



ELEVENTH ITEM ON THE AGENDA

**Report of the Committee on
Employment and Social Policy**

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1. The Committee on Employment and Social Policy (ESP) met on 8, 11 and 12 November 2004. The Chairperson was Ambassador Umer, representative of the Government of Pakistan, and the Employer and Worker Vice-Chairpersons were Mr. Niles and Mr. Patel, respectively.
2. The Employer Vice-Chairperson raised two points of order concerning governance issues in the Organization. First, he drew attention to the fact that recommendations contained in the report of the World Commission on the Social Dimension of Globalization were being implemented and resources were being spent without prior approval by the Governing Body. An example of that was the work done in connection with policy coherence initiatives mentioned in paragraph 33 of the paper on macroeconomic policy for growth and employment.¹ Second, the recently published ILO report “Economic security for a better world” represented an irregular use of resources without prior approval or agreement of the Governing Body, as it ran counter to one of the recommendations of the Seventeenth International Conference of Labour Statisticians; namely, that indicators should not be aggregated into a composite index of decent work for the purpose of ranking countries. The same report also made extensive reference to decent work indicators, although the Committee on Economic and Social Policy had decided at its March 2004 session that that issue should be the subject of further discussion by a committee of the Governing Body as a precondition to the convening of a tripartite meeting of experts. Such a meeting was yet to be held. He indicated that the Employers would raise their concerns about the handling of governance issues in other committees as well.
3. The Worker Vice-Chairperson requested to revert to that issue at a later stage in the debate in order to have time to reflect on those concerns.
4. The Chairperson suggested that, although the Committee had an agenda item dealing with other questions, the topic was more appropriately dealt with by the Governing Body itself.

I. Progress in the implementation of the Global Occupational Safety and Health Strategy as adopted by the 91st Session (2003) of the International Labour Conference
(Fourth item on the agenda)

5. The Committee had before it a paper on progress in the implementation of the Global Occupational Safety and Health Strategy as adopted by the 91st Session (2003) of the International Labour Conference.²
6. A representative of the Director-General (Mr. Takala, Director of the InFocus Programme on Safety and Health at Work and the Environment) introduced the Office paper, outlining developments in five key areas of action. He reported on the various activities that had taken place on the World Day for Safety and Health at Work held on 28 April, with the main theme of safety culture, which emphasized the importance of prevention, and on progress in the ratification of occupational safety and health (OSH) Conventions. The Office had already received replies to the questionnaire contained in Report IV(1)

¹ GB.291/ESP/1.

² GB.291/ESP/4.

Promotional framework for occupational safety and health prepared for the 2005 session of the International Labour Conference.

7. The management systems approach at national and enterprise levels was gaining momentum. The ILO *Guidelines on occupational safety and health management systems, ILO-OSH 2001* were available in 21 languages and national OSH profiles were prepared in a number of countries as a key step for formulating national OSH programmes. Ongoing technical cooperation projects included those addressing labour inspection, agricultural safety and construction safety, and more donor support was considered essential. He reported on the increased free access, through the Internet, to safety and health information such as the ILO *Encyclopaedia of Occupational Health and Safety*. Collaboration with other international agencies, particularly with the World Health Organization (WHO), had been reinforced. He concluded that the Global Strategy on Occupational Safety and Health had been instrumental in promoting coherent national OSH strategies.
8. The Employer Vice-Chairperson expressed his appreciation for the Office paper, noting that that was the first time that an important part of the ILO's work had been brought to the attention of the Governing Body, although he would have liked to have had more details on future planned activities. Concerning the development of an instrument establishing a promotional framework for OSH, the Employers' group was in favour of a declaration, and a single discussion in 2005 would therefore be sufficient. He considered that OSH was an ILO issue and not an International Organization for Standardization (ISO) issue. Work on occupational safety and health management systems should therefore be carried out by the ILO and not by the ISO.
9. The Worker Vice-Chairperson also welcomed the Office paper. Today's world was extremely unsafe for workers, especially in developing countries, where technology was transferred from industrialized countries without assessing its impact on OSH. He welcomed the work carried out for the World Day for Safety and Health at Work, and the work on indicators and the promotion of ratification of OSH Conventions and free Internet access to the ILO *Encyclopaedia of Occupational Health and Safety* and the CIS database. He called attention to the most vulnerable groups of workers, namely, the poor, migrant workers, workers in non-standard employment and informal workers, and stressed that more work should be done in the areas of inspection (including the roles of trade unions and employers' organizations), stress at work, and further campaigns, for example, on the banning of asbestos.
10. He expressed the concern of the Workers' group about the divergence of the outcomes in the 2003 session of the International Labour Conference discussion, and some of the language in the recent preparatory documents that focused on notions such as safety culture. Such language might give the impression, even if unintended, that the burden of OSH was placed solely, or largely, on workers, and did not address the problems of organization and poor management that were frequently the root cause of many safety and health problems. The Workers' group was confident that the discussions on a new instrument would be fruitful, and it highlighted three important areas; namely, the responsibility of the employer for the safety and health of workers, the hierarchy of prevention and control measures, and the right of workers to a safe and healthy working environment. Finally, he called for more action in view of the magnitude of the problem, with estimated annual work-related fatalities of 1.5 million men and 0.75 million women.
11. The representative of the Government of South Africa thanked the Office for the progress report. His Government supported the World Day for Safety and Health at Work, which contributed to increasing awareness and empowering safety representatives. Underlining the importance of increased social dialogue on OSH, he informed the Committee of the creation of a tripartite OSH forum and the launching of a national programme for the

elimination of silicosis. His Government was focusing on sectors with high injury rates, such as the iron and steel industry, agriculture and construction. In conclusion, he requested impact studies on the initiatives that had been taken to ensure that workplaces remained safe.

12. The representative of the Government of Spain emphasized the importance of OSH as a social right and a human right, and urged that all efforts should be made to protect that. While legal frameworks protected those rights, complying with OSH requirements implied costs, which could have an impact on competitiveness. Referring to the positive collaboration between the ILO and the WHO, he wondered whether there was a similar relationship with the World Trade Organization (WTO). He considered the link between trade and OSH important, and collaboration with the WTO could be an area to explore in the future.
13. The representative of the Government of France welcomed the initiatives taken by the Office and expressed appreciation for the brevity and clarity of the paper. The document clearly illustrated the different types of partnerships with governments, the social partners and various international institutions, such as the WHO and the World Bank. In terms of future work, his Government supported, in particular, the promotion of a safety culture at work, the adoption of a promotional framework leading to effective social dialogue on OSH, the integration of OSH issues into national programmes on decent work, and support for the CIS initiatives for free Internet access to OSH information.
14. The representative of the Government of Canada also welcomed the document. While she was looking forward to the discussion on the promotional framework for occupational safety and health at the next International Labour Conference, she recalled the need for action to revise certain OSH instruments. Referring to paragraph 40, she suggested that the Office should await the conclusions of the Conference discussion before developing mechanisms for reporting progress.
15. In his response to the questions raised, Mr. Takala agreed that the work on occupational safety and health management systems should be continued by the ILO and not by the ISO. He expressed concern about the ISO initiative on the development of corporate social responsibility standards that might or might not include OSH aspects. On the issue of indicators, work would be based on some key indicators rather than on consolidated ones. He considered that impact studies would be best done at the member State level. He confirmed that there was no joint committee with the WTO, although more collaboration was clearly desirable, as demonstrated in the ILO's unsuccessful attempt to become involved in the WTO discussion on asbestos. Referring to collaboration between IPEC and SafeWork, he reminded the Committee that the Programme, Financial and Administrative Committee (PFAC) had before it a joint proposal for a Meeting of Experts on Hazardous Child Labour, which would develop guidelines on determination of hazardous child labour. On the revision of standards, work had progressed in the field of ergonomics and machine safeguarding. In his view, a more practical approach might be the development of codes of practice or guidelines rather than full discussions at the International Labour Conference. On new mechanisms for reporting, which had been discussed during the 2003 session of the International Labour Conference, he felt that reporting should focus more on positive developments, encouraging member States to share their successes. On the issue of costs, bypassing safety and health regulations was more costly in the long run than applying them.
16. Mr. Diop (Executive Director of the Social Protection Sector) emphasized that the major problems encountered by working children were related to occupational safety and health and announced that efforts to strengthen collaboration with IPEC would be further increased.

