Chapter II

NEW PATTERNS OF ECONOMIC ENGAGEMENT AND SOCIAL INTERACTION

1. In the last three decades, major trends in the organization and distribution of production have brought about new patterns of economic engagement and social interaction that influence the cohesion of localities, national economies and regions. It has been widely argued that the nature of this age of globalization has major qualitative repercussions for human capital and skills, gender, culture, family and community life. For example, does the growing electronic interconnectedness of the world signify a major shift in human, corporate and Government discourse, bringing about previously unknown production possibilities, jobs and livelihoods? What tensions do these changes induce? Do the social and economic ramifications require new institutional arrangements and consequent changes in the roles played by government, the market and civil society? And what are the equity implications of these shifts?

2. Chapter II attempts to shed light on these questions. The directions and pace of structural change at the international level shows that high-income developed market economies have successfully moved to become knowledge-based and service societies. Some middle-income countries have moved rapidly to an industrial stage and enhanced their service sector as well, but very many developing countries struggle to overcome structural impediments to development. The dissemination and assimilation of information and communication technologies is primarily concentrated in more developed countries. Growing economic integration has reinforced the already dominant role of developed countries in the production and trade of goods and services. However, some developing countries, notably China and India, have been growing well above world averages and their presence in world markets is rapidly increasing. The same observation is not true for many other developing countries that are being excluded from the fruits of globalization. In the last three sections of chapter II the trends and dichotomies in employment opportunities, labour compensation and productivity change are discussed.

The directions and pace of structural change

3. In most developed economies, the pace of sectoral change from agriculture and manufacturing to services has been very rapid. In the last 20 years, total value added generated in agriculture has continued to fall, from 3 to 2 per cent, while in industry it fell from 37 to 30 per cent, including a fall in manufacturing from 25 to 21 per cent. At the same time, the value added in services increased from 59 to 65 per cent (see table II.1). This growing concentrating of resources in the production of services has been enhanced by the diffusion and assimilation of information and communication technologies. With total production that amounts to 80 per cent of the world's value added, developed market economies continue to control the organization and distribution of global production.

4. In fact, structural change from manufacture-based to a service and technology-based society is corroborated by looking at shifts in employment over time. In the last four decades, in the surveyed countries of the European Union, Australia, New Zealand, Canada and the United States, employment in agriculture fell on average from 14 per cent to only 4.5 per cent, while employment in secondary industry fell from 46 per cent to 31 per cent. Meanwhile, employment in all services has increased from an average of 38 per cent to 65 per cent (see figure II.1). In these societies, the substantial increase in service-employment can be explained by a surging demand for human services such as health, education, personal care, travel and entertainment, as incomes rise and life expectancy increases. Parallel to this shift is another trend, namely the reduction in the participation of "employers and own account workers" in total employment, as more and more persons find jobs as "employees." The share of employers and own account workers has dropped from 15 to 12 per cent[1] and dependent employment or the status of employee has increased from an average of 79 per cent to 87 per cent.[2]

5. The story is quite different for the developing world. The share of low- and middle-income countries in world output dropped from 28.6 to 21.6 per cent during the last two decades, while their share in world trade has not surprisingly stagnated. The poorest of the poor fared even worse, as the share of low-income countries fell from 7.4 to 6.5 per cent. If China and India are excluded from these calculations, the fall in the share of world output of low-income countries is even more dramatic, from 4.1 to 1.6 per cent (see table II.1).

6. The pattern of the structural change in the developing world is more complex. Some South Asian countries continue to be agriculture-based as one third of their value added is produced in this sector, which also employs approximately more than half of their labour force (see figure II.1). Although not shown in figure II.1, the share of agriculture in Africa, especially in sub-Sahara Africa, is also still very significant. Similarly,

Table II.1

Figure II.1

East Asian countries have a large portion of their labour force in agriculture, almost 40 per cent, but their pace of structural change is faster as they have moved more decisively into the manufacturing. In the transition economies of Central and Eastern Europe, the decline of employment in agriculture from 45 to 22 per cent was almost exactly matched by an increase of employment in services. In these countries, structural change has been drastically affected by the collapse of state socialism and the prolonged depression caused by transition that massively reduced the output in the 1990s. The adoption of market-oriented policies rearranged the allocation of capital and labour between industry and other sectors of the economy. Latin American and Caribbean countries show a different pace of structural change. Employment in agriculture has fallen, on average, from 45 per cent to 18 per cent. But only 1 per cent of the drop was absorbed by the secondary sector, as its share increased from 27 per cent to 28 per cent. Most workers found jobs in services, where employment went up from 26 per cent to 54 per cent. These jobs are largely informal and reflect the substantial "informalization" of the labour force.

