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**GENERATING DECENT WORK:  
HOW LABOUR MARKET INSTITUTIONS MATTER**

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This paper is an extract of the V.V. Giri Memorial Lecture delivered by the author at the Annual Meeting of the Indian Society of Labour Economics (ISLE), held at the Benares Hindu University (BHU), Varanasi, during 20-22 December 2012.

President Giri, who had earlier been the Vice-President of India, a state governor, and Federal Minister including the Minister for Labour, was a truly remarkable son of the sub-continent. He devoted his life to gaining freedom for his country from colonial rule and to improving the lives of working people. He was a pioneer in the building of the Indian trade union movement, the aim of which was to ensure that workers could live with dignity and that their basic rights were respected.

In order to underscore the commitment of the leaders and people of that generation to work for improving the lives and conditions of working classes, I will also mention here that the founder of Pakistan and its first Governor-General, Quaid-e-Azam Muhammad Ali Jinnah served as elected president of the All-India Postal Staff Union for 1925.

This lecture, therefore, focuses on rekindling our forefathers' spirit of dedication to building a humane and just society in which the rights of working people would be upheld, and their voices heard and respected. At a time when our countries face many challenges, we must once again erect the pillar of social justice, which appears to be slowly fading from our memories as the pursuit of unbridled economic growth—sadly based on the economics of greed—takes centre-stage. If we are to live in peace and harmony in a vibrant yet cohesive society, then economic growth with social justice, I will argue, is the only viable means of achieving this goal. The theme of this lecture, “Generating Decent Jobs: How Labour Market Institutions Matter”, is a humble attempt to suggest how we can move towards this goal.

The fundamental premise of the lecture is that the generation of employment is the most effective means of ensuring inclusive, sustainable, and equitable growth, but with the important proviso that this cannot be done through the creation of merely any jobs, but better jobs in terms of their being productive and remunerative and in which the fundamental rights at work are respected. This means shifting away from a narrow labour market-based perspective to one in which both markets and institutions together play an important role in moving towards an efficient, equitable, and rights-based labour market.

I fully realise that in developing countries such as ours, in which a large proportion of the working people are still employed in the unorganised sector of the economy and the vast

majority of the population lives below or just above the poverty line, this shift in emphasis from the creation of new jobs to the creation of better jobs seems almost a leap of faith rather than one based on stark economic realities.

I shall, therefore, follow a path that in many ways reflects my own experience, by first examining the traditional route taken by economists of identifying factors that encourage more rapid employment generation as well as the means of overcoming the factors that hinder this growth. I shall then move, as did the International Labour Organisation (ILO) over the last decade, towards examining the more ambitious goal of generating better jobs or what the ILO terms ‘decent work’, while explaining what the concept stands for, its historical context, and then the challenge of implementing it in developing countries. In so doing, I hope I can bring out the real value added by the concept of decent work to realisation of the goal of generating not just more jobs but better jobs—taking a somewhat more realistic view point than the ILO—of how we can move towards achieving it.

## **I. LABOUR ABSORPTION TO DECENT WORK**

In pure economic terms, the process of economic development entails the movement or shift of labour from low-productivity employment or sectors to those with higher productivity, resulting in the faster growth of output. If this shift can be sustained, then, over time, it makes it possible to improve the economic and social conditions of the wider population. The factors that facilitate this shift from low-productivity to high-productivity jobs and sectors have, therefore, been the focus of development economics, and indeed economic growth theories, in general.

As the pace of economic development in developing countries over the last five to six decades has failed to meet expectations and as, in a number of cases, economic conditions have actually worsened rather than improved, the focus has also shifted to relating economic development directly with poverty, which is measured in many different ways, including overcoming malnutrition, and providing education, healthcare, and social protection.

An analysis of the link between economic growth and poverty has made it evident that the most effective and direct route was through the creation of productive and

remunerative employment. Hans Singer (1991) aptly summed this up when stating that “employment and labour market problems are (thus) at the crucial intersection between growth and poverty alleviation”.

As disillusionment with the conventional ‘trickledown’ growth strategies grew in the late 1960s and early 1970s, leading development planners and international agencies and forums increasingly turned their attention to what had so far been a relatively neglected field in development plans—that of increasing the pace of employment generation. In a seminal presentation in 1971 at the Twelfth World Conference of the Society of International Development, the chief economist of Pakistan in the 1960s, Dr. Mahbub-ul-Haq, said:

“... looking at the national plans of the development countries, it was obvious that employment was often a secondary, not a primary, objective of planning. It was generally added as an afterthought to the growth target in GDP but very poorly integrated in the framework of planning. Recalling my own experience in the formulation of Pakistan’s five-year plans, and I ought to know, the chapter on employment strategy was always added at the end to round off the plan and make them complete and respectable, and was hardly an integral part of the growth strategy or policy” (Haq, 1971).

Haq’s view was now being increasingly echoed in the developing world. The search for the ‘Holy Grail’ of making employment central in economic policy and plans in developing countries thus began.

