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Labour Market Policies, Poverty and Insecurity

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Summary[1]

Globalising labour markets reflect an international move to more flexible labour systems which has resulted in the growth of various forms of social-economic insecurity and inequality. In particular, distribution of income at global, national and personal level has become more unequal, benefiting capital much more than labour.

The main trends and challenges that social and labour market policies should address include population ageing, migration and urbanisation, de-industrialisation and the increasing importance of the service sector, the spread of informal employment especially among women and unemployment. All these trends have an impact on poverty and inequality to different extents.

The paper sets out to evaluate the performance in terms of poverty alleviation of conventional labour market and social policies and arrangements in the era of globalised labour markets. To this end, it develops a framework based on five policy evaluation principles, centred on the normative notion of social justice, whereby the expansion of full freedom requires basic economic security for all.

Regulatory interventions with respect to child labour and discrimination are important tools against poverty and inequality although more resources should be devoted to ensure their implementation. Indeed, providing families with economic security and removing obstacles to school enrolment are much more effective ways of reducing child labour and poverty. Statutory minimum wages do not perform well where informality and flexible labour relations are widespread; however, they still provide a standard of decency for employers and workers to aim at.

Old-style unemployment insurance benefit schemes are disappearing even in industrialised countries and the prospects for their extension in developing countries are slim while, evidence on the impact of labour market training on poverty is scarce. More broadly, it is argued that both social insurance and means-tested social assistance forms of income support have failed to provide adequate and dignified protection to the majority of labour force.

More promising results have been yielded by social pensions, by definition universal and rights-based. They are easy to administer, transparent and affordable because of the low amounts provided; they have beneficial effects on livelihoods and social development. Their redistributive impact, however, is tied to the progressiveness of the tax system that funds them.

While food-for-work schemes may be appropriate in extreme circumstances, their drawbacks in terms of the paternalistic attitudes involved and of the negative effects on participants' health of certain types of onerous labour, make them inappropriate for promoting sustainable livelihoods. This is true also for public work schemes, especially where the objective of maximising employment leads to highly labour-intensive methods

[1] Thanks are due to several readers for their comments on the first draft.

based on unskilled, poorly supervised and ill-trained labour. In addition, public works have been criticised for ineffective targeting, substantial leakages, corruption and inefficient implementation. Furthermore, they tend to discriminate against women and people with disabilities, often without even paying decent wages.

Employment subsidies, though widespread globally, rarely reach the poor and distort global trade as they allow firms to pay lower wages; sometimes, they work more as a subsidy to capital than to workers. Since they are meant to support paid labour, other forms of work such as non-wage economic activities and care are excluded from this type of social protection.

Micro-finance and micro-credit have been enjoying huge popularity as development tools. Their focus on participation, empowerment – especially of women – and creating opportunities for small investments in self-employment and job creation have been underlined as very positive features. Still, concerns are raised as to the sustainability of the schemes and their limited scope in the face of systemic risk and shocks. In addition, they are criticised for creating a new form of dependency for poor people, as the credit obtained has to be paid back. Costs in terms of time and pressures should also be factored in when evaluating the sustainability of group loans.

Cash transfers offer a number of advantages in terms of speed, transparency and dignity as they recognise to beneficiaries the freedom to make choices on how to spend the money received. Evaluations of different cash transfer schemes in developing countries show that these forms of income support helped generate work and income security while at the same time enabling beneficiaries to make strategic choices for themselves and maintain their livelihoods even in difficult circumstances. Positive impacts on the accumulation of assets by household and on reducing the pressures to migrate in search of income have also been observed.

In conclusion, most labour market interventions reviewed have suffered from common failures such as lack of transparency and accountability, high costs, chronic inefficiency in terms of misused resources and ineffective targeting, thus failing most of the time to reach the poorest and to reduce inequalities in labour markets. They rarely meet any of the policy evaluation principles proposed in the paper. Yet, countries are still encouraged to use these conventional policies, which were developed in the context of industrialised countries.

The message is, thus, that not too much can be expected from labour market policies. These policies may help in making labour markets function better but their contribution towards overcoming poverty and economic insecurity can only be limited. Labour markets are part of the broader economic system: policymakers should look to social policies in order to deal with poverty and the misdistribution of income rather than expect labour markets to deal with these fundamental features of a market economy.

