of a Decent Work frontier is also formulated.

### **A. The Need for Jobs**

The first element of Decent Work is employment. It is a truism, but nonetheless true, that for a person to have a job that is decent, he or she must have a job. Study after study reports that jobs are what people want. The need for more jobs is central to the Decent Work paradigm, and full employment rightfully occupies the prime position at the forefront of the Decent Work effort.

In those circumstances where the economy does not generate enough jobs, supplementary job programs can make a tremendous difference. A striking illustration is an advertisement taken out in a number of leading magazines by the United Nations' World Food Programme. The ad, saying that "The pay's lousy, the conditions terrible and the workers love it," speaks eloquently to the vital importance of such programs, on which much has been written (e.g., Lipton, 1998).

### **B. The Core Labor Standards Context**

The second essential ingredient is respect for core labor standards. In the last few years, thinking in the world community has coalesced around a set of core labor standards aimed at promoting and assuring fundamental principles and rights at work. Some of the major events are these. The World Summit on Social Development held in Copenhagen in March, 1995 defined core labor standards as including the prohibition of forced labour and child labor, freedom of association and the right to organize and bargain collectively, equal remuneration for men and women for work of equal value, and non-discrimination in employment. Also influential in establishing agreement on core labor standards was a 1996 OECD study, which called for freedom of association and the right to collective bargaining, elimination of exploitative forms of child labor, the prohibition of forced labor, and non-discrimination in employment. Then, at its Singapore ministerial meeting in December, 1996, the member states of the World Trade Organization restated their commitment to internationally recognized core labor standards, supported collaboration between the WTO and ILO secretariats, rejected the use of labor standards for protectionist purposes, and recognized the ILO as the competent body for dealing with this issue.

Following upon these developments, a key defining moment was the June, 1998 International Labor Conference, which approved an historical document, the ILO Declaration on Fundamental Principles and Rights at Work. This declaration affirms that all ILO member states (now 175 in number) have the responsibility to "promote and to realize, in good faith and in accordance with the Constitution [of the ILO], the principles concerning the fundamental rights," which include:

- (a) freedom of association and the effective recognition of the right to collective bargaining;
- (b) the elimination of all forms of forced or compulsory labor;
- (c) the effective abolition of child labor; and
- (d) the elimination of discrimination in respect of employment and occupation.

Since then, in January, 1999, Secretary-General Kofi Annan of the United Nations integrated these four core labor standards into a nine-point Global Compact of shared values and principles. The Global Compact has been endorsed by business groups, individual companies, organized labor, and non-governmental organizations. In August, 2000, the 33 member nations of the OECD incorporated these core labor standards into their revised Guidelines for Multinational Enterprises. Ongoing efforts to redress the Decent Work Deficit are highlighted in a June, 2001 report to the International Labour Conference by Director-General Juan Somavía (ILO, 2001).

Jobs in which these core labor standards are not honored cannot be regarded as decent. This is, in fact, how I would define Indecent Work: work under conditions so odious or harmful that it would be better for people not to work at all than to work under such damaging conditions.

The decision to oppose indecent work entails a judgment about what would happen to those who are displaced if indecent work is banned. It is one thing if they move into such activities as street-vending, petty services, or family farms or microenterprises. It is quite another if the alternative is prostitution, living in garbage dumps, or worse. These fallback options vary from place to place; what they are cannot be ignored.

### **C. Improving the Quality of Jobs**

Jobs alone are not enough, even jobs in which core labor standards are honored. Juan Somavía, the Director-General of the ILO, has said: "The ILO is concerned not only with the creation of jobs, but with the creation of jobs of acceptable quality. The quantity of employment cannot be divorced from its quality." (Speech to the

Swiss Agency for Development and Cooperation, Bern, May 11, 2000). Mr. Somavía is absolutely right: the quantity and quality of work must be taken together.

Which aspects of job quality are most important? Security, respect, dignity, and participation are all important aspects of the workplace. The four core labor standards – freedom of association and collective bargaining, elimination of forced or compulsory labor, an end to child labor, and the elimination of discrimination – must be honored if work is to be decent. That is precisely why these standards command so much support in the international community.

Still, the core labor standards do not suffice. A key job characteristic is missing: the amount the job pays. An estimated 1.3 billion of the world's people live on less than one U.S. dollar per person per day and another 1.7 billion live on between one and two U.S. dollars per day. In other words, half of humanity is absolutely poor. Work that provides such low standards of living must be improved.

The World Bank's World Development Report 2000/2001 lays out a blueprint for "A World Free of Poverty." On page 34 of the report, a young Bulgarian woman is quoted as saying "If you have a job at all now, you're overworked and underpaid." In a similar vein a Guatemalan worker said, "Some have land, but they can't buy fertilizer; if some work as weavers, they aren't well paid; if some work for daily wages, they aren't paid a just wage." So what, in the eyes of these people, is poor quality work? First and foremost, it is work that pays badly. This is not to say that the earnings level is the *only* aspect of quality of work. But in general, and especially for the half of humanity who subsist on less than \$2 per person per day, it is the *earnings* from work that is the best indicator of the goodness or badness of the work they are doing.

Two misunderstandings about international labor standards abound, both in political discussions and in popular ones. First, it is important to be clear that earnings levels are *not* included in international labor standards as they are now being discussed (cf. sect. II.B). One important exception, though, is United States trade law, which

includes as among "internationally recognized worker rights" the "guarantee of acceptable working conditions (possibly including maximum hours of work per week, a weekly rest period, limits to work by young persons, a minimum wage, minimum workplace safety and health standards, and elimination of employment discrimination)." However, it is because such standards cannot be established and enforced internationally, and because many developing countries are strongly opposed to such standards, that standards about working conditions are not included as *core* labor standards in international discussions at the present time.