At the international level, the ILO’s World Employment Programme (WEP), which was launched in 1969 but really took off in the 1970s, was a major response to this challenge and was to serve as the ILO’s contribution to the United Nations Development Decade. It is important to note, as Dharam Ghai (1999) points out in his review of the programme, that the ILO had traditionally been associated with work related to the adoption and implementation of labour standards; it was, therefore, an important “strategic decision by the ILO leadership to highlight employment promotion as its central contribution to the UN Development Decade”.

The 1970s and 1980s truly signified a golden age not only in terms of the rich and path-breaking research on employment issues spearheaded by the ILO's WEP, but also for sparking the debate and contributions by both other international agencies (including the World Bank) as well as at the national level. Eminent development economists, including Nobel Prize winners Arthus Lewis, Jan Tinbergen, Wasily Leonief, and Amartya Sen, were associated with the WEP's work. Indeed, Sen's work on famine and entitlement, which was cited by the Nobel Prize Committee, was carried out under the aegis of the WEP.

Given the close linkage between employment and critical economic variables, the WEP's work encompassed macro-economic and trade policies, sectoral policies (industry, agriculture, services), skill development, and credit policies. It worked on the dynamics of rural poverty, on women workers, and on participatory organisations for the rural poor. As Dharam Ghai (1999) summed up, "In short, an employment strategy is tantamount to an integrated development strategy."

I had the privilege of working in the 1980s with the WEP's Asian regional arm—the Asian Regional Team for Employment Promotion (ARTEP)—and being associated with its research and policy advisory work. ARTEP's research programme had been conceived and collated by the remarkable Indian economist K.N. Raj during his one-year tenure as head of ARTEP and was implemented by another inspiring development economist, Dr. Azizur Rahman Khan.

It is a tribute to K.N. Raj's intellectual depth and foresight that a major thrust of the ARTEP research programme was on increasing labour absorption in agriculture. This was quite contrary to what conventional development theory had postulated, given the 'surplus' or 'under-employed' labour in agriculture, to move labour from agriculture to other sectors, mainly manufacturing. Raj realised that even under the best growth scenarios, this shift would at best take care of only a small portion of the surplus labour in agriculture.

Drawing on the historical experience of Japan and other East Asian economies, Professor Ishikawa (1978) (working at ARTEP's request) identified factors that had made possible a stage in their development at which both agriculture productivity and labour absorption or labour inputs increased simultaneously. These findings were then translated into

ARTEP's policy advisory work (Khan and Lee, 1983). The following factors were identified as catalysts for increasing labour absorption in agriculture:

- (i) Developing adequate and opportune irrigation facilities as well as water management and efficiency in promoting more labour-intensive and multiple cropping methods (“Water is employment-friendly”).<sup>1</sup>
- (ii) Putting in place appropriate agrarian institutions, since these have played a critical role in influencing labour absorption, including importantly, redistributive land reforms. Where these were not possible and where tenancy farming was widespread, it was necessary to provide legal protection, among other measures, to prevent tenants from being forcibly ejected. There was also a need to provide support to small farmers and to encourage peasant farming based on family labour.
- (iii) Ensuring economically efficient mechanisation by avoiding the sub-optimal use of labour-displacing technology through subsidies, overvalued exchange rates, and over-generous credit policies.

The above recommendations have been cited in some detail not only because they show the interaction of economic and institutional factors in influencing labour absorption or labour displacement in agriculture, but also because this research work has had an impact on policy planning decisions.

I recall a meeting at the ILO in Geneva in 1985, at which Professor Yoginder Alagh—then a member or senior adviser at the Indian Planning Commission—said that ARTEP's research findings had constituted an important factor in justifying increases in investment in irrigation works in the Indian development plan in the 1980s.

ARTEP's work in encouraging labour-intensive industry identified specific industries in ASEAN and then other Asian countries, but these findings met with a limited degree of success since industrial targeting was rapidly going out of fashion. What did catch more attention was ARTEP's work on export-led growth in East and South-East Asia: the role of export processing zones (EPZs) and the increasing use of female labour in firms engaged in exports (under the somewhat provocative title, ‘spearheads of

industrialisation' or 'sweatshops in the sun'). ARTEP's work on rural industrialisation—based on China's success in setting these up—evoked mild interest. However, with large-scale overseas migration to the Middle East from South Asian economies, ARTEP's work on their labour market impact as well as his examination of the overall macro-economic impact of remittances on the economy was incorporated by policy-makers both in the ministries of labour and the planning commissions.

Despite this impressive work by ARTEP on employment, the real question still remained as to whether the WEP and its regional arms (ARTEP in Asia, PREALC (Regional Employment Programme for Latin America)), and JASPA (Jobs and Skills Programme for Africa) and SATEP (Southern African Team for Employment Promotion) in Africa) had been successful in bringing about a change in the economic strategy and policies followed in the past, and whether they had helped make "employment central in economic policy-making". (Here, despite the fact that the work of WEP and its regional teams was reflected in development plans (for example, ARTEP contributed the chapters on employment to Pakistan's Sixth Five-Year Plan [1983-88] and Bangladesh's Second Five-Year Plan), and at times in new scattered policy initiatives, overall, the programme's success in achieving its goals was admittedly modest.

