



TENTH ITEM ON THE AGENDA

Project on economic dynamics of international labour standards**Introduction**

1. It may be recalled that, in March 2006, the International Labour Standards Department launched a multi-sectoral interdisciplinary research project on the economic dynamics of international labour standards (ILS), with the guidance received from the Governing Body.¹ The initial phase of the project was made possible by funding from the Government of the Netherlands. A feature of this project is that it was carried out in cooperation with a large number of ILO technical units (Social Security Department, Skills and Employability Department, SafeWork, International Labour Standards Department, Conditions of Work and Employment Programme (TRAVAIL)) and involved advisors from all sectors.
2. The project, involving five interdisciplinary research teams, undertook global reviews and critical analyses of current economics literature on the interaction of ILS and economic systems in five areas (social security, occupational safety and health (OSH), skills and vocational training, working time and equality, and non-discrimination). Each study evaluated the state of research from a wide range of perspectives, mapping out areas of consensus, areas of debate and areas where further research is warranted.
3. Preliminary results of this research were discussed at a workshop (21–22 June 2007) involving ILO headquarters and field staff and external economic and legal commentators. Summaries outlining the main elements of each study, its findings, particularly with respect to any gaps that were identified, and recommendations as to future research directions for the five areas are in the appendix. The full studies will be published in 2008.

Overview of the outcomes of the research project

4. The potential role of a multi-sectoral research project was first raised with the Committee on Legal Issues and International Labour Standards (LILS Committee) at the

¹ See GB.295/LILS/5 and GB.295/10(Rev.).

294th Session (November 2005) of the Governing Body in a paper prepared by the Office² outlining a future strategic orientation for ILS. The need for strategic research was an important aspect of the Office's proposal for a "vision and strategy" for improving standards-related activities. That vision also included elements such as moving from a focus on global standard setting towards more balanced progress in securing the application of the existing ILO standards, in particular the up to date technical Conventions. It noted that the report of the World Commission on the Social Dimension of Globalization³ had reaffirmed the international community's acceptance of the value of ILS as a means to improve the conditions of employment and labour worldwide. The paper pointed to the need to engage in activities to strengthen the linkages between ILS and economic and social development, both through national efforts and international cooperation. Such activities were seen as anchored in the understanding that ILO standards are "the lifeblood and cornerstone of the ILO"⁴ providing authoritative benchmarks for assessing social progress and compliance by ILO member States.

5. In March 2006,⁵ the proposal for the project, and its potential utility for future efforts to more effectively promote ILS, was presented in detail. It was pointed out that promotion of ILS requires an understanding of their interaction with economic development. The protection of the rights embodied in ILS remains central to the ILO; however, the efficacy of ILS also depends on their potential contribution to economic and social development, including productivity. It was noted that there is a growing body of research that has begun to address this issue, although few of these studies have focused specifically on ILS. It was also pointed out that some of these studies have reached negative conclusions about the economic impact of labour standards.⁶ It was suggested that this is because the analysis has been confined to fixed, *static* factors such as growth, gross domestic product (GDP) and employment levels, without taking into account the *dynamic* effects of labour standards such as: increased workers' productivity and skills development; social cohesion; improved worker health; and flexibility, as well as other more qualitative socio-economic benefits. It was thought that a research programme, involving economic and legal experts from a number of technical units in the ILO working together, could also serve to strengthen the ILO's capacity to assist its Members to more effectively implement standards on the basis of a deeper understanding of the specific economic dynamics of ILS and their role in sustainable economic development.
6. The terms of reference and the choice of research areas for the project were developed through an extensive internal consultation process. The five areas selected provide an opportunity for comparative discussion across several sectors and involve a number of parameters relevant to the Decent Work Agenda. This consultation also resulted in the identification of one of the key longer term objectives for this research: it became clear that it is important for the ILO to develop, articulate and promote an ILO perspective on the economic dynamics of ILS, in order to respond, in an informed and authoritative way, when concerns are voiced about the economic implications of implementing ILS. Empirical multidisciplinary research could provide tools to help the ILO, and its constituents, to formulate integrated legal and economic strategies for achieving the Decent Work Agenda.

² GB.294/LILS/4.

³ *A fair globalization: Creating opportunities for all* (Geneva, ILO, 2004).

⁴ *supra* note 2, para. 8.

⁵ See GB.295/LILS/5, paras 16–18.

⁶ See, for example, World Bank: *Doing business 2006* (Washington, DC, 2005).

7. It also became apparent that the project parallels, and is, in fact, both exemplary and complementary to deliberations occurring within other forums in the ILO such as the Committee on Strengthening the ILO's Capacity, the Committee on Sustainable Enterprises and other inter-agency policy collaborative research initiatives such as the joint ILO–WTO study examining the interaction of trade and employment policy.⁷ In addition to promoting ILO research expertise, the project served as a cross-sectoral *integrating* activity, heightening awareness of areas of common interest and expertise, as well as promoting greater internal coherence.
8. The summaries (see appendix) set out the specific outcomes in the five areas. There are many common findings and themes. Although the project is directed to ILS, much of the literature in the field is concerned with the particularities of national implementation of ILS. As the studies show, this leads to two questions:
- To what extent does national legislation and/or mechanisms in fact implement (is compliant with) the related ILS?
 - To what extent do national standards or laws actually reflect practice?
9. The first point raises a question regarding the impact of national implementation practices on the efficacy of ILS. This concern led to an emphasis in all the studies and workshop presentations that “design matters”: good law and policy design is important. More attention needs to be devoted to the question of the *way* that ILS are implemented. In areas such as social protection, for example, the choice of institutional mechanism can have significant economic consequences. This is more evident when public regulatory administrative costs and benefits are factored into the analysis. The second point relates to the “reality gap” between law (*de jure*) and practice (*de facto*). This phenomenon was particularly noted in the study on the regulation of working time and referred to in the other studies. It was argued that this issue casts doubt on much of the existing research, in particular the research based on measuring static economic effects of labour regulation: it often assumes that the *de jure* situation accurately describes “on the ground” practice in labour matters.
10. A second theme in the studies and workshop presentations is that it is important that the ILO maintain a “rights”-based or social values-based argument for ILS. However, even in connection with the study involving fundamental rights, it was thought that economic and other empirical research could be useful in evaluating whether some implementation approaches or policies are more effective and economically efficient in achieving protection. The importance of understanding the regulatory and institutional conditions in which an ILS is implemented and which conditions can make a labour standard either more, or less, effective is essential. The need to consider examples of both “best practices” and less successful practices was noted. It was suggested that such examples and results of research, if linked to information tools and other guidance, could enable personnel, especially those in the field, to respond more effectively to the “frequently asked (economic) questions” (FAQs).
11. A third theme in the studies is that, despite some critique in the economic literature, particularly some promulgated by international financial institutions, there is little or no evidence to support the view that there is a negative relationship between economic development and ILS. In fact, in areas such as social protection, social protection is an indicator of economic development. A related point was made that in many cases there seems to be a high level of interaction *among* labour standards, a cumulative effect, which

⁷ M. Jensen and E. Lee: *Trade and employment. Challenges for policy research* (Geneva, ILO and WTO, 2007).

has not been the subject of extensive empirical research. The case of social dialogue is an example. In addition, the research highlighted a related point: some of the more important economic benefits of, for example, working-time limitations, relates to improved worker health, productivity and fewer OSH-related accidents. There is a *synergy* between the ILS in these two and probably also other areas.