Second, although the possibility of trade sanctions against countries that do not honor core labor standards is brought up occasionally, sanctions are effectively off the table at the present time. The United States, Canada, and the European Union have within the last two years called for various types of working groups on trade and labor standards in the WTO . Yet, during the Debacle in Seattle in November, 1999 and at similar meetings in Washington and Prague in 2000, no agreement was reached even on the question of whether to *study* the issue of trade sanctions against countries that violate core labor standards. Trade sanctions are *not* being considered in any serious way at the present time (OECD, 2000, p. 51).

In short, higher labor earnings are not going to be achieved through international labor standards (nor should they be). Higher labor earnings must be sought through indirect means including economic growth – a topic to which we return in Section IV.

#### **D. The Decent Work Frontier**

Decent Work was described above as incorporating the quantity and quality of work in which core labor standards are honored. To operationalize this notion, we may gauge the quantity of work by the volume of employment and the quality of work by the earnings level. The tradeoff between quantity and quality of work is embodied in the downward-sloping demand for labor curve that is at the core of labor economics. What the downward-sloping labor demand curve portrays is the likelihood that in any given circumstance, the higher is the rate of pay, the lower is the volume of employment. Labor demand elasticities have been estimated for a

wide variety of countries using a wide range of methodologies, and these studies always establish the existence of a tradeoff between earnings level and employment (Hamermesh, 1993). As long as the labor demand curve is stationary, more work for some necessarily means lower earnings for others and vice versa. In a very real sense, the downward-sloping labor demand curve in a given labor market represents, at that point in time, a Decent Work frontier.

The Decent Work frontier must be acknowledged. Even if the choice is limited to employment versus earnings, drawing a fixed labor demand curve focuses attention on labor market conditions as they are and forces countries to confront difficult choices. Given the limited resources at their disposal (and all countries, even the richest ones, do have limited resources), do policy-makers wish to deploy those resources to raise the earnings of those already employed or to increase the employment of those not now working but wishing to work? Or, if the terms of Decent Work are broadened, should governments use those scarce resources to strengthen economic security programs in the workplace, enforce rights, and facilitate social dialogue? Priorities must be set, an issue to which I return later. For now, let us recognize that there are opportunity costs – the time, money, and energy used to promote one of these goals is not available to promote another.

By facing the tradeoff between employment and earnings along a given labor demand curve, we see that Decent Work can be enhanced if ways can be found to *shift* the demand curve for labor rightward, so that more labor will be demanded than before at any given earnings level. Such a shift would make it possible to increase both employment and earnings at the same time. This would be a very happy outcome, and is indeed what many countries have achieved.

This gives us, then, a precise way of formulating the goal of public policy aimed at advancing the Decent Work agenda: to shift the labor demand curve rightward as fast as possible. To the extent that this can be done, countries will be able to achieve more employment at a given level of earnings, higher earnings for a given level

of employment, or some of each. One Decent Work goal (quantity of work) will not have to be achieved at the expense of another (quality of work).

#### **E. In Summary: On the Operationalization of Decent Work**

To summarize this section, a man or woman lacks Decent Work when he or she lacks a job. Work is indecent if core labor standards are not honored; it is indecent if the working conditions are so odious or harmful that it would be better for people not to work at all than to work under such damaging conditions. Some jobs are decent but not acceptable: these are those in which core labor standards are honored but which pay earnings below the amount needed to enable an average-sized family to attain an internationally-minimal standard of living. It follows that Decent Work is not a single entity. It is, rather, a frontier.

Even if Decent Work is proclaimed as the goal, choices still have to be made between moving primarily in the quantity direction or in the quality direction. To be able to make these choices, national policy-makers and those who advise them must be clear about what it is they are trying to achieve. Wise choices depend not only on specifying what is to be maximized but also on what the policy variables are and how the outcome variables of interest would be changed if these policy instruments were to be deployed in different ways. Let us turn our attention, therefore, to an analytical framework for bringing such considerations to bear.

### **III. Towards an Integrated Approach to Economic and Social Policy**

#### **A. Economic Policies versus Social Policies: How Useful a Distinction?**

What are economic policies, what are social policies, and how separate are they? In some people's minds, economic policies include such factors as monetary and fiscal policy, openness to trade, capital market liberalization, and establishment of a sound regulatory framework. Social policies, on the other hand, are said to be comprised of health, education, welfare, and distributional concerns. In my view, however, these various

policies are part and parcel of the same thing, and it is only by a misunderstanding of each that the two can be separated.

The famous textbook *Economics* by Paul Samuelson emphasized that all economies must answer three fundamental questions: What? How? For Whom? "What" means that choices have to be made about what goods and services are going to be produced. "How" means that choices have to be made about what technologies to use and how much labor, capital, and other inputs to employ. "For Whom" means that choices have to be made about how to allocate the goods and services that are produced. In no way do Samuelson's fundamental questions restrict economic policy to monetary and fiscal policy, trade and budget deficits, and exchange rates and interest rates.