17. The Employer Vice-Chairperson questioned the desirability of formal collaboration with the WTO in this area, although he agreed that information should be shared between the two organizations. The asbestos case that had been cited had concerned a very specific trade issue between two countries, and ILO involvement would not have been appropriate.
18. The Worker Vice-Chairperson underlined the significance of compliance. The statement of the representative of the Government of South Africa had rightly emphasized the importance of tripartite parties and processes. The Workers' group was open to the suggestion of collaboration with the WTO, and he encouraged the Office to seek constructive engagement. Finally, he agreed with the need to place special emphasis on the issue of child labour and occupational safety and health.
19. The Committee took note of the Office paper.

II. The minimum wage: Catalyst for social dialogue or economic policy instrument (Fifth item on the agenda)

20. The Committee had before it a paper on the minimum wage: catalyst for social dialogue or economic policy instrument.³
21. A representative of the Director-General (Mr. Eyraud, Director of the Conditions of Work and Employment Programme) began the introduction of the Office paper, explaining that it was based on a new database. He set forth the fundamental principle of the minimum wage – protecting vulnerable workers – and emphasized the role the minimum wage played in collective bargaining and economic policy. Minimum wage systems varied enormously and he noted that in certain countries the minimum wage could act as a catalyst, strengthening the role of collective bargaining. He noted the minimum wage role in social policy, emphasizing that it could reduce the wage gap and discrimination. The advantages and disadvantages of utilizing the minimum wage in the fight against poverty were also set forth, including its role in ensuring workers and their families a decent standard of living.
22. A representative of the Director-General (Ms. Saget, Conditions of Work and Employment Programme) continued the introduction of the Office paper, presenting a map showing the purchasing power of minimum wages worldwide. She addressed the link between the minimum wage, inflation and public deficits. The minimum wage provided a wage benchmark and was often linked to social benefits, and, while indexation clauses still existed, the results of such links were not conclusive. Referring to the effect of the minimum wage on employment, she highlighted empirical evidence suggesting that increases in the minimum wage affected the employment structure, rather than the level of employment. In conclusion, she emphasized that the minimum wage was an effective social protection instrument, if not overused.
23. The Worker Vice-Chairperson expressed concern that an issue such as the minimum wage that fell within the ILO core mandate had in the past not received the resources it deserved. That had resulted in the ILO's voice being muted, and he was greatly encouraged to see the renewed focus. He found the document interesting and thoughtful and agreed with its key points, in particular those contained in paragraph 45. He called for further engagement concerning the document's argument that the minimum wage could impact negatively on inflation, because if inflation was driven by external shocks the minimum wage would

³ GB.291/ESP/5.

only provide compensation to the most vulnerable workers against serious erosion of their earnings. Referring to paragraph 21, he sought clarification on the percentage of women that had benefited from the introduction of the minimum wage in the United Kingdom. Some clarification from the Office was also required regarding the statement in paragraph 33 on the replacement of skilled workers with unskilled workers – presumably the reverse was intended. Turning to issues that would need further analysis, he underlined that the minimum wage had a substantial impact on poor communities, especially where social security systems were inadequate. The important role of remittances in poor communities, rural areas and developing countries, the level of which was influenced by the minimum wage being paid to migrant workers, was often overlooked. In addition to the important social and moral argument, there was also an economic case to be made for the minimum wage. The minimum wage could play a positive role in providing both pressure and motivation for increased productivity, and in addressing demand deficits. Further reflection was also needed on the relationship between the minimum wage and collective bargaining. He expressed concern that certain employers relied on the minimum wage as the baseline for actual wages; the minimum wage was not a substitute for, but was complementary to, effective collective bargaining and the right to organize. The minimum wage was a necessary, but not a sufficient, instrument for poverty reduction and it should therefore be combined with other measures, such as tax reductions and increases in transfer payments. Article 1 of the Minimum Wage Fixing Convention, 1970 (No. 131), supported this approach. He invited the Office to further examine minimum wage-setting processes, with particular emphasis on tripartite involvement and the need for compliance. Future work by the Office on that topic was strongly encouraged, and four items were suggested for consideration. First, the ILO's knowledge and information database should be maintained and improved by carrying out research to identify how many member States had minimum wage systems, the number of sectoral or national minimum wage systems, the percentage of the workforce receiving the minimum wage, and so forth. Second, the Office should give consideration to preparing a paper on minimum wage-setting processes and institutional arrangements, including the role of the social partners, and another paper on compliance and enforcement. Third, more technical assistance on the issue was requested, perhaps involving a regular meeting of experts and officials to share experiences and expertise. The Office could also play a bigger role in promoting the ratification of Convention No. 131 and its accompanying Recommendation No. 135. Fourth, he proposed that a high-level discussion take place at the Committee, bringing together labour ministers and others. Referring to the long history of the minimum wage, he underlined its continuing significance in the era of globalization.

24. The Employer Vice-Chairperson welcomed the document and the presentation. As a rule, employers agreed that minimum wages could serve useful economic and social goals. Minimum wage levels should be based on their social and economic impact and on levels of productivity. He cautioned against attempts to use minimum wages rather than increased productivity as a means to reduce poverty, and asked that productivity levels be considered when minimum wage levels were set. He emphasized the importance of ensuring that there was a minimum period between increases. The document did not adequately answer the important question of the effect the minimum wage had on employment. There was an apparent inconsistency between paragraphs 33 and 45, and statements were too often backed by citing other ILO documents. He expressed concern about the use of the word “might” in paragraph 50, referring to the way in which the Office would react to the views expressed in the Committee, and suggested that a more felicitous word be used. He questioned the link between the minimum wage and the informal economy; the arguments in paragraph 15 were counter-intuitive, and the country examples were in fact very specific and could not be generalized.
25. The representative of the Government of Sudan, on behalf of the Africa group, fully agreed that the main objective of minimum wage policies was assistance for the poor. He called

attention to the fact that minimum wages should not be left solely within the realm of collective bargaining because there was a risk that certain categories might be overlooked, such as agricultural workers. He called upon the Office to take steps to encourage ratification of Conventions Nos. 26 and 131. The minimum wage was an important tool in combating poverty and redistributing wealth. There was indeed a link between inflation and the minimum wage, but the impact of minimum wages on inflation was not so significant that it could provide justification for rejecting them. The Office should increase its efforts to put forward that argument. As regards the impact of minimum wages on employment, he noted that the most significant sources of unemployment were the lack of investment in human resources, debt burden and natural disasters.

