



## THIRD ITEM ON THE AGENDA

**Framework for studies on integrated policies to achieve a wider sharing of the benefits of globalization****Contents**

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## Introduction

1. At its 277th Session (March 2000) the Working Party requested the Office to prepare a paper setting out a framework for studies on policy approaches that could bring about a wider sharing of the benefits of globalization. The background paper for that session had argued that greater integration between economic and social policies was a crucial requirement for achieving this.<sup>1</sup> The discussion of that paper indicated that there was wide support for this position. It also indicated that there was a strong interest in developing this approach further, especially at the country level, with a view to distilling lessons on the most effective policies for making globalization work for all.
2. This paper consists of four parts. The first sets out the rationale for promoting an integrated approach to economic and social policies – this provides the broad conceptual framework that will guide further work. The second indicates the priority issues to be examined at the international level, while the third proposes the terms of reference for corresponding work at the country level. A final section summarizes some of the main points that the Working Party may wish to discuss.

### I. The rationale for promoting an integrated approach to economic and social policies

3. Human needs are holistic. Families have a variety of needs and aspirations, ranging from the basic material requirements for physical well-being (such as food, clothing, shelter and health care) to citizenship rights such as civil and political liberties, access to education, and socio-economic security. Decent work offers an integrated approach to these needs, since it encompasses employment and income, fundamental rights and voice at work, and protection and security.
4. The ultimate justification of economic and social policies is to meet such essential human needs. These needs and goals are interconnected, and should be met as a whole in order to enable families to enjoy a decent life. Every effort should be made to ensure that this perspective consistently guides both economic and social policies.
5. From this perspective, it can be seen that the basic rationale for integrated policies is that the traditional dichotomy between economic and social policies is an inadequate basis for solving the major social and economic problems in the current era of globalization. This dichotomy has often led to less than optimal policy choices. For example, it has contributed to the relative neglect of the social impact of economic policies in spheres such as macroeconomic stabilization, structural adjustment, and the transition to a market economy. This has not only led to high social costs, but also to reduced effectiveness of the economic policies themselves because of the consequent social opposition or political instability.
6. Many other examples can be given of situations where extending policies beyond a narrow economic approach will bring better economic and social outcomes. For example, concern with the size of the State has sometimes led to a reduction in its resource base to the point where it can no longer provide the institutional framework for efficient markets. Programmes of privatization and enterprise restructuring are more successful when

<sup>1</sup> GB.277/WP/SDL/1, March 2000.

associated with compensatory policies such as unemployment insurance programmes and active labour market policies, which limit or counter adverse impacts on unemployment, and thereby increase support for the programmes themselves. Reductions in social security systems and in the provision of basic social services for budgetary reasons may need to be reconsidered if due attention is paid to the economic benefits generated by a comprehensive system of social protection.

7. These examples support the view that it is illusory to give primacy to economic policies on the assumption that social goals can be dealt with subsequently. For example, distributional objectives cannot be effectively attained separately from economic goals. One reason for this is that economic policies have a strong impact on the distribution of income. If these are not taken into account from the outset, they can overwhelm separate *ex post* efforts to improve the distribution of income. The converse is also important, since some research findings are making it increasingly clear that a high degree of income inequality has a negative impact on economic growth.
8. Moreover, it is also being increasingly recognized that institutional variables are important determinants of social outcomes in market economies. Institutional arrangements which underpin the functioning of markets such as the rule of law, the enforceability of contracts, and the degree of transparency in political and corporate governance all exert a strong influence on the social impact of market processes. Labour market institutions have positive effects on productivity and employment and on income security and income distribution. Such institutions are in any case needed for the efficient operation of enterprises, but the institutional framework also affects the incentives for enterprises to contribute to both social and economic goals.
9. Similarly, the extent to which basic civil rights (including basic labour rights such as freedom of association and the right to bargain collectively) are respected impinges strongly on both social and economic outcomes. These rights constitute the foundational conditions that determine the ability of people to promote their needs and aspirations, and to influence economic processes towards those ends. They also determine the extent of democratic accountability and transparency in policy formulation, both of which are important for ensuring that economic policies are efficient and in the general interest.
10. On the other hand, it is also necessary to consider the economic implications of social policies in the light of the development possibilities and resource base of a given country. Basically, major social policy objectives need to be economically feasible. This requires, for example, analysing their impact on employment creation and competitiveness, the relationship between wage settlement mechanisms and inflation and the role of social policies in promoting an enabling environment for investment and enterprise creation, particularly for small enterprises.
11. Taking these different perspectives together, more integrated approaches that consider economic and non-economic factors simultaneously and equally, are likely to be more successful. One basic reason for this is that elements traditionally regarded as non-economic factors – such as basic rights and participation, social and political institutions, and the degree of inequality and socio-economic security – all exert a strong influence on economic efficiency and outcomes. These non-economic factors are in turn affected, for better or for worse, by the choice of economic policies. An integrated approach that considers economic and non-economic factors simultaneously is thus likely to yield both better economic and social outcomes. A major advantage of an integrated approach is that it can reap the full benefits of policy *complementarity*. Simultaneous progress in achieving economic growth, reducing inequality, improving socio-economic security, strengthening basic rights and developing sound institutions necessary for the efficient functioning of markets can all be made mutually supportive. As such, in terms of policy outcomes, the

