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A STRONGER SOCIAL DIMENSION FOR GLOBALIZATION

Abstract

There is widespread concern that the current pattern of globalization does not adequately support major social goals such as employment and social protection. The World Commission on the Social Dimension of Globalization, which was established by the ILO, analysed the different perspectives on globalization and the ways in which the inequities and imbalances of globalization could be overcome. If the potential for good globalization is to be realized, the Commission argued, improved governance is needed at all levels, and coherent policies designed to make decent work a global goal. This paper explores the impact of globalization on work and employment, including not only the volume of employment but also its quality in terms of conditions of work, rights, protection and incomes. Major new developments, such as the rise of global production systems, and intensified competition in global markets, call for new policies at both national and international levels and for a reassessment of the role of different policy actors – the state, business, labour, civil society and international organizations – and more reflection on the policy instruments that are needed for action at the international level to find policies, rules and mechanisms by which economic and social goals can be coordinated in the global economy.

Introduction

The Report of the World Commission on the Social Dimension of Globalization was widely welcomed when it was released in early 2004. There were positive responses from many governments, from parliamentarians and trade union organizations, from business, from national economic and social councils and other non-governmental organizations. At the United Nations, the General Assembly adopted a resolution that called for countries and multilateral organizations to consider the report. The Secretary General of the UN, the President of the World Bank and the heads of other multilateral organizations all welcomed the report. There was strong support for its recommendations from the European Commission and the African Union, and from Heads of State and Government around the World. Negative reactions, such as they were, came from economists such as Bhagwati or Wolf, and some sectors of business, who saw the Commission's recommendations as unrealistic or counterproductive interference in global markets.

An initiative of the International Labour Organization, the World Commission was an independent group of eminent people chaired by two Heads of State in office,

the Presidents of Tanzania and Finland. It was a deliberately non-like minded group, “broadly representative”, as they themselves put it, “of the diverse and contending actors and interests that exist in the real world ... we came from countries in different parts of the world and at all stages of development. Our affiliations were equally diverse: government, politics, parliaments, business and multinational corporations, organized labour, academia and civil society”. The group included civil society representatives active in the World Social Forum, distinguished academics such as Joe Stiglitz and Deepak Nayyar, leading figures from international business including the president of the International Organization of Employers, as well as well known trade unionists and politicians.

Their Report analysed the different perspectives on globalization and summarized the evidence on its impact. In this it was able to draw on a growing literature on globalization, which the Commission reviewed and summarized. But most of the report focussed on the ways in which the inequities and imbalances of globalization could be overcome, in particular through improved governance at all levels. Arguing that concerted action was needed on a broad front the Commission made 57 recommendations, addressed to a diversity of actors. They ranged from the need to strengthen the capabilities of the state to promote employment and social protection, and to ensure that countries had the policy space to promote their own goals, to a stronger foundation of freedom of association and expression and the rule of law, fair rules for international markets in goods, capital and labour and more accountable international institutions. In particular, the World Commission argued that decent work should become a global goal, and coherent policies should be built around that goal.

Why was the message of the Commission and its analysis so well received? After all, there have been many reports on globalization. There is surely no simple answer, just as there is no simple solution to the problems of globalization. But there were a number of key elements, which seemed to fit together.

First, the diversity and balance of the Commission’s membership helped to build a consensus to which others could adhere. There was a search for common ground with dialogue between, say civil society and international business, which is often difficult to achieve. As a result, the analysis was balanced, critical without being shrill, recognizing the positives as well as the negatives. The recommendations were realistic and responded to the diverse goals and needs of a range of actors.

Second, the Commission clearly met an urgent need. The tensions over globalization had not been resolved by the competing forums around the world. There was little overlap in participation between the World Social Forum and the World Economic Forum, the former embracing civil society, organizations of workers and a variety of social groups, and protest movements calling for a different world order; the latter reflecting the concerns and interests of top political actors and the business community. Attempts at dialogue between these two forums had been

unproductive. Yet there was a growing fatigue with unproductive conflict and a sense that the time was right to find reasonable answers.