- 26.** The representative of the Government of Argentina congratulated the Office on the paper and referred to the economic crisis and subsequent recovery in Argentina. Social dialogue had played a key role in the reconstruction of the economy, and the process of tripartite consultation on broader economic issues was continuing. His country recognized the importance of minimum wages both in terms of the provisions of Conventions Nos. 26 and 131 and as a catalyst for social dialogue. Setting minimum wages had helped to reduce inequality, job insecurity and poverty, and to improve wages in the informal economy.
- 27.** The representative of the Government of Barbados generally agreed with the conclusions and recommendations made in the document. Acknowledging that the imposition of a minimum wage was a means of providing some protection for poor, low wage earners, she noted its role in preventing the exploitation of other vulnerable groups of workers. She also agreed that collective bargaining was increasingly important in avoiding wage disputes, but the implementation of a minimum wage could not be expected to eradicate poverty by itself. It was critical to consider other variables in the bargaining process, such as the need to control inflation and economic development and the financial capacity of businesses. The example of China, where the minimum wage rate was higher than unemployment benefits in order to motivate jobseekers, was instructive. She had four suggestions for future work in this area. First, she proposed that the ILO review the issue of national minimum wages versus sectoral wages. Second, she stated that it would be useful to highlight examples of different minimum wage enforcement procedures. Third, she felt that a regular wage survey would be necessary to identify wage levels for vulnerable groups of workers and to help policy-makers make informed decisions on minimum wage increases. Fourth, she proposed that, in the light of increasing acknowledgement of tripartism internationally, the example of Barbados, where the social partners made a meaningful contribution to the minimum wage issue, could be promoted by the ILO as a good example.
- 28.** The representative of the Government of South Africa stated that his Government was committed to the protection of vulnerable workers and the promotion of the Decent Work Agenda. He felt that the argument that a minimum wage would only protect the interests of wage earners ignored the fact that it provided a benchmark, as well as increasing the standard of living for people dependent on the wage earner. A minimum wage was but one instrument among a whole range of poverty alleviation interventions, and access to education, housing and health, among other things, should also be addressed. Minimum wage fixing in South Africa applied to all workers equally, and the current legislation allowed for differentiation based on clearly defined criteria in terms of the ability of employers to pay and the cost of living. A minimum wage rate should reflect a balance, allowing for the highest level of employment, the need to alleviate poverty, and the ability of the employer to pay.
- 29.** The representative of the Government of the United States felt that, contrary to paragraph 45, the minimum wage was, at best, a limited instrument for protecting workers. That position was supported by paragraph 13, which indicated that the social policy sought

by those promoting the minimum wage might not be consistent with the realities faced by those who had to pay it. The risk of setting too high a minimum wage was unemployment and the possible loss of livelihood, despite empirical evidence that the negative employment effects of the minimum wage were smaller than asserted by its opponents. He called attention to the fact that economic theoretical literature suggested that there was a window for minimum wage setting without inducing negative employment impacts, and that the minimum wage outcomes typically observed were within that window. However, all of those theories predicted that, at some point, the wage could be set so high that large negative employment effects did occur. He concluded from that observation that, since the social policy goal sought need not imply a wage within the window of benign employment effects, other instruments were likely to be needed if the social policy goal was to be reached. He noted that the document mentioned the goal of fighting wage inequality and pointed out that not all countries would necessarily pursue that goal. The Office should therefore tailor its technical assistance and policy advice and leave social policy goals to be determined at the national level. The OECD's approach and view of the minimum wage as one of several instruments was more practical and realistic, and the ILO could learn from that.

- 30.** The representative of the Government of Brazil indicated that the issues raised in the document were very relevant to his Government. His Government considered the situation of small and medium-sized enterprises when setting minimum wages, as it believed that indiscriminate increases in the minimum wage might cause unnecessary pressure on those enterprises, which were an important source of employment for workers with low qualifications. Taking into account its effect on fiscal policies through its impact on social security accounts, Brazil had decided to calculate minimum wages based on inflation and GDP rates. The Ministry of Labour planned to form a tripartite group to discuss a gradual and progressive enhancement of the minimum wage level, in the context of the Brazilian Council for Social and Economic Development and the recommendations and assistance provided by the ILO.
- 31.** The representative of the Government of India congratulated the Office on its thought-provoking report and agreed with the aim of protecting the lowest wage earners and other vulnerable categories of workers through the minimum wage. He felt that wages should ideally be determined through a negotiation process or sectoral bargaining; however, developing countries such as India had large unorganized sectors. In the absence of a strong and structured organization of workers and employers, governmental decisions played a major role in providing a benchmark for minimum wages.
- 32.** The representative of the Government of China welcomed the document, noting that collective bargaining was a key issue in China, and added that the minimum wage had a twofold aim: protecting vulnerable workers and ensuring a decent standard of living. He suggested that studies be carried out into the effects of the minimum wage, in particular with regard to labour migration. In conclusion, he asked how pressure placed on enterprises through increases in the minimum wage could be alleviated.
- 33.** In response to the debate, Mr. Eyraud indicated that the Office would be taking the opinions of the Committee into consideration. He noted the interest expressed by various speakers in further studies being carried out on the subject and the emphasis placed on the requirement that those studies clearly address the relationship between the minimum wage and employment levels. Although that link was important, it was also essential to give value to the impact that the minimum wage had on the income of the lowest paid workers. Few studies were available concerning the impact of the minimum wage on the informal economy, and the Office was about to begin research on that topic. As the comments from governments illustrated, there clearly was a relationship between the minimum wage and the informal economy. He agreed that social policy objectives should be fixed by each

individual State, but emphasized that, in accordance with Convention No. 131, the minimum wage could be a useful instrument for protecting the most vulnerable workers, if used appropriately. Finally, as for the wording “appropriate increases” in paragraph 45, he drew an analogy to a “window of opportunity” to illustrate the wide range of situations that could alter the way criteria for minimum wage increases were applied. In conclusion, he thanked the Committee for the guidance received.