7. In the last two decades, the drop in food and agricultural raw materials production and trade in developing countries has been severe and has affected employment in these sectors. This observation also holds for countries with natural resources-based activity other than agriculture. While many developing countries are well endowed with natural resources, the use of these has been constrained by the lack of technological capabilities, investment funds and entrepreneurships. In contrast, an example of a country that has performed extraordinarily well despite the lack of natural resources is Singapore. It is one of the smallest countries in the world (1,000 square kilometres (km^2)), with one of the highest population densities (5.3 thousand per km^2). The size of its arable land is very small. However, due to appropriate policies, its agricultural productivity more than tripled in the last two decades, surpassing the United States and ranking number one in the world.[3] A different success story of a country that has used its natural resources to advantage is Chile. It has sustained a natural resource-based economic growth for the last 20 years by focusing on value added in its agricultural sector, forestry, fisheries, and its large and competitive copper industry. In most developing countries, the inability of liberalization to expand productive employment in the primary sector has had a long-lasting impact on employment and the subsequent growth of the informal economy.

8. Some developing countries were impeded in their transition from agriculture-based to industrial societies by restrictive domestic policies. This strategy did not promote the development of productive activities through the establishment and consolidation of competitive industries and activities that either created more value added in agriculture or in the service sector. Therefore, an incessant flow of labourers released from agriculture that migrated to urban areas could not find appropriate employment in competitive activities. The disproportional large share of employers and own-account workers in developing countries relative to developed market economies is another illustration of the rapid growth of the informal sector. Increasingly, more workers are self-employed, as well as microenterpreneurs and unpaid family workers or combining these occupations with formal work in the private or public sector (see Bangladesh, Pakistan and Sri-Lanka, in table II.2 for example). A similar situation can be found in Latin America and the Caribbean. Bolivia, El Salvador, Honduras, and Jamaica are illustrations of countries with large informal employment. One form of informal employment is unpaid family worker. In Bangladesh, unpaid family workers make up 40 per cent of the labour force, and in Thailand 27 per cent. They do manual work in agriculture, construction and other sectors, are part of the petty production system in rural areas or provide domestic service. In poor agriculture-based and highly "informalized" societies, most basic needs remain unsatisfied.[4] In these countries, the extent of human deprivation is manifested in chronic hunger and disease, and therefore high mortality and morbidity rates.[5]

9. Informal sectors expanded substantially in Eastern Europe after the beginning of the transition process. In such countries as the Czech Republic, Hungary, Poland, Romania and Slovakia, the size of the informal sector has been increasing, while in Romania and some Commonwealth of Independent States (CIS) countries it has been escalating. [6] For all of them combined, the share of employers and own account workers has gone up from 13 to 20 per cent in the last 40 years, and the share of the self-employed is close to 90 per cent of the category. [7]

10. The design of macroeconomic policies is most effective when careful consideration is given to structural change. Due to globalization pressures and the interconnectedness of the world, some countries are moving along more consistent and predictable paths. But a number of countries have truncated the direction of their structural change and are searching for new approaches amidst changing external conditions and internal social and political instability.

Global dissemination of information and communication technologies

11. The widespread adoption of information technologies has signified a major shift in organization and distribution trends, transforming lifestyles, processing capacities and communications quite substantially in the last two decades. Advances in information technology, a qualitatively new development

Table II.2

in the contemporary world, have accelerated global trading, and created new products, and have enormous potential for rising productivity levels. The interactions between market, Government and civil society have begun to change due to the emergence of new social and economic interrelationships born in the assimilation of electronic technology and its global links. Increasingly, face-to-face interactions are being replaced by virtual realities at work in the market place and in the classrooms. Changes from the mundane to the complex can be observed everywhere. Orders for food or books can be placed electronically and substantial capital transfers can be completed on-line. Medical research and interventions that can be life-saving are efficiently conveyed on the Internet. The overall implications of the dissemination and assimilation of information technologies on personal time management, on social and political participation and on the spheres of public and private action are profound and far-reaching.

12. Increasingly, a country's prospective development is closely connected to the dissemination and assimilation of information and communication technologies in both the industrial production line and in policy development to enhance social outcomes. The existing gaps in economic development, however, remain an important factor, intensifying new "digital divides" between countries. As developed nations shift emphasis formerly placed on commodity production to an increasing concentration on services and data processing, many developing countries remain profoundly rural, with agriculture-based societies. While more than one third of the population in developed market economies have access to a personal computer, less than 2 per cent have such access in developing countries. A look at the number of Internet hosts per 10,000 people reveals that there are 777 on average in developed market economies, only 5 on average in the developing world.[8]

13. Since technological innovations do not disperse with the same intensity and scope in all parts of the contemporary world economy, large portions of the world's population remain excluded from the information age. While there are numerous reasons that explain this situation, one stands out: the poverty trap imprisons billions of people, excluding them from the information revolution. The world has indeed grown more inequitable.[9] The digital divide or "information poverty" is the dark side of information and communication development in the contemporary world.