What were the reasons for this?

To my mind, the first and foremost reason, the rise of this so-called 'new orthodoxy' in development under the WEP, came at a time when most developing countries were recovering from the oil price shock of the 1970s. Structural adjustment to ensure macro-economic stability edged out any attempt to make employment a central goal in economic policy-making. The focus was on short-term policies of economic survival rather than on new approaches to developing their economies.

The second reason was that, to the extent that they could accommodate the results of analytical work to ensure a higher level of employment, policy-makers needed very specific, well-defined interventions that they could put into practice. Unfortunately, the policy recommendations being offered by the ILO were normally far too broad to be immediately accepted and, more importantly, to be incorporated into development policies.<sup>2</sup>

The third reason was the simple fact that the WEP, with its emphasis on ‘basic needs’ and its heavily, purely economics-based approach to employment, had far distanced itself from the ‘soul’ of the ILO, that is, its rights-based approach, drawing primarily on its conventions and recommendations.

Finally, the WEP had not really involved the two major arms of the ILO’s tripartite structure—the workers and employers’ representatives—in the formulation of policies nor had it involved them in discussions with official policy-makers.

To sum up this section, I would not go as far as my friend Guy Standing (2008) to say that the basic needs approach which emerged from the WEP was the ‘false road’ for the ILO to have taken, but that it was the right road, though unfortunately at the wrong time, and it was far too divorced from the core values for which the ILO stood to be sustained as an integral part of the organisation.

## **II. DECENT WORK: THE HIGH ROAD TO ECONOMIC DEVELOPMENT**

With a drastic drawing down in the ILO’s WEP and the replacement of its regional arms with multi-disciplinary teams (MDTs), the ILO, under the leadership of its Director General, Michel Hansenne (who had taken over in 1989), shifted almost all its attention to ensuring the acceptance of what it identified as its core conventions and principles, and rights at work. This culminated in 1998 in the adoption of the Declaration on Fundamental Principles and Rights at Work, which impressed upon even those member states that had not ratified these fundamental conventions an obligation to respect and promote them by virtue of their membership of the ILO.<sup>3</sup> This was indeed a momentous achievement and firmly established the fact that there were certain basic universal workers’ rights that applied to all people in all states and that had to be respected and promoted.<sup>4</sup> However, this turned out to be only the first step. In 1999, the newly elected Director General, Juan Somavia, put forward the even more ambitious goal of securing decent work for women and men everywhere under conditions of freedom, equity, security, and human dignity.

Decent work was to serve as the converging focus of what were identified by the ILO as its four strategic objectives: the promotion of rights at work, employment, social protection, and social dialogue. The goal of decent work was also deliberately defined to

apply to all workers and not just wage earners in the formal economy. The ILO, it was clearly stated, was concerned with workers beyond the formal labour market—with unregulated wage workers, the self-employed, and home workers. In most developing countries, these accounted for 80 to 90 per cent of the urban labour force and well over 60 per cent of the total labour force.

While employment promotion was a central objective to be pursued, the “goal is not just the creation of jobs, but the creation of jobs of acceptable quality” (ILO, 1999). While not attempting to define quality in precise terms, it emphasised the need to “devise social and economic systems which ensure basic security and employment while remaining capable of adaptation to rapidly changing circumstances in a highly competitive global market”. As regards the creation of new employment opportunities, the role of enterprise and a conducive environment in which they could grow was given considerable importance.

How was this goal of decent work for all working men and women to be achieved? If the WEP had been the “wrong road to take”, was decent work a “bridge too far”?

### **III. DECENT WORK IN THE TIME OF THE WASHINGTON CONSENSUS**

Before we look into this vital question, there was still a major battle to be fought. Drawing on the experience with structural adjustment programmes and what appeared to be the important causes of macro-instability in the first place, the international financial institutions (IFIs) (mainly the IMF and the World Bank), drew up a list of what they saw as “broadly accepted principles of economic policy to ensure stable and efficient economic growth”. This list of policy measures came to be famously known as the ‘Washington Consensus’.

The Washington Consensus came to be associated with primarily market-driven growth and development, with the State playing a limited role, mainly in providing an enabling environment in which markets could function efficiently. In Pakistan, during the Musharraf regime (1999-2007), the Finance Minister and later Prime Minister, Shaukat Aziz, used the terms ‘deregulation, privatisation and liberalisation’ to capture the thrust of government economic policies, drawing on (knowingly or unknowingly) the Washington Consensus. In India, under the leadership of the then Finance Minister in the 1990s and now Prime Minister, Dr. Manmohan Singh, far-reaching economic reforms

were undertaken to basically deregulate and globalise the economy. The current Deputy Chairman of the Planning Commission, Montek Singh Ahluwalia, has also played a major role in conceptualising and implementing economic reforms.