12. However, these conclusions should be viewed cautiously. All the studies identified significant problems in data collection and gaps in the existing research literature. This was perhaps the most consistently voiced concern in the studies. There is a large gap in data and economic analyses relating to the experiences in developing economies and how labour standards might operate in that context. Most of the existing literature is based on developed economy models which reflect assumptions about regulatory capacity and an existing “floor” of standards and protection that are largely irrelevant to or inappropriate for the situation in developing economies. However, it is often the developing economy countries that ask questions about the economic consequences of implementing ILS, in terms of their interaction with economic development and with trade competitiveness. Particular issues for research were identified with respect to the interaction of employment regulation and the informal economy, the need to consider agricultural sectors, and the employment experiences of women in developing economies.

Implications for ILS, promotion of standards and future research activities

13. As the discussion in paragraphs 4–12 suggests, in addition to the specific recommendations made in each summary for a future research agenda, there is a clear need for, and benefit to, the ILO, and for promotion of ILS, in particular, to undertaking more research to better understand the economic dynamics of ILS. Such research is essential to assist the ILO and its constituents to more effectively promote and implement ILS in developing economies. It is also clear that there is significant “in house” economic and legal expertise and interest in such collaborative research. Efforts are already under way, in some units, to generate new economic models and approaches to articulate an “ILO perspective” on economic development and the interaction with ILS. There is a need to link these efforts to the current thinking in the ILO with respect to: the importance of tripartism in economic development; the connections between social, economic and environmental protection to achieve sustainable development; and the efforts to achieve integration and better use of existing resources and expertise both within the ILO and among UN and other agencies.
14. It is also essential that ILO research be strategically linked to operations and *operationalized* in order to improve the ILO’s standards-related activities. As pointed out in the report on strengthening the ILO’s capacity⁸ submitted to the Conference, there is a need to “... enhance the ILO’s capacity of persuasion” through the coherent use of:
 - technical cooperation, by extending and strengthening Decent Work Country Programmes (DWCPs);
 - research on and verification of the synergies between objectives, through empirical analysis and the exchange of information and experience; and
 - advocacy, to encourage member States (perhaps in the form of normative action) to implement integrated social and economic policies.

⁸ ILO: *Strengthening the ILO’s capacity to assist its Members’ efforts to reach its objectives in the context of globalization*, Report V, fifth item on the agenda, ILC, 96th Session, 2007, para. 64.

15. The outcomes of this project suggest that a future research programme on the economic dynamics of ILS, if undertaken, should focus on the following:

- undertaking empirical research and analysis on national implementation of ILS with a specific focus on comparing the method of implementation and the institutional, legal and other conditions that are supporting implementation (identifying “best practices”);
- developing data and analyses on the experiences of developing economies, including the interaction with the expansion of informal economies;
- identifying the potential for joint promotional activities based on an analysis of the interaction of ILS and positive economic dynamics and exploring how these linkages could be used to more effectively promote ILS;
- undertaking specific research with respect to ILS and the experience of women;
- undertaking specific analysis and monitoring of the development of the approaches adopted in the more recent ILO Conventions (the Maritime Labour Convention, 2006; the Seafarers’ Identity Documents Convention (Revised), 2003 (No. 185); the Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187); and the Work in Fishing Convention, 2007 (No. 188), which, in differing ways, all reflect a new approach to the design of ILS (a “modernization”) with a view to lessening or even closing the de jure and de facto gap.

16. If more empirical research is undertaken and data collected on implementation, one consideration could be the opportunities provided by this research to deepen the analysis in the information made available to ILO constituents. In this respect, the recent comments of the Director-General in his Report to the 96th Session of the International Labour Conference⁹ are noted:

As we advance in the promotion of fundamental rights, we must strengthen and modernize our standards system because it is the heart of the ILO’s Decent Work Agenda that is attracting so much support. With over 7,500 ratifications of different Conventions our system is the largest rules-based international legal framework in operation today. Each of those ratifications reflects a decision by a national legislature to opt into an international system of accountability and allow the country’s law and practice to be scrutinized by the competent bodies of the ILO’s supervisory machinery. International labour standards are thus shared commitments. In the emerging global market economy, they provide a common reference point for the labour rules vital to building the cooperation at workplaces that is the foundation of successful enterprises. Without the ILO’s standards system, or if it were weakened, the efforts that all the ILO’s constituents are making to have globalization be a race to the top could be undone.

17. *The Committee on Legal Issues and International Labour Standards may wish to:*

- (a) *take note of the information contained in the present document, including the appendix, and provide the Office with guidance it may consider useful in the light of its discussion; and*

⁹ ILO: *Decent work for sustainable development*, ILC, 96th Session, 2007.

(b) make appropriate recommendations to the Governing Body concerning the above, in particular as regards future research as set out in paragraph 15.

Geneva, 16 October 2007.

Point for decision: Paragraph 17.

Appendix

Summaries of the five research studies in the project on the economic dynamics of international labour standards

I. Study title: Economic impacts of selected social security policies covered by international labour standards: A review of recent research¹

Introduction

1. Major international human rights instruments such as the Universal Declaration of Human Rights² and the International Covenant on Economic, Social and Cultural Rights,³ have referred to social security being recognized by the international community as a basic human right. While most developed countries have succeeded in implementing comprehensive social security systems, many developing countries still lack the most basic protection for their population. The ILO has been a forerunner in setting international social security standards. The Social Security (Minimum Standards) Convention, 1952 (No. 102), is the flagship Convention as it defines the nine classical branches of social security (i.e. medical care, sickness benefit, unemployment benefit, old-age benefit, work injury benefit, invalidity benefit, family benefit, maternity benefit and survivors' benefit) and sets minimum levels of protection for each of these branches, while the other up to date social security standards set higher ones.

Background

2. While there has been extensive research carried out on the economic implications of existing or hypothetical social security provisions in national legislation, there has been no significant work done in relation to the implementation of ILS. This study focuses on analysing the recent literature relating to the economic implications of selected social security programmes implemented at least at the scope and levels required by relevant ILS.
3. The study is limited to three of the nine branches of social security, as defined by Convention No. 102: old-age, invalidity and unemployment benefits. The ILS covering these contingencies by setting higher standards, the Invalidity, Old-Age and Survivors' Benefits Convention, 1967 (No. 128), and the Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168), are also taken into account. Social security policy measures other than cash benefit, i.e. the various active labour market policies covered by the Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168), are also examined. The majority of countries that have ratified these ILS, European for the most part, are considered as economically developed and have extensive social security systems, often going far beyond the minimum levels prescribed by the standards.

