Economic security

Economic Security for a Better World. Geneva, International Labour Office, 2004, 447 pp., $32.95/paperback.

Some fundamental conceptions of economic security are formulated in this voluminous work, written by a team of authors largely based in the International Labor Office's (ILO's) socio-economic security program. The book argues the salience of economic security as a human right, as an essential part of freedom. However, the burden of its discussion concerns the institutional and ideological context within which "people across the world" have been exposed to insecurities accentuated by "economic, social, political and technological developments."

Indeed the "dominant model" of economic policy that has taken shape over the past 20–25 years is "actually dependent on insecurity," and has gradually eroded State-based institutions of social and economic security. Emblematic of that model have been the orthodox policies recommended or imposed by the "Washington Consensus"—that is, the international financial institutions and the U.S. Treasury. Among policies promoted have been labor market flexibility, such as ease of hiring and discharge of workers; adapting wage levels to the state of the labor market; reducing the reach of the public sector and its partial privatization; and the liberalization of finance and trade, which has given rise to considerable instability.

Furthermore, contrary to the claim that open economies integrated in the process of globalization would promote higher rates of economic growth, the evidence points otherwise. Average annual growth of world output declined from 4.6 percent between 1960 and 1980 to 2.8 percent between 1980 and 2000. In 59 developing countries, including India and China, the rate fell from 5.5 percent to 4.5 percent; excluding these two nations, it declined from 5.8 percent to 3.7 percent—with Latin America experiencing a particularly steep fall.

ILO notes that insecurity was further intensified as a "systemic problem" by the spread of micro-electronic technologies and the decrease in manufacturing employment partially related to it; competitive deregulation; and the global supply chains of transnational corporations. Here, it may be remarked that, while the Washington Consensus has set the key parameters for the global economy, the chief actors remain the transnational corporations—with which the ILO report, however, barely deals.

ILO recognizes the role of the World Trade Organization (WTO)—a forum where multilateral trading rules are negotiated, ensuring a measure of predictability and security. It is sharply critical, however, of allowing rich countries to subsidize their farmers, thereby depressing world market prices of such agricultural products as cotton and corn, thus undercutting poorer countries' home and export markets. ILO also implicitly opposes WTO rules prohibiting certain industrial policy measures initiated by developing countries, such as local content requirements for foreign direct investments—measures that were "pushed through" by the richer countries during the 1986–94 Uruguay round of trade negotiations—but which have been generally beneficent in creating linkages with host country industries and their human resources development.

The second, most voluminous part of the ILO report is titled, "Mapping Economic Security." In fact, it deals with aspects of the political economy of insecurity in the early 21st-century world. The chapter headings here give an idea of the scope of ILO's approach. They include income security, labor market security, employment security, job security, voice representation security, and several others.

ILO defines income security as consisting of adequacy, continuity, fairness in relation to needs and by comparison with the income of others, and assurance of compensation in case of income loss beyond the recipient's control. ILO indicates that the sources of income insecurity cannot be traced unambiguously to globalization, although global competition is likely to have reduced the returns to labor, and induced a restructuring of social transfers that has increased the instability of income.

Income inequality remains most pronounced between high-income and developing countries, but ILO makes no case concerning the effect of this inequality on income insecurity. The high-income countries, with a population of 900 million, averaged $26,000 per capita in 1999; developing countries, with a population of 5.1 billion, averaged $3,500 per capita. In many of the poorer countries, per-capita income was far less. And there is no sign, ILO writes, that the gap is closing. More immediately relevant to the problem of income insecurity among developing countries are steep declines in the prices of nonfuel commodities, many of them sold on the world market—a matter ILO does not explore.

The distribution of income between capital and labor has become radically unequal since the 1980s. In India, the share of value added going to wages in the private corporate sector has fallen from 35 percent to 20 percent; in Mexico, from 40 percent in the late 1970s to less than 20 percent. Although the income distribution has "shifted in favor of the owners of financial wealth," the share of tax revenue from capital has shrunk (for the United States, from 27 percent in 1965 to 15 percent in 1999). ILO holds that the growth in functional income inequality is associated with globalization and "the impact of policies of the Washington Consensus." It furnishes no clear evidence for these assertions.

The distribution of personal income has likewise become more and more skewed. The income tax "has ceased to be a redistributive instrument," its progressivity has been markedly reduced, and every industrial country except Switzerland and Turkey has lowered its top marginal rate. It is a concern, says ILO, that the group at the top of the income distribution tends to form a global elite, "likely to be uninterested in the income security and welfare of most people in their own society…" ILO further argues that greater income inequality makes for regressive social policies and diminishing social solidarity. "The reality is that in the early years of the 21st century powerful interests are pressing governments all over the world to cut social spending, and in doing so reduce the income security provided by the state."

While ILO does not identify those interests, it details some of the curtailments, or proposed curtailments, of State-sponsored programs that would sustain income security. Regarding publicly financed pensions, for example, the World Bank, in its influential 1994 report, *Averting the Old Age Crisis*, recommends that the retirement age be raised; the "rewards" of early retirement be eliminated; and that benefit levels be downsized. It would also "launch the private pillar" as the "public pillar" is being reformed. These proposals are in the process of being widely adopted.

Public healthcare systems are likewise under pressure to reduce expenditures and to privatize (or compete with a private healthcare sector). In many countries, particularly developing ones, "The most important impediment to basic economic security is the absence of a reliable public healthcare service," or at least one that is affordable and accessible. In advanced countries, inability to pay healthcare insurance affects large numbers of wage earners and their dependents—in France, for example, one in eight citizens. (The performance of France's healthcare system has been viewed as one of the best in the world, including by the World Health Organization.)

