



SECOND ITEM ON THE AGENDA

**Organization, bargaining and dialogue
for development in a globalizing world****Contents**

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I. Introduction

1. At its meeting in March 2000, the Working Party on the Social Dimensions of Globalization discussed its future activities on the basis of a paper prepared by the Office.¹ The overall objective sought was that its activities should be designed to contribute to the development of an integrated approach to economic and social policies for development in the global economy. It was understood at the same time that such an integrated framework is a process involving dialogue between organizations having a mandate in the economic and social field, rather than a ready-made product or concept. Taking account of the mandate given to the ILO by its Constitution and the Declaration of Philadelphia, it was suggested that the Working Party could discuss topics that are fundamental for the ILO while also having a bearing on the economic or related mandates of other organizations, in order to promote a more common understanding of their importance and impact from the viewpoint of an integrated framework for development. It was agreed that the first topic to be examined in that connection was the link between freedom of association and collective bargaining – which were the subjects of the first Global Report under the ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up² – and development. The Chairperson of the Working Party specifically referred to the fact that such a topic would allow the Bretton Woods institutions and other organizations concerned to make their contribution to the discussion.³
2. The first Global Report prepared under the follow-up to the ILO Declaration on Fundamental Principles and Rights at Work, *Your voice at work*, has shown that respect for the principles of freedom of association and effective recognition of the right to collective bargaining – and their realization in practice – is far from universal.⁴ Violations of these fundamental principles and rights at work and ways of remedying them remain a major issue of concern. Furthermore, the discussion of whether, how and when these fundamental freedoms are to be implemented often revolves around the relationship between, on the one hand, the right to freedom of association and the right to organize and to bargain collectively and, on the other, the goals of economic and social development.⁵ The global integration of markets is presenting an additional set of challenges to the way in which these fundamental principles and rights at work have traditionally been realized and exercised.
3. This paper therefore aims to clarify the issues and distil what we know about these freedoms and rights, their implementation in practice, decent work and development in a global economy. It presents updated information on levels of organization and the institutions of collective bargaining. It uses available statistical evidence, as well as observations drawn from the ILO's practical experience regarding the role these rights play

¹ GB.277/WP/SDL/1.

² ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up, adopted by the International Labour Conference at its 86th Session, Geneva, 18 June, 1998.

³ See Governing Body Minutes of the 277th Session (March 2000), Eighth sitting, p. VIII/9.

⁴ ILO, 2000a.

⁵ This category of fundamental principles and rights at work refers to both individual and collective principles and rights, including both those of workers and those of employers to join an organization of their choice. For more detail see ILO, 1994.

in development, to show that the labour market institutions that are built on the realization of these fundamental principles and rights at work (representative organizations, collective bargaining and social dialogue)⁶ are part of the social capital needed to sustain development processes and deliver decent work for all. The primary goal of the paper is to facilitate discussion in the Working Party with a view to extending the ILO's knowledge of how the realization in national frameworks and in practice of the principles of freedom of association and the right to organize and to bargain collectively can be conducive to development.

4. The paper begins with a discussion of the notion that freedom of association and effective recognition of the right to collective bargaining are enabling freedoms and fundamental to a broader conception of the goals of development (Part II). It suggests that the ILO needs to consider how the realization and exercise of these fundamental principles and rights at work are affected by the changing social and economic context and the impact of globalization (Part III). The arguments of those who allege that the implementation and exercise of these fundamental principles and rights at work in practice have negative effects on economic performance are scrutinized with a view to developing an understanding of how the realization of these fundamental principles and rights at work and their exercise in practice can be conducive to economic efficiency (Part IV). The role that these freedoms play within an integrated framework for development is also discussed (Part V). The paper concludes with a number of issues that the Working Party may wish to discuss (Part VI).

II. Enabling rights for development

5. The rights of individuals to defend collectively values, beliefs and interests that they have in common, that is, the freedom to associate in the general sense, is a basic human right, recognized in various international instruments, notably the Universal Declaration of Human Rights (article 20). In defining the aims and purposes of the ILO, the Declaration of Philadelphia "reaffirms the fundamental principles on which the Organization is based, and, in particular, that ... (b) freedom of expression and of association are essential to sustained progress". Freedom of association and the right to organize and to bargain collectively, which are the subjects of Conventions Nos. 87 and 98, have also been recognized as fundamental in the 1998 ILO Declaration on Fundamental Principles and Rights at Work, as well as in other international declarations such as the Copenhagen Declaration adopted by the World Summit for Social Development in 1995 (Commitment 3(i)).
6. In addition to being the specific expression of a human right in the field of labour relations, the guarantee of these fundamental principles and rights at work "is of particular significance in that it *enables* the persons concerned to claim freely and on the basis of equality of opportunity their fair share of the wealth which they have helped to generate, and to achieve fully their human potential".⁷ Respect for freedom of association and effective recognition of the right to collective bargaining are thus intrinsic parts of a broad-based conception of development as a process through which individuals and communities enlarge and realize their capabilities.

⁶ For the purposes of this paper social dialogue is understood to include all types of negotiations, consultations or the exchange of information between or among the tripartite and bipartite partners on issues of common interest relating to economic and social policy.

⁷ ILO Declaration on Fundamental Principles and Rights at Work, Preamble.

7. All ILO Members have, by virtue of their membership of the ILO and acceptance of the ILO Constitution, accepted certain obligations with respect to these fundamental principles and rights at work. The ILO Declaration states that –

... all Members, even if they have not ratified the Conventions in question, have an obligation, arising from the very fact of membership in the Organization, to respect, to promote and to realize, in good faith and in accordance with the Constitution, the principles concerning the fundamental rights which are the subject of those Conventions, namely:

- (a) freedom of association and the effective recognition of the right to collective bargaining ...⁸

8. These fundamental principles and rights at work do not therefore require any other justification, on either economic or other grounds.
9. This has repercussions beyond the ILO and its Declaration. Members should take positions in other international forums which are consistent with this obligation. Similarly, policy advice from other organizations should not be in contradiction with them – though not because they have any obligation under the Declaration as such, but because they would be interfering with an international obligation that the States concerned have formally recognized as arising out of their membership of the ILO.
10. The fact that these fundamental principles and rights at work do not need any economic or other justification does not mean, however, that they cannot stand the test of economic efficiency. These are not only “enabling rights” necessary to develop the ILO’s own objectives of social justice and decent work, but also contribute to improved economic performance and social progress. Efforts “to respect, to promote and to realize” these principles, as contemplated by the ILO Declaration, may however be hindered by scepticism concerning the economic effects of the exercise of these fundamental principles and rights at work.
11. While accepting these freedoms and rights a priori, it is nevertheless important that the ILO examine more closely their links with development. First, in order to better support country efforts to protect and promote them, we need to understand the way in which the socio-economic context is advancing or constraining their implementation and realization in practice. In this regard, Part III below considers the impact that globalization is having on the realization and exercise of these fundamental principles and rights at work.
12. Secondly, some who contest these freedoms and rights base their arguments on claims about the effect on economic outcomes of the exercise of freedom of association and the right to organize and collective bargaining. We need to address these arguments if progress is to be made in securing these fundamental freedoms for all workers:

... The political and social acceptability of a moral right – and of course its effectiveness – must depend to a considerable extent on its ability to be persuasive. Cutting the consequential link [the effects of these rights on

⁸ ILO Declaration on Fundamental Principles and Rights at Work, para. 2.

economic outcomes] can reduce – rather than enhance – its status as well as its following and also compromise its reach.⁹

Part IV examines these consequentialist arguments in more detail, the implementation and realization of those principles and rights in practice, and the modalities that can make the exercise of those rights conducive to improved economic performance and development.

13. Thirdly, respect for these fundamental freedoms lies at the heart of more integrated approaches to development. Shedding light on the links between the realization of these fundamental principles and rights at work and development is an essential part of promoting decent work for all. “Principles and rights at work provide the ground rules and the framework for development.”¹⁰ To quote the opening chapter of this year’s *Human Development Report*: “In short, human development is essential for realizing human rights and human rights are essential for human development.”¹¹ Part V examines the role that these freedoms play as part of a more integrated framework for development.
14. Fourthly, the Global Report has shown that respect for these fundamental principles and rights at work continues to be hindered by a lack of political will and the absence of support in the broader institutional environment for the exercise of these rights. Much remains to be done to promote the universal realization of the principles of freedom of association and the effective recognition of the right to collective bargaining. In addition to working with governments and the social partners at national level, a more coordinated effort is needed internationally to promote an enabling environment for the exercise of these fundamental principles and rights at work. This suggests a number of issues which the Working Party may wish to discuss, listed in Part VI.

III. Globalization, freedom of association and collective bargaining

15. Globalization is widely considered to provide major opportunities for growth, wealth creation and rising incomes, yet at the same time there is growing concern over its social repercussions. The impact of globalization on social stability, employment, inequality and labour standards is the subject of ongoing discussions in a number of international forums. As one of the most contentious subjects in debates on development, and with indications of growing divergences between industrialized and developing countries over the appropriate international policy responses, many organizations are reassessing how best to integrate economic and social objectives in their policy approaches. The debate on these issues is not limited to the international level. There are divergent views within countries on how best to embrace the opportunities presented by globalization, while protecting the most vulnerable from further hardship.
16. The decent work agenda of the ILO has evoked much interest both within the Organization and in other bodies as providing a constructive perspective for examining how concerns regarding issues such as rights at work, and the institutions that surround the informal and

⁹ Sen, A. 1996. “Legal rights and moral rights: Old questions and new problems”, in *Ratio Juris* (Oxford), Vol. 9, No. 2 (June), pp. 153-167. Quoted in Lee, E. 1998.

¹⁰ ILO, 1999a. Report of the Director-General, *Decent work*.

¹¹ UNDP: *Human Development Report 2000*.

formal labour markets, relate to the achievement of employment and enterprise creation, poverty reduction and competitiveness in the global economy.

17. The issue of decent work and socially sustainable development in the context of an increasingly integrating international economy is, of course, not a wholly new concern.¹² Indeed, the ILO was established in 1919 as a result of concern that post-war economic recovery needed to be founded on international labour standards.¹³ Similarly, the Declaration of Philadelphia in 1944 reaffirmed the need to pay closer attention to the social dimension of economic and financial policies.
18. However, since the late 1970s, the focus of international policy-makers and development agencies has shifted to a preoccupation with the economic instruments associated with the functioning of markets. The general drive to liberalize national and international markets has reflected this shift in views on economic and social policy and led to a general questioning of the value and utility of labour standards and labour institutions.¹⁴ Recommendations emphasizing a smaller role for the State, the deregulation of labour markets and restructuring of the public sector became elements of conditions for financial assistance to developing and transition countries.
19. Along with this shift in economic and social policy, market liberalization, coupled with the impact of major technological developments, created the force now termed globalization, which is posing an additional set of challenges to the way in which the principles of freedom of association and the effective recognition of the right to collective bargaining have traditionally been realized and exercised (through the formation of trade unions, employers' organizations and processes of collective bargaining). Globalization has radically altered the context in which most governments think about policies for economic development and in which firms are competing. Primacy is frequently given to expanding trade, attracting foreign direct investment and keeping costs (including labour costs) down in order to remain internationally competitive. Trade unions and wage-setting institutions are seen in some quarters as direct threats to enterprise and country competitiveness in the global economy.

A. Worker organization

20. Globalization and changes in the economic landscape, such as the knowledge economy and burgeoning informal economy, present trade unions with significant challenges. Trade unions now need to connect with workers beyond the traditional workplace, requiring innovative and creative strategies, and the provision of new services.
21. While trade union membership peaked as a share of the employed workforce in many countries in the mid-1980s, it has declined in many countries since then. Of the 58 countries for which the ILO has sufficient data, union density levels fell in 42, were

¹² Charnovitz, S. 1987.

¹³ This was also a period marked by an expansionary wave of trade. The volume of foreign trade had grown at about 3.4 per cent per annum between 1870 and 1913. Thereafter, adversely affected by the growth in tariffs, quantitative restrictions, exchange controls and war, growth dropped to less than 1 per cent per annum until 1950. See Hirst, P. and Thompson, G., 1996.

¹⁴ See Lee, E., 1997, for a review of these developments and the factors that have contributed to the questioning of labour standards.

relatively stable in four and rose in 12 (see Appendix II.A). Most of the countries where membership increased were developing countries experiencing major democratic reforms.

22. Information on trends in union membership is most complete in the industrialized countries and indicates three main explanations for decline:¹⁵

- *Cyclical.* Increasing unemployment, as was the trend in many countries from 1985 to 1998, is generally associated with falling membership. Where unions are able to have an influence on the process of lay-offs and/or the level of compensation for job loss and unemployment, this effect is less pronounced.
- *Structural.* Where employment is shifting from sectors with high rates of union organization, such as transport and large parts of manufacturing, to the less organized service sectors, union density levels fall. The downsizing of large and often organized plants and the growth of smaller and harder to organize units of employment probably compound this effect. Public sector employment growth compensates in part for this effect, but the earlier period of expansion in this generally highly organized sector came to an end in many countries in the 1980s. Increased part-time employment, where union presence is weak, is a further factor, although a pronounced trend towards increased women's membership of unions has worked in the opposite direction in a number of countries. In general, workers with less secure employment status are less likely to join unions and the trend towards short-term contracts and the "informalization" of employment relationships may explain part of the decline in union density in some countries.
- *Institutional.* The decline in some countries is attributed to institutional factors, including union access to workplaces and legal protections for union organizers. Another institutional factor relates to the level at which trade unions represent workers and bring influence to bear. Where representation has been centralized, trade union membership has been less prone to decline. However in some instances this has led to "free rider" problems, where workers benefit from union representation without having to become members. The latter has provided significant challenges for union strategies when, for whatever reason, these centralized systems of representation have changed.