- 34.** The Employer Vice-Chairperson reiterated that the minimum wage was an issue that, in view of the diversity of country situations, must be dealt with at the national level. He encouraged the Office to focus on providing advice to countries on minimum wage systems. In his view, increases in the minimum wage did cause job losses, or at the very least stifled job creation. He stressed that any minimum wage increase that did not refer to productivity increases could result in employment moving from the formal to the informal economy.
- 35.** The Worker Vice-Chairperson noted the overwhelming support for strengthening the Office’s work in the area, including information dissemination and an evaluation of the evidence, and the many useful suggestions made by governments. As regards the need for taking the social economic situation into account when determining minimum wage levels, the Minimum Wage Fixing Convention, 1970 (No. 131), and its accompanying Recommendation (No. 135), identified other factors, such as the needs of workers and their families, the general wage level, cost of living, and social security benefits, which all needed to be considered. The Office paper made useful observations, based on facts, about the trade-off between minimum wages and employment. In the United Kingdom, successive minimum wage increases since 1999 had coincided with significant increases in employment. Acknowledging the multitude of examples where the employment effects of minimum wage increases were either marginally negative, neutral, or positive, he requested that the Office do more to provide informed perspectives to member States. He concluded by observing that, in the United States, several hundred respected economists, including Nobel Laureates, had recently made a public call for increasing the minimum wage in order to help equalize the worker-employer imbalance in bargaining power and to alleviate poverty.
- 36.** The Employer Vice-Chairperson questioned whether the example of the United States quoted by the previous speaker could be considered representative. Referring to the example of the United Kingdom, he stated that during the period in question the economy had been expanding vigorously and therefore the relationship between minimum wages and employment growth was not clear. Quoting the Confederation of British Industry – which was supportive of minimum wage legislation – he drew attention to their observation that during that period corporate profitability in the United Kingdom had not been as strong as one might have expected, based on the level of economic growth.
- 37.** The Chairperson called for a more focused discussion on the future work of the Office in the area of minimum wages, including areas such as information dissemination and promotional activities.
- 38.** The Worker Vice-Chairperson felt that it would be helpful to have debates based on facts, noting that the Office paper was constructive owing to its use of empirical evidence. In response to the statement of the Employer Vice-Chairperson, he felt that the example of the United Kingdom illustrated that a booming economy could be maintained when minimum wages were systematically increased. He further noted that, in the United Kingdom, the share of national income that accrued to profit had risen in the period in question, throwing doubts on assertions regarding profitability.
- 39.** The Committee took note of the Office paper.

III. Implementation of the Global Employment

Agenda: An update

(Third item on the agenda)

40. The Committee had before it a paper on the implementation of the Global Employment Agenda: an update.⁴
41. A representative of the Director-General (Mr. Amjad, Director of Policy Planning, Employment Sector) introduced the Office paper, briefing the Committee on the use of the Global Employment Agenda (GEA) as an analytical framework for shaping employment policies and action plans adopted at national, regional and global level, and providing additional details on the Office's inputs and follow-up to the Extraordinary Summit of Heads of State and Government of the African Union on Employment and Poverty Alleviation in Africa and the China Employment Forum (CEF). There was now clear recognition that the promotion of decent work was the most effective means of reducing poverty, smoothing the transition process to a market economy and generating employment recovery in times of crisis. Similarly, youth employment was also given high priority. There was an increasing demand for ILO technical services, and pressure to improve capacity, response capability and efficient use of resources. The success achieved in the events mentioned had been due in large part to the active collaboration and contribution of the social partners.
42. The Employer Vice-Chairperson suggested that future reports should include a report on the Office's work with countries to determine the extent to which its advice had been useful. He stressed the seriousness of the youth unemployment problem and suggested an item on youth employment at the November 2005 session of the Committee to follow up on the discussion at the 2005 session of the International Labour Conference. He also suggested that relevant technical cooperation programmes, such as those listed in GB.291/TC/1, be incorporated into the next GEA update. In summary, while the paper was useful, more information on the implementation of the GEA in the future would be welcome.
43. The Worker Vice-Chairperson found the paper lengthy, but not shedding much light about the planned work programme. While the Office's work with regard to the African Union Summit was appreciated, future documents should include a comprehensive implementation plan. Such a plan could be submitted to the Committee at its March 2005 meeting. Regarding youth employment, he suggested that the outcomes, including the criticism regarding lower minimum wages for youth, of the Tripartite Meeting on Youth Employment held in October 2004 should serve as a guide for the ILO's current work. On the training seminars referred to in paragraph 28, he expressed concern about the statement that participants had been asked to list three of the ten GEA core elements for priority implementation. There should be no such hierarchy of the core elements; all ten were the basis of ILO technical work. On the issue of governance raised by the Employer Vice-Chairperson at the outset of the Committee's first sitting, he did not share the view that the policy coherence initiative was outside the ILO's mandate, but he agreed that there were gaps in the governance role of the Committee in respect of work falling within its mandate. He called for more forward-looking updates on the GEA. The Office should ensure greater tripartite insight into and oversight of its work on the GEA through regular reports identifying work done in the past and setting out a proposed work programme for the next 12 months. The Committee could then offer comments and guidance. This could be done without seeking to micromanage the Office programme. Finally, the paper could benefit from the addition of a brief audit of GEA work done by country, possibly as an addendum.

⁴ GB.291/ESP/3.

44. The representative of the Government of Sudan, speaking on behalf of the Africa group, expressed his appreciation for the role that the ILO had played in the African Union Summit. Prior to the Summit, several meetings had been held reaffirming the need for political will in encouraging job creation for marginalized groups, strengthening capacity for economic growth, encouraging enterprise and small-scale projects, particularly involving women, reinforcing employment services, social security and security of employment, and dealing with sectoral employment issues. The documents coming out of the Summit related to decent work and poverty reduction in Africa and reiterated previous commitments to job creation. Committees at the national and regional levels would be involved in the follow-up, in particular in the implementation of the Action Plan.
45. The representative of the Government of China stated that the paper illustrated how the GEA had been prioritized in many countries. China had also carried out effective measures for its implementation. The CEF, organized by the ILO and the Government of China, had been a valuable opportunity to gain insight from international experience, and he thanked the ILO for that.
46. The representative of the Government of Indonesia welcomed the report and congratulated China on the successful organization of the CEF. Indonesia had also participated in that event and saw its value for developing countries. Her Government had developed a national Youth Employment Action Plan, which addressed employability, equal opportunities, entrepreneurship and employment creation. In keeping with the Government's main goal of eradicating poverty, cooperation with the ILO and other agencies towards sustainable national development would continue.
47. The representative of the Government of Argentina hoped that the ILO would strengthen its work in Argentina, leading to specific measures to create employment in the context of decent work. The box after paragraph 22 showed the vital role that the ILO had played in assisting Argentina during its recent economic crisis. He informed the Committee that the topic of the next Summit of the Americas in 2005 was employment, poverty and democratic governance; the Summit would be a good opportunity to further the objectives of the GEA.
48. The representative of the Government of India expressed his appreciation for the efforts by the ILO to ensure that employment was a central goal in economic and social policy-making. Promoting small and micro-enterprises was an effective way to address youth unemployment. In the context of globalization, emphasis should be given to skills upgrading to meet labour market demand. As part of its efforts in poverty reduction, his Government had formulated a National Rural Employment Guarantee Act that would ensure that poor rural households had 100 days of employment a year at the minimum wage. The informal economy could play a role in employment generation, and it was important to study obstacles to the growth of informal enterprises. Technical cooperation programmes on issues such as skills and entrepreneurship development, credit, social protection and opportunities for women could assist that process.
49. The representative of the Government of the United States noted that the paper was important for the performance of oversight by the Committee. While it was useful to learn of the ILO's work in implementation, it would be more useful to hear more from countries that had received assistance. Both China and the African Union were appreciative of the inputs of the ILO in their respective forums. It would also be important to hear what was most effective and the type of results that were generated. He proposed that future reports focus less on past activities and more on the impact of those activities.
50. The representative of the Government of Pakistan applauded the work of China and African Union leaders in developing action plans using the GEA as a framework and