1. Introduction

We are in the midst of a global transformation in which one of the most distinctive features is the painful evolution of a globalising labour market, testifying not only to the spread of capitalism to all parts of the world economy but also to the establishment of a particular variant of capitalism under the loose term of globalisation. This is based on increasingly liberalised markets in all respects, most notably involving open markets in capital and technology that are currently more open than markets for labour.

An irony of recent theoretical and empirical research on social policy has been that the increasing resort to typologies and 'welfare regimes', principally by sociologists, has coincided with the global transformation that is accelerating the pace of international *convergence* of policies and institutions. It turns out that there is little *path dependency*, since governments of country after country are finding that they must adapt to global pressures. In countries such as Sweden and Finland, long regarded as epitomising particular social democratic systems lauded by social policy enthusiasts, institutions and labour market and social protection policies are rapidly changing and are being moved in the direction of means-testing and behaviour-testing selectivity. The famed "Swedish model" is a thing of the past. Meanwhile, the governments of China and India are rushing to make their labour markets more flexible, and policymakers there are using the same rationale as voiced in countries of western or eastern Europe, for example.

The bare stylised facts, described in section 3, are perhaps sufficient for this particular paper. Of most relevance, globalisation reflects an international move to more flexible labour systems, in which all forms of flexibility are gaining ground – external, internal or functional, wage system, etc. (Standing 1999a). But perversely the underlying economic model is based on the belief that all markets should be flexible. In effect, this is the first time in history when all groups in all societies are expected to face insecurity, and accept risk-taking as a way of life.

The outcome has been a growth in various forms of socio-economic insecurity and a dramatic growth of several forms of economic inequality, which show no signs of being reversed in the near future. In particular, the functional distribution of income within countries and across the global economy has shifted strongly, giving workers (labour) a reduced share and capital (profits) a much greater share. Personal income distribution has also become more unequal, and wage differentials between those with tertiary schooling and others have also tended to widen.

Although the matter is still controversial, it is widely accepted that these trends reflect the impact of globalisation and economic liberalisation, rather than the impact of technological and structural changes that have raised the return to education. This is an important aspect of debates around labour market policies, since it suggests that policies to alter the characteristics of workers would not be the appropriate answer to the inequality and poverty associated with globalisation.

2. The Global Labour Market Model

Since the 1970s, the hegemonic economic model has been called 'neo-liberal', and has been guided by the Chicago school of law-and-economics and by the rather elastic notion of the Washington Consensus. As far as labour markets and policy are concerned, the dominant model of the period following the Second World War could be described as essentially neo-corporatist, with the expectation that protective labour law and labour regulations would spread to developing countries, that collective bargaining would cover more and more of the rising formal employment and that more and more workers would become employees in standard full-time employment and belong to trades unions. A regime of labour inspection, labour law and protective labour regulations was expected to sweep the world.

Since the 1970s, that world has been fading everywhere. Where it had hardly taken root, as in much of Africa, the changes in this period have actually been less than where it had developed rather extensively. The old model had offered a future of *industrial citizenship*; that is no longer seen as the future (Standing 2007a). If there is a dominant model at the moment, it is one geared to maximise labour informalisation and labour market flexibility, with state efforts to decentralise and individualise bargaining over all labour matters.

Although China has introduced new labour laws that give labour law a greater role, in other parts of the world labour law has been weakened, in terms of scope and implementation. It has proved inappropriate for the many forms of work and labour that lie outside the standard employment relationship, since in many flexible labour relationships the identification of the 'employer' and 'employee' is hard or impossible.

Meanwhile, protective interventions via labour inspection have been under-resourced, implicitly allowing employers more scope to flexibilise their labour relations. Many governments have taken the route, openly advocated by multinationals and national business organisations, as well as by international financial agencies such as the World Bank and IMF, to curb or even ban trade unions, thereby limiting freedom of association, freedom to bargain collectively and the right to strike. This is not a model of labour market *de-regulation*, but of systematic re-regulation. The essence of the re-regulation is the promotion of *competitiveness* and the systematic attempt to erode or block institutions and mechanisms that are collective and collaborative in character. This active promotion of competitiveness is the essence of what is commonly called *neo-liberalism*.