It was Samuelson who, in that same context, formulated the famous tradeoff between guns and butter. Choosing between guns and butter is, of course, a metaphor for choosing between public sector goods and private sector goods, and likewise for choosing social goods versus personal goods. Allocating goods by a mechanism whereby participants bring their initial earnings and other private incomes to a free market is one and only one way of determining "for whom." Allocating goods in a controlled market, where prices are controlled by price ceilings and the like, is another. Providing people with supplemental purchasing power, such as food stamps and health insurance cards, is still another. Yet another mechanism is to provide people with goods directly – free food for the poor, free public schools for children, free health care for the elderly, and so on. In all of these cases, how the "for whom" question is answered helps determine the answer to the "what" question. Hence, questions that might be called "economic" cannot be answered without also answering questions that might be called "social."

Another illustration of the interconnection between economic and social policies can be found in the mission of the Economic and Social Council of the United Nations. The Council proclaims:

The Economic and Social Council was established by the Charter as the principal organ, under the authority of the General Assembly, to promote: (a) higher standards of living, full employment, and conditions of economic and social progress and development; (b) solutions of international economic, social, health, and related problems; and international cultural and educational cooperation; and (c) universal respect for, and observance of, human rights and fundamental freedoms for all without distinction as to race, sex, language, or religion. (UN, 2001).

It is impossible to separate the "economic" objectives from the "social" ones in this statement.

One last example of the essential intertwining of economic and social policy is the annual *Economic Report of the President* of the United States. The report always includes topics typically considered as "economic" policy – for instance, there is always a chapter on "Macroeconomic Policy and Performance." Recent reports have included chapters on capital flows in the global economy, technology and the American economy, the evolution and reform of the international financial system, regulation and innovation, and the new economy in a global context – "economic" policies, all. But the reports devote even more chapters to what might be called "social" policies: benefits of a strong labor market; work, retirement, and the economic well-being of the elderly; making markets work for the environment; the changing American family. To the President of the United States and his Council of Economic Advisers, these "social" policies are economic too – otherwise, they wouldn't belong in an *economic* report of the President.

These examples illustrate that a well-established tradition in economics and other social sciences is to treat economic and social policies as interlinked. The challenge is to carry out policy analysis with these dual perspectives at the forefront. In the balance of this section, I suggest how this might be done.

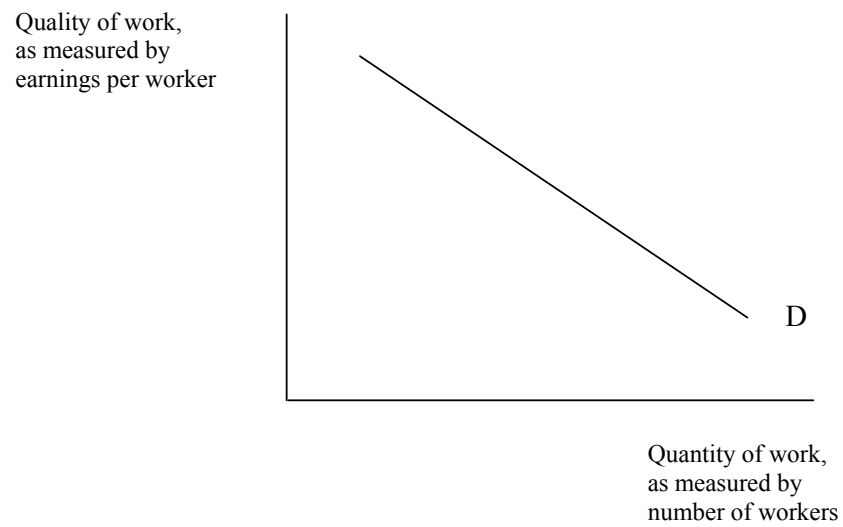
### **B. A Welfare Economic Approach to Decent Work**

Welfare economics is the branch of economics that deals with social well-being. One or more criteria are set forth as defining the goodness or badness of a social state. Criteria commonly-used for this purpose are GDP growth, unemployment, inequality, and poverty. The question is then asked: If a given action is undertaken, how do each of these components change? If a contemplated policy would raise GDP growth while lowering unemployment, inequality, and poverty, most analysts would regard such a change as a good thing. It is in this sense that welfare economics enables analysts to reach policy conclusions of a conditional nature: in some circumstances, all who adopt a particular set of social valuations would favor a policy, because those social conditions judged to be good are raised while those judged to be bad are diminished. To the extent possible, then, public policy would pursue such "good" policies and, in so doing, attain the highest possible social welfare.

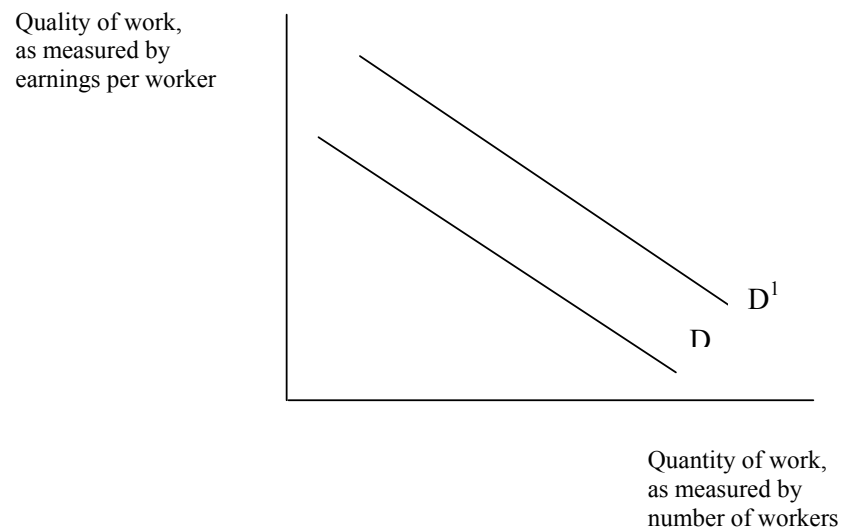
One problem is that for many economic policies, it is by no means clear what is being maximized. What is the purpose of macroeconomic stabilization? Of structural adjustment? Of the transition to a market economy? Is it economic growth? Is it some combination of "efficiency" and "equity," and if so, what kind of "efficiency" and what kind of "equity"? All too often, macroeconomic policies are formulated on the basis of some sort of presumed good rather than in terms of some explicit clearly-articulated objective. This is ironic, because economics is precisely the social science with the firmest foundation in maximization. In microeconomics, we are accustomed to modeling existing systems and conducting policy analyses with single maximands – typically, profit in the case of firms and utility in the case of workers. Why, when it comes to policy formulation, are we not equally explicit about what we are seeking?

