

Central Bank of Argentina: Money and Banking Conference, September 2010: Presentation by Robert Kyloh, International Labour Office¹

I would like to thank the Chairperson for his introduction and the invitation to participation in this important conference.

At the outset I wish to convey to the Central Bank of Argentina the best wishes of the ILO Director General, Mr Juan Somavia. On behalf of the Director General I also wish to thank the Government of Argentina for its strong and continued support of the ILO in the international arena and your commitment to the decent work concept.

I recall that just a few months ago the President of Argentina made an impressive intervention in Vancouver, at the Congress of the International Trade Union Confederation. The President reminded trade union leaders from around the world that “during the Argentinean crisis, her obsession was to protect and create jobs.” She also told trade union delegates that:

“The G20 and European countries now facing draconian economic recovery measures should remember the example of Argentina.”

That was very good advice. But I fear many governments in advanced and emerging economies are going to face major obstacles in implementing her advice in the period ahead.

As the consequences of the 2008 Great Recession continue to mount, and concerns about a “double-dip” linger, many orthodox economists are now starting to focus attention yet again on so-called labour market rigidities.

I say yet again, because there has been a 30 year campaign in many countries to weaken trade unions, collective bargaining and other labour market institutions which delivered social stability, sustained economic growth and full employment throughout the golden decades from the 1950s to the 1980s.

Recently, from the ashes of the global financial crisis, the labour flexibility campaign appears to be finding a renewed lease of life. It is ironic that an economic catastrophe caused by excessive faith in the efficiency of markets

¹ The views expressed are those of the author and not necessarily those of the ILO.

and distrust of regulation should now be used to resuscitate an attack on what remains of employment protection legislation, collective bargaining arrangements and other labour market institutions.

But there appears to be a view among some orthodox economists and particular groups within a few international institutions that high and rising unemployment, combined with concerns about sovereign debt, provide the right political and economic environment for a new wave of labour market reforms.

For example, the OECD in its 2010 “Going for Growth” flagship publication has claimed that:

“The crisis has in general reinforced the need for structural reforms. These reforms could help to speed up the ongoing recovery, strengthen public finances while protecting long term growth and, in some cases, contribute to the resolution of global current account imbalances.”²

The types of labour market reforms most strongly advocated by this component of the OECD have included: the promotion of very decentralised systems of collective bargaining or individual contracts, weakening minimum wages and eliminating wage indexation; reducing severance payments and weakening other aspects of employment protection legislation; reducing the generosity and duration of unemployment benefits as well as benefits paid to the disabled; lower payroll taxes and further strengthening of activation policies for the long term unemployed.

The economic logic behind the new focus on labour reforms recognises that -- other things being equal -- fiscal austerity will reduce consumption, domestic demand, economic growth and employment. But because there is no serious crowding out problem at present there is little chance this will be offset by a rise in private investment.

Consequently additional reforms are required to offset the downward demand spiral. The hope is that structural reforms – including further labour market deregulation - will boost productivity and facilitate faster export led economic growth.

² OECD; Economic Policy Reforms Going For Growth, 2010.

I have severe doubts about this strategy and particularly about whether the proposed labour market reforms will generate the improvements in productivity and international competitiveness which the proponents of these reforms claim.

On the other hand reforms of this nature will lead to further insecurity in the labour market and may further discourage consumption expenditure. Moreover, new labour market reforms will certainly increase social and political tension. We have already witnessed lengthy strikes and protests in countries where reforms are being most actively promoted. The situation could deteriorate further.

It would appear that the economic priorities have changed dramatically in the last 12 months. It was in September 2009 that leaders of the G20 countries meeting in Pittsburgh committed themselves to developing a new policy framework that would deliver “strong, sustained and balanced economic growth”.

The focus on balanced economic growth was the innovative component of this commitment. It was required because the pattern of growth in the decades prior to recession were clearly unbalanced.

As other speakers on this panel have already demonstrated the income gaps between the rich and the poor have widened considerably in the past two decades in most, but not all, countries. Various ILO studies have also focused on this issue and have documented widening wage inequalities and the failure of real wages to increase in line with productivity improvements, thereby leading to significant declines in the wage share of national output.

However the full impact of increased competition in the labour market over recent decades is not fully captured in the data on income inequality and factor shares. There are other, and perhaps more important, ways in which workers have felt the impact of these trends.

For example, in recent decades many enterprises have sought to reduce labour costs and enhance their international competitiveness through a dramatic expansion in atypical forms of work, including part-time, casual, and short-term work.