Third, the Commission built its argument on the idea that the potential of globalization for good was being seriously underutilized, and focused its attention on the reforms that were needed if this was to change – an idea with widespread appeal.

Fourth, the Commission called for a focus on people, their aspirations and insecurities. That led it to insist on the need for greater voice for people in the path of globalization, better institutions for representation and dialogue, and a particular focus on work, which for the majority of people is a source of both income and social integration. Decent work was a compelling goal.

Finally, the Commission insisted that globalization had to be fair, and this too struck a widespread chord. Fairness implied both fair rules, and greater solidarity and sharing – globalization could not be built on the principle of winner takes all.

What is the Social Dimension of Globalization?

The preamble to the ILO's constitution includes the following phrase: "Whereas also the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations which desire to improve the conditions in their own countries".

In 1919, after the First World War had marked the end of the phase of – largely colonial - globalization of the 19th and early 20th centuries, it was apparent to the founders of the ILO that the increasing interdependence among countries extended to social goals, expressed as humane conditions of labour.

At one level this is obvious. When national policies must increasingly adapt to global economic forces, and economic and social policies are intertwined, then interdependence in economic policies must imply interdependence in social policies too. The argument for a social clause in international trade, making trade dependent on respect for certain social minima, is built on this foundation.

But the debate on the social clause over the last decade or two has made it clear that the connection is not simple. Progress has been made in defining a set of fundamental enabling principles and rights at work, which can be seen as the social floor of the global economy. The ILO's 1998 Declaration on Fundamental Principles and Rights at Work proclaims the universal validity of rights to freedom of association, freedom from child labour, forced labour and discrimination. But beyond this level there are strong disagreements among countries and economic actors. Attempts to make a wider range of social standards a precondition for access to global markets are viewed with deep suspicion by countries where standards are lower, on the argument that social progress depends on economic progress, and

cannot be imposed by external fiat. Nor can it be reduced to a single model. While some goals are shared, there is also a wide range of national social priorities, responding to the history, culture and political environment of the countries concerned, rather than a uniform vision of social progress.

Alongside this debate over the social floor for globalization, there is an equally intense debate over the social impact of globalization. The word social covers a lot of ground. Education and health are social, as are political rights and collective organization. The social dimension of globalization includes issues of social inclusion and exclusion, inequality and discrimination, culture and identity, rights and responsibilities. These are the everyday concerns of people and the priorities of the societies in which they live. Globalization affects them by opening new spaces, but also by restricting options. State autonomy to pursue social goals may be restricted by the need to attract international investors, or by the effects of social regulation on production costs. Whole communities may suddenly find that shifts in the global economy take away their sources of livelihood, while the expansion of market forces can devalue the assets and identities of particular ethnic groups and undermine stable communities built around traditional production methods. But globalization also supports thriving communities built around new markets and technology, and provides enormous new economic opportunities to those with the capabilities and resources to take advantage of them.

Within this complex interaction between globalization and social goals, work and employment play a central role. Work is where the social and economic aspirations come together in peoples' lives. Work is about production and income. But it is also about identity and social integration. Many of the social impacts of globalization come through geographical and skill shifts in the demand for labour, through changes in the organization of work and production, through the effects of changing product markets on returns to labour, through the security and protection of workers. In other words, work and employment, and the conditions under which they are performed, are one of the principal means by which the effects of globalization, both positive and negative, reach people. The social dimension of globalization is, to a large extent, concerned directly or indirectly with work and employment, along with all that goes with employment in terms of its content and value, rights at work, protection and representation.