¹ A. van de Meerendonk (international consultant and lecturer at Maastricht Graduate School of Governance, Maastricht University), A. de Graaf (student, Maastricht Graduate School of Governance), C. Schmidt-Bens (student, Maastricht Graduate School of Governance), U. Kulke (Coordinator for Standards and Legal Issues, Social Security Department, ILO), K. Hagemeyer (Policy Coordinator, Social Security Department, ILO).

² United Nations General Assembly (UNGA) res. 217A(III), 1948, art. 22.

³ UNGA res. 2200A(XXI), 1996, art. 9.

Key issues

4. The study found that, while there exists abundant literature on the economic impact of relatively extensive welfare state arrangements in the Organisation for Economic Co-operation and Development (OECD) countries, there has been little research carried out on the immediate and longer term economic impact of implementing social security schemes (or extending the coverage of existing ones) in low-income countries. There is still very little data available for these countries but studies conducted by a few research institutions hold promises for future research. In the past two decades, most of the research carried out in this field has been focused on “welfare state” systems in OECD high- and medium-income countries and their alleged consequences in terms of high and persistent unemployment and a deceleration of GDP growth. This debate is ongoing but has shifted part of its focus from industrialized countries to emerging economies and developing countries. Two main issues have been driving recent discussions. First, the opening up of national economies to international trade and financial flows, and the increased competition resulting from it, causes concern as to the effects of internationalization or globalization on levels of labour and social protection. Second, the demographic ageing process exercises continuous pressure on industrialized countries’ governments to contain public expenditure and to scrutinize existing social transfer programmes.
5. Implementing the right to social security has various economic consequences. In general, social security implies social transfers in cash and in kind, which are funded through taxes and contributions, and which have fiscal implications. Social security is also changing the outcomes of the market forces – social security programmes may even be adopted with that objective, for example, by ensuring more equality in income distribution than would result from the markets. The implementation of social security measures also impacts on the behaviour of individuals and households as they feel more secure and better protected in the event of economic and social contingencies. The various effects of social protection arrangements on a country’s economic performance have been categorized either as “static” effects (immediate impacts in terms of costs and adequacy), or “dynamic” effects (caused by changes in the behaviour of individuals, households and organizations, which may offset or reinforce the initial static impact).

Main findings of the study

When there is no public social security: Informal arrangements and market provision of social protection

6. *Informal arrangements.* Most of the studies examined focused on the extent to which formal social transfer schemes may substitute informal arrangements. The little research done on the extent to which informal arrangements are really substitutes for public social security, and on the extent to which informal “transfers” are actually transfers, and not arrangements based on reciprocity, and whether they can play a truly redistributive role point out that individuals or households (that cannot fall back on informal arrangements) suffer when formal schemes are non-existent or insufficient. The literature supports the view that public schemes are far more efficient in targeting the right individuals and groups, and can avoid the lock-in effects that characterize informal arrangements.
7. *Market provision.* The literature suggests that it is possible for governments to contract out some social services to private providers, but a strong public regulatory framework is required (and usually direct additional intervention) to safeguard social objectives (i.e. access to services for the most disadvantaged groups and other redistributive objectives).

Are social security provisions meeting their major objectives: Poverty reduction and social capital?

8. Social transfer programmes are effective in achieving their main objective: compressing income inequality and reducing poverty. Higher social expenditures are correlated with lower poverty rates. There is agreement on the existence of a negative relationship between income inequality and economic growth, but there is less consensus with respect to the mechanisms that constitute this relationship. As to the question of whether the benefits from economic growth “trickle down” to the poor in developing countries, recent evidence supports the view that there is no automatic trickle down – government intervention in the form of public social transfer schemes, and social security, is necessary.

Costs, affordability and “static” effects

9. Countries with developed social security systems usually allocate between one third and one half of the public budget to social security, including health care, often exceeding 20 per cent of GDP. Research shows that high levels of social expenditure are not detrimental to economic growth and performance. In developing countries, especially in the poorest, spending on social security rarely exceeds 5 per cent of GDP and one quarter of the public budget (and is lower in most cases). Social security spending in these countries is dominated by public health-care expenditure. Spending on cash transfers is often less than 1 per cent of GDP and usually focuses on pension benefits to government employees and sometimes also to other formal economy employees. The prevailing level of social security expenditure is often lower than the minimum ILO social security standards with respect to coverage and benefits level. Recent research shows that reaching universal coverage for at least a basic social protection package is affordable even for low-income countries, but efforts to reallocate more domestic resources to social protection would have to be matched by increased international transfers.

Dynamic effects

10. *Microeconomic impact.* The literature seems to converge on the view that some welfare state institutions have caused labour market rigidities, whereas other institutions have had a beneficial impact (e.g. through skill enhancement and facilitation of risk taking). Some countries have succeeded in implementing labour market reforms and this has led to improved economic performances. Studies have pointed out that combinations of mutually reinforcing measures have been a key factor of success.
11. *Macroeconomic impact.* Open economies tend to have more extensive welfare state arrangements, indicating that internationalization in itself does not force governments to cut back social expenditure. Most recent studies argue that countries can reconcile sound macroeconomic performance with sustainable social models – open market policies could not be successful without adequate social arrangements that can accommodate the social consequences of these same market policies.
12. In developing countries, recent studies have challenged the “received view” that economic growth will on average lead to a proportionate rise in the incomes of the poor. Most growth periods are found not to be “pro poor”. Making growth more “pro poor” requires more transfers in the form of social security.

Conclusions

13. The primary conclusion drawn from this study is that there has been no research carried out on the economic implications of implementing social security ILS. Filling this research gap is of utmost importance so that the potential contribution of these ILS to economic and social development is assessed. The findings of such research would allow the ILO to more effectively promote and protect the rights embodied in these ILS.

14. The review of existing literature on the economic impact of selected social security policies covered by social security ILS also shows that:

- Social transfer schemes have important *dynamic* effects on economic variables, which may, depending on the circumstances, be desirable or undesirable from a policy perspective. While the prevailing research focuses to a large extent on tracing and, usually, excluding, possible negative impacts, there is less effort put into analysing positive dynamic effects of social security transfers. There are methodological constraints and more research effort is needed.
- The welfare state debate in industrialized countries cannot be translated to the experiences of developing countries as their situation appears to be substantially different.
- Social security programmes in the majority of industrialized countries provide benefits in a scope, coverage and level often far beyond ILO minimum standards requirements. Some studies provide evidence that, in some cases, the welfare institutions in industrialized countries have “overshot” their objectives. However, there is a strong consensus among economists that social security and sound economic performance can be reconciled and that the two are opposite sides of the same coin. Social security is an indispensable part of the instructional framework of the well-functioning market economy.
- Social transfer programmes are effective in fulfilling their primary aim: lifting the poor to a higher welfare standard. The more countries spend on these programmes, the better this aim is met.
- There are solid arguments in favour of low-income countries implementing social transfer schemes at least at the level of minimum standards. Good design and sound governance are important conditions: if these conditions are met, social transfer schemes are affordable.
- There is extensive research on the different economic impacts of well-established social security provisions but there is limited research on the economic effects of extending coverage to those who are not covered, especially the poor and the poorest. In addition, the issue of designing appropriate mechanisms in developing countries should be explored. Filling this research gap also requires significant efforts to improve the statistics in developing countries; however, there are examples of institutions in the emerging economies that are performing valuable research in this respect.