whole will be greater than the sum of its parts. This will also partially be due to the fact that an integrated approach will allow for greater policy *coherence*. It will reduce the risk that policies in one sector undermine, rather than support, the attainment of objectives in another. It will also facilitate progress towards the optimal allocation of resources between the competing claims of economic, social and political objectives.

12. It is important to note in this context that the attainment of some of these objectives – such as respecting basic civil rights or ensuring more participatory approaches to the formulation and implementation of policies – do not require substantial resources, and are in general compatible with the competitiveness of enterprises and economies. Yet their developmental benefits are likely to be great. Placing these issues at the centre of the policy agenda, as an integrated approach would do, greatly increases the prospects for progress on these fronts.
13. The concept of decent work provides the basis for the ILO's integrated approach to policy. The strategy of achieving decent work for all involves the simultaneous pursuit of four key objectives –
  - employment growth;
  - respect for fundamental principles and rights at work;
  - promoting social dialogue;
  - strengthening and extending social protection.
14. This endeavour covers a large and strategic part of the overall development agenda. A basic rationale for this strategy lies in the positive relationships between the four components of decent work. This can be seen as follows.
15. Policies to promote the highest possible rate of generation of decent employment for all are vital to ensure wider dissemination of the benefits of economic growth. Income from employment is the predominant determinant of the economic welfare of most of the population.
16. Ensuring full respect for fundamental principles and rights at work will empower working men and women by allowing them to effectively promote their interests in policy debates and ensure that employment creation is a priority, that working conditions meet minimum standards, that there is an adequate level of social security, and that there is a strong foundation for better industrial relations and social dialogue.
17. High levels of productive investment and enterprise development give the necessary economic underpinning to policies for social protection, and so ensure their sustainability over time.
18. Similarly, attaining a higher degree of socio-economic security would be an important additional complement to the above policies. Policies to extend social protection to all workers would contribute greatly to the reduction of poverty. They would also contribute to improved economic performance by eliminating inefficient behaviour by economic agents that has been based on excessive risk aversion, and by making it possible to promote greater flexibility without compromising socio-economic security.

## II. Studies and debates at the global level

19. It is hence clear that further efforts will be required at both the global and country level in order to promote the adoption of more integrated approaches to economic and social policies as a principal means of bringing about a wider sharing of the benefits of globalization.

20. At the global level it seems important to undertake the policy research listed below. Given the nature of these studies, they should be carried out in partnership with other relevant organizations within the multilateral system. A collaborative effort will provide benefits in terms of the greater amount of information and expertise that can be drawn upon and the greater coherence in policy approaches within the multilateral system.

### 1. Developing concepts and policy tools necessary for applying integrated approaches to economic and social policy

21. Because social policies are usually treated as residual and subordinate to economic policies, there has been relatively little effort to develop the conceptual frameworks and policy tools to capture fully the developmental benefits of these policies. For example, the core concepts of “efficiency” and “productivity” are applied almost exclusively to economic policies, but it is clear that they can also be usefully extended to social policies. Measuring the economic benefits of social policies, over and above their obvious social benefits, could contribute greatly to successful advocacy to upgrade the status of social policies and redress the under-allocation of resources to such policies. This would apply to a wide range of social policies – investments in basic social services, social protection, protective labour legislation and the enforcement of basic rights.

22. In this field, it is proposed that the Office develop a framework for measuring the economic benefits of social policies; there is a similar need for good frameworks to measure the social benefits of economic policies. This will require the identification of key indicators of both social and economic impact and clear guidelines on how to incorporate *ex ante* social impact assessments into policy analysis.