Decent Work provides an opportunity to be very specific about the policy goals of an organization, a nation, or the concerned world community. Maximizing a combination of the quantity and quality of work is like maximizing the utility arising from a person's access to goods and leisure. The goal is to move the tradeoff further into the positive quadrant, from a curve like D in Figure 1 to one like D<sup>1</sup>. If both components can be

**Figure 1.A.**  
**A Given Decent Work Frontier**



**Figure 1.B.**  
**Shifting the Decent Work Frontier**



enhanced by some sort of policy action, such an action is assuredly desirable. If not, then confronting tradeoffs along the highest attainable frontier is still preferable to facing these tradeoffs along a dominated path.

Intertemporal considerations can easily be accommodated. Whatever is said about Decent Work at a point in time can also be said about Decent Work at various points in time. Thus, the objective may be thought to be the attainment of Decent Work today and tomorrow for as many members of the labor force as possible. Once the dependence of tomorrow's conditions on today's is modeled, standard methods of multi-period analysis with discounting may be brought to bear.

### **C. Policies for Decent Work**

Turning now to policies for Decent Work, a number of instruments are available for effectuating Decent Work. There are three main sets of policy instruments within the labor market.

*Labor demand policies* are aimed at increasing the number of workers firms want to employ. The demand for labor is derived from the supply of and demand for product. To the extent that more of a country's products can be sold to those who have the ability to pay, be they in the country or outside, more of the country's workers can be employed in producing those products. Labor demand can be facilitated by employment-friendly labor market policies and a sound business environment, including secure property rights, enforcement of contracts, sound corporate governance, suitable competition policy, financial regulation, specifically-tailored institutional design, attraction of foreign direct investment and retention of domestic capital, and appropriate sequencing and timing of policy reforms.

A second area for labor market policy intervention is *labor supply*. Labor supply concerns not only the number of people available for work but also the quality of the human capital that these workers bring to the labor market. The more a country's workers present the skills needed for today's globalized economy, the better the country's chances of attaining its Decent Work goals. Elements of labor supply policy include education, training, and other types of skills development.

And thirdly, we have policies concerning *labor market functioning*. The most important of these is wage determination – in particular, whether wages are set by supply and demand or by some other set of forces. But other factors are important too: the availability of information on job vacancies and job seekers, the ability of companies to engage workers as needed and to retrench them when not needed, and the ease or difficulty of workers moving to where the jobs are. Many countries have engaged in active labor market policies to a greater or lesser degree, and the ILO has considerable institutional expertise on such policies. See, for instance, [World Employment 1996/97: National Policies in a Global Context](#).

In addition, policies for Decent Work also involve decisions that are sometimes regarded as lying outside the purview of labor market policy per se. Labor demand reflects a nation's trade orientation, industrial strategy, and commercial policies, all of which can be influenced by the Decent Work agenda. Labor supply policies involve not only human capital development but also the fuller utilization of existing human capital through anti-discrimination policies and kindred policies such as child care and health care. Policies affecting labor market functioning can take us into such related areas as housing market policies, pension policies, and the role of the welfare state. What unites all these additional policy areas is that they have ramifications for the labor market even though they are not oriented towards the labor market per se. Opportunities for Decent Work are affected, for better or for worse, by policies in these other areas.

#### **D. Making Choices Within the Decent Work Framework**

The Decent Work objective has implications both for what to do and for what not to do.

First, what *to* do. Implicit in the Decent Work initiative is the question, promote Decent Work for whom? This is only partly a question of how to make the biggest difference in *employment* terms. There is also the issue of how to make the biggest difference in *welfare* terms. Here, there can be little doubt: the priority for Decent Work must be to help the *poorest workers of the world*. Some of the poorest workers of the world live in the

richer countries but most do not. It follows that efforts are required at the global level to help those whose economic well-being is lowest and who therefore have the greatest need. International transfers of resources on a much larger scale than at present are required in support of the Decent Work agenda. Here is an area where cooperation among the international agencies – the ILO, the World Bank, the regional development banks, and the bilateral donors – can make a profound difference.

At the same time, it is a harsh truth that some of the poorest workers in the poorest countries may be so hard to help that efforts may have to be concentrated on others. For example, little can be done to help an elderly illiterate farmer living in a remote village get a better job, and it may be that the limited resources available under Decent Work may have to be channeled to others. This is not meant to exclude such people from international aid efforts. It is precisely because these people cannot be helped through *employment* programs that *other* types of assistance are needed.