The Impact of Globalization on Work and Employment

The dynamics of international integration generate vast differences between countries in opportunities and in the ability to take advantage of those opportunities. Some countries have succeeded in making globalization a force for development. Higher rates of economic growth and poverty reduction in East Asia, notably in China, and to a lesser extent in South Asia and a few countries in other parts of the world, cannot only be attributed to globalization, for many other factors were involved, but successful exploitation of global economic opportunities clearly played an important role. Meanwhile, in other parts of the world, notably but not

exclusively in Africa, growth has been low and poverty increasing. Latin America has shuttled between these extremes, with periods of growth interspersed with periods of stagnation and growing poverty, and diverse national experiences. It is hard to generalize from these patterns, for national and regional structures, institutions, capabilities and policies have a major effect. But as in all walks of life the new opportunities are disproportionately captured by those with the capabilities, the resources and the power to do so. Globalization may well be a positive sum game, but that does not mean that all benefit.

The impact of globalization on work and employment illustrates this well. Successful integration in the global economy can lead to increased employment and rising wages. This was the experience of several East and Southeast Asian countries, at least until the financial crisis of the late 1990s. Chile, Ireland and a number of other small, open economies have likewise experienced periods of sustained employment creation associated with growing international integration. At the same time, there are a number of ways in which different aspects of globalization have adverse effects on the labour market.

First, the increased economic and financial volatility noted above, associated with the liberalization of international financial markets, has led to more frequent economic crises, with significant consequences for unemployment. In many countries a ratchet effect can be observed, in which unemployment does not fall to pre-crisis levels in the recovery (World Commission report, figure 14). Thus in Latin America, open unemployment rose through the 1980s and 1990s to reach historic highs of around 10 per cent for the continent as a whole in 2003.

Second, increased competitive pressures in global markets are widely believed to result in erosion of labour protection or the informalization of employment relationships. There are frequent reports of restrictions on trade union rights or other exemptions from labour laws in export processing zones, for example. Workers who are essentially organized at the national level find their bargaining power weakened in the face of mobile enterprises.

Third, increased international tax competition results in lower rates of taxation of high personal incomes and of corporate profits (KPMG, Corporate Tax Rate Survey, 2003, quoted in World Commission Report), and the liberalization of trade reduces government revenues from tariffs – all of which is likely to reduce the resources available for government social expenditure, and to put pressure on public sector employment.

Fourth, globalization leads to increased restructuring of production, involving relocation and outsourcing, substantial job loss in some countries and labour market instability. While the adverse impact in industrialized countries is given most coverage by the global media, developing countries are not always beneficiaries. For instance, changes in the rules of the international trading system for textiles and

garments may lead to substantial job losses in Bangladesh and some other low income countries, to China's advantage.

Fifth, and most obviously the capability of countries to take advantage of global market opportunities is highly polarized. In many countries there is little opportunity for employment creation though participation in global markets. On the contrary, liberalization tends to undermine some existing employment because of import competition and the pressures for productivity growth. Low productivity national industries in low income countries may collapse when exposed to international competition, enterprises close and jobs are lost. On the other hand, some countries have been able to take advantage of a reservoir of natural resources, skills or entrepreneurial capabilities to generate substantial employment growth – the software industry in India is a good skill-based example.

All this implies that globalization can and often does increase decent work deficits. This is not an inevitable outcome. There are examples of countries which have successfully used the space for national policy and taken advantage of global opportunities. But there is a tendency to polarization rather than convergence, and the simultaneous creation of groups of both winners and losers.

The Space to Make Decent Work a Global Goal

The World Commission, then, in searching for the instruments which could lead to a stronger social dimension of globalization, turned naturally to work and employment as the crucial domain for action. The issue was in part a question of the overall level of employment. Globalization without jobs was clearly not going to lead to a fair and balanced distribution of its benefits. But it was equally obvious, once a broader concept of the social dimension was acknowledged, that the issue was not only a question of the quantity of jobs. Globalization had to create productive jobs, which generated adequate incomes and security, and supported social integration. Rights of workers and enterprises had to be respected, and the voices of both had to be heard. Institutions and policies had to be in place to provide protection and ensure decent working conditions. In other words, the global goal was decent work.