14. Such factors as gender, levels of education and literacy, household income, language, race and ethnicity, lack of infrastructure and resources and other factors causing exclusion are all critical determinants of access that inhibit the dissemination of information technologies. In addition, the benefits from new technologies in terms of wealth generation and job creation are skewed and unevenly distributed not only between countries but also within countries. Ability to pay is a major factor that can promote or reduce the potential for connectivity. One example is quite striking. The United States is the hub of most Internet traffic and a very large proportion of Internet protocol bandwidth connects to and from North America, while the level of bandwidth between the regions of the rest of the Americas is very small. As a result, in order to have access to the "informational highway", developing countries in the region must pay large sums for traffic exchange and connectivity to United States telecommunication carriers, which many Latin American countries have difficulty in doing.

15. Realizing long-term negative effects of falling even further behind, many countries are paying increased attention to this issue, while taking important steps to overcome structural impediments in the dissemination of information technologies. Implementing active educational policies and securing wider dissemination of information in this field are two important policy goals. Investment in education, including informatics, has been gaining prominence. For example, in Latin America, Costa Rica made the national adoption of information and communication technologies a long-term goal. A twofold effort includes the use of advanced technologies to help integrate isolated rural populations and the provision of computer laboratories in every public school. In China, a state-sponsored national technological initiative was introduced to create Chinese character sets for Internet use. After their introduction in 1996, Internet activity blossomed.[10] Estonia is another country that has progressed within a decade from virtually no access to electronic services to now being one of the most "connected" countries in the world. All schools are connected to the Internet, 80 per cent of bank transfers are made electronically, close to one third of the population is connected to the Internet, and dial-up service is the least expensive in Europe.[11]

16. These experiences show that while it is true that connectivity is expensive and that structural barriers limit the dissemination of information and communication technologies, active promotion and support on the part of government can be very effective.

The global economy: trends among and between countries

17. Accelerated expansion of trade, investment and information flows through the Internet have been identified as central features of current globalization trends.[12] Financial markets have become truly global, and, it is argued, this leads to an increased risk of volatility and financial crises.[13] Global trade, expanding at a compounded average annual rate of 6.25 per cent in 1980-1998[14], is one of the major shifts in the

organization and distribution of goods and services, with important social ramifications. In the last two decades, the combined world value of imports and exports almost tripled (from 3.8 to 10.7 trillion dollars), with great spatial dispersion of production processes. Transnational corporations used to transcend the limited economic space of individual nations. Now, they increasingly mutate into giant international networks, connecting other transnational and local suppliers, intercontinental logistic specialists, traders and market professionals, designers, banks and insurance companies, shareholders and business executives to conduct their global businesses. The production of one commodity often spans many countries, with locations performing tasks in which manufacture is most efficient and profitable.

18. A powerful drive towards liberalization of world trade has increased economic integration. Most developing countries have adopted policies that promote foreign trade, though with admittedly different results. It was expected that liberalization and export-led activities would increase the level of employment and raise efficiency. In many countries, tariff reductions were an integral part of a package accompanied by such policies as export subsidies; duty-free treatment for inputs for export production and investment and promotion measures. Foreign trade that originated in developed market economies grew in a particularly dynamic manner, 6.5 per cent per year between 1980 and 1998, slightly over the world's average. The developing world's foreign trade in that period also grew at 6.4 per cent per year, not strong enough to increase developing countries share in global trade, which stagnated at one fourth. Yet individual country performance varied substantially. China, East and South Asian countries raised their shares quite markedly. For example, foreign trade in low-income countries, including China and India, exceeded the performance of the developed countries, growing at a relatively high rate of 7.3 per cent per year. However, if China and India's trade performance is excluded, foreign trade in low-income developing countries grew at only 2.5 per cent between 1980 and 1998.[15] The performance was particularly bleak for the Middle East and African countries, which on average remained marginalized from global trade and financial market.[16] In the case of many Middle-East countries, integration to global markets was limited by lack of business opportunities due to narrow specialization on oil, coupled in some cases with political instability both in the region and domestically.

19. Contrary to some overly enthusiastic expectations, globalization has neither reduced inequity nor set all nations on a sustained economic and social growth path. Real per capita annual global growth was 1 per cent on average in 1990-1998. It was –4.3 per cent for the transition economies and -0.4 for sub-Sahara Africa.[17] More recent estimates are even less encouraging. The world average annual per capita growth rate for 1998-1999 was 1.3 per cent, with negative growth rates in Europe and Central Asia, Latin America and the Caribbean, and sub-Sahara Africa.[18] This sluggish performance provided additional evidence that expanding foreign trade on its own is not sufficient for achieving long-term stability and prosperity and must be accompanied by determined national policy in the socio-economic field.

20. The growing integration of the global economy and the extraordinary expansion of financial markets impacted upon some strategic competencies of Government such as the provision of social services and autonomous policy-making, as explained below.[19] With the market-dominated policy goals in the 1990s and in the context of globalization and increased competition, Governments retrenched from the sphere of production and distribution of goods and services, through sale of public assets into private hands.