Maximizing the Decent Work frontier has other implications for what not to do. Some well-intentioned labor market policies can actually hamper the Decent Work effort conceived as the employment-earnings frontier. For example, many countries' labor policies restrict or even prohibit dismissals of workers. In the short run, bans on dismissals keep workers in jobs, raising employment. But in the longer run, the employment effect may be just the opposite: because workers cannot be dismissed if they are no longer needed or if their performances are not up to standard, firms may choose not to hire them in the first place. Employment suffers. So too does Decent Work.

Another thing not to do under Decent Work is to devote scarce resources to those who could otherwise help themselves or to activities that help the recipients without adding to overall employment. Take the case of public employment services or, as they are sometimes called, labor exchanges. These increase employment only to the extent that unemployment is frictional, and as a result jobs remain unfilled because firms and workers have difficulties matching up with one another. But if this is not the reason for unemployment and if employment is

limited by deficient aggregate demand, improved job information will simply reallocate a fixed number of jobs among different individuals without raising the total number of persons employed. What Decent Work helps do, then, is guide the allocation of resources towards those activities that contribute the most to increasing jobs and/or earnings.

The attainment of Decent Work is constrained not only by policy choices but also by the limitations imposed by resource scarcity. More resources for Decent Work might be sought from a variety of sources: reallocation of domestic budgets, retention of domestic investment, attraction of foreign direct investment, increased aid flows, and debt relief. However, once these resource channels are exhausted, policy-makers have no option but to confront the hard choices that remain.

Not everyone will find this easy to do. Why?

1. Some refuse to accept the terms of the tradeoff. "I want more of this *and* that," they say. Let's agree: if it is possible to have more of *both* quantity of work *and* quality of work, then by all means let's do it. It's precisely when we cannot have more of both that we must choose where we want to be along the Decent Work frontier.
2. Some reject any attempt at reductionism. Even if Decent Work is conceived of in the way that the ILO has suggested -- comprising full employment, improved levels of socio-economic security, universal respect for fundamental principles and rights at work, and the strengthening of social dialogue -- other elements of good jobs are excluded: not only earnings but also joy, status, social participation, and job safety, among others. To decide to highlight some things is to decide not to highlight others.
3. Given a limited number of foci, some favor giving equal weight to all of them. "If four things are to be done," they say, "let's use 25% of our budget on each." The reason this is unwise is that only rarely are the four foci equally important. The greatest social return may come from using a disproportionate amount of the available resources on *only one* of the possible activities. In conditions of widespread food inadequacy, for instance, feeding the hungry surely takes precedence over social dialogue and secure employment.

4. Finally, there are those who find the entire context within which such choices are made to be reprehensible. "The world needs revolutionary change," these people say. On the off chance that the ILO might not be able to bring about a social revolution, working for social and economic justice in an unjust world with the very limited means available is the only remaining option.

To those who would voice such objections, let me say this: opportunity costs must be confronted. Given a binding resource constraint, to do more in one area means doing less in another. Realism demands that such tradeoffs be confronted. So too does the heartfelt desire to better the economic positions of the disadvantaged people of the world. Wishful thinking is needed, but it is no substitute for hard thinking.

#### **E. Summarizing the Ingredients of an Integrated Approach**

Putting these various pieces together, the stated strategic objectives of Decent Work are to achieve full employment, improved levels of socio-economic security, universal respect for fundamental principles and rights at work, and the strengthening of social dialogue. Social objectives are indistinguishable from economic ones.

An integrated welfare economic framework consists of a specifying a maximand, policy instruments, constraints, and a causal model. The maximand suggested here is Decent Work today and tomorrow for as many people as possible. The constraints are the available resources, which may often be severely limited. The available instruments are the allocation of existing resources among alternative uses. The policy instruments include labor demand, labor supply, and labor market functioning. Models are needed to tell us how the quantity and quality of work would respond to various policy interventions.

Decent Work can be operationalized in a way that prescribes what countries should do and should not do. In my view, these prescriptions are positive, meaningful, and well worth following. Decent Work is a useful organizing framework for national and international policy choices.

What has just been described is a very complex and ambitious set of considerations. At the same time, by calling attention to certain key factors and excluding other less central ones, an integrated approach has been set forth.

Let us turn our attention now to two other aspects of Decent Work: assessing the effects of economic growth on Decent Work, and outlining the structure of subsequent country reviews.

#### **IV. Assessing the Effects of Economic Growth on Decent Work**

##### **A. Theoretical Links Between Economic Growth and Decent Work**

What role can economic growth play in promoting Decent Work? In the absence of data, two very different, even contradictory, perspectives are brought to bear.

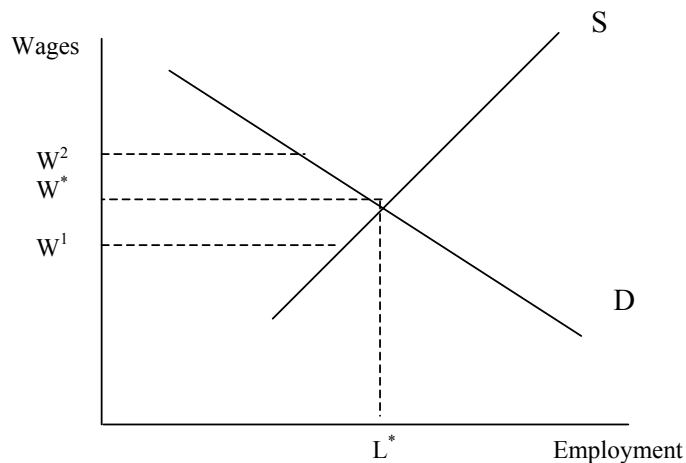
On the one hand, the growth optimists presume a healthy complementarity between macroeconomic growth and improved employment conditions. According to this line of thinking, economic growth drives up the demand for labor, which increases employment and raises real wages. In turn, when labor is reallocated to areas of greatest need, productivity is increased and output raised. A virtuous circle of continuous growth and labor market improvements is thereby realized. Workers benefit by participating in an ever-richer economy.