But it was clear that in the current path of globalization, these are not central policy goals. The global economy is driven by competitive forces, in which employment is a cost. Because innovation is concentrated in high income, high labour cost countries there is a bias in technological progress towards labour saving investment, spread throughout the global economy through global production chains. Mainstream macro-economic policy prescriptions aim to resolve imbalances through deflationary policies in deficit countries, rather than expansionary policies in surplus countries. Shifts in global markets lead to the destruction of employment in one location and its creation in another, but there are no global instruments to promote compensation of the losers by the winners. Within countries there are mechanisms (of variable effectiveness) for sharing, solidarity and protection but these have no

real counterparts at the global level. In general, this can be summed up as a lack of coherence between economic and social policies at the global level. It can be seen, for instance, in the failure of the poverty reduction strategies promoted by the Bretton Woods Institutions to pay enough attention to employment, even though this is the primary route out of poverty.

The World Commission argued that it was both necessary and possible to make decent work a global goal. It made recommendations in a number of areas:

Embedding employment goals in policy formulation. The Commission argued that international trade, finance and other economic policies need to more effectively integrate employment goals. Increasingly, countries cannot achieve employment goals alone, for arguments similar to those in the preamble of the ILO's constitution, but there is little effective international coordination of employment policy. Higher priority should be given to countercyclical macro-economic policy and to maintaining adequate levels of demand in the global economy – in other words there should be a global growth strategy. Trade negotiations too should take into account the employment impact of changing trade regimes. This was one of the key areas for policy coherence among international organizations, which should “deal with international economic and labour policies in a more integrated and consistent way”.

Decent work in global production chains. The Commission argued that the goals of employment and decent work need more attention in the rapidly growing global production systems. The problems of employment quality are often found not in multinational firms or even their immediate suppliers, but further down the subcontracting chain where controls are weak. The Commission called for stronger efforts to raise labour standards at the base of these production chains, and argued that social dialogue among organizations of workers and employers was an important means to this end. It noted that there were encouraging signs of a growth of global agreements between global unions and multinational firms around respect for basic rights at work and other key issues.

Strengthening national policies for decent work. In line with the basic argument that a stronger social dimension requires action at all levels, from the local to the global, the Commission placed a great deal of emphasis on local and national policies for decent work. It argued first of all that it was important to preserve the national space for policies to achieve national goals, and that the rules of the global economy needed to take that into account. Within that framework, it highlighted the range of possible national policies to promote employment creation and social protection, noting in particular the importance of a free and independent labour movement and organizations of the poor, policies to support enterprise growth, commitment to a “high road of business-labour collaboration” as well as the need for better governance of the informal economy. It called for a focus on local action, both in order to respect and protect local communities, and also because action at that level

can more easily respond to the specific needs and aspirations of the communities concerned.

The Commission was concerned to find the right balance between the creation of opportunities on the one hand, and the need to deal with vulnerability on the other. It argued, for instance in favour of a rights-based multilateral framework for the cross-border movement of people which could encompass both opportunity and protection. It also argued for more work on the design of a socioeconomic floor, which could provide greater economic security and a more effective instrument for poverty reduction.

The obstacles to such policies, the Commission argued, lay mainly in the spheres of political will and governance. It argued that the process of globalization had run ahead of the development of economic and social institutions necessary for its smooth and equitable functioning. The deficiencies included asymmetrical effects of the rules of the global economy as between rich and poor countries, and a serious democratic deficit in the setting of those rules. In many countries the rule of law and the representation of key interests were weak, and the capabilities of the state and other actors needed to be reinforced in order to manage economic growth and social progress in the interests of all. And at the global level, the multilateral system was not sufficiently accountable to people and there was considerable imbalance in the voice and power of the actors concerned. These were general concerns, but they explained the failure to develop adequate policies to promote employment and decent work.

Improving Governance

What, then, might be the key governance issues that need to be addressed to make decent work a global goal? The Commission explored two aspects of this question. The first concerned the key actors: their goals and capabilities, their behaviour, their accountability. The second concerned the instruments through which better governance could be achieved.