21. In the delivery of social services, such as health and education, public spending was cut in a large number of developing countries when they implemented economic stabilization and restructuring programmes that were part of the privatization drive and trade liberalization package. "Putting macro-economic fundamentals in order" became the motto of the day and was considered essential for attracting foreign investment.[20] In most countries, irrespective of level of development, budget cuts were induced by large budget deficits and accumulated debt. For example, following the foreign debt crisis of the 1980s, many Latin American countries drastically cut back public social spending to strengthen their public finances. These cuts, which in many cases have been maintained for relatively long periods, have had detrimental effects on both the education and health care of the population. More recently, the Asian financial crisis of 1997 led also to substantial cuts in government spending in education and health care in the countries most severely affected by the crisis and stabilization efforts.

22. In the face of a new intensity of international competition and having difficulties in achieving the recommended fiscal austerity, many Governments established new forms of public-private partnerships and privatized activities that were formerly performed by state-owned enterprises and institutions. Another option was to contract out activities to outside private suppliers, aiming at reduction of inefficiency. In healthcare, numerous Governments, particularly in developing countries and transitional economies, adopted measures to outsource private provision under various arrangements, and introduced fee-for-service and other cost-recovery schemes. In many developing countries, charging users fees for social services has been a contentious issue.[21]

23. In the area of pensions, eight Latin American countries reformed their social security systems rather

substantially and introduced private schemes. In Bolivia, Chile, El Salvador and Mexico, private pension fund managers administer individual retirement accounts that are fully funded and that replaced the traditional public pension pillar. In Argentina, Colombia, Peru and Uruguay, a public-private mix characterises pension systems. The introduction of private pension schemes added some concerns because their transaction costs are high and the salary replacement ratio is unknown since it is entirely determined by total personal retirement savings invested mostly in the domestic capital market.

24. Growing economic and political integration in Europe has involved transfer of some macro-policy responsibilities from national Governments to supranational governance structures. In the area of monetary policy, the European Union has actively pursued programming coordination. Trading blocs such as NAFTA and Mercosur strive to harmonize trade policies and provide incentives for interregional investment flows.[22] [23]

25. Trade expansion and growing volumes of bilateral trade flows brought to the fore some touchy issues in the areas of labour and environmental standards in the developing world that have not yet been completely resolved. Low labour standards may be defined very broadly as lower labour compensation for similar jobs performed elsewhere (generally, in textiles and garment, shoes, carpets, and other manufacturing activities), coupled with inadequate working conditions that jeopardize the integrity of workers.

26. It is sometimes argued that lower labour standards in the developing countries give them a competitive edge to the detriment of workers in richer societies and that low labour standards do not contribute to the welfare of the people in these countries. Advocates of trade sanctions against countries with low labour standards argue that higher labour standards lead to higher wages and welfare gains, and eliminate negative impact on trading partners' workers in more developed countries. Opponents of this view argue that sanctions imposed on exports originating in low labour standard production processes, however, would not eliminate the fundamental problem of poverty and development challenges affecting sizeable populations. Poverty lies at the crux of lower labour standards and its alleviation can not be easily corrected with short-term measures, such as sanctions.[24] In a more comprehensive approach to supporting trade and development, investment flows and government support should be made available to raise labour standards in poor developing countries. It has been reported that fear of trade sanctions on export goods produced by child labour led to the lay-off of all children under age of 16 in garment factories in Dhaka, Bangladesh. Many of these children then moved to find employment in even less remunerative and more dangerous occupations in the non-tradable informal sector.[25]

27. The implications of globalization for employment, income distribution and poverty reduction remain a matter of dispute, often a heated one. More than once the disagreements over seemingly theoretical issues (though with very obvious practical consequences) surfaced at the time of major international meetings and even escalated into violent rallies organized by opponents of globalization. There are profound differences in perceptions of the potential economic benefits of freer trade. Public opinion in many countries remains fluid and divided regarding its actual or potential costs and benefits. While sometimes the fear of freer trade is irrational or is based on incomplete and/or partial information, it often reflects very real negative effects stemming from inflows of cheaper goods into domestic markets. In some cases, organizations of low-skilled workers and farmers as well as some activists fighting for preservation of the environment remain particularly staunch opponents of freer trade.

28. In many countries, public discourse regarding the implications of globalization has widened to embrace such fundamental issues as the basic rules which would determine the directions and pace of globalization as well as the issue of transparency in creating these rules. Lack of transparency in setting the rules governing globalization processes may be very dangerous, undermining the legitimacy of negotiated agreements and leading to further confrontations and impasses in this field.