On the other side is a decidedly more pessimistic position. Some of those who favor Decent Work betray a pronounced skepticism concerning the potential for economic growth to contribute to its attainment. By this line of argument, in today's highly competitive global economy, the drive to retain existing markets and penetrate new ones is hampered by rising labor costs. Thus, it is said, economic growth can take place if and only if labor costs are held down. On this view, economic growth is antithetical to improvements in labor market conditions—one can come only at the expense of the other.

National policies have often been formulated on the assumption that economic growth is attained only by holding down the rate of growth of wages and other labor market conditions. At various times, some East Asian countries have experimented with repressive labor market policies in the hope of stimulating economic growth through lower labor costs (Fields and Wan, 1989). Working through a National Wages Council, Singapore tried direct wage repression. This policy was abandoned at the request of employers when it became clear that economic growth was being choked off by labor shortages. South Korea openly repressed organized labor until 1987, in large part because of the belief that strong unions would raise wages, which would hamper the country's international competitiveness. Even now, the more militant trade union federation, the Korean Confederation of Trade Unions, is denied full legitimacy by the government.

A simple diagram can illustrate the problems with wage repression (i.e., holding wages below market-clearing levels) and labor repression (i.e., preventing the free operation of unions in the labor market). Figure 2.A presents a diagram of an aggregate labor market with a standard upward-sloping labor supply curve and a standard downward-sloping labor demand curve. Under conditions of free market wage determination, the labor market would clear at a wage level of  $W^*$ . At this wage,  $L^*$  workers would be employed.

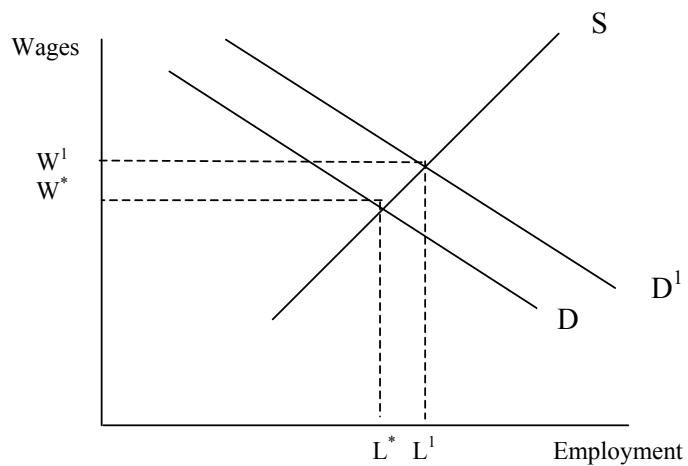
**Figure 2.A.**  
**Market Wage Determination Maximizes**  
**Employment and Output, Given S and D**



What happens if businesses are now able to penetrate new markets? Additional labor is needed for production, which shifts the demand for labor curve rightward. As shown in Figure 2.B, wages would rise as output rises. These wage increases should be favored, not only by workers but also by employers – if wages did NOT rise, less labor would be available and output growth would be stifled. In the diagram, employment is lower, and so too is output, at  $W^*$  than at  $W^1$ .

From the theory just presented, we reach the conclusion that a healthy complementarity is expected to exist between output growth on the one hand and improvements in employment and earnings on the other. How does empirical evidence accord with this theory? Let us turn our attention now to the data.

**Figure 2.B.**  
**A Shift of Labor Demand Increases**  
**Employment and Wages, Given S**



### **B. Empirical Evidence on Economic Growth and Decent Work**

The key question on the link between Decent Work and economic growth is this: In today's globalized world, does economic growth contribute to or detract from the attainment of Decent Work? In particular, what has been the impact of economic growth (or lack thereof) on employment and unemployment, job mix, earnings levels, poverty, and inequality?

The ILO has, of course, made important contributions to knowledge in this area over the years. The most important continuing publications are its biennial World Employment Reports. The 1996/97 report, for example, contains a section on growth of employment and unemployment, as well as employment and real earnings in manufacturing, in a wide range of countries. Unfortunately, though, no economy-wide earnings data are presented. So for earnings, poverty, and inequality, we must perforce turn to other sources.

In a series of papers (most recently, Fields, 1998), I have dealt with this issue. According to these data, Hong Kong, Singapore, Korea, and Taiwan registered the highest growth rates in the world. Real earnings increased by a factor of four in Hong Kong in thirty years, by a factor of six in Korea in twenty-five years, and by a factor of eight in Taiwan in thirty years – in each case, with unemployment rates of two to four percent per annum. Contrariwise, in six Latin American economies which suffered from at best slow economic growth and, in a number of cases, macroeconomic decline, labor market conditions worsened substantially -- in some cases, manifesting itself in distressingly high unemployment rates (14% in Chile, 13% in Venezuela) and in other cases in shocking declines in real labor earnings (20% in Mexico, 32% in Brazil, 47% in Venezuela, and 58% in Bolivia). Poverty rates followed the macroeconomic growth patterns: poverty fell precipitously in the East Asian countries, rose sharply in Venezuela, stagnated in Colombia and Brazil, and fell modestly in Costa Rica.