23. On balance, cyclical and structural factors carry most weight as explanations of union membership decline. This has induced a process of reflection, and trade unions have been endeavouring to find organizational strategies to meet some of these challenges and provide representational security to all workers.¹⁶ Where the institutional environment has been less favourable, it has probably compounded union problems in organizing in growing sectors of employment such as small-scale service establishments.

24. Although difficult to quantify, it is also possible that changing employer practices, including a greater emphasis on human resource management, may also have led to fewer workers choosing to exercise their right to join or form unions. Many companies, motivated by shifts in technology that have caused them to place high value on motivating and retaining skilled employees, are encouraging management to pay closer attention to the "human capital" embodied in their workforce. In certain sectors, individual workers may

¹⁵ See Visser, J., 2000.

¹⁶ See ILO, 1999b.

feel that their skills are in such high demand that they have greater market power and less need of the protections afforded by collective representation.

25. The limited data for developing countries are broadly consistent with these observations. However, apart from those countries where respect for freedom of association has improved sharply as part of widespread democratic reforms, the institutional environment for unions is less positive. To date little data or information is available on worker organization and the development of social capital in the informal sector, although some analysis is provided in the final section of this paper.

B. Employer organization

26. Employers' organizations have also found cause to review their own roles and activities given rapid change in the operating environment of enterprises and the changes induced by the global integration of markets.¹⁷ Along with the more traditional issues of industrial relations and wage bargaining, heightened concerns about enterprise competitiveness are making questions of labour market flexibility and productivity improvement priority issues for employers' organizations.¹⁸
27. Many employers' organizations note an increase in membership over the past few years.¹⁹ However, enterprises in the new knowledge economy are not yet sufficiently represented in employers' organizations. The majority of small enterprises in many countries (including those in the informal economy) are not members of representative organizations. On the other side of the scale, the biggest enterprises are more likely to conduct their own bargaining and are often characterized by complex structures and alliances making them more difficult to organize and to service.²⁰ One of the future challenges facing employers' organizations will be attracting into their membership enterprises that do not necessarily reflect their traditional membership base.
28. Apart from the continuing provision of industrial relations services and lobbying activities, employers' organizations are increasingly being called upon to provide new services in the following areas:²¹
- *Provision of information:* for example: economic data, pay data, briefing on policy and law and comparative performance information.

¹⁷ See ACT/EMP, 20 Apr. 1999.

¹⁸ A survey of employers' organizations was conducted by ACT/EMP for input into an ILO International Symposium on the Future of Employers' Organizations (held in Geneva in April 1999). It covered issues such as membership, structure, financing, current and planned activities and priorities, and the current and anticipated problems and constraints facing national-level employers' organizations throughout the world. See "The future of employers' organizations: Issues, challenges and responses", a synthesis paper prepared by Alan Wild, based on the survey of employers' organizations by the Bureau for Employers' Activities in ACT/EMP, 20 Apr. 1999.

¹⁹ *ibid.*

²⁰ ILO, 1997.

²¹ ACT/EMP, 20 Apr. 1999.

- *Training*: the provision of training services in, for example, productivity improvement and performance-related pay.
- *Consultancy services*: often an extension of training initiatives.

29. As a result of globalization and regionalization, employers' organizations have also become more active at national, regional and international level. They are increasingly involved in lobbying activities and social dialogue at the national, regional and global level. This implies greater cooperation between similar organizations across borders. It also implies having to deal with a new set of actors – non-governmental organizations and community organizations – in addition to the traditional partners. The latter, while they may not necessarily participate in existing forums or structures, nevertheless have an influence on the policy environment for enterprises.²²

30. Employers' organizations throughout the world have reported that a key constraint to their effectiveness is the attitude of government. In fact, the effect of unhelpful government attitudes is seen as more significant than resource shortage issues or competitive pressures.²³ Much remains to be done to promote these fundamental principles and rights at work so that enterprises in all parts of the world can exercise their right to organize.

C. Collective bargaining

31. One of the factors driving globalization and the liberalization and mobility of capital has fundamentally changed the bargaining power of firms vis-à-vis governments and workers. The implicit, and sometimes explicit, threat of relocation and the transnational nature of firms in some sectors have changed the political economy of industrial relations, weakening the bargaining position of workers. Some governments, keen to attract or retain investment (foreign and domestic), offer "discounts" on labour protection, further undermining the ability of workers to bargain over decent work.²⁴

32. As the contours of markets are no longer limited to national boundaries, this has direct implications for the ability to bargain collectively through national labour market structures. Some of the responses to globalization in the labour relations field are attempts at coordination and institution building along the new dimensions and contours of the market. This appears to be taking three forms. The first of these are actual attempts at international collective bargaining. For example, the European construction trade unions are attempting to coordinate efforts to negotiate the first pan-European collective labour agreement in that sector.²⁵ In the shipping industry, a pioneering international collective bargaining agreement was reached this year between the International Transport Workers' Federation and the shipping employers' organization (International Maritime Employers' Committee). The agreement covers wages, minimum standards and other terms and conditions of work.²⁶

²² *ibid.*

²³ *ibid.*

²⁴ ILO, 1997.

²⁵ *Wall Street Journal Europe*, 19 June 2000.

²⁶ <http://fimmen.itf.org.uk/online/english/online 8.htm>.

- 33.** The second are forms of coordination in both an international and regional context. In the transport sector, the development of airline alliances (Star, OneWorld, etc.) and the concentration of airline catering and ground handling services in a few major global companies (some belonging to major airlines) has caused the International Transport Workers' Federation to set up working parties for each of the alliances, bringing together all affiliates dealing with any of the alliance companies in order to coordinate collective bargaining strategies. Within the European Union, some 596 companies with over 150 employees in at least two EU Member States have established arrangements for the purposes of information and consultation within the framework of the 1994 Directive on European Works Councils. Supranational social dialogue is also taking place in the context of the European Union social dialogue committees. On working hours, for example, the social partners reached an agreement on working time in civil aviation in March this year. These coordination efforts tend to reflect processes of social dialogue involving consultation and the exchange of information.
- 34.** The third are framework agreements that support the realization of organizational rights. Some multinational companies and international trade union federations are negotiating international framework agreements. Examples include Telefonica and Union Network International (UNI), Danone and the International Union of Food, Agricultural, Restaurant, Catering, Tobacco and Allied Workers' Federation (IUF), Statoil and the International Confederation of Energy, Mine and General Workers' Unions (ICEM), and IKEA and the International Federation of Building and Wood Workers (IFBWW).
- 35.** Along with shifting the balance of power in industrial relations, globalization has led to a change in the nature of the employment (and bargaining) relationship. Much greater attention is given to issues of productivity and performance when determining wages.²⁷ In order to achieve greater internal flexibility, stronger emphasis is placed on negotiating issues such as the reorganization of work, flexible working hours, and pay for performance and skills within the context of employment relations at the enterprise level.²⁸ This general tendency to negotiate certain issues at an enterprise level has in some countries led to the decentralization of industrial relations systems. In others, an additional level of bargaining has been introduced (within the enterprise), with articulation through industry and national levels of bargaining.²⁹
- 36.** The intensification of international competition has induced the search for more flexibility in production methods and work organization. While in some countries this internal flexibility has been achieved within the context of relatively stable labour markets and employment relationships, in others the search for flexibility has led to the increasing informalization of the employment relationship.³⁰ There are two ways in which these changes are occurring. The first is the growing number of temporary and part-time workers as a percentage of the workforce. Whether these employment relationships are desired or imposed, it is more difficult for such workers to organize and they are thus far less likely to have their interests represented at the bargaining table.

²⁷ De Silva, S. 1998.

²⁸ De Silva, S. 2000.

²⁹ See Visser, J., 2000, and ILO, 1997.

³⁰ See ILO, 1999c.

37. The second is the growing numbers of workers in indirect employment. Some workers in many parts of the world, once protected by written contracts, are no longer given formal contracts but rather contracted “informally” as own account workers. Workers in these non-protected sectors of the labour market are no longer able to use the mechanism of collective bargaining to determine their employment conditions. Governments are finding themselves tasked with having to better define the distinction between own account workers and those working in disguised wage employment.³¹ By way of example, table 1 (Appendix III) shows the extent of these trends in some countries in the Latin American region. These workers have become vulnerable to the overall deterioration in the quality of employment and rising levels of insecurity, and are unable to exercise their right to use the traditional mechanisms and processes that have existed in labour relations to improve their working conditions.
38. The mechanism of collective bargaining was generally based on a concept of direct employment, which may be changing. New ways may need to be found to supplement this existing mechanism so that all workers can take part in the determination of their conditions of work. The ILO needs to gather more information on the extent and nature of changes in the employment relationship for the purposes of policy analysis and formulation.³²
39. In sum, heightened concern with international competition has introduced a new set of challenges and opportunities to the way in which workers and employers have traditionally used their voice at work, with direct implications for decent work and development. In order to better support country efforts to protect and promote these rights in the context of development in a global economy, the ILO will in future need to provide more insight into the way in which the social, political or economic context is advancing or constraining the realization and exercise in practice of these fundamental principles and rights at work and possible strategies for overcoming some of the challenges.

IV. Economic performance, freedom of association and the right to organize and to bargain collectively

40. In the context of development, while the realization of the principles of freedom of association and the effective recognition of the right to collective bargaining can contribute to more equitable and sustainable patterns of development, respect for these fundamental principles and rights at work continue to be undermined by a narrow consideration of the economic effects of these principles and rights when exercised in practice. These concerns relate to the impact that the exercise of freedom of association and the right to organize and collective bargaining are claimed to have on trade performance and foreign investment, and on structural adjustment, poverty reduction and the efficient functioning of markets. This part of the paper reviews the evidence and arguments concerning the realization and exercise of these fundamental principles and rights at work and economic performance in a global economy.

³¹ See ILO, 2000b, Meeting of Experts on Workers in Situations Needing Protection, Geneva, 15-19 May 2000, and ILO, 2000c, for discussion of the increase of homeworkers in the textile, clothing and footwear industries.

³² In this regard see ILO, *World Employment Report* (forthcoming).

A. Does the realization of these fundamental principles and rights at work diminish trade competitiveness or deter foreign investment?

41. While globalization offers expanded opportunities, in outward-oriented development strategies, for importing intermediate goods and technology not available domestically, attracting the investment needed to spur rapid growth and accessing larger markets to stimulate demand and output, such strategies are sometimes pursued at the expense of these fundamental principles and rights at work. Some governments overtly or discreetly discourage the organization of labour and collective bargaining in order to keep labour costs down and promote accumulation through export-oriented growth. The economic rationale offered for such strategies is that the granting of freedom of association and the right to organize and collective bargaining would lead to higher wages that would undermine comparative advantage and deter foreign investors, setting back growth. According to this view, the realization of these fundamental principles and rights at work is affordable only when economic growth has secured a high level of per capita income and absolute poverty has fallen substantially.
42. Both the Singapore WTO Ministerial Declaration and the ILO Declaration on Fundamental Principles and Rights at Work stress that labour standards should not be used for protectionist purposes and that the *comparative advantage of any country should in no way be called into question*.³³ But the issue is more than whether or not the moral basis of the comparative advantage that some developing countries enjoy is being questioned. The point is that some governments believe that suppressing these freedoms enables them to keep overall labour costs down and maintain highly flexible production processes, thus expanding their share of world markets and enhancing their ability to attract investment.
43. An answer to the question of whether the realization of the principles of freedom of association and the effective recognition of the right to collective bargaining in practice actually does endanger the comparative advantage of low-labour-cost countries might assist the ILO in its attempts to promote the universal realization of these fundamental principles and rights at work. Similarly, the ILO needs to contribute to an understanding of the links between the direction of FDI flows and the institutions that are built upon the realization of these fundamental principles and rights at work (such as representative organizations, collective bargaining and social dialogue).

1. Freedom of association, the right to organize and collective bargaining and trade performance

44. In recent years, a number of studies have attempted to assess the available information on the effect of core labour standards (including freedom of association and the right to organize and collective bargaining) on trade performance.³⁴ Rodrik's (1996) study uses a variety of measures for core labour standards including ratification of ILO core Conventions, and Freedom House indicators of civil liberties and political rights and percentage of the labour force unionized. While expecting that labour standards might affect a country's comparative advantage in labour-intensive goods, he was unable to find

³³ ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up, para. 5; GB.268/WP/SDL/1/3 (<http://www.ilo.org/public/english/standards/relm/gb/docs/gb268/sdl-1-3.htm>) and http://www.wto.org/english/thewto_e/minist_e/min96_e/min96_e.htm

³⁴ For a literature summary see Brown, D., 2000.

any statistically significant relationships between these measures of labour standards and comparative advantage in labour-intensive goods.³⁵

45. The OECD's 1996 study on trade and labour standards could find no firm relationship between measures for export performance, both in the aggregate and for labour-intensive goods, and indicators of limitations on international labour standards. Nor could they detect any correlation between measures of revealed comparative advantage and attempts to suppress union rights. The update of the 1996 study (OECD, 2000) confirms the finding of the OECD 1996 study, concluding that there is still no evidence to show that countries with low core standards (including the suppression of freedom of association and the right to organize and collective bargaining) enjoy better global export performance than countries with high standards.³⁶
46. Another way of examining the question is to look specifically at the institutions that are built on the realization of these fundamental principles and rights at work, and compare levels of trade union organization and the coverage of collective agreements and trade performance (see figures 1 and 2).³⁷ The results support the findings of the OECD that there is no obvious relationship between the presence or absence of these labour institutions and trade performance. In fact, countries with low levels of trade union density and collective bargaining coverage also tend to be countries that have lower shares of trade (exports and imports) in their national output. However, given that the debate on these issues concerns trade in labour-intensive goods and that many country characteristics play a role in determining both the pattern and volume of trade (not included in these simple correlations), a more detailed analysis of the relationship between the realization of the fundamental principles and rights in practice, labour costs and revealed comparative advantage is necessary.
47. In this regard, it is argued that developing countries' comparative advantage lies in low wages and that the realization of these fundamental principles and rights at work and their exercise in practice will raise labour costs and thus undermine the comparative advantage of these countries. It is important to stress that the issue is not the relative level of wages, but rather labour costs per unit of output. In theory, two identical products could reach the market at the same price with one produced using low productivity labour and commensurately low wages and the other by the highly productive utilization of highly paid labour.
48. Developing countries have low wages primarily as the result of low productivity and a lower skilled labour force. Suppressing wages by denying these freedoms is likely to have a negative affect on productivity and thus not give a country any added advantage. On the other hand, the realization of these fundamental principles and rights at work could lead to a more productive workforce and an increase in wages, without affecting overall labour

³⁵ With the exception of statutory hours worked.