The elusive quest for adequate employment in a more globalised world

29. Social justice and inclusion in real life are largely determined by whether people can develop to their full potential, are productively employed and appropriately remunerated, and are covered from social risks through various institutional, community and personal or family-related schemes. In many countries, structural economic changes in the organization of production, with very few exceptions, have not been conducive to create adequate employment opportunities for many people. In many developing countries, the implementation of liberalization policies has shifted workers from the tradable to the non-tradable sector, raised informality and depressed real wages. For instance, in the early 1990s Peru implemented one of the most vigorous liberalization processes in South America. At the end of the decade, the proportion of the adequately employed labour force remained basically unchanged, at one third of the labour force, and the great majority was employed in informal commerce, food processing and street vending, construction, transportation, professional and personal services.[26] In

India, most workers do not belong to the private formal or public sectors.[27] The informal sector workers, however, may be connected to formal sectors of the economy through various types of contracts for labour services, and through backward and forward production linkages.

30. Due to the high level of long-term unemployment, important policy steps have been taken in most developed market economies at the national level[28] to create employment. Measures include work-sharing, flexible schedules, reduced working time, youth employment, "welfare to work" programmes, promotion of small and medium-scale enterprises, employment for people with disabilities and social dialogue. For instance, Belgium, following the Luxembourg Summit guidelines and the adoption of the European Employment Pact in June 1999[29], implemented policies to reduce labour costs, promote work-sharing, and increase labour market flexibility and training opportunities, and targeted measures for groups facing difficulties in finding new sources of productive employment. Spain designed a national plan for employment that emphasizes vocational training and promotes employment for women and the disabled. The Netherlands implemented a consensus model that combines macroeconomic and income policies with labour market interventions and social dialogue.[30] The United States is enjoying a relatively benign employment situation, concentrated on expansion of jobs in the service sector.

31. Women generally have more flexible jobs than men, and enter and exit the labour market more frequently due to several factors related to culture, household needs, their reproductive cycle and institutional discrimination. Therefore, it is not surprising that a large majority of part-timers are women. With the exception of Turkey, this is true for all Organization for Economic Cooperation and Development (OECD) countries. In Belgium, Germany and Luxembourg, the rate of part-time employment of women is some 10 times that of men. In the developing world, female participation in services, most of which is informal, is very high. Here, however, the category of full-time or part-time is less meaningful as workers perform unreported multiple income-generating jobs to make a living.[31]

32. While labour markets have always been fragmented, globalization forces and the dissemination of information and communication technologies further accentuated these trends and created a wider dispersion in salaries and lifestyles between different types of workers. One obvious result is the formal-informal sector dichotomy. Those in formal and better paying jobs will enjoy statutory social protection, while workers in informal and less paying jobs lack this coverage. European Union welfare states provide universal coverage to their citizens independently of their employment status. However, in developing countries, informal workers, including part-timers, temporary employees and the self-employed, are structurally excluded from social protection coverage.[32]

33. Ageing and low fertility rates are two important demographic trends that have decreased the dependency ratio[33] of social security systems, particularly in developed market economies. The drop in the dependency ratio had important ramifications on employment strategies, welfare schemes and the actuarial balance of social security systems in the latter. One of the governmental responses to this drop was to set full employment as a national goal, thereby increasing revenues from contribution payments. In the developing world, the drop in the dependency ratio was less severe when compared with the magnitude of social protection exclusion.[34] Many developing countries still have a predominantly young population and have not yet experienced the demographic transition to ageing societies. For example, in El Salvador, persons 15 years old and younger represent more than one third of the population and the median age is 19 years.[35] Other examples of "young" countries include Honduras, Guatemala and the United Republic of Tanzania in which approximately half the population is under 15 years old, and Bolivia, Nicaragua, the Philippines, South Africa and Zimbabwe, where 40 per cent of the population is under 15 years old.[36] In these countries, most people are excluded from any form of statutory social security protection.[37] Personal coverage, mainly pensions and health care, is limited to workers in the formal sector.

Compensation and productivity changes in the global economy

34. Labour compensation and output per hour of labour (productivity) in manufacturing are two relevant economic indicators that are used to indicate international competitiveness, an important effect of structural change and the dissemination of technological innovations at the national and world levels.[38] For example, in the current information age, demand for high-skilled labour has increased, which has raised its compensation, while demand for low-skilled or unskilled labour has decreased, thus depressing its compensation. The change in the way labour has been valued has affected both national and international labour markets. In countries that have concentrated substantial investment in research and development and have shifted labour demand toward skilled labour, - for instance, manufacturing in Japan and in the United States - both compensation and output per hour of labour have increased. In countries in which economic growth has lagged and which have not assimilated new technologies, the increase in demand for skilled labour has been small, the supply of low-skilled and unskilled labour has

remained relatively large and compensation has stagnated (see chap. XI).