Instead of going into the debate on the role of the State versus the role of markets in economic development, I would just say that I believe that many of the reforms undertaken have had a positive impact on ensuring economic growth with macro-stability (though in the case of Pakistan, we are still subject to stop-go economic cycles).

The Washington Consensus however, had one strong pillar of ‘faith’ (I use this word deliberately), that labour markets should be allowed to function freely—free of regulations and what they saw as institutional obstacles, especially trade unions. Distorted labour markets resulting from regulations not only increased the cost of labour but also hindered the much-needed economic restructuring to ensure global competitiveness as well as the growth of new firms and new industries.

John Williamson, the well-known trade economist, who is generally credited with the broad formulation of the Washington Consensus, in his short history of how it was developed, clearly explains the need to deregulate labour markets.

To quote:

“When we asked what is today most in need of liberalization in Latin America, we concluded that it is the labour market. Around 50 per cent of the labour force in many Latin American countries is in the informal sector. This means that they do not enjoy even the most basic social benefits, like health insurance, some form of safeguard against unemployment, and the right to a pension in old age. What people do get is the right to maintain through thick and thin a formal-sector job if they are lucky enough to have one. ... So we proposed to flexibilize firing for good reason and curtail the obligation to pay those elements of the social wage that appear less appreciated in the belief that this will reduce the cost of employing labour in the formal sector and so lead to more hiring and greater efficiency. There is an abundant economic literature that concludes that the net

effect of making it easier to fire workers is to increase employment net” (Williamson, 2004).

Clearly, the position taken by the IFIs on labour market issues, as reflected in their policy advisory work, sharply contradicted the Decent Work agenda and, indeed, all that the ILO stood for.<sup>5</sup>

There is a vast body of literature including one on South Asia (World Bank 2012 a) that documents evidence and results in favour of one school or the other. I am sure many of you are familiar with the literature and I could be forgiven for not going into a detailed review.<sup>6</sup> What I am happy to report is that, finally, in my view, good sense has prevailed on both sides and a broad consensus appears to be emerging on this controversial issue.

In its latest *World Development Report 2013: Jobs*, the World Bank states:

“The impact of labour policies is often the subject of heated debate... Overall, labour policies and institutions are neither the major obstacle nor the magic bullet for creating good jobs for development in most countries (World Bank, 2012b, p. 258).

The background work by Gordon Betcherman (2012) for the World Development Report (WDR) 2013 provides the basis for understanding the important change in the stance on labour market flexibility and the role of labour market institutions, which is reflected in the World Bank’s latest report.

The paper by Betcherman reviews the findings of 150 studies on the impact of the following four types of labour market institutions: (a) minimum wages, (b) employment protection regulations, (c) unions, and (d) collective bargaining on: (i) living standards (including the employment and earnings effects), (ii) productivity, and (iii) social cohesion. Pointing out that, “strong and opposite views are held on the costs and benefits of labour market institutions”, Betcherman arrives at the following results:

- First, the impacts of these institutions are smaller than what the heat of the debate suggests.

- Second, the efficiency effects of labour market regulations and collective bargaining exist, but not always, and the effects can be in either direction and are usually modest.
- Third, the distributional impacts are clearer, with two effects predominating: (a) an equalising impact among covered workers, but (b) groups such as youth, women, and the less skilled falling disproportionately outside the coverage and benefits.
- Fourth, that the impact can be more dramatic where regulations are set or institutions operate in a way that they exacerbate the labour market imperfections which they are designed to address.

The above findings are at the global level for developing countries. Is the situation different in South Asian economies? Here again, I return to the late 1980s, when countries in South Asia, especially India, had begun to open up their economies to foreign competition and the more protected firms had to adjust to these changes.

ARTEP's studies (Edgren, 1989), which are mostly for India but also cover Bangladesh, Pakistan, and Sri Lanka, came up with the following interesting findings:

- In East and South-East Asia, weak trade unions and the relative absence of restrictive legislation on hiring and firing allowed them to adjust better to shocks in the 1970s and 1980s.
- In comparison to these economies, the relatively poor performance of South Asia was partly due to stricter regulations of the employers' rights to hire and fire, and the fact that unions had a wider scope for bargaining than the Asian and East Asian economies.
- With the change in the trade regime in South Asia, the earlier oligopolistic privileges given to develop domestic industry—and which were partly passed on to trade unions through higher wages—were now subject to considerable change and led to a weakening in their bargaining position.

- Under pressure to adjust to greater competition and increase flexibility in the process of hiring and laying off workers, firms (especially in Pakistan) began to circumvent labour laws by employing contract workers.
- Interestingly, these studies suggested that foreign investors did not regard protective labour laws as obstacles, and were far more concerned about political stability and the regulation of capital movements than about labour laws and industrial relations.
- Overall, however, the basic conclusion was that, with some exceptions (for example, the textile mill workers' strikes in India in the early 1980s), the South Asian labour markets had functioned fairly smoothly in terms of wages and employment adjustments. Also, importantly, these labour market adjustments had not been seriously constrained by the strength of the trade unions or restrictive legislation on hiring and firing.