³⁶ See OECD, 2000. Other writers surveying these studies who have perhaps been more critical of the empirical measures and methodology employed have nonetheless concurred with the finding that low core labour standards (including thus the suppression of these fundamental principles and rights at work) are unlikely to have significant effects. See Stern, R., 1996, Freeman, R., 1996, and Maskus, K., 1997.

³⁷ Attempts to quantify the realization of these fundamental principles and rights at work in practice and the institutions that are built upon the realization of these principles and rights in practice is a complex matter. Further research into these issues is being undertaken by the ILO's International Institute for Labour Studies.

costs. Furthermore, improvements in productivity, skills and wages can set a country on a more dynamic trajectory (for example by beginning to be able to compete in more value added manufacturing). In so far as wages and productivity are linked, the suppression of these freedoms does not appear to confer any added advantage, nor does their realization seem to weaken the competitiveness of developing countries. Barriers to market access pose a greater impediment to the ability of developing countries to integrate into the global economy, than does the realization of these fundamental principles and rights at work.³⁸

2. Freedom of association, the right to organize and collective bargaining and FDI

- 49.** Turning to foreign direct investment (FDI), a growing body of evidence shows that firms are more likely to invest in countries with some forms of labour protection (including the protection of freedom of association and the right to organize and collective bargaining) than in countries with poor labour standards.³⁹ Rodrik (1996) finds that countries with weak democratic institutions (including weak trade unions) attract less US capital than democracies. Both the OECD 1996 study and the update to that study find a positive correlation between FDI inflows and respect for freedom of association.
- 50.** Given that research shows that some of the key determinants of FDI after economic reform are macroeconomic stability, policy stability and clear rules of the game (such as property rights),⁴⁰ it would be interesting to explore the extent to which the labour market institutions that are built upon the realization of these fundamental principles and rights at work, contribute to transparency and policy stability and thus more favourable conditions for investment.⁴¹
- 51.** The exercise of these rights is sometimes denied in export processing zones in the belief that this will enhance efforts to attract FDI into them. However, the OECD 1996 study and update of 2000, and the ILO Report on Social and Labour Issues in EPZs (1998) point out that many host countries are realizing that fiscal incentives, low-cost labour and effective infrastructures are not the decisive factors in attracting long-term sustained investment.⁴² The ILO's own work in this important area reveals that the more successful EPZ company strategies are those that implement sound human resource policies, including worker representation and participation. The Dominican Republic was one of the first countries in the Caribbean to realize the importance of international labour standards and stable labour relations and began a process of reform, with ILO technical assistance, in the early 1990s.

³⁸ In this regard, the World Bank's *World Development Report 2000/2001: Attacking Poverty* shows that high-income countries' tariffs are not only higher for manufactures from developing countries, but these also escalate with the level of processing and can thus discourage industrialization efforts in developing countries. "High-income countries' agricultural tariffs and other distortions (such as subsidies) have been estimated to cause an annual welfare loss of \$19.8 billion for developing countries (equivalent to about 40 per cent of official development assistance given to developing countries in 1998)." (p. 180).

³⁹ See Brown, D., 2000, for a summary of the literature.

⁴⁰ Serven, L. and Solimano, A., 1993.

⁴¹ The availability of a skilled workforce is also known to be one of the determinants of growth after adjustment. The role that trade unions play in human capital formation is discussed later in the paper, but should also be borne in mind in assessing favourable conditions for investment.

⁴² ILO, 1998a.

The Philippines is another example of a country beginning to reassess its EPZ strategies and promote collective bargaining and labour-management councils in zone enterprises.

52. Two factors explain these new “smart” EPZ strategies. First, the imperatives of global competition, which demand greater speed and attention to quality in production processes, have made enterprises in these zones more concerned about stable labour relations and thus sound human resource policies. Secondly, foreign companies and consumers purchasing goods produced in these zones are becoming increasingly sensitive to “labour practices” in the zones.
53. It is possible that a country may decide to encourage investment by firms that do not wish to accept worker organizations and that such firms can survive and make profits. However, from the perspective of overall economic performance such a strategy is likely to run the danger of attracting firms that have a very short time horizon, invest little in productivity improvement and thus contribute little to any sustained national development strategy. Such investments tend to have a short life, either because they lose their market or shift to other cheaper locations once the initial tax or subsidy incentives expire.

3. *Freedom of association, the right to organize and collective bargaining and outward-oriented development strategies*

54. Outward-oriented development strategies are compatible with respect for and the realization of the principles of freedom of association and the effective recognition of the right to collective bargaining. There is little evidence to suggest that in general the suppression of these fundamental principles and rights at work makes a country an attractive destination for the type of foreign direct investment that can contribute to sustained development or that it enhances trade performance. Rather, as discussed later in this paper, the institutions that are built upon the realization of these fundamental principles and rights at work can reinforce external strategies of liberalization by enhancing the internal capacity needed to respond to economic shocks and to facilitate adjustment.
55. The general finding that respect for these fundamental principles and rights at work is compatible with successful outward-oriented development strategies does not negate the fact that integration into the global economy poses challenges to the way in which these principles and rights are exercised and realized in practice. Outward-oriented development strategies need to include measures that ensure respect for and realization of these fundamental principles and rights at work within a liberalizing economy, while at the same time expanding opportunities for growth.
56. In this regard, governments and the social partners appear in certain circumstances to be placing greater emphasis on the coordination of the economic and social dimensions of globalization. At a regional level, provisions in the Maastricht Treaty (1992) and Amsterdam Treaty (1997) seek to balance the process of economic integration with agreed social policy objectives. Regional economic agreements such as those of the SADC, MERCOSUR and NAFTA, accommodate a social dimension which to varying degrees is aimed at coordinating economic and social (including labour market) policy during the process of integration.
57. The capacity to promote these fundamental principles and rights is not confined to governments. Management policies, voluntary business codes and guidelines on labour

practices in the case of investment are examples of an emerging response to the problem of finding ways to move forward.⁴³ For example, in the case of EPZs, voluntary business codes of conduct are increasingly part of the reality of contracts being secured by zone enterprises – with potentially positive effects in terms of both the upgrading and competitiveness of these zones and the realization of these fundamental principles and rights at work. The Global Compact, an initiative by the Secretary-General of the United Nations presented at the World Economic Forum in Davos, encourages the business community to embrace, support and enact a set of nine core values in the areas of human rights, labour standards and environmental practices, including freedom of association and the effective recognition of the right to collective bargaining. The International Organization of Employers (IOE), the International Chamber of Commerce (ICC) and the World Business Council on Sustainable Development (WBCSD) are participating in this initiative.⁴⁴

B. Does the realization of these fundamental principles and rights at work retard the structural adjustment policies needed to reduce poverty and increase economic stability?

- 58.** The case for external liberalization is not simply based on the hope that it will yield an increase in investment, but also that, if accompanied by domestic market-oriented reforms, it will result in structural adjustments that improve overall economic performance and employment and speed the reduction of poverty. Some of the strongest advocates of neo-liberal economic approaches argue that the exercise and realization of freedom of association and the rights to organize and to bargain collectively inevitably lead to labour market distortions and have a negative impact on economic efficiency and equity.
- 59.** The argument adduced in support of this view is that trade unions, through negotiating what is referred to as a wage mark-up (the difference between union and non-union wages), raise wages, thus reducing competitiveness, potential employment and macroeconomic stability. In the opinion of some development economists, trade unions represent the “industrial élite” (“insiders”) in developing countries. Their actions depress the income and employment prospects of the vast majority of workers (“outsiders”), thus hurting developing countries’ prospects of rapid accumulation and growth.⁴⁵ (Very similar arguments are also used by those who believe that protections achieved by unionized workers in industrial countries are a major cause of unemployment because they prevent wages falling to market clearing levels.) The wage-setting institutions that tend to be associated with strong trade unions are also criticized for creating rigidities in labour markets and obstacles to the flexible adjustment of enterprises. This view has been very influential in policy prescriptions in both developing and industrialized countries.
- 60.** The strong influence this view has had on policy-making is in contrast to the weight of analysis and evidence that suggests that neither the existence of trade unions nor the type of industrial relations system can convincingly explain differences in economic performance. While labour market organizations and institutions of dialogue hold

⁴³ For an examination of the question of codes of conduct, see GB.273/WP/SDL/1, Nov. 1998.

⁴⁴ See <http://www.unglobalcompact.org>. The initiative also includes the International Confederation of Free Trade Unions (ICFTU).

⁴⁵ For example, see Bhagwati, J., 1998.

potentially positive productivity-enhancing attributes, the outcome depends on a range of other complementarities and incentives that may or may not exist in particular economies. Put simply, it is not the principles or rights per se, but the context in which they are exercised and their relationship to a broader configuration of institutions and policies, that can sometimes produce undesirable economic outcomes. Accepting these fundamental principles and rights at work a priori, the approach should therefore be to examine the way in which these principles and rights are being realized and exercised within a particular context, and the modalities that can make the exercise of these fundamental principles and rights at work conducive to improved economic performance and development.

1. Unions, efficiency and equity

- 61.** Many studies in recent years have sought to identify whether wages are higher in unionized as compared to non-union plants, and then from an economic point of view calculate the costs to the rest of society of labour markets based on free unions and employers' organizations. A problem with the way in which this wage mark-up is calculated is that it is based on the theoretical assumption that, in the absence of unions, wages are determined in a perfectly competitive market. This is not a realistic assumption, for there are a number of other reasons why employers, in the absence of trade unions, may wish to pay higher wages.⁴⁶
- 62.** Writers reviewing these studies conclude that while most show that workers in unionized firms do, on average, get higher wages than non-unionized workers, there is in fact little evidence to support the distortionary view of trade unions.⁴⁷ The static efficiency loss associated with the wage mark-up tends to be rather small, no more than 0.2-0.4 per cent of GDP.
- 63.** Where firms are competing in product markets, higher wages must be paid for by higher productivity to ensure that labour costs do not exceed those of rival firms. Of course where firms have a monopoly in their product market they may be in a position to increase their profits at the expense of consumers, and unions may be able to acquire part of these "rents" for workers. However, the intensification of competition in open economies has significantly diminished what economists call the monopoly cost of unionism. A review of the evidence shows that competitive pressure from product markets has reduced the possibility that unions can adversely affect firm performance by exercising monopoly power.⁴⁸

⁴⁶ The theoretical assumption that employers only pay wages above a market clearing rate under pressure from unions neglects the efficiency wage literature, which suggests that employers may decide to pay higher wages in order to give workers something to lose if they are fired for working at low effort levels. See Akerlof, G. and Yellen, J., 1986. These calculations also assume the homogeneity of labour over time. In reality many employers prefer to retain workers who have gained experience of the firm and its working methods and are prepared to pay a premium for these workers above what might be regarded as a clearing wage in a perfectly competitive labour market. A final point is that the assumption that wages in the absence of trade unions are determined in perfectly competitive markets overlooks the fact that workers may not in fact have the choice to move (that is, markets do not necessarily clear at certain wage rates) in situations where an employer is a monopsonist (monopoly buyer) in local labour markets.

⁴⁷ See Lee, E., 1998, Flanagan, R., 1999, Freeman, R., 2000, and Aidt, T., Schlemmer-Schulte, S. and Tzannatos, S., 2000, for an overview of the evidence.

⁴⁸ Aidt, T., Schlemmer-Schulte, S. and Tzannatos, S. 2000.

- 64.** The limited evidence available for developing countries also points to the central role that incentives play in determining the potential effects of trade unions.⁴⁹ Encouraging greater competition in product markets and removing anti-competitive product market regulation can diminish the ability of some unions (and enterprises) to pass wage increases on to consumers and rather encourage a cooperative stance and productivity-enhancing strategies for increasing pay.⁵⁰
- 65.** Surveying the effects of labour market policies and institutions and the adjustment experience in over 30 countries in Latin America and the Caribbean, Rama (1995) found extensive government employment and high unionization rates (an outcome of the high degree of unionized government employment) to be associated with poorer performance. However, this was not because trade unions have distortionary effects per se, but because unions had been strong in activities enjoying significant rents, such as the protected manufacturing and public sectors. Product and labour market distortions had given rise to significant “rent-seeking” behaviour on the part of unions in that wage increases could easily be passed on to consumers. He suggests that changing the incentives, by reforming government employment and liberalizing product markets, would provide the most effective route to improving labour market performance:

The main message of this paper is that labour market reforms should be approached with great humility. [...] restructuring the public sector and changing incentives faced by trade unions may yield higher pay-offs than reforming the labour code.⁵¹

- 66.** The most common approach in the literature, in instances where trade unions may be associated with economic inefficiencies, has been to attribute these to labour market distortions rather than focus on distortions in product markets and the broader institutional environment. Of course when dealing with the public sector in particular, which is not necessarily subject to international competition, the issue is a more complex one. In those instances where trade unions in this sector are engaging in rent-seeking behaviour, the question arises of how to reshape incentives so as to enhance the quality of services being provided and produce higher levels of growth in the economy as a whole. Social dialogue at a national level is an important means to align the strategies of trade unions in the public sector with overall economic and developmental objectives. This is certainly an area in which more research will need to be conducted.
- 67.** Discussion of the economic effects of unions in developing countries has also focused on equity as well as efficiency arguments. In most developing countries trade unions are primarily organized in the formal sector, which often employs a minority of the workforce. Although trade union bargaining strategies aim, with some success, to decrease wage dispersion within the population to whom the bargaining agreements are applicable (and

⁴⁹ The field of institutional economics is instructive here. It highlights the role that incentives play in shaping the behaviour of organizations. If the pay-offs (incentives) are highest from rent-seeking activity, then we can expect organizations to maximize those margins. On the other hand, if the pay-offs are from productivity-enhancing activities, then we can expect economic growth. The broader institutional environment (including laws, property rights, etc.) together with other economic constraints affect economic outcomes by affecting incentives. See for example North, D., 1997.