35. As suggested above, trade liberalization does not seem to have put automatic stabilizers in motion that would have corrected widening compensation differentials between developed market economies and the developing world. A comparison of hourly compensation for production workers in manufacturing for Asian newly industrialized countries, European countries, the United States and Mexico in 1975-1995 showed that it has increased much more in Europe and Japan than in the United States and the Asian newly industrialized economies.[39]

36. The impact of new investment in equipment and machinery, infrastructure and software has a lagged effect on productivity, and spills over across economic activities at different speeds and with varying degrees of transformative impact. Most modern production activities, such as communication and service-based activities, genetic engineering and pharmaceuticals have experienced substantial productivity increases, while others, such as traditional crafts, farming practices in rural areas and extractive mining activities in many developing countries, have remained more isolated from the information revolution, facing challenges of their own. The finance sector and the computing industry are prime examples of activities that have experienced major managerial, organizational and technological transformations. Productivity changes undergo cycles and timing that varies across countries and regions. Figure II.2 provides information about labour productivity growth in manufacturing for 10 developed market economies in index form. Among sampled countries, the United States, in the late 1990s, accelerated its productivity growth. In fact, United States output per hour increased 6.2 per cent in 1999, the largest increase in over a decade and well above its average annual increases between 1979-1999.[40] However, no single country has yet displaced Japan from its spectacular record of 9.5 per cent annual productivity growth over 1961-1994 (se fig.II.2); it fell subsequently, so that in 1961-1999 the percentage annual growth was 5.8 per cent.

37. United States recovery in this field has been most meritorious. Annual changes in productivity, as measured by the per cent annual change in manufacturing output per total labour hours in the United States, has grown steadily in 1948-2000.[41] The average annual growth rate in this period was 3.1 per cent. In the United States, the rate of growth of productivity in business and non-farm business declined steadily over the above-mentioned period. In contrast, the rate of change of productivity growth in manufacturing accelerated in 1982 and further again in 1992. The strong period of productivity growth in manufacturing emerged during the second part of the 1990s.

38. International comparison of changes in the rate of productivity growth in manufacturing shows that it decelerated in all nine countries against which the United States is compared, mainly due to differences in the initial base of each of them.[42] In terms of the average annual growth rate of productivity change in manufacturing in 1961-1999, Japan is first, with an annual 5.8 per cent productivity growth, followed by the Netherlands, 5.3 per cent, and Belgium, 5.1 per cent. The second through the fourth panel of figure II.2 represent the periods 1961-1974 (oil shock), 1974-1993 (end of institutional supply-side economic reforms in the United States), and 1993-1999 (United States' strong economic performance). The United States advanced from last to first position during this period. This evidence illustrates the steady improvement in productivity performance in the United States, a consequence of the tremendous impetus brought about by its technological shift or "revolution" in the production and distribution of goods and services.

39. Figure II.3 shows estimates of levels of labour productivity in manufacturing in 1987 and 1996 (value added per person employed) for selected countries with reference to the United States in index form.[43] Finland, Sweden and Japan appear to have made extraordinary advances towards catching up with the United States. In 1998 (not shown in the figure), the Netherlands and Belgium led the United States in labour productivity. But, at the same time, there has been a striking difference between labour productivity among the top countries and the rest, notably in large developing economies, such as India, China and Indonesia. If the technological divide widens further, there is less hope to catch up for many developing countries.

Challenges ahead

40. The pace of structural change, the spread of information and communication technologies and other forces of globalization will generate even greater inequity if they do not improve income opportunities for the vast majority. On their own, market forces are selective in the sense that investment opportunities spring from situations where low labour and environmental standards and low labour compensation converge, while the fruits of technological advancement are enjoyed by more affluent countries. There are no self-correcting mechanisms to bridge the digital divide or the sharp productivity dichotomy between developed market economies and the developing world. However, there is room for discretionary policies that can reverse inequitable trends and promote sustained economic growth with improvements in the well-being of the people. For example, appropriate state-market interaction and sound Government intervention, particularly in support of investment in human capital, can yield long-term growth and facilitate development.

Figure II.2

Figure II.3

41. Stabilization of the international macroeconomic environment is a necessary prerequisite for sustained growth. At the same time, the globalisation process not only creates new opportunities but also adds new challenges at the national level, since the probability of financial crises and volatility have increased. In many instances, the needs of global capitalism clash with priorities of national economies. Some reclaiming of macroeconomic discretion is an obvious necessity, whether it is achieved by means of trade incentives or even some capital controls. Government support for the development of a strong institutional and infrastructure basis has proved indispensable to increase the attractiveness and competitiveness of investment in tradables as well as support for the national agricultural sector. The experience of successful developing countries shows that organized and targeted national efforts, coupled with a high degree of political determination of the national elite, can bring about noticeable poverty reduction.