What does the more recent evidence suggest? A study by Besley and Burgess (2004) covering the period 1958-1992 claims that Indian states with more pro-worker industrial relations have seen slower growth in industrial output, entry, employment, and higher urban poverty.

A more recent study for India by Maiti, *et al.* (2010), rather than treating the informal and formal sectors as separate spheres of economic activities as the previous literature does, examines the process of flexibilisation in formal labour markets through the use of informal (contract) workers. They analyse the role of both trade and labour institutions along with other variables that capture the firms' choice of contract and permanent workers. Their study uses a panel of 59 industries across 15 major Indian states over seven years (1999-2005), and they conclude that more stringent labour regulations or more bargaining power in favour of regular workers leads to the increasing use of contract workers. However, industries that are located in states with higher rates of human capital formation employ fewer contract workers. On the issue of openness measured by both import penetration and export orientation, their results show an ambiguous effect on the use of contract workers.

As regards Pakistan, a recent report by the World Bank (Kularatne and Lopez-Calix, 2012), which is based on enterprise surveys conducted during 2007 and 2010, concludes that, “Labour regulations do not appear to be a significant obstacle to firms, especially small. About 71 per cent of small firms do not find labour market regulations to be an obstacle to current operations in contrast to 47 per cent of large firms. ....Only 6 per cent of small firms claim that labour market regulations affect their decision to hire and fire permanent workers while 26 per cent of large firms assert that these regulations affect their turnover of labour. It may be inferred from all this evidence that labour market regulations, though rigid are not enforced, and/or firms are able to circumvent these regulations”.

I have examined in some considerable detail the results of studies encompassing all developing countries, as well as earlier and more recent studies on South Asia (specifically on India and Pakistan), to show that the strong viewpoint that labour market regulations and labour institutions should act as major impediments to employment generation is certainly not justified.

Although clearly there is still scope for labour market reforms to improve their functioning while ensuring that the rights of basic workers are respected, we can move away from the ‘demon’ created by the Washington Consensus (and, I might add, among almost all the economists working in IFIs that I have met) and move towards an examination of policies that create more and better jobs for men and women rather than being obsessed with merely removing so-called labour market distortions created by the labour regulatory framework and labour institutions.

#### **IV. OPERATIONALISING DECENT WORK: RESURRECTING SOCIAL JUSTICE**

To my mind, the formidable economic, social, and political challenges entailed in operationalising the concept of decent work in the developing world should not detract from its considerable merit as an important overarching goal of development policy that captures the essence of the type of jobs that we should aspire to create. It is not sufficient, as for example the World Bank does in its two recent important reports—one on South Asia and the other in a global report on developing countries—to aim to create more and better jobs without precisely defining what ‘better’ means. To say, as the WDR 2013

does that, “Good jobs for development are those with the highest value for society, taking into account the value they have to the people who hold them” and “Conversely some forms of work are unequivocally bad” is fine, but this does not fully capture the people’s aspirations in terms of what they are looking for in ‘good’ and ‘better’ jobs.

The ILO’s Global Employment Agenda (2003), which was an attempt to operationalise the employment pillar of the decent work agenda, captures well the underlying spirit and human dimensions of decent work.

To quote from it:

“The Global Agenda for Employment is a major strategic dimension of the ILO’s decent work agenda in which basic rights at work, employment, social protection and representation must advance together.

They are a package. Rights at work embody core values, but they make no sense without work. Employment not only generates income and produces an output, it is a means of social integration. Social dialogue generates partnership and consensus on achieving the goals of decent work. Both social protection and employment contribute to the fundamental need for a level of income security. All these different elements are mutually reinforcing and the best way to achieve them is by moving towards them all at the same time.”

On the critical linkage between rights and employment, the Global Employment Agenda points to the importance of their simultaneous promotion as follows:

“These derive from the recognition that labour markets function differently from other markets. Labour is not a commodity and labour markets are socially embedded. Labour markets harness human energy. They rely on human motivations and needs, including the need for security and fairness of treatment. Not to acknowledge the distinctive way in which labour markets function is to invite not only socially adverse consequences but economic ones as well, and the very purpose of economic growth is the promotion of human dignity and quality of life. The ILO’s fundamental international standards strive to promote human rights

but they also reflect the distinctive ways in which labour markets function most effectively” (ILO, 2003).

I have quoted at some length from the Global Employment Agenda to highlight some of the critical differences between taking a purely economic and labour market approach to job creation and one that recognises the distinct nature of the labour market from a broader perspective for the promotion of human dignity and the quality of life.

## **V. LABOUR MARKET INSTITUTIONS**

I hope that having exorcised the demonic image that “market fundamentalists” had painted of the role of labour market institutions in promoting jobs, we can finally examine more objectively the importance of these institutions in promoting decent work and social harmony.

Berg and Kucera (2008) define “labour institutions as comprising rules, practices, and policies—whether formal or informal, written or unwritten—all of which affect how labour markets work.” They rightly point out that the “distinction between countries lies in the degree to which they are embedded in law, whether the law is applied in practice and the extent that government policies are used to pursue certain objectives” (Ibid., p. 11).