supported the work of the ILO in developing national employment agendas. The ILO's position that poverty could not be reduced without the creation of decent jobs had been recognized by international organizations, including the IMF. He noted that the Common Understanding developed in the CEF emphasized the need to stimulate labour demand through entrepreneurship development. Youth unemployment was a source of instability worldwide. The recent Tripartite Meeting on Youth Employment was a milestone, and he looked forward to the discussions at the 2005 session of the International Labour Conference. As five of the ten core elements of the GEA had now been discussed, it would be useful to review progress.

- 51.** In summing up the interventions, the Chairperson noted that the Committee had given the Office a lot of guidance. The Committee had also brought up issues of oversight. In his understanding, the guidance of the Committee constituted oversight, and he looked forward to future reports based on that advice.
- 52.** Mr. Amjad welcomed the guidance provided by the Committee, which in itself demonstrated strong commitment to the GEA. He agreed that it was important to show the impact of activities in countries. In the two years since its adoption, the GEA had provided an analytical framework to assist countries in developing plans that placed employment at the heart of development. The Office was committed to demonstrate results of those interventions, including, for example, by providing case studies and giving countries the opportunity to give presentations to the Committee. He fully agreed that the core elements of the GEA were not given in any order of priority. The example cited by the Worker Vice-Chairperson related to a specific exercise on technical assistance in implementing priority elements of the GEA as identified by the countries concerned. He pointed out that the future direction of work on the GEA was outlined in the programme and budget, but the Office could seek more guidance from constituents when reporting on work planned in the context of the GEA.
- 53.** The Employer Vice-Chairperson did not agree that the Committee should comment on the Office's workplan. In his view, that would invariably lead to disagreement and micromanagement. He also did not agree that countries should not prioritize core elements of the GEA, given the specific characteristics of each country. He was concerned that, in the highly destabilizing context of youth unemployment, the ILO's capacity to assist in that area was being curtailed owing to diminishing resources. He noted, for example, that, according to a document presented to the PFAC on the evaluation of IFP/SKILLS, there had been a 66 per cent reduction in professional staff in recent years.
- 54.** The Worker Vice-Chairperson supported the view that the Committee should now review the impact of activities. In the discussion of GB.291/PFA/9, the Workers had pointed out that the Office was in danger of reducing its capacity to implement elements of the GEA. In his view, it was possible to discuss programmatic aspects of the GEA without micromanagement. He disputed the idea that comments could only be given retrospectively and suggested that that was contrary to the argument that the Employer Vice-Chairperson had put forward in his criticism of governance. He shared the concern about the scaling down of professional capacity in areas such as training and employment policies and urged governments to move away from a zero growth budget.
- 55.** The Chairperson noted the Employer Vice-Chairperson's position that activities should not be undertaken without the authority of the relevant body. He reminded the Committee that the scale of activities must be coordinated with the PFAC, which was the sole authority on resource allocations.
- 56.** The Employer Vice-Chairperson emphasized that there were no inconsistencies in his position on governance. There was no question that the GEA could not proceed, since it

had already obtained approval by the Governing Body. However, in his view, the Office had not been authorized to proceed with elements of the report of the World Commission on the Social Dimension of Globalization.

57. The Worker Vice-Chairperson reiterated his view that the position of the Employer Vice-Chairperson was inconsistent, since the policy coherence initiative, which he had criticized earlier, could be considered one of the alliances and partnerships that were proposed by the GEA. He regretted that the Employers were critical of the fact that the policy coherence initiative had not been specifically pre-authorized by the Governing Body, yet at the same time they were reluctant to agree that the Office should table its planned work programme. He did agree, however, that the Committee on Employment and Social Policy should not micromanage the work of the ILO, but was concerned that that should not be used as an argument to negate the Committee's oversight and governance function.
58. The representative of the Government of the Islamic Republic of Iran thanked the Office for its work on the GEA. He was particularly concerned about global youth unemployment, especially for young women. That not only adversely affected GDP, but also had a detrimental effect on the well-being of young people. The Youth Employment Network (YEN) had yet to illustrate a clear perspective for the future. Small and medium-sized enterprises (SMEs) were critical and should be an integral part of national policies. The ILO, in partnership with the Bretton Woods institutions and through consultations with the social partners, could assist member States in designing policies for entrepreneurship development, which was a vital instrument for job creation and decent work.
59. The Chairperson thanked the Committee for the fruitful debate.
60. The Committee took note of the Office paper.

IV. Trade, foreign investment and productive employment in developing countries (Second item on the agenda)

61. The Committee had before it a paper on trade, foreign investment and productive employment in developing countries.⁵
62. A representative of the Director-General (Mr. Campbell, Director a.i. of the Employment Strategy Department) introduced the paper, focusing on the ongoing and future work of the Office. The ILO had carried out work on the employment implications of trade and foreign direct investment (FDI), and he reported the results of a number of recent studies published by the ILO. He informed the Committee of two proposals for the forthcoming biennium; namely, a study of the impact of regional integration on jobs and earnings and a study of global value chains and employment. The ILO was well placed, in the context of the finalization of the Doha Round of trade agreements, to make a case for a fair globalization. The ILO was also in a position to work more closely with the WTO in helping countries entering trade liberalization to address employment concerns. Indeed, sectoral policy was increasingly part of the ILO's work on employment policy and, from the ILO's perspective, trade and foreign investment were explicit components of employment policy.

⁵ GB.291/ESP/2.