II. Study title: An analytic literature review on the economic impact of occupational safety and health international labour standards⁴

Introduction

15. This study reviews the economic dynamics of some of the many ILS that deal with OSH. These ILS cover specific risks, such as chemicals and asbestos, mining and construction, as well as the means of implementing and promoting ILS through national policies and programmes, tripartite consultation, inspection systems, OSH advisory services, education and training, etc. Some ILS on OSH are recent, notably the Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187).

⁴ M. Nahmias and M. Gifford (Programme on Safety and Health at Work and the Environment, ILO).

16. In recent decades there has been a growing concern about the real costs – both direct and indirect – that work-related accidents and ill health impose on enterprises, communities and national economies. Growing interest in corporate social responsibility (CSR) has also prompted further research in this area. Studies show that real costs are much higher than believed. The ILO has estimated the annual global economic burden of all such accidents and diseases to be approximately 4 per cent of global GDP, or about US\$1,250,000 million (2001 figures).⁵ In March 2006, the Governing Body discussed a study entitled “Occupational safety and health: Synergies between security and productivity”,⁶ which highlighted the positive economic benefits of good levels of OSH on productivity and competitiveness at enterprise, national and international levels, quoting examples from both developing and developed countries.
17. For this study, approximately 100 studies and other documents were reviewed. Their findings are discussed below under the headings of relevant ILS on OSH. While most studies focus on the costs and benefits of OSH standards and legislation in general, rather than specifically on ILS, their conclusions nevertheless have clear implications for ILS.

Findings

The Occupational Safety and Health Convention, 1981 (No. 155), and its associated Recommendation (No. 164), and the Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187), and its associated Recommendation (No. 197)

18. These ILS apply to all branches of economic activity, setting out broad provisions for national policy and programmes and for action also at the enterprise level. Many countries have enacted national legislation consistent with these ILS, and the costs and benefits of compliance have been variously documented. For example:
- One report estimated that from 1992 to 2002 the cost of compliance with OSH regulations was US\$1.057 billion, while the value of the benefits was between US\$1.808 billion and US\$4.2 billion. A 2007 report updates the figures and confirms the overall picture.
19. It should be noted that the economic impact of national OSH legislation and interventions on individual enterprises can vary, depending on their size. One country study showed that small and medium-sized enterprises (SMEs) find it harder to cope with the demands of legislation and interventions compared to large enterprises.

The Occupational Health Services Convention, 1985 (No. 161), and its associated Recommendation (No. 171)

20. Some recent studies have demonstrated the cost-effectiveness of workplace health promotion, for example:
- A printing works in one country invested in equipment to reduce manual handling in a health-management and rehabilitation programme, which reduced absenteeism, increased productivity and improved worker retention and morale as well as OSH standards.
 - Studies on productivity and OSH in SMEs in another country showed that workplace health promotion efforts brought down absenteeism costs by 34 per cent and up to a fivefold return on investment in medical services.

⁵ A recent summary of the synergy between OSH, productivity and competitiveness is given at <http://www.ilo.org/public/english/protection/safework/worldday/products07/report07.pdf>.

⁶ GB295/ESP/3.

- In one country's carpet industry, investing in new weaving looms with a better ergonomic design enabled weavers to increase productivity and their wages by 100 per cent, also creating a safer and healthier working environment.

The List of Occupational Diseases Recommendation, 2002 (No. 194), and several Conventions dealing with compensation (Nos 18, 42 and 121)

21. These ILS provide for workers suffering particular occupational diseases to be compensated. Levels of compensation vary significantly and under-reporting is widely recognized as a problem, as is the lack of coverage of informal economy workers by compensation schemes. But where compensation systems exist, there are strong financial incentives to take action to prevent both accidents and ill health for which compensation is required. For example:

- One national compensation fund provides loans at preferential interest rates to affiliated enterprises to enable them to implement specific prevention measures. Insurance contributions may also be reduced or increased depending on the actual performance of enterprises participating in the scheme.

The Labour Inspection Convention, 1947 (No. 81), and the Labour Inspection (Agriculture) Convention, 1969 (No. 129), and their associated Recommendations (Nos 81 and 133)

22. Convention No. 155 and the above ILS provide a sound basis for OSH inspection systems, and for inspectors to give advice and information as to how relevant legislation may best be met and for its enforcement. The value of such effective OSH inspection systems has been shown by several studies, for example:

- The OSH inspectorate in one country recruited 200 new inspectors whose salaries were to be paid by the workers' compensation fund. Inspectors targeted enterprises with the poorest OSH performance, responsible for 10 per cent of the lost time injuries and 20 per cent of the compensation costs. Consequently, accident rates dropped very considerably as did compensation claims, and the compensation fund saved a large amount for every dollar invested.

The Chemicals Convention, 1990 (No. 170), and the Prevention of Major Industrial Accidents Convention, 1993 (No. 174), with their accompanying Recommendations and codes of practice

23. With increasing use of chemicals at work globally, the ILO estimates that annually chemicals now cause almost half a million work-related deaths and 35 million disease cases. Major chemical accidents can also have devastating effects on whole communities with great loss of life and damage to the environment. Many examples of the cost of health impairment from exposure to chemicals at work can be quoted, together with the benefits of compliance with appropriate standards. For example:

- A study of farmers in one country showed that if they reduced use of the most dangerous pesticides, their health improved and their overall productivity increased. The loss of production by not using the most effective pesticides was made up for by increased productivity of the farmers themselves.

The Asbestos Convention, 1986 (No. 162), and its associated Recommendation (No. 172)

24. It is estimated that, globally, there are about 100,000 asbestos-related fatalities annually. The future death toll in many industrialized countries is expected to rise in the next decade, because of the long latency of asbestos-related diseases and because of workers' exposure to asbestos many years ago. With long latency periods for asbestos, it is difficult to estimate the cost of prevention measures taken 20, 30 or even 40 years previously.

However, several studies discuss current and anticipated compensation costs associated with asbestos victims, which are extremely high. For example:

- In one country, the cost of medical care and compensation of asbestos victims and their dependants was €90 million in 2001. Such costs are expected to rise significantly up until 2020 and to be in the range of several billion euros.

All these figures demonstrate the urgency of taking preventive measures now in order to reduce the likelihood of such diseases and even higher compensation costs in future.

Strengths and weaknesses of the methodology

25. The literature reviewed falls into three categories:

- (1) Some studies put values on the costs of a current health and safety problem. These studies are useful in showing the scope of a problem and making the case for work to consider some kind of intervention, but the intervention is not (yet) justified. A complete cost and benefit analysis is needed to assess the case for the intervention.
- (2) Other studies consider only the benefits of a health and safety intervention. This is not helpful because the costs of the intervention are not specified.
- (3) The most useful studies are complete cost–benefit analyses. They can be produced for existing or proposed interventions. Producing these types of studies from the level of society as a whole is where analysts really make a contribution.