⁵⁰ See for example Layard, R. and Nickell, S., 1998.

⁵¹ Rama, M. 1995.

thus contribute to equality and non-discrimination),⁵² and are strong critics of social inequality, it is frequently argued that, in practice, by protecting existing members (“insiders”) unions act to the detriment of the unorganized (“outsiders”) and thus increase inequality.

- 68.** Strong family and community ties between formal and informal sector workers often blur this sharp theoretical distinction between insiders and outsiders in practice. Many formal sector workers are providers of social security to their extended families. The so-called insiders are thus very conscious of the problems faced by families and communities in the informal sectors and their obligations to help keep them afloat. Studies of the impact of the Asian crisis have shown that wage cuts and lay-offs in urban areas cut income transfers to rural communities and sometimes led to a reversal of these transfers, with small farmers either supplementing the reduced earnings of the urban part of the family or taking family members back into the fields to try to earn a living.⁵³
- 69.** Furthermore, it is often assumed that the informal sector is unorganized, whereas in fact it is characterized by a network of informal organizations that do not easily fit into a traditional typology of workers’ or employers’ associations. In addition, many informal sector workers, especially in the rural sector, are unable to organize legally or face many difficulties in organizing. Widening the coverage of legal protections of these principles and rights is one way of ensuring that so called “outsiders” can express their collective voice and have their interests heard and included. The issue here is how to enhance the capacity of workers in the informal economy to organize, rather than to seek to “equalize” by restricting freedom of association or the right to organize and to collective bargaining in the formal economy.
- 70.** Where trade unions represent a minority of workers and pursue defensive strategies to protect the interests of these workers, with indirect effects on equity and employment, policy conclusions should not automatically be to assume the negative impact of trade unions on equity:

The implied policy response is therefore to promote pro-equity developments in the institutional environment in which trade unions and employers operate rather than to take the fatalistic view that trade unionism is automatically harmful for equity.⁵⁴

Involving other representative groups in tripartite social dialogue could encourage trade unions to take broader social and economic interests into account and be more encompassing of the interests of low-income and disadvantaged groups.

- 71.** Stronger coordination of social and economic interests through the participation of a broad range of representative organizations, including unions and employers’ organizations, is increasingly seen as critical to comprehensive development strategies aimed at poverty reduction. Stronger emphasis on the institutional frameworks for poverty reduction (including the institutions that are built upon the realization of these fundamental principles and rights at work) would also create opportunities to examine how the wage

⁵² The empirical evidence that supports this relationship has been particularly strong. See OECD, 1997, and Freeman, R., 1998, and Aidt, T., Schlemmer-Schulte, S. and Tzannatos, S., 2000, for a review of evidence. See also World Bank, 1995a.

⁵³ Betcherman, G. and Islam, R. 2000.

⁵⁴ Lee, E. 1998.

strategies of unions relate to the development of aggregate demand, rather than a narrow emphasis on wages as costs. One of the key drivers of sustainable growth and thus of poverty reduction in developing countries remains the level of demand in domestic markets.⁵⁵

2. Industrial relations systems and national economic performance

- 72.** The major contention concerning the realization of these fundamental principles and rights at work and their exercise in practice is that the labour market institutions and regulations that are associated with their realization create rigidities in labour markets and obstacles to the flexible adjustment of enterprises.
- 73.** The view that employment performance depends mainly on (flexible) labour market institutions remains pervasive in policy circles and in the media, despite numerous empirical studies that contradict this view.⁵⁶ Other factors such as macroeconomic policy, the degree of regulation of product markets, the effectiveness of skill development and active labour market policies have been shown to be greater determinants of employment than the “rigidities” that have been associated with these labour market institutions.⁵⁷
- 74.** Rather than create rigidities, the labour institutions that are built upon the realization of these fundamental principles and rights at work can be key to negotiating flexibility,⁵⁸ while at the same time ensuring job stability in the longer term. Four countries that have recently been showing significant improvements in employment performance – Austria, Denmark, Ireland and the Netherlands – are precisely those that have relied on the institutions often blamed for causing excessive rigidities. It was not deregulation, but efforts by the social partners to arrive at new regulations, policies and institutions – and an effective combination of these – that were responsible for the revival in employment. The labour market success of the four countries is attributed to three factors: social dialogue, macroeconomic policy and labour market policy. Labour market policies developed through social dialogue in fact facilitated the flexibility necessary for successful labour market adjustment.⁵⁹
- 75.** Part of the discussion on the macroeconomic effects of the exercise in practice of the right to freedom of association and the right to organize and bargain collectively has concerned wage-setting institutions. There has been controversy in both industrialized and developing countries on the question of whether decentralized collective bargaining systems are

⁵⁵ See Van der Hoeven, R. and Taylor, L., 2000, for a critique of stabilization programmes for their short-term supply-side interpretation of labour markets and focus on short-term allocative functions of the labour market rather than consideration of the role of trade unions in increasing dynamic efficiency.

⁵⁶ Lee, E. 1998. See Nickel, S., 1997 and Solow, R., 1997. The OECD *Employment Outlook*, 1999 examined the relationship between the strictness of employment protection legislation (including for collective dismissals) and labour market performance, and found that the strictness of legislation has no effect on overall employment. Rather, it may affect the demographic composition of employment.

⁵⁷ See Rama, M., 1997, Layard, R. and Nickell, S., 1998, and Krueger, A. and Pischke, P., 1997.

⁵⁸ ILO, 1999d.

⁵⁹ Auer, P. 2000.

associated with superior economic outcomes. A review of the by now extensive studies of the question of whether any particular level of bargaining is generally superior leads to the conclusion that no particular level of collective bargaining can be associated with superior economic outcomes for *all* countries.⁶⁰ The issue of policy analysis and design in respect of industrial relations systems and their relationship to economic performance and development is more nuanced, as evidenced by a review of findings over the last three decades.

- 76.** In the early 1980s, analysts argued that corporatist labour-management relations – that is, a centralized system of collective bargaining – produced a better inflation-unemployment trade-off.⁶¹ In the late 1980s, analysts argued that either centralized or decentralized bargaining was superior to industry-level bargaining.⁶² The OECD *Employment Outlook* of 1997, which examined a wider set of variables (the coverage of collective bargaining, level of bargaining and degree of coordination) than had previously been considered, found no support for the hypothesis that centralized or decentralized bargaining produced better outcomes than industry-level bargaining. In fact, the study found no significant statistical relations between measures of economic performance and indices of bargaining systems.
- 77.** How can these variations be explained? One of the possible explanations is that while there are links between institutions and outcomes over a particular time period, the increasing international integration of economies and the consequential evolution of labour institutions have changed the nature of these relationships. There have certainly been significant changes in the global economy and in labour organizations and collective bargaining institutions. While a relationship between certain bargaining structures and performance may have existed in the 1970s and 1980s, the intensification of competition in a global economy has transformed this relationship, and it now requires the consideration of other variables (such as the degree of openness). This is evidenced by the OECD’s 1997 finding that, among the countries with “intermediate” labour institutions (previously thought to produce the worst economic outcomes), countries with higher levels of imports as a percentage of GDP showed better economic performance than countries with lower import penetration.
- 78.** It is possible that the optimal level of bargaining within an economy may vary with the economic cycle. At a certain stage in the cycle, enterprise-level bargaining may facilitate better adaptability to new challenges. On the other hand concerns over macroeconomic stability may point to the need for greater degrees of coordination. The issue is not an “either/or” debate, but rather how to arrange a system that meets the varying demands that arise through time.
- 79.** A second possible explanation is that the fault lies with the analytical tools used in categorizing collective bargaining systems, thus explaining the fragility of the empirical relationships observed (between bargaining systems and economic performance). As mentioned previously, determining how to measure the institutions that are built upon the right to freedom of association and the right to organize and bargain collectively is a

⁶⁰ See Freeman, R., 1998, and Flanagan, R., 1999, and Aidt, T., Schlemmer-Schulte, S. and Tzannatos, S., 2000, for a review of the literature.

⁶¹ Bruno, M. and Sachs, J., 1985, and Metcalf, D., 1987.

⁶² Calmfors, L. and Driffil, J. 1988.

complex matter.⁶³ The exercise of categorizing a particular country's collective bargaining system is thus not a straightforward one, and studies rank countries differently. Some studies restrict measures of bargaining structure to the level or centralization of collective bargaining, while others include both formal and informal indicators such as employer centralization, union centralization and density and informal coordination between employers or trade unions.⁶⁴ The only empirical relationship that has been robust over the years is that centralized bargaining is associated with less wage dispersion.⁶⁵

- 80.** In the final analysis, a key issue for the relationship between bargaining systems and economic performance is the institutional capacity to organize or *coordinate bargaining* in such a way that the macroeconomic implications are taken into account. While the centralization of wage bargaining may fulfil this objective, other forms of coordination can play an important role in influencing outcomes, whether collective bargaining is decentralized or takes place at an industry or national level. These may be formal, such as when employers' organizations or trade unions coordinate bargaining strategies, or informal, such as when dominant employers and unions act as industry leaders spurring pattern bargaining. National tripartite and bipartite social dialogue can also play an important coordinating role and shape the goals of employers and trade unions, thus inducing growth-enhancing activity or wage moderation for the purposes of macroeconomic stabilization.
- 81.** Rather than restrict analysis to the level of bargaining, there is thus a need to consider a basket of indicators when assessing the degree of bargaining coordination within an economy. This should include both formal and informal forms of coordination. For example, Japan is a country where decentralized bargaining at the enterprise level continues to be the cornerstone of industrial relations. However the *shunto*, which organizes annual wage bargaining, is an important institution of bargaining coordination. Although it only affects 25 per cent of employees, it serves as a benchmark for wage increases in small and medium-sized enterprises and a signal for the setting of the new minimum wage.⁶⁶
- 82.** These institutions of coordination (formal or informal) appear to be significant for employment, inflation and equality. Studies that find greater union density and coverage to be associated with lower employment also find that this effect is entirely offset by bargaining coordination.⁶⁷ Tentative evidence from the ILO's measure of coordination (Appendix II.B), subject to the empirical caveats mentioned, shows that countries with higher degrees of coordination tend to have lower inflation rates and better measures of income distribution (figures 3 and 4). Further research should be conducted into the

⁶³ For example, trade union density rates can be an unreliable guide to institutional wage pressure and trade union influence in certain countries.

⁶⁴ For example, the Calmfors, L. and Driffil, J. (1988) "hump-shaped" hypothesis is based on a theory of coordination, but the empirical measure used – the degree of centralization of bargaining institutions – relates only to the actual location of bargaining. Other authors have argued that this ignores the fact that decentralized systems may in fact be highly coordinated, Japan being a good example. See Kucera, D., 2001, and Soskice, D., 1990, for critique.

⁶⁵ See Flanagan, R., 1999, and Aidt, T., Schlemmer-Schulte, S. and Tzannatos, S., 2000, for a review of the literature.

⁶⁶ ILO, 1997.

⁶⁷ See Nickel, S., 1997, and Nickel, S. and Nunziata, L., 2000.

broader implications of these results for decent work and employment, including changing patterns of pay differentials within enterprises.

- 83.** The above discussion highlights the importance of understanding the interaction between certain combinations of labour institutions and broader economic factors when explaining different outcomes. One simply cannot convincingly attribute a central role to any one system of labour market institutions when explaining differences in economic performance. Countries with very different labour market institutions have displayed similar degrees of success in terms of GDP growth and trade performance (see Appendix III, table 2). Nor is it possible to formulate a single, ideal model of industrial relations that is more conducive to economic growth than any other. Institutional frameworks in different countries are in fact diverging rather than converging on an ideal.⁶⁸ This suggests that distinct systems cope with one and the same economic problem in rather different ways, and that there is no deterministic relationship between the institutional system and economic development.
- 84.** Accepting the inherent diversity of institutions, it may however be possible to determine a set of factors common to more “successful systems”. For example, some mechanism of coordination, whether formal or informal, appears to be an important component of the systems that work best. Similarly, other institutions and processes may be needed for the collective bargaining process. Agreed mechanisms for dispute resolution and recourse to facilities for mediation and arbitration can be critical in ensuring that the exercise of these fundamental principles and rights at work is consistent with broader economic and social goals. Tripartite and bipartite social dialogue and policies that encourage greater product market competition can be important ways of influencing the goals pursued by the social partners.
- 85.** In order to contribute to further analysis and policy formulation, the ILO should, on a systematic basis, develop appropriate statistical indicators of the labour market institutions that are built on the realization of these fundamental principles and rights at work, such as measures of trade union density, information on employers’ organizations, data on institutions of coordination, the coverage of collective bargaining and the extent and character of national tripartite social dialogue in member countries.
- 86.** The need for a more considered evaluation of the relationship between industrial relations systems and economic development, and the importance of avoiding policy prescriptions that favour one system of industrial relations in all circumstances is an important conclusion that needs to be more widely appreciated by advisers on economic policy. Institutional change that works in one country may completely fail when applied to another because the configurations differ. Policy prescriptions that support one model or system irrespective of the local conditions can in fact be regressive, undermining the institutional underpinnings of growth and equitable, sustainable development.
- 87.** This is not to say that existing institutional frameworks should not be reviewed. Unions and employers may wish to change arrangements agreed in the past, including the level at which bargaining takes place, to adapt to changing circumstances and new competitive challenges. Where there are strong barriers to product market competition or where sectors are not exposed to competition (e.g. the public sector), collective bargaining is less likely to lead to a joint examination of how to generate productivity improvements than where product markets are contested. However, this is not a case for questioning the utility of these freedoms; rather, it suggests that attention should be paid to broadening the

⁶⁸ Freeman, R. 2000, Traxler, F., Kittel, B. and Lengauer, S. 1997, and Traxler, F. 1998.

incentives, more specifically by encouraging greater product market competition or shaping the goals of the actors through tripartite or bipartite social dialogue. Importantly, there is no justification for denying these fundamental principles and rights at work on the basis of the “economic inefficiencies” that they may or may not produce. Consideration of the impact of the labour market institutions that are built on the right to freedom of association and the right to organize and to bargain collectively is a subject for policy analysis and design – not a basis for questioning the economic rationale of these fundamental principles and rights at work.