- 63.** The Worker Vice-Chairperson thanked the Office for the paper. It provided some useful insights into the impact of trade and investment on employment in developing countries and those should be taken into account in promoting the GEA. He noted evidence cited in the paper suggesting that there had been an uneven performance between developing countries, with both positive and negative wage trends, and emphasized that workers' organizations were more often exposed to the pain and dislocation of trade shifts than the positive effects. He was not convinced that wages increased in all instances of improved export performance, and he cited the experience of Argentina and South Africa to illustrate that point. However, the paper led to an important conclusion: trade policy on its own was no guarantee of increased economic growth and employment expansion; complementary policies were needed. He cited the observation in the paper that successful manufactures-exporting developing countries often relied on protective trade measures in their domestic market, and noted that that required policy space for developing countries on trade policy. The document contained some useful insights into FDI. He noted the complex relationships between FDI flows, growth and employment creation, and the findings of the paper that FDI flows were not particularly affected by capital account liberalization. However, he took issue with some of the observations relating to the quality of employment, such as the reference to wages in export processing zones (EPZs), and the absence of details on the issue of market access for developing countries. On that point, he argued that improved market access for developing countries could ensure that trade and FDI contributed to decent work. He emphasized the point made in the paper on the need for more policy space for developing countries. The Workers supported five areas of action for ILO work: strengthening research, advocacy and technical capacity in the issues set out in core element 1 of the GEA; sharing the insights gained with countries receiving ILO assistance in the context of the Decent Work Country Programmes, Poverty Reduction Strategy Papers (PRSPs), GEA and the YEN; providing support and technical assistance to develop specific national policies for member States not yet benefiting from those programmes; assisting member States in their efforts to promote workers' rights in EPZs; and deepening dialogue with the Bretton Woods institutions and the WTO to ensure decent work and the placement of employment at the centre of economic and social policy.
- 64.** The Employer Vice-Chairperson found the paper interesting but disappointing, because it overstated the downside of trade and FDI and understated the upside. He argued that countries were marginalized for more complex reasons than those mentioned in the paper, and he referred to a 1997 OECD study that examined the reasons for sub-Saharan Africa's poor growth. It was regrettable that the paper did not address trade in services. On the question of FDI and productive employment, he found the paper overly simplistic, flawed and counterproductive, particularly as it ignored that much of FDI was in services. The fact that countries that reduced or eliminated their own tariffs stood to benefit most was also not mentioned. As regards wage inequality, trade, investment and technology all interacted to increase the wage premium for skilled workers. Trade had an impact not so much on the quantity but on the quality of employment. The advice to governments contained in paragraph 38 to use trade and FDI for employment promotion was therefore wrong. The paper also underestimated the Doha Round of trade agreements, which, if successful, would have a fundamental impact on development opportunities in developing countries. The WTO did not need the ILO's advice in that regard. It was astonishing that the Workers continued to be preoccupied about EPZs when the paper clearly established that wages and working conditions in EPZs were better than in other parts of the economies in which they were located. Responding to the Office's request for guidance on future action, he supported the proposal for providing assistance to countries that sought advice on the labour implications of trade liberalization or WTO membership. The WTO was not interested in developing a closer relationship with the ILO; the opportunity for cooperation was not at the institutional level, but rather at the level of giving advice to individual member States. There was, however, scope for the ILO to work more closely with the international financial institutions (IFIs), but the ILO needed first to determine the sort of

relationship it sought. Regarding paragraph 42, it was doubtful whether the Office should increase its research and information-gathering work in a situation of limited resources.

- 65.** The representative of the Government of France, speaking on behalf of the IMEC group, thanked the Office for the document. The group felt that the ILO could work with the WTO and the IFIs by raising awareness and providing information on the employment implications of trade and investment. He believed that the ILO had a comparative advantage in helping member States anticipate structural changes linked to the liberalization of trade, in developing domestic policy mechanisms to facilitate sectoral adjustments, worker mobility and training, and in promoting the corporate social responsibility of multinational firms toward local stakeholders.
- 66.** The representative of the Government of Japan, speaking on behalf of the Asia-Pacific group, thanked the Office for a very balanced and useful analysis. His group particularly appreciated the view expressed in the paper that international rules for trade and capital flows should not be imposed unilaterally.
- 67.** The representative of the Government of Sudan, speaking on behalf of the Africa group, agreed that trade and FDI had an important influence on employment in developing countries and were relevant for employment policies in an era of globalization. However, he felt that it was the developed rather than the developing countries that were benefiting from globalization. The Africa group therefore felt that it was important to give developing countries the opportunity to benefit through: (1) the development of training and skills programmes to enhance productivity; (2) the strengthening of agricultural exports through agricultural grants and other programmes; (3) the removal of obstacles, such as the large debt burden, to allow developing countries to benefit from new opportunities, such as information technology; and (4) the development of retraining programmes for workers who had lost their jobs.
- 68.** The representative of the Government of El Salvador, speaking on behalf of the Group of Latin American and Caribbean States (GRULAC), thanked the Office for the document and particularly for revising the document to include some of their earlier concerns. Nevertheless, GRULAC continued to feel that there were certain issues that were not sufficiently considered, particularly agricultural protectionism by developed countries. Instead, the document focused almost exclusively on manufactured goods, without recognizing that the marginalization of certain countries in world trade was related to the problem of unfair trade in agriculture. Agriculture was the most distorted sector in international trade. By removing those distortions, developing countries could improve their economic well-being and decent work. Still, agricultural liberalization needed to take into consideration the unique concerns of developing countries, including food security and rural development, by applying Special and Differential Treatment. Another area that was not sufficiently considered was the liberalization of trade in services, in particular in the so-called mode 4 services, in cases where persons provided services in a country other than their country of origin. The employment impact of liberalization of trade, “mode 4” services and protectionism in agriculture in developed countries should therefore be an area of future work for the ILO. His group felt that FDI could be a useful instrument for generating employment if it was adequately integrated into the local economy. Since the market could not always ensure that outcome, the State sometimes needed to intervene. He therefore considered important the reference to sufficient room in the fourth bullet point in paragraph 39, which argued for the need to maintain space for developing countries to design their own liberalization programmes. Future areas of work could also include case studies of successes and failures of FDI in terms of employment generation, as well as the development of indicators for evaluating the employment success of FDI.

69. The representative of the Government of China found the paper useful for understanding the relation between trade, FDI and employment. He emphasized the important role of active labour market policies in cushioning the adverse impact of adjustment, and requested the Office to further examine trends in trade and FDI and to analyse their relationship with employment.
70. The representative of the Government of India thanked the Office for an exhaustive analysis. In his view, the empirical evidence described in the paper showed that trade liberalization could have a positive impact on employment and incomes, but that international efforts were needed to ensure fair rules for trade and capital flows and the cross-border movement of people, as well as market access for developing countries. His country was not against ILO partnership and dialogue with other multilateral institutions; however, the ILO had a clear mandate on labour issues that should not be compromised.
71. The representative of the Government of Mexico expressed her support for the document but felt that some topics, such as differences between countries, could be further explored. In Mexico, for example, trade liberalization had stimulated the growth of unskilled employment. She recommended that the Office conduct research on how different labour costs and labour market structures among developing countries affected competition. More empirical evidence could be given to the effect of trade and FDI on employment, for example, by citing data comparing employment growth in the manufacturing sector with total employment, as well as information on average wage growth. Regarding FDI, it was not clear which countries or which models had the effect of displacing domestic investment, or which countries attracted FDI as a result of exogenous factors rather than national policies. Future ILO work should help developing countries to use trade and FDI as instruments to promote employment. The ILO could also assist in the design of labour market policies and institutions to provide assistance to those workers affected by trade and to promote the rights of workers in EPZs.
72. Mr. Anand (Employer member) commented on the role of the service sector. He cited India as an example of a successful case in developing export services. On the issue of agricultural subsidies, he argued that deeming them legitimate in developed countries but not in developing countries was not only discriminatory but also hypocritical. The policy ran counter to the Decent Work Agenda and the ILO must undertake research and comparative analysis on the issue – for example, by studying the effect of subsidy retention on world poverty.
73. Mr. Tabani (Employer member) supported the views of the previous speaker and added that, if developed countries agreed to decrease their agricultural subsidies, there would be faster progress towards attaining the Millennium Development Goals. Fewer subsidies in the North would mean less poverty in the South.
74. Mr. Trogen (Employer member) focused on global restructuring in the ICT industry, noting that it had not been addressed in the discussion, even though it had been beneficial to both developed and developing countries and had contributed to a fairer globalization.
75. Ms. Anang (Employer member) pointed out the positive impact of liberalization of trade in services. In Ghana, outsourcing of call-centre services had created employment for many young women, with higher than average wages and better working conditions.
76. Mr. Campbell thanked the Committee for its guidance and listed the following areas where he felt that there was a genuine demand: trade in services; the impact of agricultural subsidies; collaborative dialogue with the Bretton Woods institutions and the WTO; and assistance at the national level. Regarding the ILO's relationship with the Bretton Woods institutions and the WTO, he noted that, in the past eight years, considerable progress had