26. Many of the studies are of the first two types; a few are of the third kind. Although the studies appear to strongly endorse the view that “good safety is good for business”, more work is needed to establish that the various interventions (including legislation, inspection systems, advisory services, etc.) to prevent accidents and ill health are indeed cost-effective.

27. Another problem relates to significant differences between national legislation, systems for inspection and advice and compensation schemes. This makes inter-country comparisons difficult and a global picture of the economic impact of ILS on OSH hard to obtain. Other methodological difficulties include those relating to the economic valuation of benefits.

28. Lastly, the great majority of the studies have been carried out in developed countries and/or with formal sector enterprises. The picture in developing countries is less well documented. This also makes drawing conclusions on a global scale difficult.

Conclusions and recommendations

29. The following conclusions can be drawn:

- For developed countries at least, the literature shows that compliance with national OSH legislation brings overall economic benefits at both national and enterprise levels. It appears that most OSH legislation in these countries is up to date and implements relevant ILS on OSH. However, some methodological difficulties remain.
- For developing countries, some notable case studies show that improving OSH per se is cost-effective. The lack of studies on national OSH legislation and interventions in developing countries may imply that, in some cases, national OSH legislation and inspection systems, etc., need updating in order to properly implement relevant ILS.
- OSH legislation and other interventions impact very differently on large enterprises compared to SMEs. Large employers are better organized and able to achieve an economy-of-scale return on investment from OSH investments while small and medium-sized employers are often unable to do so. In turn, large employers are more likely to believe that benefits outweigh the costs of OSH interventions. However,

cases have been documented of rather small improvements in very small enterprises resulting in a significant return on investment.

- The methodological concerns raised about these findings are notable. Data on the full costs and benefits of OSH legislation and interventions are generally insufficient, especially concerning developing countries, and there are concerns about how to make valuations of benefits. Global figures are hard to estimate because of the wide variety of national systems, intervention approaches and compensation schemes.

30. It is recommended that:

- more studies of the costs and benefits of OSH legislation and interventions consistent with ILS are needed in developing countries;
- disparate public policy factors that shape the costs and benefits of OSH compliance between different countries should be identified, so that better country comparisons can be made and a better global picture obtained of the economic impact of ILS on OSH;
- a methodology for undertaking full cost–benefit analysis of the impact of OSH, legislation and interventions should be developed, to demonstrate more clearly the causation between OSH actions consistent with ILS and the various benefits and gains reported at the enterprise and national levels.

III. Study title: *Economic impact of social dialogue in the field of training*⁷

Introduction

31. The development of skills, knowledge and competence has the potential to create substantial economic benefits. Policies to ensure the development of human resources are key to economic development. The ILO's Human Resources Development Convention, 1975 (No. 142),⁸ elaborates the standards to be followed by Members in designing, formulating and implementing training and skills development policies. In the context of the ILO's value system, social dialogue on training, as stipulated in Convention No. 142 (Article 5), represents an end in itself (normative) as well as a means to achieve economic and social development objectives. This study examines the literature regarding the economic implications of implementing the social dialogue standard in connection with training programmes.

Practice of social dialogue on training

32. Social dialogue refers to multiple arrangements and all forms of negotiation, consultation, or simply exchange of information between the representatives of governments, employers, and workers on policy matters. Social dialogue takes place at the enterprise, sector or regional as well as at the national and transnational levels. Hence, the impact of diverse issues such as collective agreements on training leave, consultation and employee involvement in defining companies' training plans and strategies, or partnerships such as joint governance of training funds and development of training programmes must be analysed when evaluating the economic implications of Convention No. 142 in connection with social dialogue in the field of training.

⁷ I. Nübler (Skills and Employability Department, ILO), K. Schömann (Jacobs Centre for Lifelong Learning and Institutional Development, Jacobs University, Bremen).

⁸ Convention No. 142 has been ratified by 65 countries with about two-thirds of ratifying countries from middle- and high-income countries in Europe, the Americas and Asia. Only a few less developed economy countries have ratified.

33. Studies reviewed from different regions show that social dialogue on vocational training is widely practised and growing in European countries and Latin America while it is much less applied in other regions.⁹ In many countries in Asia and Africa, low levels of organization amongst employers and workers, in particular in the informal economy, limit the scope for social partnership in training even when the political will to adopt it is present.
34. Research suggests that social dialogue on training has the potential to create substantial economic benefits in that it may contribute to:
- allocative efficiency in the training and labour markets by reducing market failure;
 - achieving social and economic development objectives by reconciling diverging interests between workers, enterprises, governments and other stakeholders; and
 - triggering reforms and sustaining dynamic efficiency along a high road to competition and development by creating trust and social capital.

Enhancing efficiency in training and labour markets

35. Training and labour markets often fail to provide a socially optimal level of investment in skills and to achieve efficient allocation of skills in labour markets. Labour and skills are characterized by properties which result in imperfect information on skills, uncertainty on future returns, the risk of losing the investment to competing firms, and imperfect training and labour markets. Social dialogue represents an institution with a high potential to overcome market failure and to increase efficiency.
36. Research establishes that collective bargaining and social dialogue in many countries addresses the joint establishment and management of training levy schemes and training funds to facilitate sharing of training costs between employers. This is the case in all regions, and evidence from some countries shows that active participation of social partners in the management of training funds contributes to increased investment of employers in transferable skills. However, the effect on distribution, equity and productivity depends on the design and implementation of policies. For example, one study shows that small firms may benefit less from a human resource development fund than larger ones and that setting spending priorities to provide incentives for small firms to participate in training is highly relevant to achieve equal distribution of benefits.
37. In highly dynamic economies with rapid change in technologies, work organization and skills requirements, vocational education and training systems face the difficult task of providing relevant skills and responding flexibly to changing skills demands. Governments, employers and workers join in identifying current skills needs, assist with data for the forecasting of future skills requirements and provide information on what skills are valued by the market. The involvement of social partners in training systems helps to communicate this information effectively to the training system and to strengthen the market signals that allow supply and demand to match.¹⁰ In some countries the mainly tripartite negotiations and decision processes result in improved supply of relevant transferable technical and core skills, a positive impact on training incidence, and relatively superior training activities and outcomes at the workplace.¹¹

⁹ J. Winterton: “Social dialogue over vocational training in market-led systems”, in *International Journal of Training and Development*, 4(1), 26–41, 2000.

¹⁰ *Beyond rhetoric: Adult learning policies and practices* (Paris, OECD Publishing, 2003).

¹¹ “Competency standards – Basic competencies (core work skills)”, Subregional Office for South-East Asia and the Pacific (ILO, 2006).

38. The reviewed studies also show that enterprises recruiting workers need to be able to easily recognize workers' skills and competencies. In many countries, there is a strong tradition of national authorities, professional bodies or employers' associations to set the standards and define the rules and criteria that institutions have to follow in assessing, testing and certifying skills. This contributes to the building of high-trust institutions, to certificates recognized by the labour market and portability of acquired skills. This is the case in the apprenticeship systems in a number of countries.
39. Social dialogue at the company level can also be an effective means to provide motivation to workers to engage in training. In particular, the involvement of cooperative unions, works councils and codetermination develops workers' trust that they will receive a sufficient and predictable return to their investment in skills training. According to some studies, training and productivity increased when enterprises shared information on training strategies, works councils assisted in designing training programmes, and joint labour-management programmes developed sustainable work practices, fair working conditions and stable relationships between workers and employers.