Berg and Kucera (2008) also distinguish, under the overall head of labour institutions, between labour market institutions (such as employment protection legislation, collective bargaining, training and skill institutions) and non-labour market institutions, namely trade unions, employers’ organisations, and what they term as “work ethics”.

Historically, the role that labour institutions have played—in both the labour market and the non-labour market—in improving the economic and working conditions of primarily industrial workers is well acknowledged and well documented, including the role and struggle of trade unions in this process.

But what is their role now? Again, an important difference between the decent work approach and the WDR 2013 is that the former implicitly brings out the role of labour market institutions, especially what the ILO calls ‘social partners’, that is, employers’ and

workers' organisations, in generating employment and raising not just the number but also the quality of jobs to be generated.

Following are a few of the key areas wherein labour market institutions need to play a more active role:

- First and foremost is the area of factory inspection and ensuring safety at work. The two recent terrible fires in factories in Karachi and Dhaka, causing considerable loss of life in tragic circumstances, has clearly exposed how governments have almost completely withdrawn from the role of factory inspection in ensuring that safety regulations are enforced. This situation needs to be urgently rectified and if the problem is one of corruption and unnecessary hurdles created by labour inspectors, then the entire system needs to be reviewed and suitably modified.
- The second pertains to ensuring the active participation of employers and workers in fixing the minimum wage at the national and regional levels, and gradually extending this to the rural economy wherein landless rural workers are the most vulnerable and most prone to fall below the poverty line.<sup>7</sup>
- The third aims at ensuring the active participation of employers and workers in skill training programmes and the certification of their skills.
- The fourth is finding practical ways through negotiations—again with representatives of employers and workers—to deal with the entire issue of firms circumventing labour laws through the hiring of contract workers. While this practice does increase labour market flexibility for employers, it also creates insecurity for workers and remains a major factor in low investment by both employers and workers in the skill development and on-the-job training that is so vital for increasing competitiveness.
- The fifth is resuscitating the trade union movement to provide a genuine voice at work from the shop floor right up to the national level on issues concerning both employment and labour. Similarly, employers' organizations need to be

strengthened to represent the larger industrial and business community and actively interact with their workers' counterparts in tackling key labour issues.

- Sixth, NGOs (such as SEWA—Self Employed Women's Association) need to be more active in standing up for workers' rights and actively participating in negotiations, especially for promoting the 'decent work' pillar of social protection.
- Seventh, women in South Asia remain an overworked, underpaid, and exploited human resource and there is an urgent need for labour market institutions to ensure their equal treatment and uphold the fight against the gender discrimination that pervades our society.

Clearly, these are only some of the important areas, and there is a large body of work on each of these issues. The basic idea in highlighting them here is to showcase the vital role of labour market institutions in helping develop what I call 'a rights-based, equitable, safe, and efficient labour market'.

## **VI. GENERATING DECENT WORK: A PRAGMATIC APPROACH**

Towards the end of this lecture, I must now put on my economist's hat and answer some of the questions that I raised earlier on the simple economics of decent work (costs and benefits), and how we can now hope to make employment more central to economic policy-making after the failures of the 1970s and 1980s.

Let me say that one great advantage which we now have is that there is much more agreement among global institutions on the importance of generating decent work, or at least more and better jobs, as can be seen, for example, by the World Bank's recent stand on the importance of the issue. Second, starting with the pioneering research generated under the WEP and the follow-up analytical work on employment and labour market issues, we now have a better understanding of how labour markets work in developing countries.<sup>8</sup>

When we were working on the Global Employment Agenda to operationalise decent work, we were of the view that, while it would require the implementation of many things, the cornerstone on which it must be based was increasing the productivity of

labour, especially that of the working poor. This was because only sustained productivity growth could make possible non-inflationary improvements in living standards and the required investment to increase employment opportunities. This would, in turn, create the space for pro-growth macro-economic policies for achieving better employment outcomes and decent work.

At that stage, I was not convinced by the viewpoint developed by the ILO in the Director General's report to the International Labour Conference in 2001 for overcoming the decent work deficit, that decent work in itself could serve as a productive factor and lead to both economic and productivity growth. Indeed, I saw this as another example of what I term 'soft UN economics' in which the problem to be confronted is solved by turning the problem on its head (for example, 'empowering the poor' or 'achieving inclusive growth').

Almost a decade later, the last five years of which I have spent in Pakistan, closely observing and analysing the dynamics of economic growth—or in recent years the lack of it—I have come to believe that decent work can serve as a productive factor and in the viewpoint of the recent WDR 2013, that jobs constitute not just a by-product of economic growth but also an important driver of economic development. I also believe, as suggested in the WDR 2013, that jobs—even informal jobs—can be transformational in improving living standards, raising productivity and promoting social cohesion.