been made in improving those relationships. He concurred with the suggestion that collaboration be increasingly at the national level, for example by responding to countries' requests for assistance in preparing employment-friendly liberalization policies.

- 77.** The Employer Vice-Chairperson reiterated his belief that the ILO had a useful role to play in assisting countries to adjust to the requirements of WTO membership and to derive employment benefits from trade and FDI, as expressed in the third bullet point of paragraph 42. He was sceptical, however, of having a formal WTO-ILO relationship on those issues, given the resource constraints of the Office, and thus he opposed the first bullet point. The second bullet point on promoting collaboration with other relevant multilateral institutions would depend on how the ILO was perceived by other agencies.
- 78.** The Worker Vice-Chairperson felt that the discussion had been generally supportive of ILO work in the area of trade and FDI and employment, although additional research areas had been identified by the Committee, which he found helpful. In particular, he concurred with the suggestion of GRULAC to develop indicators to monitor the effects of trade and FDI, with the suggestion of China to provide reports that could help fashion policies, and with the suggestion of Mr. Anand from the Employers to assess the impact of agricultural subsidies on employment. He also noted the comment by GRULAC that increased investment did not always lead to increased employment, and that national policy space was needed to address market failures, and was pleased to learn about ILO activities regarding EPZs in China and Mexico. He felt that there was consensus on the need to eliminate agricultural subsidies, given their adverse effects on growth and workers' rights in developing countries. He thus encouraged the Office to pursue work in that area. The consequences of trade liberalization did not always follow textbook predictions, and countries needed practical roadmaps regarding trade. That was particularly true regarding protectionist measures, which was why many developing countries, including successful exporting countries such as Brazil, China and others, supported Special and Differential Treatment. He agreed with the finding in the document that investment was the consequence of many factors and did not depend on the degree of capital account liberalization. Labour standards in EPZs remained a legitimate concern, particularly given their tremendous growth, both in numbers and in employment, over the past decade. Trade in services was indeed an important issue, and developing countries needed to move up the value chain in that regard. Finally, he requested the Office to extend its work on programmes to enhance the rights of workers and the benefits they received from removal of agricultural subsidies and growth of services in developing countries.
- 79.** The Chairperson felt that some of the discussions were more appropriate for a WTO or an UNCTAD meeting. The ILO should limit its perspective to the labour dimension, as it did not have the resources to cover all aspects of that issue. Regarding collaboration with other organizations, he suggested that the Office look into the possibility of negotiating an interorganizational agreement.
- 80.** The Committee took note of the Office paper.

V. Macroeconomic policy for growth and employment (First item on the agenda)

- 81.** The Committee had before it a paper on macroeconomic policy for growth and employment.⁶
- 82.** A representative of the Director-General (Mr. Campbell, Director a.i. of the Employment Strategy Department) introduced the Office paper. He noted that the practical implications of the paper came from the GEA itself, by recognizing that the ILO's mandate and its ultimate success was powerfully influenced by the policies in other spheres. As indicated in the Declaration of Philadelphia and the GEA, the ILO was mandated to provide advice on the employment consequences of various economic policies. He went on to give examples of policy interrelatedness. The ILO's economic policy work extended to the Organization as a whole, that is, those who were most affected by macroeconomic policy choices, be they enterprises, governments or trade unions. Its comparative advantages were twofold: first, it was in a unique position to provide real-world views of the effects of macroeconomic policies on people; second, through the unique institution of tripartite social dialogue, macroeconomic trade-offs could be resolved in ways that were beneficial to all. On the issue of the allocation of financial resources, he noted that the resources devoted to macroeconomic policies were distributed both across headquarters and between headquarters and the field, and that the staffing resources of the Employment Strategy Department had not changed from the previous biennium.
- 83.** The Employer Vice-Chairperson stated that a clear identification of the ILO's work on macroeconomic policies within the GEA framework still seemed controversial, in terms of resources to be allocated for further research on that item and directions to be taken by the Office. He went on to question the relevance of arguing over the Washington Consensus in view of the situation that the World Bank and the IMF had been taking a more flexible approach in implementing the Consensus, particularly in the 1990s. Furthermore, the policies of the World Bank and the IMF were dictated by their members, and this applied also to the functioning of the WTO. Referring to paragraph 36, he noted that the current level of resources was satisfactory and that they should be used more for providing additional concrete technical advice at the country level, specifically in the case of participation in the PRSP process (paragraphs 16-18). Only 16 of the 54 countries engaged in the PRSP process benefited from ILO support and participation. He concluded that one of the most useful ways of deploying limited resources was to provide support to, and ensure the participation of, the employers' and the workers' organizations in the PRSP process.
- 84.** Ms. Anang (Employer member) supported the view of the previous speaker that the ILO should channel resources towards increasing the capacities of employers' and workers' organizations to provide input into the PRSP process. That had been the case in her country, Ghana, where it was very useful.
- 85.** The Worker Vice-Chairperson felt that the paper had addressed some, but not all, of the four questions initially raised in the GEA as being of relevance to the core element on macroeconomic policies, and hoped that future papers would address the remaining issues. With regard to the section on macroeconomic policy objectives, he cited global growth rates that showed that such growth rates had been lower during the period characterized by the Washington Consensus. In view of the possibility that an equilibrium in aggregate supply and demand could easily coexist with substantial unemployment, the ILO had a

⁶ GB.291/ESP/1.

clear mandate and responsibility to play an active role in that policy discussion. As for the use of resources, he supported the proposal to undertake more research. Trying to influence the policies of the Bretton Woods institutions on certain cross-cutting issues might be a more effective use of scarce resources than trying to provide the same advice to all PRSP countries. In the area of public expenditure, he noted that governments needed more fiscal space to provide basic public services in infrastructure, technology development and human resource development, to benefit fully from export-led growth strategy. An increase in basic public services would expand options for developing countries to explore the potential for domestic-led growth. With respect to policy space, he noted that the industrialized countries routinely used fiscal expansion, loose monetary policy, trade and industrial policies to address their employment or growth imperatives. The developing countries should not be denied the same degree of policy space. He proposed further discussion of the Tobin tax as one useful area of future work.