- 88.** The ILO has been engaged in discussions over the last few years with the IMF, World Bank and OECD on these issues. As reported to the Working Party at its March 2000 meeting,⁶⁹ some progress has been made with acceptance of the view articulated in Conventions Nos. 87 and 98 that trade unions and employers should themselves determine what issues to bargain and the level of bargaining. This does not preclude economic analysts from drawing attention to the potential effects of agreements on economic performance. Negotiators need improved information so that they themselves are aware of the opportunities and risks of their negotiating strategies. Attention should also be paid to the need to adapt and develop labour market institutions (including tripartite and bipartite social dialogue) to ensure that the social partners are involved in the discussion of economic and social policy goals such as structural adjustment, employment strategies, poverty reduction and stability considerations and in turn are able to take them into account in their bargaining.

3. Three main findings

- 89.** Three main findings emerge from the review of the literature, which can guide policy and practice in the context of more integrated approaches to development:
- The respect and realization of the principles of freedom of association and the effective recognition of the right to collective bargaining and the institutions built thereon (representative organizations, collective bargaining and social dialogue) are not a barrier to economic performance. Rather, the interaction between certain institutional arrangements (in labour and product markets) and broader economic factors can influence economic outcomes. It is thus important to consider what modalities in this broader configuration of institutions make the exercise of these rights conducive to improved economic performance and development: for example, policies that encourage greater product market competition, mechanisms for dispute resolution, social dialogue and coordinating institutions.
 - No single, ideal model of industrial relations is more conducive to economic growth than any other. Industrial relations frameworks in different countries are in fact diverging rather than converging on an ideal. Respect for and the realization of these fundamental principles and rights at work is consistent with different systems of industrial relations.
 - Processes of bipartite and tripartite social dialogue and information exchange can promote pro-equity and pro-efficiency incentives in the institutional environment. Tripartite social dialogue can play an important role in support of broader macroeconomic coordination and the enlargement of consensus over economic and social strategies.

⁶⁹ GB.277/WP/SDL/2.

V. A voice at work and development

90. The relationship between the realization of the principles of freedom of association and the effective recognition of the right to collective bargaining and development in a globalizing world is many-faceted and complex. Although empirical and conceptual analysis of the issues is a growing field of study, there are still many gaps that need to be filled. One of the most important questions underlying this area of research is, of course, how to define development itself.
91. This paper draws on the conception of freedom as development advanced by Amartya Sen and used in the UNDP's *Human Development Report 2000*. This view includes as goals both civil and political freedoms, of which freedom of association and the rights to organize and bargain collectively are part, and social and economic freedoms provided by improved health, education, nutrition and economic opportunity. It is a conception of development that accords well with the goal of decent work for all, which similarly includes issues of process or enablement, such as labour standards and social dialogue, substantive goals such as more and better jobs and enhanced social security, and questions of equity such as poverty reduction and gender equality.⁷⁰
92. Taking this approach provides a solid foundation for discussing how the realization of these freedoms can, through closer attention to the institutional arrangements needed to give them expression and meaning, relate to the enlargement of equally important social and economic rights. Although there are deep roots for such an approach in the ILO's history, much of the recent development debate has seen the realization of these fundamental principles and rights at work as either a separate and political matter or as a factor inhibiting investment and/or the liberalization of markets. In this discussion, a narrower and more materialistic view of development has usually been taken, based on outcomes such as the growth of GDP per capita or the expansion of exports or inward investment. The broader view does not neglect such measures, which are indicators of the availability of resources to fulfil important human needs, but views them alongside other factors affecting the capability of individuals and communities to pursue goals that they value.
93. The international development community is increasingly accepting that while growth is important, sustainable development necessarily encompasses many other factors. The Asian financial crises had shown that high levels of GDP growth had done little to alleviate the vulnerability of certain individuals and groups. There is growing recognition of the need to consider institutional factors in order to ensure that growth translates into poverty reduction.⁷¹ Indeed, without adequate institutions, the potential benefits of globalization will either not emerge or be too concentrated, thus exacerbating rather than easing inequality and social tensions. A recent World Bank (1998) publication from the Latin American and Caribbean region entitled: "Beyond the Washington consensus: Institutions matter" noted that –

⁷⁰ ILO, 1999e. Address by Amartya Sen to the 87th Session (1999) of the International Labour Conference (<http://www.ilo.org/public/english/standards/relm/ilc/ilc87/a-sen.htm>).

⁷¹ For example see Clague, C., 1997, *World Development Report 2000/2001* and *World Economic Outlook, 2000/1*.

... globalization has increased the demand for institutions that can help reduce income inequality and provide social safety nets for people who are rendered more vulnerable in the new competitive environment.⁷²

Among the “institutions that matter” are the institutions of voice. Only when labour and other affected social groups have a voice is development more likely to be democratic, equitable and sustainable.⁷³

- 94.** Reviewing the evolution of structural adjustment lending between 1995 and 2000 for the Special Session of the General Assembly of the United Nations: World Summit for Social Development and Beyond – Achieving Social Development for All in a Globalizing World (Geneva, 26-30 June 2000), five years after the Copenhagen Summit, the World Bank highlights the fact that –

... the focus of adjustment lending has gradually shifted from addressing economic distortions in trade, exchange rates and agricultural policy to increasing support for institutional reforms in the financial sector, public sector management, and social sectors.⁷⁴

- 95.** World Bank President James Wolfensohn also proposed in January 1999 the *Comprehensive Development Framework*, currently being piloted in 12 countries, which aims to bring together current trends in development thinking that balance good macroeconomic and financial management with sound social, structural and human policies. The CDF emphasizes the leading role of the country in preparing strategies and the importance of a participatory national consultation process.⁷⁵ In addition, in October 1999 the Bank, together with the IMF, launched the *Poverty Reduction Strategy Papers* which, based on CDF principles, aim to integrate poverty-reducing policies into a coherent, growth-oriented macroeconomic framework.

- 96.** A further indication of the shift in development thinking towards a multidimensional perspective of poverty and the importance of the institutions that offer the poor increased opportunity, empowerment and security is provided by the *World Development Report 2000/2001: Attacking Poverty*. This report draws heavily on a major survey entitled *Voices of the Poor* which collected views on the experience of poverty in 81 communities in 50 countries:⁷⁶

The strategy in this report recognizes that poverty is more than inadequate income or human development – it is also vulnerability and a lack of voice, power, and representation. With this multidimensional view of poverty comes greater complexity in poverty reduction strategies, because more factors – such as social and cultural forces – need to be taken into account. The way to deal

⁷² World Bank, 1998, p. 2.

⁷³ *World Development Report 2000/2001: Attacking Poverty* and UNDP: *Poverty Report, 2000*.

⁷⁴ World Bank, June 2000.

⁷⁵ World Bank, 2000a.

⁷⁶ World Bank, 2000b.

with this complexity is through empowerment and participation – local, national, and international.⁷⁷

On the specific issue of the voices of workers, the World Bank is developing an internal policy paper on the issue of freedom of association and collective bargaining, reviewing the relevant literature and intending to draw policy conclusions.⁷⁸

- 97.** In the world of work, respect for and realization of the principles of freedom of association and effective recognition of the right to collective bargaining are the necessary conditions for the development of these institutions of voice in the labour market – in both the formal and the informal economy. From a development perspective, these institutions are one of the key foundations of decent work and an important part of more integrated approaches to development. They can facilitate better distributional and economic outcomes, but also more democratic and socially sustainable patterns of development. The institutions that are built upon the realization of these fundamental principles and rights at work (representative organizations, collective bargaining and various forms of social dialogue) are an inherent part of more participatory, high-road development strategies.⁷⁹

A. The high road to adjustment in open economies

- 98.** The literature on the value of participation and “voice” has examined benefits related to the ability to secure trust and commitment in employment relations and thus improve productivity and efficiency.⁸⁰ Indeed, there is a large body of evidence to show that participation at the workplace enhances firm performance and that firms with higher degrees of worker participation outperform other firms.⁸¹ A high road to performance and development concentrates on quality and innovation rather than on labour costs. Since this high road to performance presupposes more motivation and commitment from workers than one based on labour cost competitiveness, such a quality-centred interpretation of performance requires an organized and coordinated system of voice representation.

- 99.** Realizing higher rates of growth through outward-oriented growth strategies, involving the liberalization of trade and foreign direct investment, implies significant levels of adjustment. In high-road development strategies, this adjustment is facilitated and outcomes improved through the involvement of those affected by the decisions taken:

The economic benefits of workplace democracy are ... more pervasive than just the acceptance of change: there is growing literature arguing that participation in decision-making increases efficiency ... By becoming advocates for stronger workers’ rights and representation at every level – from the workplace to the local, regional and national level – I believe that we can

⁷⁷ *World Development Report 2000/2001: Attacking Poverty*, p. 12.

⁷⁸ Aidt, T., Schlemmer-Schulte, S. and Tzannatos, S. 2000.

⁷⁹ See for example Rodgers, G., Fóti, K. and Lauridsen, L., 1996. The International Institute for Labour Studies has contributed to understanding of the role that such labour institutions play in development. See Thomas, H., 1999, and Doner, R. and Schneider, B., 2000.

⁸⁰ In particular the classic works of Hirshman, A., 1970, and Freeman, R. and Medoff, J., 1984.

⁸¹ See Blinder, A., 1990, Kruse, D., and Blasé, J., 1995, Levine, D., 1995, Tyson, L. and Levine, D., 1990, survey 43 empirical studies, and find that the effect of worker participation on productivity is usually positive but almost never negative.

achieve much more than improvements in efficiency. Labour unions and other genuine forms of popular self-organization are key to democratic development.⁸²

- 100.** How decisions are made affects not only levels of trust and the degree of commitment to a particular decision, but also the effectiveness of these decisions. Information generated through processes of dialogue reduces what economists call “asymmetries in information” and thus make decisions more efficient.⁸³ In high trust/high involvement workplaces and economies, genuine participation in decision-making improves the quality of decisions, increases commitment to these decisions and smoothes the way for their implementation. If decisions are made through a process in which certain important voices are not heard, it is most likely that these concerns will not be taken into account, with potentially costly results. The economic value of more participatory approaches and tripartite or bipartite social dialogue is as significant for firms facing tougher market conditions as it is for governments attempting to implement economic reforms or cope with an economic crisis. Voices not heeded at the workplace or in national participatory processes will tend to express themselves in other, often more confrontational, ways.
- 101.** As argued in *Your voice at work*, having a voice at work also accords workers representational security, considered an important factor in influencing worker attitudes to change.⁸⁴ Knowing that you will be able to voice concerns and work out solutions during a process of not entirely predictable adjustment is an important reassurance to those who fear that they may lose out in the turmoil of changing technologies and shifting markets.

1. Voice and adjustment at the firm and industry level

- 102.** At a microeconomic level, greater integration into the global economy means that the financial parameters within which firms are planning are exposed to a greater degree of external uncertainty. Firms need to be equipped with the capacity to rapidly adjust in response to external changes and yet maintain a stable trajectory so as not to unduly disturb investor sentiments. The institutions of voice in the workplace provide important channels through which prevailing agreements can be realigned, thus reducing possible economic and social costs.
- 103.** Lee (1999) has noted that the weakness of industrial relations institutions proved a liability during the Asian financial crises:

... many fundamentally sound enterprises faced crisis-induced problems of illiquidity and some of them could have bought valuable breathing space to ride it out, by negotiating with unions for the adoption of alternatives to liquidation and lay-offs (such as the recourse to reduced working time, work-sharing, and negotiated wage cuts) ... It was only in the Republic of Korea, where unions are stronger and industrial relations institutions more developed, that this option was more fully utilized.⁸⁵

⁸² Stiglitz, J., *Democratic Development as the Fruits of Labour*, keynote address to the Industrial Relations Research Association, Boston, Jan. 2000.

⁸³ See Stiglitz, J., 2000, and Campbell, D., 1999, on the role of information in the quality of decisions.

⁸⁴ ILO, 2000a.

⁸⁵ Lee, E. 1999, p. 60.