Unemployment benefits and insurance systems underpinning them have long been another State-sponsored income maintenance program, particularly in the industrial countries. Most of the entitlement features of the programs have become more restrictive. For example, the qualifying period for benefit eligibility has been increased; the duration of benefit entitlement has been cut; and so forth. In developing countries, unemployment insurance systems are "rare…and when they do exist few unemployed are covered by them."

ILO implicitly rejects the idea that the weakening or erosion of public income security programs has been caused by fiscal problems. It argues in effect that the commercialization or privatization of these programs represents deliberate policy, pressed by the "powerful interests" mentioned.

Basic to economic and income security are conditions in labor markets, employment, and work places. ILO defines labor market security as availability of adequate income-earning opportunities, or where the supply of workers approximates the demand for them. However, labor markets in the early 21st century are pervaded by insecurity, says ILO. It arises from a combination of unemployment, contingent employment, and the resort to informal work by otherwise redundant jobseekers. While worldwide unemployment is estimated at 6.2 percent of a global labor force of about 3 billion, relevant data from China and the Russian Federation remain inconclusive because many workers are on extended layoffs or unpaid leave. There are millions of such workers, and they are not officially considered to be unemployed. But in fact they are, owing largely to closure or restructuring of State-owned enterprises and the inability of private-sector businesses to absorb them.

Informalization of labor prevails in developing countries; ILO estimates it to constitute between 50 and 70 percent of their labor force. Informal workers do not usually hold full-time jobs; they frequently do casual work. According to ILO's *People Security Surveys*, at least a third of households of informal workers lack sufficient food; a higher proportion did not have enough income to meet basic needs. Inability of working-age family members to earn subsistence is also reflected in the labor of children, who contribute as much as one-third to household income.

The shrinkage of manufacturing jobs has been a further source of unemployment, with the greatest losses occurring in China, Japan, South Korea, the Russian Federation, Ukraine, and Mexico. The losses have been associated with excess (and possibly outmoded) capacity but very likely also with gains in output per hour worked—a matter ILO does not probe.

ILO holds that population will grow much faster than job opportunities. Between 1995 and 2010, new labor force entrants worldwide will number 700 million. To absorb them, much faster rates of economic growth are required than "have been the norm in the globalization era," that is, since about 1980.

Unlike labor market security, which largely hinges on macroeconomic conditions and policy, employment security (or insecurity) is subject to business practices and labor laws and regulations. ILO defines employment security as protection against loss, or the risk of loss, of income earning work. The risk of job loss, writes ILO, has increased—employment security has diminished—as laws and regulations designed to ease labor market rigidities have been imposed. Easing of such rigidities has been consistently urged by the Organisation for Economic Co-operation and Development (OECD) and the international financial institutions. Legislative changes have also facilitated the employment of contingent workers, who often lack the benefits extended to permanent employees. Employment security in the public services has declined, as these services have in part been contracted out to private firms.

ILO provides some important facts and thoughts about what it terms skill security. This it defines as the provision for training opportunities, apprenticeships, and education so as to acquire competencies. It also favors vocational training. Access to schooling may be judged by educational attainment. Of the world's 680 million children of primary school age, 115 million are not in school, more than one-half of them girls. In developing countries, the lag in primary school attendance is often followed by a declining percentage of pupils who complete such schooling, and by declining proportions completing secondary studies, and then tertiary levels of education. Child labor is frequently blamed for these lags, but cost, lack of transport, or indifference or incapacity of parents appear to be larger barriers. "There is a strong link between access to formal schooling and access to training and type of training." Breaches in that link compound inequalities.

In its chapter on voice representation security, ILO stresses that 141 countries had ratified its convention relating to workers' freedom to organize, and 152 had granted workers' right to bargain collectively. Yet, "in the era of globalization, the capacity for voice mechanisms to influence policies and outcomes has been eroded in countries where it was relatively strong and has been weakened…in many places where it was already weak." Trade unions have lost members; have found it increasingly difficult to organize, especially part-time and casual workers; have been unable to make headway in countries with large informal sectors; and have been inhibited by international competition in pushing aggressively for wage and benefit hikes.

ILO surveys in various countries found that workers did not generally think trade unions were very effective in resolving their problems. A significant exception was China. Notwithstanding repression of worker demands "often with violence," attitudes toward trade unions were found to be generally positive. "Over one-half of Chinese workers said they had reasonable opportunities to bring grievances to their trade union representatives." Only a minority lodge complaints with a Government agency.

Overall, it is a refrain of the ILO report that workers are indifferent and passive concerning trade unions. Exceptions, such as the role South African workers played in bringing about the end of apartheid or that of the Polish workers in compelling the end of military dictatorship, show that great political objectives and democratic ideals inspire unity and activism among working people.

ILO believes that forms of workers' voice representation in the 21st century will "look very different from the trade unions of the 19th and 20th centuries." The tripartism that characterized labor relations in Western Europe has seen its day. Hence, ILO approaches voice representation as an issue to be viewed in global terms. Thus, it endorses the idea of an Economic Security Council as part of the United Nations. It urges that ministries of labor and welfare partake in the work of the International Monetary Fund and the World Bank. It notes that while the linking of labor standards to trade has been rejected by the WTO, it insists on some form of institutional regulation that helps workers and others to be protected against "the race to the bottom," caused by competition for investment and low-cost labor. It would seek to formulate internationally agreed upon rules of competition.

We may say that the keynote of this report is a search for new forms of social solidarity. If economic security is to be a right, as ILO asserts, then "the values of social solidarity," the underlying principle of most variants of the welfare state, must be at the forefront of policy. It is an ambitious ideal for which ILO has here made a powerful argument.

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