- 86.** The representative of the Government of Brazil, speaking on behalf of MERCOSUR, Bolivia, Chile and Peru, said that dogmatic rigidity should be avoided with regard to establishing macroeconomic policy aimed at creating productive employment in developing countries. The Washington Consensus did not resolve many of the socio-economic problems, and a new development path had yet to be found. Internal and international policy coherence was fundamental, in particular coherence between the WTO, the World Bank and the ILO. An alternative development paradigm needed to be designed, and the ILO should play an important role in that. The perspective of the ILO would be important in respect of the proposals by various developing countries on fiscal accounting as concerns the calculation of the primary budgetary surplus. He concluded that the loss of national autonomy on macroeconomic policies, referred to in paragraph 29, could be positive if it resulted from greater international policy coordination, or negative if it resulted from an external obligation where the government had little influence.
- 87.** The representative of the Government of Japan, speaking on behalf of the Asia-Pacific group, underlined the need for ILO involvement in some aspects of macroeconomic policies; however, there were aspects that did not fall within the mandate of the ILO. He agreed with the need for a macroeconomic policy focused on growth, employment and investment promotion, with gradual incorporation of social protection measures. He welcomed the ILO's assistance in the design of an employment strategy at the country level and suggested that the ILO's limited resources be used for providing more technical services.
- 88.** The representative of the Government of France, speaking on behalf of IMEC, indicated her group's consensus in the following areas: (1) there should be a review of the employment impact of macroeconomic policies; (2) topics to be discussed in the Committee should be oriented more towards operational aspects and concrete activities undertaken by the Office, the Turin Centre, and the International Institute for Labour Studies, such as, for example, capacity building of the social partners and social administrations in carrying out macroeconomic analysis and the role of social protection within the macroeconomic framework; (3) the Office should provide more support to social ministries and social partners involved in PRSPs; and (4) more information was needed on what was meant by the last bullet point in paragraph 36, bearing in mind that the Committee had no authority over resource questions.
- 89.** The representative of the Government of Sudan, speaking on behalf of the Africa group, stated that macroeconomic difficulties could constitute a real barrier to development. He encouraged ILO involvement in structural adjustment policies and PRSPs. In that regard, the evolution of the labour market would be crucial, in particular programmes supporting the development of SMEs, specifically in rural areas, and investment in technology. Africa had been left behind in the globalization process and did not benefit from special treatment

under WTO rules. Investment in education would be crucial for improving productivity and for benefiting from a technological upgrading of domestic production. The recent Extraordinary Summit of Heads of State and Government of the African Union on Employment and Poverty Alleviation in Africa had demonstrated the importance of economic and social policies and of adding a social dimension to structural adjustment programmes.

- 90.** The representative of the Government of China thought that a lot of research had been carried out outside the ILO on the issue of growth and employment promotion. Economic growth was important for employment creation, but the pattern of that growth was of equal relevance. A worrying phenomenon was the decline of employment output elasticity. China's challenge was to improve and modernize its economy while keeping employment high, especially in rural areas. The Office should focus on providing technical assistance to member States in the formulation of macroeconomic policies that had an employment focus. He also requested that the Office provide advice on how to improve public employment services.
- 91.** The representative of the Government of Pakistan noted that the ILO could make a valuable contribution to the debate on macroeconomic issues if it were to analyse country experiences, especially with regard to enterprise creation, in order to propose country-specific employment strategies. He also encouraged strong ILO involvement in PRSPs.
- 92.** The representative of the Government of India stressed the mixed impact of globalization on developing countries. In his country, increases in the national income had not gone hand in hand with an employment increase. Nevertheless, the informal economy had seen considerable growth, which was very important for employment generation. Further support to the informal economy through the development of skills and entrepreneurial capabilities would help increase its productivity and thus promote decent work.
- 93.** The representative of the Government of Venezuela noted that the policies recommended by IFIs led to an unacceptable reduction in public spending on poverty alleviation. He pointed out that it was not only economic growth that reduced poverty or created employment. Growth should be accompanied by development and social policies, as it also had an ethical aspect. Distributive and redistributive income policies, with the help of public spending and social investment, were crucial in the fight against poverty. Broad and inclusive social dialogue, as had taken place in his country, was another key factor in achieving decent work.
- 94.** The representative of the Government of Argentina wished to clarify that the International Monetary Fund (IMF) was not the only actor to blame for the ill-founded economic policies of Argentina; however, it was certainly partly responsible for some aspects of the crisis which had recently affected the country. This had been acknowledged by the IMF itself, through its independent evaluation office. He stressed that closer dialogue between the IMF and the ILO would be necessary in the future so that decent work was better recognized by the IMF.
- 95.** The representative of the Government of the United States pointed out that his Government was strictly opposed to any discussion on the Tobin tax or any kind of capital control. As a recent MIT study had demonstrated, capital control was harmful, particularly for SMEs.
- 96.** The representative of the Government of Italy noted that the trade-off between growth and stability referred to in the document was not generally a key issue in current economic literature. He agreed that short-term deficit spending did not have a destabilizing effect on the economy, and he encouraged the Office to expand its research on that kind of

Keynesian policy and to develop methodologies to assess the social impact of macroeconomic policy in general.

97. Mr. Daer (Worker member) emphasized that the policies recommended by the IMF and strongly inspired by the Washington Consensus had led to a strong rise in poverty and unemployment in Argentina. For that reason, it was necessary that the ILO be involved in discussions with the IMF on economic policies and on matters such as the debt problem in Argentina.
98. In his reply to the Committee, Mr. Campbell suggested that the ILO should further clarify what would be the value added of an employment approach to macroeconomic policy. He noted the call for a new development model and the role that the ILO was asked to play in its elaboration. Concrete country studies were needed to support the discussion on the interrelatedness of macroeconomic policies and employment. In addition, it would be interesting to analyse whether there was a universal decline in employment growth elasticity and what could be done about that. In general, more research on the topic was necessary, and the ILO's involvement in PRSPs should be further enhanced.
99. The Worker Vice-Chairperson said that it was encouraging to see that governments asked for more research on the topic, in particular at the country level, and for it to be linked to development issues in general. Precisely because of different opinions on the Tobin tax, the topic should be discussed in the Committee on Employment and Social Policy. Rational discussion, not fundamentalism, should guide the discussion.
100. The Employer Vice-Chairperson felt that discussing the Tobin tax in the Committee would be an inefficient use of time; the Committee should rather focus on how the Office could use its limited resources more effectively to assist constituents, particularly through stronger engagement in the PRSP process.
101. The Worker Vice-Chairperson reiterated that he had found the contributions from governments most interesting and useful for the debate.
102. The Chairperson underlined the need for continued ILO involvement in the ongoing debate on macroeconomic policies. However, it was important to remember that the ILO's main concern was the employment implications of such policies.
103. The Committee took note of the Office paper.

Geneva, 15 November 2004.

(Signed) Ambassador Umer,
Chairperson of the Committee.