42. The increased economic integration of nations and people brings a myriad of opportunities if trends that reinforce inequities are decisively reversed. National development efforts may be more effective and efficient if the external environment in which they take place is predicable and constructive. Institutions alone do not generate growth and cannot substitute production capabilities. Their importance lies in their ability to mobilize or constrain production efforts. Institutional changes imposed from above are usually not sustainable if society remains unchanged. People have to own their choices and be willing to participate in the construction of their destinies. Institutional changes have to be complemented by concerted and sustained measures to increase investment capacity, widening access to markets, technology, expertise and general stimuli to attract investment both national and external.

43. The removal of restrictions on labour mobility may be an important step toward the integration and the construction of a truly global society. Globalization is not complete if severe mobility restrictions on people are maintained. International migration is a complex and politically sensitive subject. However, it appears that globalization forces constrained by national frontiers and restrictions on migration tend to generate tensions within and between countries that are more difficult to solve in the presence of captive markets. With current labour immobility, labour compensation and earnings in countries where unskilled or low-skilled labour is abundant is either decreasing or remaining stagnant, while compensation in countries with excess demand for both skilled and unskilled/low-skilled labour is increasing. If labour markets across nations were to benefit from openness these tensions would be eased and differentials in compensation would be less extreme. More importantly, it has been documented that opening migration flows can contribute to poverty alleviation and employment opportunities. At the same time, these flows satisfy important needs in countries that host migrant work; for example, temporary migrant employment of both low-skilled labourers can perform jobs in construction or agriculture and highly skilled engineers in the computer industry. Migrant transfers to their families have had an important positive impact on reducing rural poverty in many countries in East and South Asia, Africa and some countries in transition. Immigrant communities in developed market economies have improved income opportunities for thousands of people in their countries of origin by serving as a channel through which small and medium-sized businesses from developing countries have gained an access to markets as well as knowledge and technology in more developed countries. Immigrants also invest in their countries of origin, hence providing an alternative source of development finance. In the countries where they reside, although some social tension may arise between them and local unskilled workers and other groups, they contribute in many meaningful ways, as taxpayers and social security contributors and by adding to the cultural and ethnic diversity.

44. The direction of shifts in the organization and distribution of production have generated some unanticipated losses in equity because they have reinforced some international patterns towards exclusion that are most visible in poor developing countries. To reverse these patterns, countries will have to carefully revise the current national and international institutional architecture and redirect their policy-making toward the introduction of more sensible and long-term effective goals.

NOTES

[1] DESA calculations based on International Labour Office, *Yearbook of Labour Statistics*, various years.

[2] DESA calculations based on International Labour Office, *Yearbook of Labour Statistics*, various years.

[3] World Bank, *World Development Report 2000/2001, Attacking Poverty* (New York, Oxford University Press), table 8, p. 289.

[4] The pressing needs of their people are reported in chapter XI.

[5] See chapter XIII.

[6] DESA calculations based on International Labour Office, *Yearbook of Labour Statistics*, various years.

[7] The issues of informalisation are also covered in chapter X.

[8] Word Bank, *World Development Report 2000/2001, Attacking Poverty* (New York, Oxford University Press), table 19, p. 311.

[9] See chapters III and XII.

[10] United Nations, Economic and Social Council (18 May 2000). *Development and international co-operation in the twenty-first century: the role of information technology in the context of a knowledge-based global economy* (E/2000/52), pp. 21-22.

[11] Ibid, p. 7.

[12] See, for example, Castells, Manuel, *The Information Age: Economy, Society and Culture. Vol. I, The Rise of the Network Society*,

2nd ed. (Malden, Massachusetts: Blackwell Publishers, 1996); Giddens, Anthony and Will Hutton.. "In Conversation" in Will Hutton and Anthony Giddens (eds.) *On the Edge. Living with Global Capitalism* (London, Jonathan Cape, 2000); Gereffy, Gary and Miguel Korzeniewicz (eds.), *Commodity Chains and Global Capitalism* (Westport, Praeger); and United Nations, *World Economic and Social Survey 2000, Trends and Policies in the World Econom,.* (United Nations publications, Sales No. E.00.II.C.1).(New York, United Nations, 2000).

[13] See, for example, Krugman, Paul, "Crises: The Price of Globalisation?" In the Federal Reserve Bank of Kansas City, *Global Economic Integration: Opportunities and Challenges,* A Symposium sponsored by the Federal Reserve Bank of Kansas City, Jackson Hole, Wyoming, August 24-26, 2000.

[14] DESA calculations based on The World Bank (2000), *World Development Indicators*, tables 4.5 and 4.6.

[15] DESA calculations based on The World Bank (2000), *World Development Indicators*, tables 4.5 and 4.6.

[16] See in Rodrik, Dani, *The New Global Economy and Developing Countries: Making Openness Work* (Washington, Overseas Development Council, 1999), chapter 5.

[17] DESA calculations based on United Nations Development Program, *Human Development Report 2000*, table.7, p. 181. Per capita annual growth based on GDP in 1995 US dollars.

[18] World Bank, *World Development Report 2000/2001*, table 1, p. 274. Per capita annual growth is based on GNP per capita in 1999 US dollars.