Reconciling divergent interests for economic and social development

40. Training and skills development policies face multiple objectives as the actors involved have divergent agendas. Workers see training as a source of security and advancement. Enterprises aim at enhancing flexibility and their responsiveness to the increasingly competitive and dynamic (international) markets. Governments aim at enhancing international competitiveness, technological development, regional development, equity and social integration.¹²
41. These different agendas put enormous pressure on training systems. Social dialogue on joint design and implementation of vocational education and training policies contributes to reconciling diverging interests in order to achieve economic and social development objectives. Several case studies show that social dialogue is most effective in integrative bargaining and achieving agreements if the different interests are at least partially overlapping.¹³
42. Some studies also indicate that social dialogue has proved to be effective in reconciling company modernization and employment protection. For example, in one country, company agreements were negotiated between employers and works councils to introduce teamwork as a new form of work organization, associating this with entitlements of workers to further training in order to maintain their employability in the company and in the labour market.
43. Social dialogue also plays a key role in reconciling different interests when structural change in sectors or regions threatens workers' jobs due to job redundancy or company closures. For example, one study shows that social dialogue has effectively managed the process of structural adjustment in the iron industry by creating a fund providing joint solutions for retraining and social cushioning of workers, and developing regional human resource potentials to accommodate newly arising sectors and enterprises' needs to absorb new technologies.
44. The concern of governments and workers for equity of access to training and employment may conflict with enterprises' interests in cost-effectiveness and training the more apt workers. Social dialogue in one country in the tripartite National Employment Board

¹² K. Schömann, L. Siarov and N. van den Heuvel: "Managing social risks through transitional labour markets", WZB discussion paper, SP 2006-117, 2006.

¹³ J. Heyes: "Training, social dialogue and collective bargaining in Western Europe", in *Economic and Industrial Democracy*, Vol. 28(2), pp. 239-258, 2007.

helped to organize and fund short-term courses for young and unemployed persons. Forty-eight per cent of participating youth and 56–76 per cent of the unemployed participants were successfully inserted into the labour market as a result of the intervention.¹⁴

Creating trust and social capital for a high road to development

45. ILS-based institutions such as social dialogue provide rules and, by following the rules, individuals and organizations generate predictable and reliable behaviour. Repeated experience of cooperative behaviour and continuous social dialogue develop trust between social partners, governments and other actors in training systems. Trust represents social capital as it permits countries to enter the high road to competition and development and to sustain its dynamics.¹⁵
46. Studies demonstrate that institutionalized social dialogue in training can create consensus on and commitment for reforms in vocational education and training systems and national skills development strategies.
47. Institutionalizing trust in the form of coherent and continuous social dialogue on training can improve the quality of economic transactions and create and sustain the dynamic efficiency in economies in moving along the high road to development. Dynamic efficiency can be defined as a virtuous circle of increasing productivity, output and wages. It consists of a process of capacity building to enhance skills of workers and managers, transferring and upgrading technology through innovation, shifting to higher value added sectors in the production chain and to less price-intensive competition, to technology and skills-intensive exports, and creating allowances to induce and reward learning.
48. Institutionalized social dialogue is critical in this process as it provides incentives and promotes the social capacity for learning, innovation and productivity. Technological progress and learning requires institutionally embedded trust between agencies, departments and other organizations involved in the training system, in science and in the production system. Furthermore, highly relevant core skills such as creativity, self-management, good interpersonal skills and the ability to learn have large elements of tacit knowledge which mainly develops in social networks and trust relationships.

Conclusions

49. This review of the literature on social dialogue in the field of training reveals that only a few studies directly analyse the economic impact of ILS-related social dialogue on training. Indirect evidence, however, indicates the potential of social dialogue to create static and dynamic efficiency gains and to promote development objectives at the level of individuals, enterprises, economies and societies as a whole.
50. In spite of the possible and demonstrated benefits and the increasing incidence of social dialogue on training in many parts of the world, little has been done both at the theoretical and the empirical levels to examine the economic dynamics of social dialogue. Both theoretical and empirical research is required to analyse the process of social dialogue on training as opposed to the institutional structures that drive it; to study the effectiveness of skills development policies with involvement of social partners as an independent variable; and to explore the role and potential of social dialogue in coordinating skills development

¹⁴ www.mtss.gub.uy.

¹⁵ M. McCartney: “Dynamic versus static efficiency: The case of textile exports from Bangladesh and the developmental State”, in *Post-autistic Economics Review*, issue No. 26, 2 Aug. 2004, art. 4, 2004, available at <http://www.paecon.net/PPAERreview/issue26/McCartney26.htm>.

policies with industrial, trade and investment policies for moving along the high road to competition and development.

IV. Study title: How to defend labour standards: A case study on working hours limit¹⁶

Introduction

51. This literature review uses the case study of working-time regulation, specifically legislated weekly hours limits, to demonstrate that the research suggesting damaging economic impacts from the implementation of labour laws not only overlooks the policy objectives that underlie these standards but also fails to provide sound empirical grounds for the assertions being made. It draws on recent advances in legal theory to offer an account of working-time regulation that indicates how it can contribute to economic efficiency. It also points to areas for future research to further examine how working-time laws can be deployed to achieve this goal.
52. The main ILS that this study considered are: the Hours of Work (Industry) Convention, 1919 (No. 1), the Hours of Work (Commerce and Offices) Convention, 1930 (No. 30); the Forty-Hour Week Convention, 1935 (No. 47), and the Reduction of Hours of Work Recommendation, 1962 (No. 116).
53. This study suggests that the key question in evaluating the impact of these ILS is determining what variables should be considered and notes that the debates on working-time regulation have often overlooked important variables. The following variables should be taken into account: workers' health: physical and mental; workplace safety; family and personal life; employment; wage income; labour costs; labour productivity; and economic growth. However, variables such as the workers' well-being (health, safety, family life, etc.) are of a long-term nature and cannot easily be measured, while "economic" variables such as wages and labour costs are relatively immediate and easy to estimate.
54. Two contrasting approaches in the literature analysing the economic impact of working-time and other labour standards were identified. The first outlines a role for ILS in generating positive economic outcomes, in particular by enhancing dynamic efficiencies. The second approach argues that working-time standards hinder economic growth and should be dismantled to ensure, inter alia, economic growth and lower levels of unemployment and informal employment.

The economic benefits of labour regulation: New directions in labour law theory

55. Efforts to conceptualize the beneficial economic outcomes that can flow from labour market regulation are mainly found in labour law literature. Recent analyses provide theoretical justifications for regulating work in which economic efficiency considerations complement the traditionally dominant social objectives.¹⁷ This work offers a model for understanding how labour standards can generate long-term economic gains, protecting the interests of firms that adopt a high-productivity route towards competitiveness by preventing other firms from competing against them on the basis of poor working conditions. As labour standards channel modes of competition away from the unacceptable treatment of workers into other sources of competitive advantage, they prevent the use of

¹⁶ D. McCann and S. Lee (TRAVAIL, ILO).