Actors

The state: At the national level, the Commission argued for an effective and democratically accountable state that can support high economic growth through appropriate macroeconomic policies, provide public goods and social protection, raise capabilities of people and enterprises and deal with vulnerability. Contrary to the prevailing fashion to downsize the state, it argued that there is a great deal that the state can do to promote decent work, and that this is a widespread political demand in the democratic process. The State should, for instance, provide and enforce fair rules of the game across the economy, and in particular protect the rights of both workers and enterprises in the informal and rural economies – a key issue for decent work. A range of specific policies can aim to both maximise the rate

of growth of new jobs that yield incomes above the poverty line, and raise the productivity and incomes of those in informal employment.

The responsibilities of the state do not however end at the national level. There is a clear responsibility to build global policies in ways which take into account the interests of others, rather than to pursue narrow national interests. There are in practice many difficulties in achieving coordinated action on social policies between states. They include problems of monitoring and enforcement, democratic deficits in the reaching of agreements and the obvious tendency for the agenda to reflect power relations as much as real needs. But the interdependence between states implies that the gains from co-ordination are large. Too little effort of international coordination addresses the social goals of countries, and employment and decent work in particular.

Key private actors: By its nature, many aspects of the global economy lie beyond state regulation or – because of weak international coordination – respond poorly to national policies. This makes it all the more important to consider the role of other actors.

The enterprise. Given the limits to public action and regulation in the global economy, voluntary enterprise behaviour will inevitably play an important role in achieving social objectives, as it does within national boundaries. Deep rooted differences in corporate culture make it difficult to establish a common global model, but there are diverse ways in which decent work and other social goals may be embedded in corporate behaviour – through various approaches to corporate social responsibility, many of which embrace rights at work and working conditions; through the synergy between social and economic goals, since many aspects of decent work contribute to the stability and sustainability of the global economy, and often directly raise productivity at the enterprise level; and through the development of new institutional forms for private economic activity in the “social economy”. The latter in particular may help to reinforce the capacity for local action in the face of globalization.

Organized labour. Globalization and informalization have clearly affected the capability of the trade union movement to promote national social agendas. But in recent years there has been a growth in cross-border trade union organization, and attempts in some sectors to engage in regional or global social dialogue over wages and working conditions. The global trade union federations actively pursue the social agenda around major negotiating forums such as the World Trade Organization, and pursue a dialogue with the Bretton Woods Institutions. In some sectors, such as the maritime sector, there has been definite progress towards global agreements. There is resistance to this movement, but the development of cross-border social dialogue between representative organizations of workers and employers may well grow in importance.

Civil society is an increasingly visible actor, or rather multiplicity of actors, since this term embraces a wide variety of citizen actions, organization and advocacy. Organizations of civil society are a powerful source of ideas and debate, and effective mobilizers of minority groups and specific interests at both national and international levels. Within the framework of the market economy, non-governmental organizations have led the movement to take social criteria into account in consumer and investor choice. Socially responsible investing is now big business. Consumers too are widely willing to pay a premium for goods that are certified free of child labour or based on the payment of a living wage. Major civil society organizations are active in monitoring how far governments, enterprises and other organizations live up to their commitments, and so make important contributions to ensuring accountability.

The multilateral system: Perhaps the most obvious actors, when we speak of globalization, are the organizations of the multilateral system. Different parts of the UN system have responsibility for major fields of global social action – human rights, international labour standards, education, the environment, development more generally – which need to be embedded more deeply in the process of globalization. Two key issues here concern coherence and accountability.