- 104.** Collective bargaining and social dialogue have also played an important role in attempts to contain or mitigate social costs at the industrial level. The shipbuilding crisis in Germany and Sweden⁸⁶ and the gold mining crisis in South Africa provide good examples of the role that trade unions, employers' associations and processes of social dialogue have played in industry restructuring. Both these examples involved tripartite social dialogue on how to handle the contraction process, with broad ranging agreements to a social plan that included the retraining of and compensation for displaced workers.
- 105.** Apart from reducing the possible economic and social costs of adjustment, dialogue and collective bargaining at the level of the firm or industry also significantly improves the quality of information available and the effectiveness of decisions – with important benefits from the perspective of development. For example, the involvement of trade unions in training decisions has been associated with relatively superior training activities and outcomes at the workplace.⁸⁷ While in neoclassical theory unions are thought to reduce the likelihood of training by negotiating higher wages, thus reducing the ability of firms to finance firm-specific training, a growing body of evidence shows that collective representation in the workplace is closely associated with investment in human capital at the firm, industry and national levels.⁸⁸
- 106.** A World Bank study of 1995 on enterprise training in developing countries considered possible factors that may shape employer incentives to train, and found unionization to have a positive effect on training in the countries studied (Malaysia, Colombia, Mexico and China). It is possible that the elimination of information asymmetries through processes of collective bargaining and participation at the workplace, by making available better information about the human resource requirements, may in fact be inducing investment in human capital by firms. This is significant for decent work and development, since investment in human capital is considered to be one of the important determinants of development according to new growth theory.⁸⁹
- 107.** An examination of the role business associations play in providing incentives to improve human capital shows that the organization of interests not only influences the quality of decisions by making better information available, but that optimal solutions are in fact often best achieved through collective action. Individual employers may be hesitant to train because of the risk that others will benefit from their investment by poaching trained workers (the classic free-riding dilemma). By organizing into associations, industry-wide training programmes can be initiated, thus upgrading the skills of the workforce across firms. In Brazil's Sinos Valley for instance, local producers and suppliers organized into an industry-wide association to establish training institutions, thus enhancing the local industry's ability to respond to export opportunities.⁹⁰

⁸⁶ Hesler, H. and Strath, B., 1994.

⁸⁷ Heyes, J. and Stuart, M., 1998.

⁸⁸ Wever, K., Berg, P. and Kochan, T. 1994; ILO, 2000; ILO, *World Employment Report 1998-99*; Heidemann W., Ehrenberg E., Felger S. and Kruse W., 1996.

⁸⁹ World Bank, 1995b.

⁹⁰ Doner, R. and Schneider, B., 2000.

2. *Social dialogue and adjustment at the national level*

- 108.** Institutions of voice are also important for enhancing the quality of decisions, building trust and securing commitment at other levels. At a macroeconomic level, the institutions that are built upon the realization of these fundamental principles and rights at work also provide countries with the capacity to address possible trade-offs between social and economic policy and thus help the countries to better integrate policy objectives. For example, where there is a real trade-off between inflation and the level of unemployment, this can be reduced by greater degrees of coordination in wage bargaining, measures to raise productivity (including participation in the workplace) and income accords – all achieved through bipartite and tripartite social dialogue. Information available for Europe provides examples of these (bipartite and tripartite) social pacts and national agreements (See Appendix III, table 3).
- 109.** Tripartite social dialogue can play an important role in building trust and consensus around policy reform.⁹¹ This is important for resolving conflicts of interest and bringing about the bargains required for effective macroeconomic adjustment. Policy changes implemented to restore macroeconomic balance, such as devaluation or an increase in interest rates, can have important distributional implications. Appropriate adjustments need to be undertaken in a manner that prevents any conflict that may arise over these distributional implications from destabilizing or delaying attempts to restore macroeconomic balance.
- 110.** Rodrik (1999) has shown that countries that have benefited most from integration into the world economy have been those that had complementary institutions in place, able to bring about the bargains required to restore macroeconomic stability:

The ability to maintain macroeconomic stability in the face of turbulent external conditions is the single most important factor accounting for the diversity in post-1975 economic performance in the developing world. The countries that were unable to adjust their macroeconomic policies to the shocks of the late 1970s and 1980s ended up experiencing a dramatic collapse in productivity growth. The countries that fell apart did so because their social and political institutions were inadequate to bring about the bargains required for macroeconomic adjustment – they were societies with weak institutions of conflict management. In the absence of institutions that mediate conflict among social groups, the policy adjustments needed to re-establish macroeconomic balance are delayed, as labour, business and other social groups block the implementation of fiscal and exchange rate policies ... [To overcome policy paralysis and social divides], evidence shows that participatory political institutions, civil and political liberties, high-quality bureaucracies, the rule of law, and mechanisms of social insurance ... can bridge these cleavages.⁹²

- 111.** These findings are supported by the experience of countries during the Asian financial crisis. Those countries that tended to fare better in making the necessary policy adjustments were those that, among other things, engaged in consultative processes with the social partners, thereby facilitating the necessary policy adjustments and providing channels through which conflict can be managed.⁹³ For example, in the Republic of

⁹¹ Studies show that levels of trust strengthen the social cohesion underlying democratic governance, the honesty and efficiency of public administration and the quality of economic policies. Knack, S. 2000.

⁹² Rodrik, D. 1999.

⁹³ Rodrik, D. 1999; and World Bank, May 2000.

Korea, tripartite social dialogue undertaken in response to the crises provided a space in which bargains could be made.⁹⁴

- 112.** An important determinant of the success or failure of this dialogue and its capacity to facilitate adjustment and deliver better social and economic outcomes has been the relative strength (or weakness and fragmentation) of trade unions and employers' organizations. Many countries in the Asian region grappling with the social and economic fall-out from the financial crisis are considering ways to strengthen tripartite social dialogue at the national level (see Appendix III, table 4). An important element of this new thinking will be the need to strengthen the capacity and representativity of trade union and employers' organizations.⁹⁵
- 113.** Social dialogue is an important institution and process through which adjustment can be facilitated, but it is organizations representing the collective voice of workers and employers that breathe meaning into these processes of dialogue. The quality of dialogue and its value in facilitating adjustment are likely to be significantly reduced where organizations are weak and under-representative or where other associations representing certain sectors of the economy (for example the informal sector) are prevented from emerging and participating in processes of social dialogue.
- 114.** This implies that it is not enough to see these institutions as one of the outcomes of development and the luxury of more industrialized countries. Rather, they are an inherent part of the process of development and particularly important where countries specifically need institutional capacity for successful policy reform and adjustment. Van der Hoeven and Van der Geest (2000) attribute the patchy implementation of structural reform policies in sub-Saharan Africa to "missing institutions" in many of these countries, including the paucity of organizations able to represent collective interests in bipartite and tripartite frameworks for consultation. Rather than undermine the continuing presence of such institutions and questioning their legitimacy – as previous approaches to development have tended to do – development strategies should aim to strengthen the institutions of voice in the labour market (through appropriate policy and institutional frameworks).
- 115.** It is important for the ILO, in partnership with other organizations, to develop a better understanding of the ways in which the institutions of voice are contributing to high-road development strategies. For example, are there certain key instrumental variables in development that repeatedly form the subject of negotiations and dialogue (such as training, inflation targeting or trade reform)? What is it that is actually being negotiated, and what are the outcomes? Furthermore, what are the institutional and policy frameworks that can harness the benefits of a participatory approach in the context of a global economy?

B. Promoting socially sustainable development

- 116.** While globalization holds the opportunity for increasing incomes, employment and decent work for all, this will only produce socially sustainable development when potential benefits are distributed widely and where costs are not disproportionately borne by those who can least afford hardship. This implies that in order to make openness socially

⁹⁴ Campbell, D. 1999.

⁹⁵ Campbell, D. 2000; and Betcherman, G. and Islam, R., 2000.

sustainable, attention needs to be given to the mechanisms through which these benefits are distributed, and the potential costs for the weaker segments of society are contained.

- 117.** Respect for and the realization of the principles of freedom of association and the effective recognition of the right to collective bargaining are key elements to ensure that the benefits resulting from globalization are distributed more equitably. These freedoms are the foundational conditions according to which market-determined distributional outcomes can be altered through processes of dialogue and bargaining, while at the same time maintaining competitiveness. Measures of income distribution for different countries show that, in respect of the labour market institutions that are supported by organizational rights, higher degrees of trade union density, collective bargaining coverage and coordination measures tend to be associated with more equitable income distribution and less inequality (see figures 4, 5 and 6).⁹⁶
- 118.** More equitable and sustained patterns of development also require that the voices of those not involved in the global economy (but likely to be affected by it) be heard and accommodated in policies seeking to offer better opportunities for economic and social development in all sectors of the economy. In the informal economy, realization of the freedom to associate in the broader sense often provides access to economic opportunities. The growing literature on social capital, for instance, has highlighted the role that mutual help networks and social relations can play in development by increasing access to economic opportunities and material resources.⁹⁷ These networks and associations have also been an important part of broader social changes and social progress. For example, the Self-Employed Women's Association (SEWA) played an important role in not only creating access to economic opportunities and employment for women in one part of India, but also empowering women and bringing about more equal social relations. Microfinance initiatives such as the Grameen Bank in Bangladesh show that social networking and association can be important components of schemes that facilitate access to financial resources and thus to income-generating opportunities. These initiatives in turn encourage the more widespread ownership of enterprises.
- 119.** The realization of these fundamental principles and rights at work among informal sector operators and those working in the informal economy enhances the accountability and effectiveness of local governments, thus paving the way for the more equitable and efficient allocation and use of resources, and ultimately more equitable patterns of development.⁹⁸ The importance of the institutions that represent workers in this sector is beginning to be reflected in the content and orientation of public policies directed at informal economic operators. For example, in Durban, South Africa, a draft policy document on "an effective and inclusive policy for the informal economy" contains a section focusing on building the capacity of organizations of informal workers which states:

The success of area-based management and support for economic development will hinge on the orderly growth of organizations of workers in the informal economy. The interests of informal operators will be best served when there are strong and stable partners to negotiate with. The organizational

⁹⁶ This distributional aspect of these institutions is the one most strongly supported by the literature. See for example Freeman, R., 1998, Flanagan, R., 1999, and Aidt, T., Schlemmer-Schulte, S. and Tzannatos, S., 2000, for a review of studies. See also table 5 for a summary of rank correlations.

⁹⁷ World Bank, 2000c, *World Bank Development Report, 2000*, and Dhesi, S., 2000.

⁹⁸ UNDP. *Poverty Report, 2000*.

capacity of many organizations and associations thus needs to be built. Local government should play a proactive and innovative role in strengthening informal workers' organizations, which are properly constituted, representative, and transparent. This will enable more self-regulation amongst informal workers.⁹⁹

- 120.** Respect for these fundamental principles and rights at work creates a climate in which previously invisible yet significant sectors can become part of broader development processes. It is no coincidence that those societies where organizations are emerging that represent the previously invisible informal economy, or where trade unions are making advances in organizing those workers, are also those societies that respect broader democratic rights.
- 121.** These fundamental principles and freedoms are the foundations for the development of the institutions that can deepen democracy at any level, whether economic democracy in the workplace, local democracy at the community level or democracy at the national level. In this way the institutions and organizations that these rights enable “expand human freedoms”. Along with other factors, they can determine the degree of democratic accountability and transparency in policy formulation, both of which are critical for ensuring that policies are efficient, in the general interest, and receive the necessary support in implementation. By providing frameworks that ensure universal respect for these rights in all sectors of the economy, previously unheard voices can become part of development processes, thus ensuring more equitable patterns of development, deepening democratic participation and contributing to more socially sustainable patterns of development.

VI. Follow-up and ILO action: Issues for discussion

- 122.** The present paper is intended to provide the basis for a discussion in the Working Party on the connections between freedom of association and the effective recognition of the right to collective bargaining and development in the context of a global economy. It has argued that a broader and more integrated framework for economic and social development should include a closer appreciation of the role that employers' and workers' organizations, collective bargaining and social dialogue play in adding a decent work dimension to sustainable development strategies.
- 123.** The main policy questions brought out in Parts II-V of the paper can be grouped around four related issues, as follows:
- the challenges and opportunities that global economic integration present for the ways in which these fundamental principles and rights at work have traditionally been realized, and the implications these hold for ensuring decent work for all;
 - the role played by the labour market institutions that are built upon the realization of these fundamental principles and rights at work in creating some of the conditions for outward-oriented development policies;

⁹⁹ “Inclusive policy for the informal economy for Durban’s North and South Central Local Councils” – Draft policy document for submission to the Development and Planning Committee, 25 July 2000.

- the diversity of industrial relations systems, and the scope for designing a policy framework for industrial relations that can contribute to improved economic performance;
- the role of representation, bargaining and dialogue in broadening and deepening participation in the setting of development goals and means of action, and the contribution of these institutions of voice to more integrated and socially sustainable patterns of development.

124. Building on the discussion of this paper will require both action by the Office to improve policy analysis, and also further discussion by the Working Party of the components of a framework for the integration of economic and social policies for sustainable development in a globalizing world. Some suggestions for action in the year ahead are proposed in paragraphs 125-127 below.

125. In the light of its discussion, the Working Party may wish to consider the possibilities for strengthening the Office's current programme of work in the following areas:

- (a) Further analysis is required to develop *a better understanding of the challenges and opportunities globalization* holds for the realization of these fundamental principles and rights at work, as well as the strategies that the ILO's constituents are developing to meet these challenges (see paragraphs 15-39 above). Further conceptual and comparative work is needed on the interrelationships between trade and investment patterns and the labour market institutions that are built upon the right to freedom of association and the right to organize and bargain collectively (see paragraphs 46 and 50). In this connection, the need to enlarge the statistical information essential for further analysis and policy formulation warrants attention by the ILO (see paragraph 85).
- (b) It is important to examine further the different ways in which countries draw on *the institutions of voice at work* to harness the benefits of more participatory and integrated approaches to development (see Part V). Case studies of best practice could be used to assist governments and the social partners to operationalize the decent work agenda in their national strategies for sustainable development and poverty reduction programmes. Given that most workers in developing countries are likely to be working in informal economic activity, further knowledge is required of the various forms of organization and dialogue in the informal economy and the links between these institutions, the development of social capital and development (see paragraphs 68-69 and 118-120). The question of the design of labour relations systems in the public sector and the role these play in enhancing economic and social development also merits further analysis (see paragraph 66). This paper underlines the importance of continuing efforts by the ILO to assist governments and the social partners to develop and strengthen the institutions of voice in the labour market.