### 2. Improving the state of knowledge of the functioning of the global economy and its social impact

23. Many aspects of the functioning of the new global economy are still poorly documented and understood. This state of relative ignorance has provided fertile ground for the growth of widespread anxiety over the effects of globalization at the same time that it has retarded the development of creative policy responses, at both the international and national level, to the new opportunities and challenges that are being generated by ongoing changes.

24. In this context it is important to improve the state of knowledge of the functioning of the global economy and its impact on employment, social protection, workers’ rights and social dialogue, which are the four strategic objectives of the ILO. This will in turn provide the basis for identifying policies at both the international and national level that will accelerate progress towards achieving the goal of decent work for all. The ILO received a strong mandate from the recent Special Session of the United Nations General Assembly

on the follow-up to the World Summit for Social Development to reinforce its work in this area.<sup>2</sup>

25. The outputs of this work will be used to formulate policy positions in the ILO's dialogue with other international organizations and for policy advice to its tripartite constituency. In addition, this research will provide the knowledge base for producing discussion papers for the Working Party on the Social Dimension of Globalization.

26. It is proposed to start with two interrelated components:

- (a) *Empirical work to document the impact of international trade, foreign investment and the development of new global production systems on employment (its rate of growth, structure and quality) and poverty reduction.* This will first involve the systematic compilation of existing data on the main variables from international sources, supplemented by national statistics from a selected number of developing and transition economies. Major trends will then be analysed (such as whether the relationship between trade liberalization and foreign direct investment on the one hand, and employment on the other, has changed over time). The changing organization of enterprises in the global economy and its impact on employment will also be explored. This will be followed by econometric work seeking to establish an explanatory framework for the observed trends. A limited number of case studies will also be conducted for a more detailed analysis of the main issues involved.
- (b) *Strengthening the goal of decent work in the governance of globalization.* Based on the results emerging from the first component, and on a thorough literature review, this work will seek to analyse policy coherence and integration between multilateral trading, investment and related issues that could lead to improved outcomes in terms of providing decent work for all and a more equitable sharing of the benefits of globalization. In this connection it might consider, inter alia, the strengthening of social dialogue, principles of social policy, voluntary codes of conduct of the private sector, the role of international labour standards, and innovation and entrepreneurship issues.
- (c) *Working towards a consolidated framework.* More broadly, these studies should be seen as a contribution to the overall goal of bringing about greater policy coherence within the multilateral system. Other strategic elements that need to be incorporated within a consolidated framework for policy coherence within the multilateral system include the work being done in the Bretton Woods institutions on making poverty reduction the centrepiece of development and debt-relief strategies, the ILO's contribution to this process, focused on the role of decent work in poverty reduction, and the ILO's ongoing work on strengthening the theoretical underpinnings of the concept of decent work and making it operational at the country level. If the Working Party so wished, the Office could present, in March 2001, a paper reporting on ILO work in these fields and mapping out a strategy for bringing together these different elements – poverty reduction and decent work in the global economy. This strategy would be developed in partnership with the other organizations of the international system.

<sup>2</sup> GB.279/ESP/3.

### III. Country reviews

27. The country studies and the synthesis report discussed by the Working Party in November 1999 provide a solid foundation for further work at the country level.<sup>3</sup> Building on the basic policy stance developed by these studies, it is proposed that country reviews be undertaken to suggest how the policy-making process can be strengthened in order to achieve a wider sharing of the benefits of globalization.
28. These country reviews will seek to define the main opportunities and challenges for economic and social policy arising out of globalization and, within that context, to establish the prevailing extent of policy integration, how this has changed over time, and how the policy-making process could be improved. They will not go into any great detail on the determinants of economic and social development, but will concentrate on policy issues. The following structure for these reviews is proposed.

#### 1. Integration into the global economy and its social impact

29. This introductory part will analyse trends with respect to the country's degree of integration into the global economy. Variables such as trade to GDP ratios, changes in the structure of international trade, trends in foreign direct investment and other capital flows, and the extent and degree of participation in global production networks will be examined. This will be accompanied by a review of economic performance based on standard measures such as the rate of growth of GDP, total factor productivity, savings and investment rates, the balance of payments and external debt, etc.
30. There will also be a parallel review of trends in labour and social variables such as the level of unemployment and underemployment, the structure of employment, wage and income inequality, the status of workers' basic rights, employment security and the degree of social protection.
31. An attempt will be made to understand the relationships between the economic and social variables: for example, to identify the basic economic forces that have been driving changes in the social variables and to examine how those changes have in turn influenced economic performance, etc.