In the case of Pakistan, I have found increasing evidence of this as the youth bulge, including both young boys and girls—resulting from the demographic transition—enter the labour market. In many cases, they are better educated than the existing labour force (which is not to say much, given its very low education levels), but especially in the case of women, they are both entrepreneurial and innovative; they not only take on jobs in the rapidly growing retail and fast food sectors, but also set up small firms and businesses (in many cases from home), producing goods (clothes, food items) that cater to a rising middle class. Interestingly, in Pakistan, a large part of this demand emanates from the rural economy, which has witnessed a boom since the Government has raised the procurement prices of wheat and rice to international levels and, in the process, almost doubled the prices.

Let me now spell out what I believe should serve as the key elements of an employment strategy that would promote a virtuous circle of productivity, employment, and output growth.

- First, I believe is the need to generate faster and higher economic growth with macro-economic stability. This is, of course, becoming very challenging, given the continuing anaemic global growth and, in the case of Pakistan, due to the unsettled security situation. Higher economic growth is necessary to both accommodate a fast-growing labour force (in the case of Pakistan at 3 per cent) and to reduce the existing high level of unemployment and, more importantly, underemployment in the economy. This requires prudent economic management especially to keep the fiscal deficit at a level that does not result in high inflation or an unsustainable current account deficit. That said, it needs to be emphasised that higher economic growth is an essential but not a sufficient condition for ensuring either employment-intensive growth or poverty reduction.
- Second, there is an urgent need to continue the process of economic reforms to increase competitiveness and open up new markets as well as to encourage both foreign and domestic investment in the country. While India has successfully carried out a number of reforms that played a major role in its recent episode of high economic growth, I believe that] there is, I believe, in South Asia, a large unfinished agenda for economic reforms because there still exists considerable government intervention that throttles new investment and avenues for growth. These cover almost all aspects of the economy from trade to fiscal reforms and many others.
- Third, entrepreneurship needs to be promoted, as tomorrow's jobs would occur, to a large extent, through the creation of private small and medium enterprises. An education system that promotes a culture of entrepreneurship and a conducive business environment that encourages new enterprises to start and grow is the key to a vibrant economy. A largely corrupt public administration system is a major constraint to new investment, whether domestic or foreign.

- Fourth, as the global terms of trade move in favour of commodities and foodgrains, the agricultural economy of South Asia—which still accounts for 45 to 60 per cent of the labour force and where over 60 per cent of our populations live—holds enormous potential for economic growth and job creation. Agro-business linkages are fast developing as are value chains linking rural and urban markets, and onwards to the global economy. The efficient management and use of water resources and much-needed investment in irrigation infrastructure is essential if we are to realize this potential.
- Fifth, investing in education and skills, especially female education, may well hold the key to the subcontinent's place in the future global economy. There are, I can assure you, millions of young Malalas [reference to Malala Yousafzai, the 15-year old activist for education and women's rights, who was brutally attacked by the Taliban for her activism] in Pakistan eager to be educated and prepared to stand up to the forces of obscurantists and fundamentalists, but this does not mean that one should under-estimate the existing biases and prejudices against female education and female employment, which need to be confronted not just in Pakistan but in most of South Asia.
- Sixth, and this is central to this lecture, is the need to set up an efficient, equitable, and rights-based labour market. To my mind, the pendulum that may well have distorted the efficient functioning of labour markets in parts of manufacturing and public sector enterprises during the first two or three decades after Independence, has moved too far in the other direction. It has not just trampled basic rights at work but also acted as a major disincentive to productivity growth and investment in skills and development. There is a need to review the labour market regulatory framework that ensures flexibility to employers and security to workers while ensuring that basic rights at work are respected.
- Seventh, I strongly believe that strengthening regional trade holds considerable potential for stimulating economic growth and creating

employment. This would be especially true when Pakistan grants Most Favoured Nation (MFN) status to India starting next year which would also hopefully lead to a relaxation of Non-Tariff Barriers (NTBs) on the Indian side. Peace in Afghanistan would open trade routes with central Asia and offer considerable opportunity for trade including the flow of vital energy resources from that region to South Asia.

- Eighth, building an effective social protection system is, to my mind, a necessary pre-condition for providing a safety net to the poor and vulnerable, who still account for a significant number of households in South Asia, as well as to ensure a smooth transformation while the economy goes through a period of far-reaching structural changes that create both winners and losers and displace workers and enterprises.
- The Benazir Income Support Programme, which provides direct income support of Rs. 1,000 to female heads of households living below the poverty line (based on a scorecard system), currently covering five million households and expected to increase to seven million households (about 20 per cent of the total population), and the Mahatma Gandhi National Rural Employment Guarantee schemes (MGNREGS) as well as other initiatives, need to be carefully evaluated and their lessons shared so that effective and well-targeted dynamic social protection systems can be put in place.
- Finally, most of our countries are mired in high levels of corruption that are strangulating the system and generating considerable anger and mistrust against the very foundations on which our systems are built. We need to move away from the wishy-washy concept of good governance and put in place an effective legal system to confront and punish this growing menace of corruption.