The mechanisms for governance of the global economy are concentrated in the international economic and financial institutions – the IMF, the World Bank and the WTO – where financial and economic commitments generally take precedence over social ones. This is part of a broader problem, in that there is a tendency for the economic and social institutions of the multilateral system to operate independently of one another, so that the negotiations over international trade, for instance, do not explicitly take employment and other social goals into account. This lack of coherence is not only a problem of the institutions themselves, but often reflects different perspectives in the national ministries that are responsible for the governance of these institutions. A more effective role for the multilateral system in pursuing social goals clearly requires greater coherence across its different fields of action. The World Commission report points to these problems, calling for specific initiatives to promote greater coherence and greater accountability through, for example, parliamentary oversight. It argues that because of the central role of employment in both economic and social goals, more attention should be paid in global economic management to ways to promote employment.

Instruments

The World Commission report insisted on the responsibility of these different actors in the social dimension of globalization. But this responsibility can only be exercised if the instruments of governance are adequate to the task. The goal of policy coherence requires agreed policy frameworks and institutions within which the actors can work, and the mechanisms by which they can affect economic and social outcomes. The World Commission highlighted a number of key domains

where reflection is needed on how to make the existing instruments more effective, or develop new ones:

The Commission highlighted the weakness or unfairness of multilateral frameworks in certain key areas with a major impact on social goals. It notably pointed to the imbalance between the strong international regime for trade, compared with the weaker regimes for capital flows, financial markets and international migration. The development of new multilateral instruments in these areas is exceptionally difficult because of the strong interests involved, but would be of great importance for a wide range of social goals.

Mechanisms for macroeconomic coordination at the international level are notably weak, and – as noted above – more work is required on the design of instruments for coordination which can more effectively incorporate employment objectives.

The role of international labour standards in competitive labour markets is sometimes questioned, but they retain a considerable degree of legitimacy. Longstanding voluntary methods of application of these standards in the ILO have proved their worth, but there is a case to explore additional means for their effective enforcement, especially as concerns the key enabling standards. There is also a need for a broader reflection on the role of legal instruments of different types in this domain – both “soft” and “hard” – which might expand the possibilities for action. Instruments such as the Declaration on Fundamental Principles and Rights at Work may provide a model that can be emulated in other domains.

Better mechanisms and institutions to support the initiatives of the key economic actors, enterprises and workers, are also likely to increase their effectiveness. That includes both the frameworks for corporate social responsibility and the mechanisms for social dialogue at the international level. These are issues on which research is required to explore the demands and interests of the actors concerned, and the real effectiveness of different existing and prospective instruments for the promotion of decent work.

More generally, the policy instruments for social protection and solidarity at the global level are exceptionally weak, and there is a need for frameworks which can provide resources and redistribution towards this goal.

In important ways, the regional space provides an important first step towards these goals. Attempts at building a common set of social standards, better macroeconomic coordination and a degree of redistribution through social or restructuring funds are clearly much easier to launch at the regional level, and the European Union offers the best example both of what can be achieved and of the difficulties of rapid progress. Outside Europe there is a clear global trend towards stronger regional frameworks, with growing attention to the incorporation of social goals. This process is most evident in the Americas, where the experience of Mercosur and more recently at continental level has demonstrated a widespread commitment to

building decent work goals into a regional agenda. But there is progress in Africa, and more slowly in Asia, as well. These are the testing grounds for future global policies.

In all of these fields, the experience of the World Commission itself in dialogue and consensus building provides a model for progress. The engagement of a wide range of actors in the construction of these frameworks and instruments is an essential condition for their viability, whether at regional or at global level. That is the logic behind the idea of a Globalization Policy Forum, still under discussion in the ILO, which could bring together a wide range of networks of important social actors around the global goal of decent work.

Conclusion

The World Commission argued that a fair globalization is possible, indeed that it is essential for global stability. And that while a range of different actions are needed, the key lies in stronger and more systematic policies and institutions for decent work. A focus on work illustrates a more general principle: a fairer globalization needs to be built on a better integration of economic and social policies. The challenge is finding the policies, rules and mechanisms by which economic and social goals can be coordinated in the global economy, whether through social legislation or through other means, in the common interest. That is a long term agenda. But there is growing recognition that it is an essential task if the process of globalization is to respond to the expectations and aspirations of people.

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