126. In respect of its future programme of work, the Working Party may wish to discuss how the ILO can engage in an exchange of views with its partner organizations in the international community on a more coordinated system-wide effort to promote the realization of these fundamental principles and rights at work, as part of a drive to reduce poverty and accelerate economic growth and social development. In keeping with the promotional nature of this endeavour, it is suggested that contacts be made with relevant international organizations, and a report setting out possible areas of cooperation be prepared for the next meeting of the Working Party (see paragraphs 5-14 and 90-97).

127. The Working Party may wish to reflect on how the evidence and reasoning presented in this paper could be used to underpin the promotion of fundamental principles and rights at

work. The review of the available evidence and studies suggests that the realization of fundamental principles and rights at work is conducive to human development in a globalizing world, but that governments, employers and unions need to focus more attention on the institutional framework in which these rights are exercised and their relationship to the wider policy framework needed to ensure the efficient and equitable functioning of markets. This overall conclusion is consistent with the growing emphasis in development policy on the significance of institutions in generating ownership and participation in strategic decision taking and the implementation of programmes founded on consensus around priorities and means of action. Similarly, the ILO could further develop its knowledge of the ways in which private enterprises are making use of fundamental principles and rights at work to improve performance and add value to their business through, for example, initiatives based on the UN Secretary-General's *Global Compact*.

- 128.** In conclusion, as can be judged from the above topics for discussion, the analysis of the role that these fundamental principles and rights at work play in development touches on the work of several of the Governing Body committees and most areas of the work of the Office. The results of the Working Party's discussions will need to be taken into account in the preparation and implementation of the Programme and Budget for 2002-03. The Working Party's conclusions will also serve to guide the Organization's interaction with other international agencies and could form a basis for further enlargement of the scope for more integrated strategies for development.
- 129.** The paper is an assessment of our current knowledge on a vast and complex subject. Pursuing the goal of decent work for all will require a deepening of the ILO's understanding of how respect for and the realization of the principles of freedom of association and the effective recognition of the right to collective bargaining can create an enabling environment for human development. While many other international bodies are interested in this issue, the ILO's structure and mandate give it a unique opportunity to become a focal point for dialogue and action on how people can organize themselves to achieve the goals they value and thus shape the future course of globalization.

Geneva, 16 October 2000.

Appendix I

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Appendix II

Statistics

A. Trade union density

	Year	%	Year	%	Change
Africa					
Botswana			1995	11.5	
Cameroon			1995	14.7	
Cape Verde			1995	16.9	
Côte d'Ivoire			1995	13.0	
Egypt	1985	42.7	1995	38.8	-3.9
Eritrea			1995	7.2	
Ethiopia			1995	4.1	
Gabon			1995	2.0	
Ghana ^a	1990	25.9			
Guinea			1995	2.5	
Kenya ^a	1985	41.9	1995	16.9	-25.0
Mali			1995	13.7	
Mauritania			1995	2.7	
Mauritius ^a	1985	34.8	1995	25.9	-8.9
Morocco			1995	4.8	
Namibia			1995	22	
Nigeria ^a			1995	17.2	
Senegal			1995	21.9	
South Africa	1985	27.6	1995	54.1	26.5
Swaziland ^a			1995	22.4	
Tanzania, United Rep. of			1995	17.4	
Tunisia			1995	9.8	
Uganda ^a	1989	7.8	1995	3.9	-3.9
Zambia ^a	1985	18.8	1995	12.5	-6.3
Zimbabwe ^a	1985	11.6	1995	13.9	2.3
Americas					
Antigua and Barbuda			1995	53.8	
Argentina	1986	67.4	1995	38.7	-28.7
Bolivia ^a			1994	16.4	
Brazil			1995	43.5	
Canada	1985	37.1	1998	30.1	-7
Chile ^a	1985	11.6	1995	15.9	4.3
Colombia	1985	11.2	1995	7.0	-4.2
Costa Rica	1985	29.1	1995	16.6	-12.5
Dominican Republic	1985	18.9	1995	17.3	-1.6
Ecuador			1995	9.8	
El Salvador	1985	8.3	1995	10.7	2.4
Guatemala	1985	8.1	1995	4.4	-3.7
Guyana			1995	25.2	
Honduras ^a			1994	4.5	
Mexico	1985	59.6	1995	42.8	-16.8

	Year	%	Year	%	Change
Nicaragua ^a			1995	23.4	
Panama	1991	20.1			
Paraguay			1995	9.3	
Peru			1995	7.5	
United States	1985	18.0	1998	13.9	-4.1
Uruguay ^a	1990	19.9	1993	11.6	-8.3
Venezuela	1985	29.8	1995	17.1	-12.7
Asia and the Pacific					
Australia ^a	1986	45.6	1998	26	-19.6
Bangladesh	1985	15.3	1995	7.5	-7.8
Hong Kong, China	1985	16.8	1998	21.5	4.3
India	1985	26.5	1995	15.2	-11.3
Indonesia			1995	3.4	
Israel	1985	100.0	1995	23.0	-77.0
Japan	1985	28.4	1998	22.5	-5.9
Jordan	1985	27.6			
Korea, Republic of	1985	12.4	1995	12.7	0.4
Malaysia ^a			1995	13.4	
New Zealand	1985	43.5	1995	21.7	-21.8
Pakistan	1985	6.4	1995	5.5	-0.9
Philippines	1985	24.1	1995	30.2	6.1
Singapore	1985	19.4	1995	15.7	-3.7
Thailand	1985	4.3	1995	4.2	-0.1
Europe					
Austria	1985	51.6	1998	38.5	-13.1
Azerbaijan	1985	96.3	1995	63.8	-32.5
Belgium	1985	50.7	1995	53.8	3.1
Bulgaria	1985	62.3	1995	58.2	-4.1
Cyprus	1985	62.7	1995	53.7	-9.0
Czech Republic	1985	76.9	1995	42.8	-34.1
Denmark	1985	78.6	1998	75.7	-2.9
Estonia	1985	82.5	1995	36.1	-46.4
Finland ^b	1985	69.1	1998	79.0	9.9
France	1985	13.9	1998	10.0	-3.9
Germany	1991	35.9	1998	26.2	-9.7
Greece	1985	36.7	1995	24.3	-12.4
Hungary	1985	80.4	1995	60.0	-20.4
Iceland			1995	85.0	
Ireland	1985	56.3	1998	42.2	-14.1
Italy	1985	42.3	1998	38.0	-4.3
Luxembourg	1985	49.7	1995	43.4	-6.3
Malta	1985	47.9	1995	65.1	17.2
Netherlands	1985	28.0	1998	23.1	-4.9
Norway	1985	55.9	1998	55.4	-0.5
Poland	1985	58.8	1995	33.8	-25.0
Portugal			1995	25.0	
Romania	1985	50.7	1995	40.7	-10.0
Russian Federation			1995	74.8	
Slovakia	1985	76.9	1995	61.7	-15.2

	Year	%	Year	%	Change
Spain	1985	9.3	1997	16.3	7.0
Sweden	1985	81.5	1998	88.0	6.5
Switzerland ^b	1985	27.5	1998	22.4	-4.2
Turkey	1985	29.2	1995	33.6	4.4
United Kingdom	1985	45.4	1995	32.8	-12.6

Notes: ^a Trade union density as a percentage of the non-agricultural labour force. ^b Coverage in the private sector only.
For technical notes on data see "Industrial Relations Indicators", ILO, *World Labour Report 1997-98*, pp. 269-273.
Sources: ILO.

B. Features of collective bargaining

	Year	Collective bargaining coverage rates	Coordination of collective bargaining ¹
Africa			
Ghana	1995	25	1.5
Kenya	1995	35	1.5
Mauritius	1995	40	1
Nigeria	1995	40	1.5
South Africa	1995	49	2
Swaziland	1995	25	1
Uganda	1995	25	1
Zambia	1995	30	1
Zimbabwe	1995	25	1.5
Americas			
Argentina	1995	72.9	1.5
Bolivia	1995	11.1	0.5
Canada	1999	33.4	1
Chile	1995	12.7	1.5
El Salvador	1995	13.2	1
Guyana	1995	27	1
Honduras	1995	12.7	1
Nicaragua	1995	38.3	1
Panama	1995	16	1
United States	1999	15.3	1
Uruguay	1993	21.6	1.5
Asia and the Pacific			
Australia	1995	65	1.5
India	1995	<2	1
Japan	1995	21	2.5
Malaysia	1995	2.6	1
New Zealand	1995	23.1	1
Philippines	1995	3.7	1.5
Singapore	1995	18.8	3
Thailand	1995	26.7	1
Europe			
Austria	1995	98	3
Belgium	1995	90	2+
Czech Republic	1995	55	1

	Year	Collective bargaining coverage rates	Coordination of collective bargaining ¹
Denmark	1995	55	2+
Finland	1995	67	2+
France	1995	90	2
Germany	1996	90	2+
Greece	1995	90	1
Hungary	1995	45	1.5
Ireland	1990	90	2.5
Netherlands	1996	80	2+
Norway	1996	66	2.5
Spain	1996	82	2
Sweden	1995	85	2+
Switzerland	1994	50	2
United Kingdom	1994	25.6	1

¹ Range is from uncoordinated/decentralized (=1) to coordinated/centralized (=3), includes formal and tacit coordination. For technical notes on data see "Industrial Relations Indicators", ILO, *World Labour Report 1997-98*, pp. 269-273.

Source: ILO.

Appendix III

Tables

Table 1. Informalization of the wage relationship in Latin America

	Year	Employment without written contract as a share of total urban salaried employment	Temporary employment as a share of total urban salaried employment
Argentina	1990	21.9	
	1996	33.0	
	1997		17.9
Brazil	1990	35.1	
	1996	46.3	
Chile	1990	15.1	11.0
	1998	22.2	16.9
Colombia	1989	37.5	6.6
	1996	31.0	20.0
Costa Rica	1981		1.1
	1990		9.4
	1997		9.5
Mexico	1989	32.4	
	1998	37.7	
Paraguay	1995	64.9	
Peru	1989	29.9	
	1997	41.1	

Source: ECLAC, 2000.

Table 2. GDP growth among selected countries

	Average annual % growth GDP 1990-98	Coverage of collective agreement (%)	Trade union density (%)	Level of collective bargaining
Finland	2.2	67.0	78.1	N/S,C
Kenya	2.2	35.0	16.9	N/S,C
Zimbabwe	2.3	25.0	13.9	N/S,C
Netherlands	2.6	80.0	23.5	N/S
Nigeria	2.6	40.0	17.2	...
Nicaragua	2.8	38.3	23.4	N/S,C
Denmark	2.9	55.0	75.9	N/S
New Zealand	3.1	23.1	21.7	C

Note: N/S: national/sectoral; C: company.

Sources: World Development Report 2000, World Bank, and ILO.

Table 3. Social pacts and national agreements in Europe

	Title	Observations
Austria	Institutional Social Dialogue (<i>Paritätische Kommission</i>)	
Belgium	(Global Pact 1993)	Law
	(Future Pact 1996)	Law
	Central agreement 1998-99	Within narrow legal limits
Denmark	Informal wage moderation norm (D-mark zone), 1987	
Finland	(Stability Pact 1991)	
	Social Pacts I (1996-97) and II (1998-99)	
	(Social Contract 2000)	
France	(Attempt to establish national social dialogue in 1997)	Law
Germany	(Alliance for Jobs 1995-96)	
	Alliance for Jobs, Training and Competitiveness 1999-	
Greece	Pact of Confidence 1997	"Stop-go social dialogue"
Ireland	PNR, National Recovery 1987-91	
	PESP, Economic and Social Progress 1991-94	
	PCW, Competitiveness and Work 1994-97	
	Partnership 2000 (1997-2000)	
Italy	National agreement to end <i>scala mobile</i> 1992	
	Ciampi Protocol 1993 (reform wage setting)	
	Pension reform 1995	Govt. with unions
	Employment Pact 1996 (labour market reform)	
	Social Pact for Growth and Employment 1998 (Christmas Pact)	
Netherlands	Wassenaar (wage moderation) 1982	Bipartite
	Convergence and Concertation (institutions) 1993	
	A New Course (decentralization) 1993	Bipartite
	Flexibility and Security ('flexicurity') 1996	Bipartite
	Agenda 1997-2002	Bipartite
Norway	Incomes policy agreement 1987-88	Bipartite
	Solidarity Alternative 1992-1997	
	(Basic Agreement 1998-99)	
Portugal	Economic and Social Agreement 1990	Without largest union
	Short-Term Social Concertation Agreement 1996	Without largest union
	Strategic Concertation Agreement 1997-99	Without largest union
	(Europact 2000)	
Spain	Toledo Pact on Future of Social Security 1996	Govt. with unions
	Stability of Employment and Bargaining Pact (reforms) 1997	Bipartite
Sweden	(Attempts at establishing 'Euro' wage norm 1995)	
	Industrial Agreement 1997	Bipartite
	(Pact for Growth 1998)	Bipartite

Note: The agreements are tripartite (i.e. involving unions, employers and government) unless indicated otherwise. Failed attempts are shown within parentheses.

Source: Visser, J. 2000.