¹⁷ For example, S. Deakin and F. Wilkinson: "Labour law and economic theory: A reappraisal", in H. Collins, P. Davies and R. Rideout (eds), *Legal regulation of the employment relation* (London, Kluwer, 2000) and their studies dating back to 1991.

low-paid labour in poor conditions to compensate for the failure of firms to make technical, organizational or managerial innovations (labour law's "incentive" or "channelling" function). These theoretical advances offer a model for conceptualizing the economic role of working-time regulation.

Empirical findings

56. The empirical research on working-time regulation was reviewed with respect to several variables.
- *Health and safety:* Empirical research highlights the beneficial economic impacts of working-time laws. The 48-hour weekly limit on working hours is strongly supported by numerous studies, which indicate that "regularly working in excess of 48 hours per week appears to constitute a significant occupational stressor which reduces job satisfaction, increases the effects of other stressors and significantly increases the risk of mental health problems".¹⁸
 - *Work/family:* An extensive literature suggests that long hours can have negative spillover effects on family life.
 - *Productivity:* A number of studies show that long hours lead to health-related absences and that a common reaction to long or extended hours of work is to reduce effort level or work intensity.
 - *Employment:* Estimation results on the employment-creation outcomes of working hours legislation are sensitive to econometric model specifications, which reflect different assumptions about the mechanism by which labour market outcomes (employment and wages) are determined. Debates on the employment effects of reduced working hours depend on empirical evidence that so far is largely inconclusive. The different empirical results are partly related to the different methodologies used: cross-section regressions, macroeconomic simulations, case studies, etc.
57. It is noted that the available studies are generally restricted to outlining the economic impacts of legal measures rather than offering a detailed analysis of the conditions from which these emerge. A balanced evaluation of working-time standards requires that the scope of economic models be widened to include their effects on health and safety and family life.

Working-time standards in the flexibility debate

58. This study also considered the policy debate at the international level noting that the literature is still governed by a deregulatory agenda which contends that labour standards harbour negative economic impacts. These arguments embody a conception of labour market flexibility which assumes that labour standards inhibit labour market flexibility and that deregulation will boost employment. This literature has had a concrete policy impact and is currently prominent in the work of the international financial institutions, which are advancing a strong deregulatory rhetoric that appears to be influencing domestic policy debates in developing economies in particular.¹⁹

¹⁸ A. Spurgeon: *Working time: Its impact on safety and health* (ILO and Korean Occupational Safety and Health Research), p. 48, 2003.

¹⁹ For example, World Bank: *Doing business 2006* (Washington, DC, 2005).

Do working-time laws inhibit growth?
The case of statutory hours limits

59. The study notes that the research literature that purports to illustrate the negative outcome of ILS is susceptible to a critical analysis that questions the assumptions and conclusions. Drawing on research undertaken by the study's authors,²⁰ an illustration of this critique, analysing two influential assessments of working-time regulation, is offered. This analysis shows that, with respect to working-time regulation, the understanding of the content, objectives and impact of legal measures in these analyses is flawed; and that the limited data on the influence of working hours regulation in developing countries in particular does not sustain the arguments being made against working-time standards.
60. The methodology used in the existing research can also be criticized: the understanding of legislative measures in this research is flawed and, for a number of countries, the indicators are miscalculated. Further, in these analyses, and in many of the other studies of the economic impact of labour standards, there is no consideration of the objectives that labour laws are intended to achieve. The result is that the optimum regulatory frameworks these studies promote are not in line with the ILS or the dominant trends in domestic labour laws.
61. Much of this research assumes working-time standards are applicable uniformly across all sectors and firms and does not account for techniques through which working-time standards are made more flexible, such as derogation clauses. In addition, these indexes do not capture the "incentive function" of labour laws.

Law's impact: de jure v. de facto regulation

62. The dominant assumptions about the relationship of statutory measures and actual working hours are also singled out in this study. Many indexes assume that laws are comprehensively applied, then further assume the range of impacts the legislation will have on practice. A more accurate method of comparing and assessing the impact of labour law would use a methodology incorporating the provisions of statutory texts and also capturing actual working hours. For example, the authors²¹ have attempted to develop data that allow a comparison of statutory standards and actual weekly hours. This research suggests that: higher statutory hours limits are largely associated with lower national income per capita; a significant proportion of employees are working more than statutory normal hours limits (in some countries the proportion exceeds 40 per cent of the workforce); "observance rates" were found to be relatively low in countries that have laxer statutory limits. With respect to low-income countries, the relationship between statutory hours, national income and observance rates was found to be very unclear.
63. The study singled out a specific argument made in the research, that "rigid" employment laws in developing countries, including on working hours, are channelling workers into the informal sector. It considers average working hours in formal and informal employment in Latin American countries compared with the total averages, and demonstrates that, in all of the countries under consideration, working hours in formal employment are significantly *higher* than those in informal employment.

²⁰ This section of the study was drawn primarily from S. Lee and D. McCann: "Measuring labour market institutions? Conceptual and methodological questions on 'working-hour rigidity'", in J. Berg and D. Kucera (eds), *In defence of labour market institutions. Cultivating justice in the developing world* (Palgrave and ILO, forthcoming, 2008).

²¹ See Database of Working Time Laws, an online database of the primary statutory standards on working time in over 100 countries (<http://www.ilo.org/travdatabase>) and data collection from the national statistical offices of more than 50 countries. This data collection exercise was a collaboration between the ILO's TRAVAIL and the Bureau of Statistics.

Conclusions

A future research agenda

64. This study suggests that research should be undertaken to critically analyse the claims that are being made in the economic literature and policy debates about the negative impact of the regulatory measures. This requires a sustained tracking of trends in laws and actual working conditions, and depends on data that is not always readily available.²² Research should focus on both the outcomes of regulatory interventions and the detail of how they were achieved.
65. Research is needed to examine why, among countries at similar income levels, working-time laws appear to be more influential in some jurisdictions than others. Comparative research is needed on the processes of observance of labour law across developing countries. A useful direction would be to select countries that exhibit both strong economic growth and firm labour standards that are widely observed; identify the factors that facilitate the influence of these labour laws; and examine whether the lessons from the experience in these countries can be applied in other jurisdictions. For example, the authors of this study have designed an “effective regulation index” (ERI), which takes into account both the strength of statutory standards and the extent to which they are observed.
66. Future research should focus on ways to strengthen the protection offered by ILS, and ensure their practical impact. More understanding is required of the range of modes through which labour rights can be reflected in workers’ lives that are not confined to traditional “command and control” forms of regulation. Current research on industrialized countries, which suggests how labour rights can be implemented through innovative governance mechanisms, is available and its relevance to developing countries should be evaluated.