A World Bank study reports similar patterns (World Bank, 1995). Rapid growth in output per worker in countries such as Korea, Indonesia, and China is shown to have produced rapid rises in the labor incomes of

wage workers and the self-employed. On the other hand, in sub-Saharan Africa, Latin America, the Middle East, and South Asia, economic growth was slower, as was wage growth. Looking specifically at the industrial sector, UNIDO data show that real wages rose by 175% in East Asia and the Pacific, by 25% in the Middle East and North Africa, by 10% in Latin America and the Caribbean, and by nothing at all in sub-Saharan Africa – mapping closely the aggregate growth rates in these various regions.

Another source of information is a recent OECD study (OECD, 2000), which examines labor market changes in the OECD's five newest member countries (the Czech Republic, Hungary, Poland, Korea, and Mexico) from 1989 to 1999. These data show a very high rate of real GDP growth in Korea, a lesser rate in Mexico, a slow rate in Poland, a decline followed by a recovery back to the original level in Hungary, and a decline but not yet a full recovery in the Czech Republic. Data on employment and unemployment show: modest growth of employment of both men and women in Korea from 1989 to 1995, followed by a sharp decline by 1998 due to that nation's recession of 1997-98; steady growth of employment of women, but no growth of employment of men, from 1992 to 1998; and shrinking employment of both women and men in Poland, Hungary, and the Czech Republic. In all of these economies, the sectoral composition of employment shifted way from agriculture and industry and in favor of services. No data are presented on changes in earnings, inequality, or poverty in these countries.

Studies of individual countries also abound. One such is work by Freeman (2000) on the United States. He shows that in years of economic growth, both the unemployment rate and the poverty rate fell. On the other hand, in all recession years, the unemployment rate rose, and in all but one, the poverty rate rose as well. Freeman draws two conclusions: first, that wages and employment both have risen among the poverty-prone during times of economic expansion; but second, "the United States cannot rely exclusively or even primarily on economic growth to end poverty. . . Social policy, public or private, will be needed. . ."

Despite what has been learned, this review has revealed a disturbing paucity of recent data on the question of

whether economic growth contributes to or detracts from the attainment of Decent Work – only the OECD study uses data for the 1990s. Clearly, gathering a series of up-to-date information for the 1990s is a prime topic for further research. In fact, studies are under way now at the ILO, the International Institute for Labor Studies, the International Finance Corporation, and the U.K. Department for International Development. At this point, there is nothing to be done but await the results of these and other investigations.

### **C. In Summary: How Economic Growth Contributes to Decent Work**

This section has reviewed evidence pertinent to the debate about whether economic growth contributes to or impedes the objectives of Decent Work. The available evidence, limited though it is, points conclusively in the direction of complementarity – that is, economic growth causes fuller employment and higher earnings levels. Those who take the other side typically present anecdotes – case studies of groups of people who have not been helped, or who even have been hurt, by economic growth. The failure of economic growth to reach everyone is a fact, one that should not be overlooked. At the same time, though, to conclude from such anecdotes that economic growth leads *generally* to a worsening of employment conditions is a ludicrous and dangerous misreading of the evidence. Such reports are journalism, not social science, and should never be confused for research.

The explanation comes down to labor supply and labor demand. A World Bank report entitled "Workers in an Integrating World" explains it thus:

Within occupations, pay differences across countries reflect the average level of *economy-wide* productivity. If a bus driver in Seoul earns three times as much as a bus driver in Bombay, it is not because the Korean is three times better at driving a bus. Instead, the higher level of labor productivity in the Korean economy overall, and hence the higher level of incomes there, mean that, on the one hand, the bus drivers must be paid enough to persuade them to drive a bus rather than do something else for a living, while on the other, consumers in Seoul are willing and able to pay more for a bus ride than consumers in Bombay. (World

Bank, 1995, p. 12).

I would be remiss if I did not conclude this section with an observation on a fact that is so obvious that we often fail to see it. The explanation in the preceding paragraph relies on equilibrium analysis taking the separation of nation-states as given. For this to be an equilibrium, Bombay bus drivers must be prevented from becoming Seoul bus drivers (or Seoul bus drivers from becoming Geneva bus drivers). This is exactly what international migration controls in the richer countries are meant to achieve. One of the great unmentionables in discussions of international labor rights and standards, under Decent Work or anything else, is the freeing up of opportunities for people to move across national boundaries in pursuit of better work.

#### **V. Outlining the Structure of Subsequent Country Reviews**

The ILO is planning to conduct country-by-country reviews of various countries in which progress in achieving Decent Work objectives will be assessed and policies for advancing the Decent Work agenda will be reviewed. In this section, I would like to sketch what these reviews might highlight.

First, on the question of progress, the variables covered in Section IV are the main ones. That is, the first question is what has been the *macroeconomic context*. Has the economy been growing or declining? At what rate? What have been the key sectors in which changes have taken place? What are the main factors responsible for these changes?

The next question is, how have *labor market conditions* changed, economy-wide and for particular groups? The first set of variables is *employment and unemployment*. How many people are working? What has happened to the unemployment rate? (The two are not mirror images of one another because of possible changes in labor supply behavior due to labor force entries and exits, immigration, changes in school-leaving behavior, and

retirements.) The second set of variables is *job mix*. Here, we are concerned about not only the fact of employment but the kinds of employment people are in: by industry (manufacturing, services, agriculture, etc.), occupation (professional, clerical and sales, manual, etc.), occupational position (wage employment, self-employment, casual employment, unpaid family work), and educational level. The third set of variables is *earnings levels*. Here, we want to know how many people are earning how much, overall and for key disaggregations: by gender, sector, geographic location, and so on. Once these data have been collected, we would know for that country by how much conditions in labor markets have been getting better or worse and for whom.