3. Labour Market Trends

Before considering the advantages and disadvantages of specific labour market policies, one should summarise the main trends and challenges that labour market and social policies should address. The issues selected reflect the focus of this paper, which is the relief of poverty and insecurity in developing countries.

Above all, the global labour force has quadrupled since 1980, and the increase in labour supply available for open labour markets has risen at a faster rate, particularly since China and India have liberalised their economies, allowing multinationals to shift all or part of their production to extremely low-wage areas in which there is effectively an unlimited labour supply at existing wage rates. In the next three decades, the rate of increase may slow, but all commentators agree that, unless there is a human catastrophe of unprecedented proportions, the world's working-age population will continue to grow.

(a) Ageing

A first feature to note is that the demographic structure of the world's population has been changing in ways that must force policymakers to consider alternative interventions. In particular, *ageing* is a global trend. Already a majority of the world's elderly live in developing countries. It has been said that China will become 'old' before it becomes 'rich'. It is by no means alone in that. Responding to the impoverishment of the elderly is certainly not a developed country problem alone.

Certainly, there are many millions of disaffected youth in developing countries, particularly congregating in urban slums and thus capable of expressing collective anger. They tend to receive the bulk of attention from labour market policymakers - understandably, since they often pose a threat of taking to the streets. However, policies to enable older people to have a dignifying livelihood will surely come to have a much higher priority in coming years. It is to be hoped that the positive lessons to be learned from the prolonged experience with so-called *social pensions* in several developing countries, such as Namibia, Nepal and South Africa, will encourage governments to use them to a much greater extent.

(b) Migration and Urbanisation

Another key feature of the challenge ahead is that the 21st century will be the *urban century*, when for the first time in human history a majority of people of the world will be living in or around urban areas. As part of that process, various forms of migration are spreading, and much of the movement is linked to labour and the increasingly transient and precarious nature of labour relations. It is still insufficiently appreciated how much the various types of mobility affect patterns of poverty and inequality, and how migration patterns provide the context in which social and labour market policies have to be evaluated.

The current international mobility of the privileged and highly educated minority is extraordinary, with growing numbers of people circulating around the globe, many attached to multinationals or national or supra-national agencies. These are not the subject of this paper, but they have been shaping the perceptions and design of social and labour market policy.

More directly relevant is the growth of international household chains, whereby millions of people migrate from some low-income area in developing countries to perform menial labour in rich and middle-income countries, often leaving behind them structurally vulnerable households and families who become dependent on remittances. The role of remittances is important, since their sheer size – almost certainly chronically underestimated in official statistics – can bolster living standards for those fortunate enough to receive them, while possibly accentuating class differentiation in the low-income sending areas and in the typically more urban environments to which many migrants go.

While migration is likely to reduce poverty for many, and while we should be in favour of liberalising the movement of people globally, the challenge is to devise policies that address the adverse effects of human movement. In that respect, inevitably, the global growth of migration in its various forms has been associated with a huge growth in the number of people who are short-term residents wherever they are, often either *illegals* or *undocumented*.

It is insufficiently appreciated that much of the migration taking place in the world is between developing countries, and it has been a cause of social tensions in some of the in-migration countries, the latest case being South Africa. An estimated two of every five migrants are in developing countries (Ratha and Shaw 2005). More than two-thirds of all migrants from sub-Saharan African countries are in other parts of the continent.

The treatment of migrant workers is a growing source of impoverishment around the world. Almost certainly, the most glaring instance of this is in China. Many enterprises there simply do not enroll migrant workers in social insurance – thereby avoiding a sizable contribution wedge in the wage bill (over 30%) – and there is considerable anecdotal evidence that this is tacitly allowed by many local governments across China (Liu 2003).

Migration policy in both sending and receiving countries will influence poverty to an increasing extent. The globalising labour market requires more sophisticated interventions to regulate labour migration, not to restrict it. The knee-jerk reaction of some Third Worldists is that there should be unlimited migration from developing to developed countries. This would accord with a truly liberalised market system. Some economists have also estimated that if migration was liberalised the world economy would grow by some huge amount.