## **VII. CONCLUSIONS**

I have always believed in the considerable potential of our people and in the economies of our region. The Pakistan economy has, on an average, grown at around 5.5 per cent

during the last 60 years, which would be considered respectable in the good old days but not after the much higher recent growth of China, the East and South-East Asian economies, and more recently, India.

I also believe that, during the last decade or so, poverty levels have come down in Bangladesh, India, and Pakistan.<sup>9</sup> True, the poverty line not just seems but is absurdly low (Rs. 29 per day per person in India and around Rs. 55 per day per person in Pakistan; the latter, when adjusted for the exchange rate between the two countries, is surprisingly the same as India's). But it still represents some progress in the fight against extreme poverty. There is also an emerging middle class, which, depending on the definition one uses, represents between 20 and 30 per cent of the population in India and Pakistan.

All these are positive developments, but we still have a very long way to go. The development process in our country appears almost akin to the tale of two cities—for a small part of the population, it is the best of times, but for the vast majority, these are, if not the worst of times, still very challenging and difficult times, especially in terms of meeting the basic economic needs for themselves and for their families.

The rising inequality, when combined with rising expectations in a globally connected environment, is creating fissures and tensions and leading to disillusionment—and in some cases militancy—threatening the very foundations of the system. This is evident in all our countries, however much we may play up or play down this reality. There is a simmering anger, which in some cases has boiled over. Call them what you like—Maoists, Naxalites, Taliban—fundamentalists are a reality that we must confront.

The most important aspiration of our people is for social justice—whether it is access to education, fair access to job opportunities based on merit, respect and voice at work, safe working conditions, or a safety net when the person concerned is out of a job or in poor health or when one is old.

It is here that we have moved away from the economy and society that our forefathers such as President V.V. Giri, whose memorial lecture is being delivered here, envisaged that countries in the subcontinent would grow into. Let me therefore end with the remarks of Dr. Mahbub-ul-Haq with which I started, delivered four decades ago, but still very alive and relevant today:

“In conclusion, let me say that the search for a new perspective on development of which the themes of our conference, employment and social justice, are only two facets, has already begun in the developing world. Many of us, who are essentially the products of Western liberalism and who return to our countries to deliver development, have often ended up delivering more tensions and unrest. ... And we stand today dispirited and disillusioned. It is no use offering us tried old trade-off and crooked looking production functions, whenever we talk about income distribution and employment. It is no use dusting off old theories and polishing up old ideas and asking us to go and try them again. It is time that we take a fresh look at the entire theory and practice of development.”

Mahbub-ul-Haq, however, bounced back with his path-breaking concept of human development.

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## NOTES

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<sup>1</sup> This phrase was used by the eminent ‘practical’ Cambridge economist, Professor Brian Reddaway, when I met him in Cambridge in the mid-1980s. While discussing these findings of ARTEP’s work, he remarked, “Ah! Water is employment-friendly.”

<sup>2</sup> I remember an occasion, after completing a report for the Pakistan Planning Commission while working at ARTEP in the 1980s, on which I was called by the then Deputy Chairman, Mr. V.A. Jaffery, an eminent and courteous civil servant with vast experience in the finance and economic ministries. I was pleasantly surprised to find that he had, if not fully read, gone through most of the report. While there were many broad recommendations in which he found merit, what had caught his attention was the fact that the housing sector, with its deep forward and backward linkages with the rest of the economy, could spurt employment growth in a short period of time. He said that he would incorporate this finding, as he did in the Budget and Annual Development Plan a week later by increasing loans from the House Building Finance Corporation and other supporting measures to encourage investment in private housing.

<sup>3</sup> The four categories of conventions included: (i) freedom of association and the effective recognition of the right to collective bargaining, (ii) the elimination of forced or compulsory labour, (iii) the abolition of child labour, and (iv) the elimination of discrimination in respect of employment and occupation.

<sup>4</sup> Interestingly, if I recall correctly, both India and Pakistan opposed the adoption of the Declaration, and while India relented to vote in its favour when it was tabled, Pakistan opposed its passage. This was somewhat ironic in that many of the basic principles included in the Declaration are enshrined in the Constitutions of both countries, for example, the right of freedom of association and prohibition of forced labour.

<sup>5</sup> Just to rub more salt in the ILO’s wounds, the World Bank, through its private arm, the International Finance Corporation, developed an indicator that measured the ease of hiring and firing labour in its *Doing Business* report, with higher marks for countries where it was much easier to do so. However, after prolonged negotiations with the ILO, this practice was dropped in 2012.

<sup>6</sup> There is a large body of literature emanating from the ILO that strongly contested the view taken by the IFIs. Special mention should be made here of the contribution of Guy Standing for his work on the issue. For a more recent study by the ILO, see Berg and Kucera (2008).

<sup>7</sup> For a discussion on this issue in the Pakistan context, see Saeed and Ali (1999).

<sup>8</sup> For a penetrating analysis on how labour markets work in Pakistan, see Gazdar (2004).

<sup>9</sup> For an analysis on this issue for Pakistan, see Amjad (2012).