Table 4. Legislative and policy trends in ASEAN member States

Cambodia	The country's 1997 Labour Code gives clear encouragement in public policy to the formation of trade unions, and provides for the mandatory election of employee representatives ("shop stewards") as a preliminary voice of employees prior to trade union formation. Cambodia ratified all of the ILO's core Conventions in 1999. It convened for the first time in October 1999 a National Labour Advisory Committee, on which all of the newly formed workers' and employers' organizations are represented, as well as the economics ministries and the ministry of labour.
Indonesia	The revised Manpower Act of 1998 was suspended in its promulgation pending revisions to take account of the transition to democracy. All of the ILO's core Conventions have been ratified by Indonesia. Draft laws on trade unions and on dispute resolution have been completed for legislative review. Tripartite mechanisms in Indonesia are under review to incorporate the proliferation of worker organizations in the post-Suharto era. These would also include state participation from other than the labour ministry (DEPNAKER) alone.
Lao PDR	Labour laws and implementing regulations have been created to respond to the transition to the market economy. The laws include provisions for trade union formation and foresee the development of tripartite machinery at the national level. Currently, the focus is on dissemination of knowledge of labour law.
Philippines	The basic labour law is slated for reform with the aim of minimizing the legalistic and adversarial framework of Philippine industrial relations. At the same time, there has been active public policy support in recent years for the promotion of labour-management cooperation through the creation of labour-management councils at enterprise level.
Thailand	Thai legislature has been reviewing its two basic labour laws, covering the public and private sectors respectively. The reform of the State Enterprise Labour Relations Act (SELRA) has restored trade union rights to workers in state-owned enterprises. The reform of the Labour Relations Act (private sector) is toward greater protection of trade union organizers and, in the Government's version, would mandate the creation of labour-management committees in which the trade union's role would be protected.
Viet Nam	The country's 1995 Labour Code provides generous encouragement to the formation of trade unions at enterprise level. The Code is now under review to improve the conditions under which trade unions can be formed and recognized. At the same time, public policy is supportive of the creation of national and provincial tripartite mechanisms, and the current focus is on building these institutions through a UNDP-funded project begun in 1999.

Source: Campbell, D. 1999.

Table 5. Spearman rank correlations

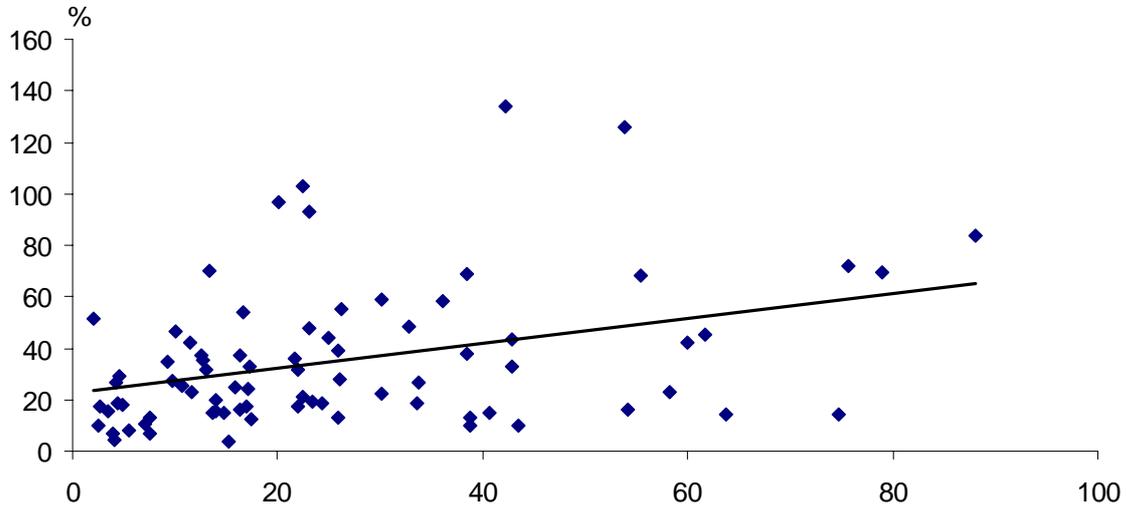
	Trade union density	Coverage of collective bargaining	Coordination of collective bargaining
Share of trade 1998 (% PPP GDP)	0.287*	0.407*	0.481*
Inflation (1990-98)	-0.015	-0.193	-0.439*
Gini index	-0.457*	-0.597*	-0.590*

* Significant at the 1 per cent level. Data sources: *World Development Report 2000*, World Bank, and ILO.

Appendix IV

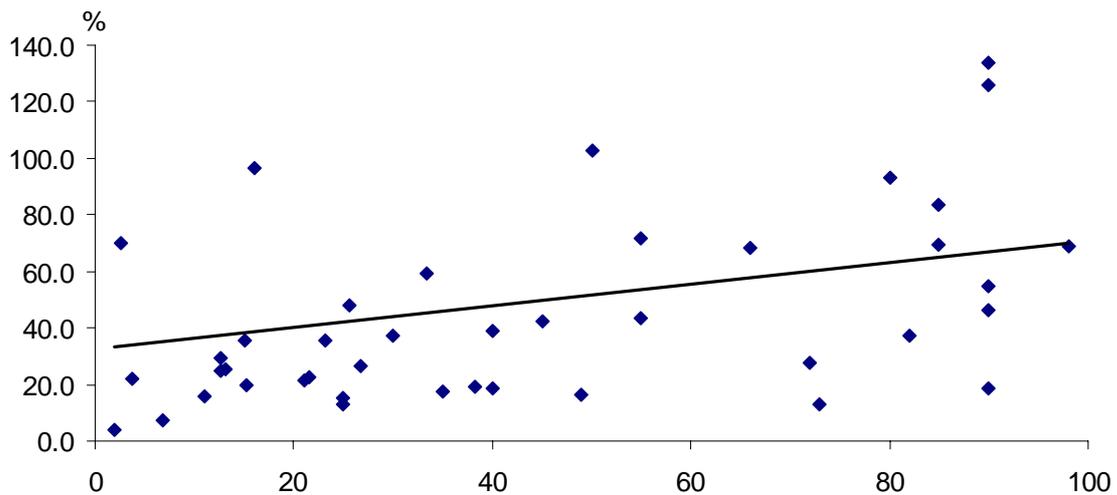
Figures

Figure 1: Share of trade (% PPP GDP) in 1998 and trade union density



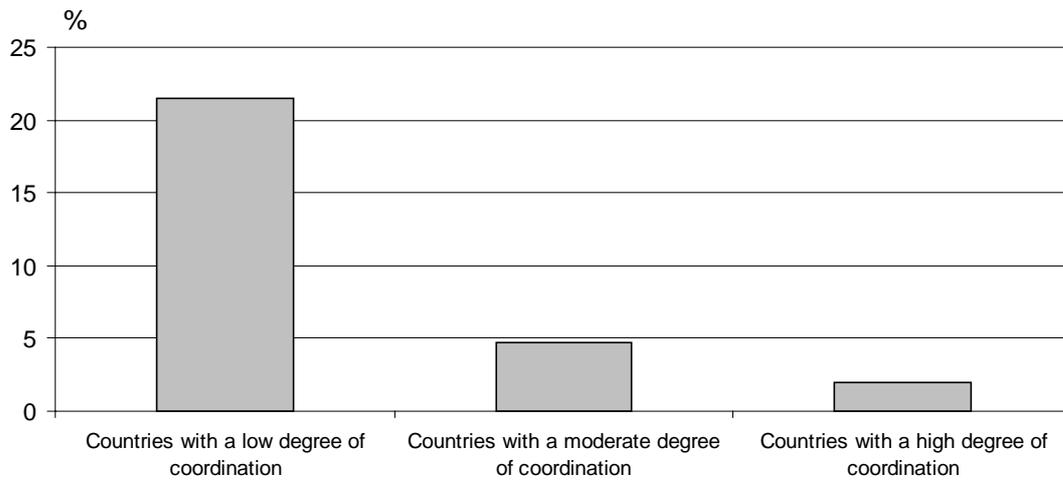
Notes : The sample contains developed and developing countries.
Sources : *World Development Report 2000*, World Bank, and ILO.
 Spearman rank correlation : 0.287 (significant at the 1% level).

Figure 2: Share of trade (% PPP GDP) in 1998 and percentage of employees covered by collective agreement



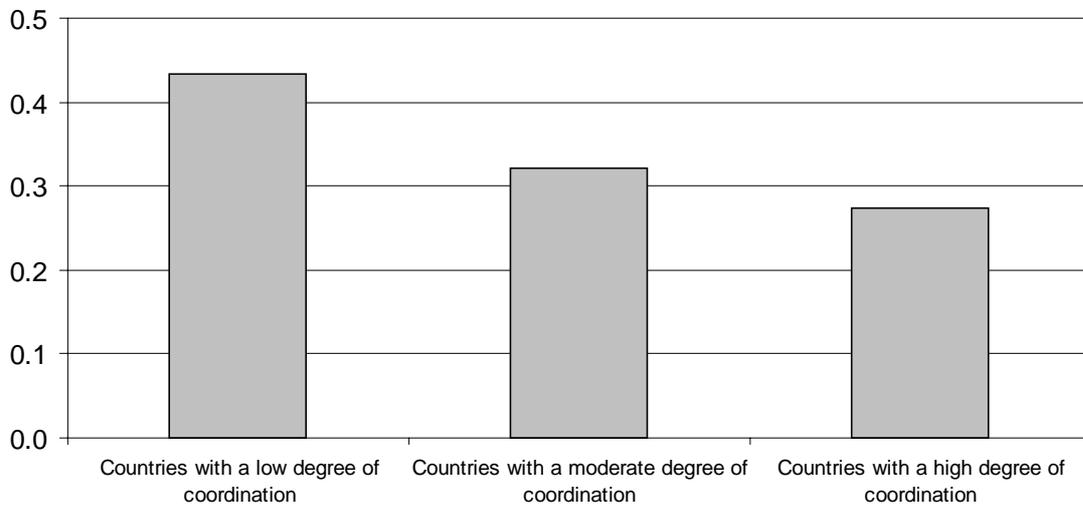
Notes : The sample contains developed and developing countries.
Sources : *World Development Report 2000*, World Bank, and ILO.
 Spearman rank correlation : 0.407 (significant at the 1% level).

Figure 3: Average annual consumer price inflation 1990-98 and coordination of collective bargaining



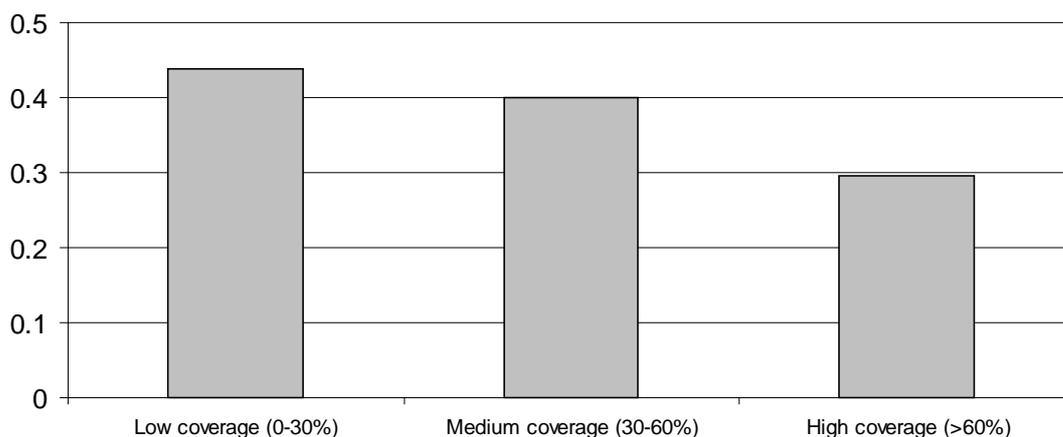
Notes: The sample contains developed and developing countries.
Sources: World Development Report 2000, World Bank, and ILO.
Spearman rank correlation: -0.439 (significant at the 1% level).

Figure 4: Inequality and coordination of collective bargaining



Notes: The Gini index is used as the measure of inequality. The sample contains developed and developing countries.
Sources: World Development Report 2000, World Bank, and ILO.
Spearman rank correlation: -0.590 (significant at the 1% level).

Figure 5: Inequality and percentage of employees covered by collective agreement

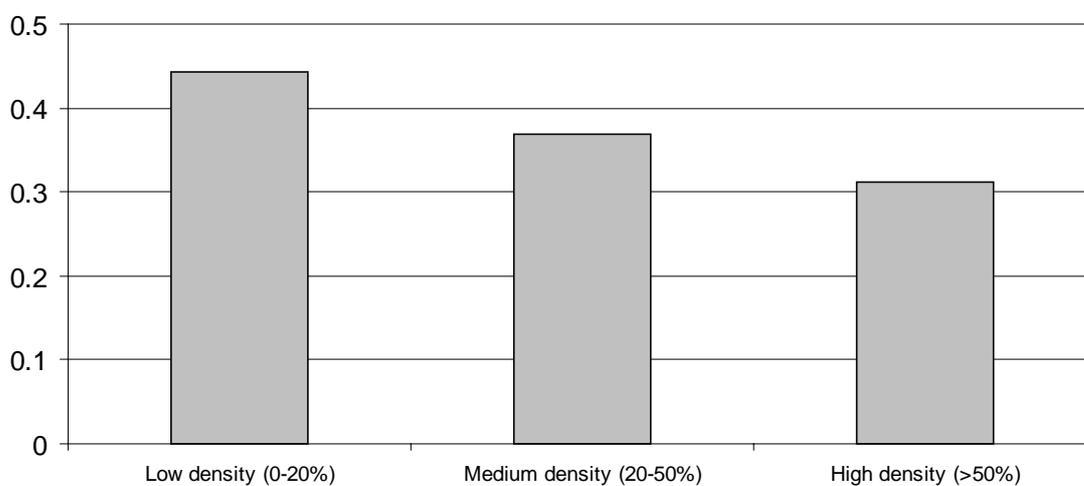


Notes :The Gini index is used as the measure of inequality. sample contains developed and developing countries.

Sources :World Development Report 2000, World Bank, and ILO.

Spearman rank correlation : -0.597 (significant at the 1% level).

Figure 6: Inequality and trade union density



Notes :The Gini index is used as the measure of inequality. The sample contains developed and developing countries.

Sources :World Development Report 2000, World Bank, and ILO.

Spearman rank correlation : -0.457 (significant at the 1% level).