#### 2. Changes in economic and social policies and the policy-making process

32. This part will chart how policies have evolved over the period of increasing integration into the global economy. This analysis will compare and contrast how economic and financial policies on the one hand, and labour and social policies on the other, have changed with increasing integration into the global economy.

##### (a) *Economic and financial policies*

33. The key policy changes relating to the increased integration of the country into the global economy over this period will be examined. This is likely to include –

<sup>3</sup> GB.276/WP/SDL/1.

- trade liberalization;
- changes in policies on foreign direct investment;
- financial liberalization, including the removal of capital controls;
- privatization and market deregulation;
- integration into global production networks.

34. These changes will be considered in terms of their timing, sequence and internal coherence as a package of economic policies. The underlying arguments for these policy changes and the expected benefits will be reviewed in relation to actual outcomes.

### **(b) Labour and social policies**

35. A similar exercise will be undertaken for labour and social policy. This will focus on areas central to the promotion of decent work and will cover –

- policies and programmes for promoting workers' fundamental rights;
- the reform of labour legislation and institutions for collective bargaining and social dialogue;
- the reform of social security systems and other aspects of social protection;
- employment promotion, including active labour market policies, training and enterprise promotion.

36. The underlying reasons for these changes and the process whereby decisions were taken will be reviewed, especially from the standpoint of whether they were driven largely by considerations of economic efficiency and competitiveness or by concern to counteract the negative, and reinforce the positive social impact of economic reforms and achieve greater equity.

### **(c) The policy-making process**

37. These policy changes will be evaluated from the standpoint of what has happened to the degree of integration between these two sets of policies. For example, the country reviews will examine how economic and social policies are formulated, the extent of consultation and coordination between ministries responsible for economic and social affairs, how resource allocation decisions are taken, and the arrangements for consulting the social partners and civil society. They will also compare the relative institutional capacities of economic and social ministries (number and quality of staff, budgets) and assess the quality of the policy formulation process in each case.

38. Particular attention will be paid to the extent and methods by which the social impact of economic and social policies were taken into account in the policy formulation process. Similarly, the extent to which the economic benefits of the social policies included in the decision-making process will be examined.

39. The analysis of these essentially technocratic issues will be situated within the broader political economy of the policy-making process. The degree of voice and influence exerted on policy formulation by major interest groups such as employers, workers and

organizations of the poor, the scope for free and open debate over policy issues, and the degree of transparency in policy implementation are important influences on the ultimate effectiveness of policies for sharing the benefits of globalization more widely.

### **3. The economic and social impact of policy changes**

40. This part of the country reviews will seek to assess the impact of the policy changes studied in the preceding sections on overall economic performance (growth, productivity and competitiveness) and social outcomes such as the level of unemployment and underemployment, the extent of poverty and the degree of wage and income inequality, socio-economic security, and the enjoyment of workers' fundamental rights. It will take into account the extent to which the policies adopted promoted innovation, enterprise development and entrepreneurship. While establishing clear causal links between particular policy changes and observed outcomes is likely to prove difficult, this exercise will at least permit a broad assessment of how successful or otherwise a particular country has been in coping with the social dimensions of globalization as well as the drawing of some insights into the links between the processes of policy formulation and observed economic and social outcomes.

### **4. Policy lessons**

41. This concluding part of the study will draw policy lessons from the preceding analysis. It will seek to highlight the areas where, in each country, changes in the policy-making process can bring about improvements in economic and social outcomes.

42. A synthesis report of the country studies could be prepared in due course to distil general principles and best practices for effective economic and social policy from the contrasting policy regimes and policy-making processes in the countries studied.

## **IV. Points for discussion**

43. The Working Party may wish –

- (a) to express its views on the topics on which it wishes the Office to undertake studies at the global level and on the relative importance of the topics proposed;
- (b) to comment on the suggestion that the Office prepare a paper for discussion, at the Working Party's meeting in March 2001, reporting on ILO work on poverty reduction and decent work in the global economy and mapping out a strategy to develop a consolidated framework;
- (c) to express its views on the proposal to carry out country reviews and, if it decides in favour of them, to provide guidance on the number of such studies that might be undertaken and the countries to be covered.

44. Naturally, the ability of the Office to respond to requests by the Working Party will depend on how successful the Office is in mobilizing the resources necessary to carry out these new activities. While current regular budget resources may be reallocated to some extent, this can only cover part of the cost of the activities identified in this paper. Full implementation will require additional resources, either within the Programme and Budget for 2002-03 or from extra-budgetary sources. The Working Party is invited to bear these considerations in mind in defining the scope of the supporting work it will be requiring from the Office.

Geneva, 23 October 2000.