[19] See, for example, Pierson, Christopher, *The Modern State* (London, Routledge, 1996).

[20] Eliminate fiscal deficits, external imbalances, and price instability.

[21] See, *Comprehensive Report on the Implementation of the Outcome of the World Summit for Social Development*, Report of the Secretary General (A/AC.253/13-E.CN.5/2000/2), paragraphs 314-315.

[22] See, for example, Canitrot, Adolfo and Silvia Junco, (eds.), *Macroeconomic conditions and trade liberalisation* (Baltimore, Johns Hopkins University Press; 1993), Lustig, Nora, Barry P. Bosworth, and Robert Z. Lawrence (eds.) *North American free trade: assessing the impact* (Washington D.C, Brookings Institution; 1992) and Rojas, Francisco and William Smith (eds.) *El Cono Sur y las transformaciones globales* (Miami, North-South Center, 1994).

[23] Chapter XXI reviews the situation of the Government-private sector relationship on corporate social responsibilities.

[24] World Bank, *Global Economic Prospects and the Developing Countries* (Washington, The World Bank 2001), pp. 88-93.

[25] Ibid, p.92.

[26] Cuánto S.A., *Perú en cifras* 2000 (Lima, Cuánto S.A., 2000).

[27] Jhabvala, Renana and Ela R. Bhatt, w/d. *The World of Work in People's Sector and its Inherent Strength, Sewa Experience*. (Bhadra: Self Employed Women's Association (SEWA)).

[28] United States Department of Labour, Bureau of Labour Statistics, "Unemployment rates in nine countries, civilian labour basis, approximating U.S. concepts, seasonally adjusted, 1990-2000" available at ftp://ftp.bls.gov/pub/special.requests/ForeignLabour/flsjec.txt (02/23/2001).

[29] With the adoption of the European Employment Pact in June 1999, the so-called Luxembourg process (co-ordinated employment strategy comprising employment policy guidelines and national employment policy action plans) and the so-called Cardiff process (structural reforms in the markets for goods, services, and capital) were supplemented by a macro-economic dialog on wage development, monetary, budgetary, and financial policies (so-called Cologne process) as a third pillar, and the involvement of the social partners was agreed upon at all levels.

[30] United Nations. *Comprehensive report on the implementation of the outcome of the World Summit for Social Development,* Report of the Secretary- General (A/AC.253/13-E/CN.5/2000/2) (14 December 1999), pp. 33-37.

[31] These issues are also covered in chapter X.

[32] Chapters XIII and XIV review the fundamental themes of vulnerability and social protection.

[33] Defined as the number of active workers over the number of pensioners.

[34] See, for example, van Ginneken, Wouter (ed) *Social security for the Excluded Majority: Case studies of Developing Countries.* (Geneva: International Labour Office, 1999).

[35] Republic of El Salvador, Ministerio de Economía, *Encuesta de Hogares de Propósitos Multiples, 1998* (San Salvador, Ministerio de Economia, May, 1999).

[36] World Bank, *World Development Report 2000/200,* table 3, pp. 278-279.

[37] The International Labour Office, *World Labour Report* (Geneva, International Labour Office, 2000), p. 193.

[38] A note on the measures used for the comparisons is important. Compensation measures are calculated in national currency and are converted into US dollars at the prevailing market exchange rates. They are appropriate for the comparison of payments for time worked, other direct pay, employer expenditures for legally required insurance programs and other. Countries vary however in the length of the working day, number of days worked in a week, benefits accessed through additional employer expenditure, and so forth. In addition, these measures do not indicate relative living standards of workers or the purchasing power of their incomes. Prices of goods and services may vary greatly among countries and market exchange rates may not neither reliably indicate relative differences in prices or the "correct" price of the exchange rate. The indicator of productivity, output per hour of labour, is an average for all manufacturing industries for which data is registered at the national level and it is not necessarily representative of all component industries. Therefore, international comparisons of compensation and productivity respectively should be regarded as illustrations of general trends and taken with caution.

[39] Internatinal Labour Office, *Labour Market Trends and Globalisation's Impact on Them*, available at www.itcilo.it/english/actrav/telearn/global/ilo/seura/mains.htm (February 23, 2001); p.12.

[40] United States Department of Labour, Bureau of Labour Statistics, *International Comparisons of Manufacturing Productivity and Unit Labour Cost Trends*, 1999 (Washington, DC, 200), p. 5.

[41] Ibid

[42] DESA calculations based on United States Department of Labour, Bureau of Labour Statistics, "Unemployment rates in nine countries, civilian labour basis, approximating U.S. concepts, seasonally adjusted, 1990-2000" available at ftp://ftp.bls.gov/pub/special.requests/ForeignLabour/flsjec.txt (02/23/2001).

[43] Same note of caution as indicated in endnotes 44 and 50 should be considered.