Also on the increase has been home work, contract labour and agency work. There are also various other forms of disguised employment relationships where

workers are re-labelled as “self-employed” yet they remain in an economically dependent and /or subordinate relationship with management of a company. These workers are denied many of the rights and benefits that apply to regular employees doing the same types of work. Usually such workers will not have rights to remedies for unfair dismissal or redundancy pay, sick pay or maternity pay. They also often have less protection in respect of occupational health and safety, social security, freedom of association and collective bargaining.

The need to constantly improve competitiveness to maintain market share, is also reflected in increased intensity of work, tighter deadlines and faster production processes. Patterns of working time have always been subject to change but the pace of change is now more rapid than ever before. Often, but certainly not always, flexible working arrangements have adverse consequences for family life and local communities.

Clearly, over the last thirty years the coincidence of national level reforms to promote labour market flexibility, intensified international labour market competition through globalisation and skill biased technological change has produced a three-pronged challenge to traditional power structures and outcomes at the workplace.

While much academic debate has focused on the relative importance of these three factors it is evident that they have all contributed to the expansion in income inequality and global imbalances. On reflection the combination of these three pervasive forces operating simultaneously has proven to be excessive and inconsistent with the achievement of healthy, balanced and inclusive growth.

People throughout the G20 region will only believe that the objective of strong, sustainable and balanced growth has been achieved if they perceive a tangible improvement in their own living standards and a diminished gap between the living standards of the rich and the poor within their own country.

Thus if we wish to see the promises made in Pittsburgh come to fruition several conditions must be met. Above all, we require a return to sustained rates of real economic growth equal to (or greater than) those that characterised the period prior to the Great Recession. In addition, relatively stable prices and the absence of major external economic shocks are important and necessary conditions to fulfil the pledges that G20 leaders made in Pittsburgh.

However, these will not be sufficient conditions to convince families and electorates that their leaders have delivered on the promises they made in September 2009.

To fulfil these commitments G20 countries will need to focus on both growth and how the benefits of that growth are distributed. If the period ahead is characterised by a substantial expansion of decent work, ordinary people in the G20 nations will conclude that growth has been strong, sustained and balanced.

There are two key questions we need to address.

First, how can we minimise the regression from decent work in the immediate term when the demand for labour will remain subdued despite a tentative recovery in global aggregate demand?

Second, how can we strengthen the positive relationship between decent work and economic growth in the medium and longer term?

The answer to both these questions may entail adjustments across a broad range of economic policy instruments, including: monetary policy, fiscal policy (both tax and government expenditure policies), trade policy, industry policy, labour market policies and wages policies. However, it is important to acknowledge that the precise adjustments required in each of these policy instruments will depend on a range of factors including: what point a country has reached in the economic cycle; the level of development; the structure of the economy; and existing labour market institutions. Policy adjustments to enhance the relationship between economic growth and decent work will clearly vary from country to country. One policy will not fit all.

Nevertheless, other things being equal, one can conclude that having greater policy space and flexibility relative to the range of policy instruments mentioned above would be desirable and compatible with strengthening the economic growth – decent work linkage in both the short and longer term.

It is encouraging that international organisations like the IMF have in the last few years been more forthright in challenging some aspects of what had become orthodox economic policy and are publicly encouraging debate on issues like: appropriate inflation targets and the degree of freedom that should exist with macroeconomic policy; the appropriate re-regulation of financial markets; and the potential for a global financial transactions tax.

A full and frank debate on these issues provides a conducive environment for those who wish to expand policy space and use public policy to more actively pursue faster economic growth and a more equitable distribution of the benefits from growth.

However I would suggest that now is time to expand this debate and also examine three additional issues.

First, what reforms might be made to the levels and structure of existing national tax policies to promote more balanced growth and to provide space for social and labour market policies that are compatible with decent work?

Second, what adjustments to labour laws and labour market institutions might be considered to encourage wage outcomes and an income distribution that are consistent with higher consumption expenditure and domestic demand in economies that have focused excessively on export-led growth in the past?

Third, what reforms should be considered to help channel resources from countries enjoying a large and persistent surplus in their balance of payments into productive investments in countries where there exists a chronic shortage of foreign resources?

If the international economic debate could be re-orientated to include a focus on these three issues more countries would have the opportunity to implement the advice that your President provided in Vancouver earlier this year. More countries would have the opportunity to protect their workers as Argentina did in its recovery from economic crisis a decade ago. More countries would have the opportunity to provide decent work and prosperity for all.

Thank you.