Following this review of the evidence on changing macroeconomic events and labor market conditions, the country reviews should turn to the issue of *policy variables*. What are the key aspects of a country's policies that help us understand the observed changes? Here, the policy review might usefully be categorized into three types of policies. *Labor supply policies* address two sets of issues: how many people are available to work, and what skills and characteristics they bring to the labor market when they do offer their labor. *Labor demand policies* then get at a range of factors determining the position of the labor demand curve: trade and industrialization strategies, commercial policies, investment climate, business environment, and the like. Finally, policies with regard to *labor market functioning* help us understand why conditions are as they are. Under this heading would be wage-setting mechanisms, institutional regulations, flexibilities and rigidities in the market for labor services, the presence or absence of active labor market policies, and other affiliated policies which have a bearing on the workings of labor markets.

Together, these data would afford the possibility of answering three related questions about the attainment of Decent Work in a given country. First, what is the macroeconomic context within which the country is operating? Second, what is the evidence on key variables that form part of the Decent Work agenda? And third, what are the main policy variables helping explain the rate of progress or lack thereof? Focused reviews of this

type would not only aid our understanding of what has been done but would also orient our attention towards what could be done to improve the quantity and quality of employment in a particular country context.

## **VI. Conclusions**

The ILO's Decent Work initiative is a way of focusing the efforts of a country and of the international community on one of the principal means of achieving development: creating more and better jobs. To try to advance the Decent Work agenda, this paper has made four main points.

First, an operationalization of Decent Work has been suggested: jobs, at acceptable earnings levels, in which core labor standards are honored. In my view, the key dimensions of Decent Work are employment and earnings. Under a given set of conditions, pursuing one of these goals may conflict with the pursuit of the other. As long as the labor demand curve remains stationary, a tradeoff is inevitable between higher wages for those now employed and increased employment for others.

The second contribution of this paper has been to move towards an integrated framework for analyzing economic and social objectives and policies. This can be achieved by adopting a welfare economics perspective, which consists of specifying a maximand, policy instruments, constraints, and a causal model. The maximand that has been suggested is the highest level of Decent Work today and tomorrow. The policy instruments are, in the first instance, labor demand, labor supply, and labor market functioning policies, both direct policies and indirect ones. The constraints are the available resources. Causal models tell us how various components of Decent Work would respond to various policy interventions and various decisions about how to allocate scarce resources among alternative uses.

Thirdly, this paper has reviewed the evidence on Decent Work and economic growth. Contrary to the fears of some, the available evidence, limited though it is, indicates a pronounced complementarity between the two. Economic growth does not come at the expense of Decent Work or vice versa.

Finally, a structure has been suggested for reviews of experiences and policies at the country level. Given the macroeconomic context, the five key variables for assessing progress towards Decent Work are changes in employment and unemployment, job mix, earnings levels, inequality, and poverty. The three major policy variables to include in such reviews are labor supply policies, labor demand policies, and policies with respect to labor market functioning.

Looking ahead, two major research needs stand out. First, we need much more aggregate information of the type used in Section IV on how labor market conditions have changed in various countries' growth (or non-growth) experiences, especially in the last five or ten years. Second, we need country reviews of the type discussed in Section V for a broad range of countries.

By carrying forward the Decent Work policy and research agendas, the ILO can reestablish its prominence among the development policy agencies. For the hundreds of million working people in the world who have not yet attained decent and adequate jobs, this would be a very welcome step forward indeed.

## REFERENCES

- Fields, Gary S., "Employment Generation and Poverty Alleviation in Developing Economies," in Ulrich Hiemenz, ed., Growth and Competition in the New Global Economy. (Paris: OECD, 1998).
- Fields, Gary S. and Henry Y. Wan, Jr., "Wage-Setting Institutions and Economic Growth," World Development, September, 1989.
- Freeman, Richard, "The Rising Tide Lifts. . .," Focus, Fall 2000.
- Hamermesh, Daniel, Labor Demand. (Princeton: Princeton University Press, 1993).
- ILO, Report of the Director-General: Decent Work, Report presented at the 87<sup>th</sup> Session of the International Labour Conference, Geneva, June, 1999.
- ILO, Report of the Director-General: Reducing the Decent Work Deficit – A Global Challenge. Report presented at the 89<sup>th</sup> Session of the International Labour Conference, Geneva, June, 2001.
- ILO, Report of the Working Party on the Social Dimension of Globalization, GB.279/16, November, 2000.
- ILO, World Employment Report 1996/97. (Geneva: ILO, 1997).
- Lipton, Michael, Successes in Anti-Poverty. (Geneva: ILO, 1998).

Organization for Economic Cooperation and Development, Trade, Employment and Labour Standards: A Study of Core Workers' Rights and International Trade, 1996.

Organization for Economic Cooperation and Development, Employment Outlook 2000. (Paris: June, 2000).

Organization for Economic Cooperation and Development, International Trade and Core Labour Standards, 2000.

Samuelson, Paul, Economics. (New York: McGraw Hill, 1964).

United Nations, 2001 Economic and Social Council, available online at [www.un.org/esa/coordination/ecosoc/overview.htm](http://www.un.org/esa/coordination/ecosoc/overview.htm).

World Bank, World Development Report 1995.

World Bank, World Development Report 2000/2001.