An ILO voice in the global debates

67. The ILO should persevere in asserting that the interests and well-being of workers cannot be disregarded in debates about economic development; and that the traditional social goals of ILS must be integrated into the debate.
68. When labour standards are challenged, particularly the call for regulatory measures to be removed, irrefutable evidence that they inhibit other valuable goals, such as economic growth, should be required: a high standard of proof must be met by policy actors that seek to dismantle labour standards in the interests of economic development. Research on the economic dynamics of ILS can be used by the ILO to assert a defence for labour standards, by highlighting that this standard of proof is not being met. This might involve a particularly urgent need to assert the significance of the rights embodied in ILS that are not embraced by the Declaration on Fundamental Principles and Rights at Work, since these seem to be particularly prone to calls for their removal.
69. The study also notes that, despite the policy rhetoric at the international level, labour rights continue to be reflected in national laws. For example the trend in working hours limits is not towards their removal, but towards the 40-hour standard of Convention No. 47. This point can be made by the ILO in support of governments that maintain their commitment to labour laws in the face of substantial pressure to remove them.

²² TRAVAIL has recently launched a global monitoring and analysis programme (GMA), which will record trends in actual working conditions and the related statutory standard.

V. Study title: *Economic impacts of international labour standards concerning equality*²³

Introduction

70. The purpose of the study is to consider the economic and social impacts of the Equal Remuneration Convention, 1951 (No. 100), and the Discrimination (Employment and Occupation) Convention, 1958 (No. 111). These impacts boil down essentially to the relative costs and benefits of applying these Conventions. At first sight, it may appear inappropriate to consider the economic profitability of fundamental rights, which must be respected by virtue of their very nature. How, therefore, can it be useful to consider this issue?
71. For one thing, this is a pragmatic issue raised by a number of different actors: employers, governments and international organizations. It is therefore important to take stock of the situation, if only to respond to their concerns. For another, such a study can bolster policy initiatives by providing answers to the following questions:
- Are some policies preferable to others because they are more likely to generate net benefits?
 - How can we guide and make best use of the limited resources earmarked by the various actors for putting a given policy into practice?
 - Can we identify best practices that will allow us to curb costs and increase the benefits of a given policy?
72. Lastly, in terms of methodology, such an impact study can highlight the shortcomings of particular policies, whether in their design or in their implementation, and can consequently help to make them more sound. The role of a cost–benefit analysis is not therefore to justify the implementation of the rights to equality and non-discrimination, but rather to help to guide such implementation better, and thereby enhance it.
73. This paper first considers selected studies that establish an overall connection between equality in employment and economic performance in the broad sense, before going on to consider specific measures to promote equal pay and, subsequently, measures to promote equality in employment and occupation.

Equality in employment and economic performance

74. The research analysed in this section looks into the impact of discrimination or equality on a number of economic variables. The researchers employ a comparative approach, taking an extremely large sample of countries that have attained different levels of equality, and obtain very similar results. The studies in question use a range of variables as indicators of equality – school attendance rates, wage gaps, job segregation and increases in women’s income – and note a connection between these indicators and a very broad range of positive effects, both social and economic. They highlight the fact that reducing inequalities in education, wages and employment increases a country’s productive capacity, reduces the waste of human capital and spurs growth. These effects are bolstered by the connection between greater equality and the slowdown in population growth in the South.
75. This general context of links between non-discrimination, equality and growth does not explain how the findings were obtained and, in particular, does not identify the policies that gave rise to them. The following sections draw an outline of the various equality

²³ M.-T. Chicha (Professor, School of Industrial Relations, University of Montreal).

policies, and indirectly suggest explanations for the overall connection between equality and economic performance.

Equal pay policies

76. The review of research literature relating to Convention No. 100 addressed equal pay policies aimed at attaining equal pay for equal work without any form of gender discrimination. These are the sole studies, to this author's knowledge, whose impacts have been analysed in the literature on the subject. Empirical evaluations of the impacts also tend to agree on this point and suggest that the benefits obtained are substantial. When examined at the microeconomic (enterprise) level, the benefits are varied:

- improved human resources management systems, particularly in recruitment and training;
- a more consistent remuneration scheme;
- a better perception of equality within the organization; and
- a positive effect on the enterprise's reputation and, consequently, on its ability to attract high-potential workers.

77. These benefits are reflected in enterprises' improved economic performance. Evaluations of equal pay policies suggest that maximizing positive impacts requires compliance with certain specific good practices, such as workers' participation and training for managers. A significant point emerging from the analysis is that it is where there are legal requirements that employers must follow that goals are attained and the most substantial benefits are obtained.

Non-discrimination and equality policies in employment and occupation

78. With regard to Convention No. 111, given that the range of research is relatively broad, three policies have been selected to illustrate the wide range of problems and distinct contexts.

Affirmative action policies in employment

79. Policies currently used in some countries include what are known as "affirmative action" policies, which seek to ensure the equitable representation in organizations of members of discriminated against groups and, to this effect, they tally with the objective of equality set forth in Convention No. 111. Affirmative action programmes, particularly in the United States, have been the subject of numerous evaluations because the data for these programmes are public and the indicators used are relatively simple and standardized.

80. Studies on the impact of these policies suggest that they generally attain their primary goal, that is, to boost the representation of discriminated against groups in enterprises and occupations. Such an increase would go hand in hand with higher productivity, in large as well as in SMEs. In this respect, there are two interesting findings: on the one hand, productivity growth is linked to the implementation of specific good practices; and, on the other, productivity growth is more substantial when equality legislation imposes more stringent obligations on employers.

Complementary affirmative action policies in employment

81. Two types of complementary policy helping to attain the goals of affirmative action in employment and to maximize its benefits have been identified by researchers:

- upstream, affirmative action policies in universities; and

- downstream, policies for diversity management in enterprises.

Affirmative action policies in universities

82. A significant factor that could make it harder to achieve equality and its resultant benefits is the low level of academic attainment of specific minority groups. This is why affirmative action policies in employment require the adoption of similar complementary policies in higher education. Studies show that they have the effect of boosting the number of graduates from minority groups, which in the long term is thought to lead to increased income for such graduates. From the point of view of society as a whole, the economic and social impacts could result in accelerated economic growth for the communities to which these graduates belong, both in developing and in developed countries.
83. In this type of programme, as in the others reviewed previously, the benefits actually obtained depend on two conditions:
- a clear and stringent framework of application; and
 - the adoption of good practices in universities in order to ensure real and practical equality for minority students, for example, an absence of sexual and racial harassment.

Policies for diversity management

84. These programmes seek to simplify the integration of discriminated groups in enterprises by adopting good practices, such as diversity training and awareness-raising for staff and management, and incorporating diversity as a goal in the various components of the human resources management system. According to a number of impact studies, these programmes enable labour shortage problems to be eased by bolstering the enterprise's reputation in the community and by improving the retention of qualified employees from minority groups. Moreover, broad-based teams of employees are said to have a positive effect on employees' innovative capacities, leading to the creation of new products. Generally, the authors note that diversity management programmes go hand in hand with improved financial performance for enterprises, thereby maximizing the impact of affirmative action policies in employment.

Policies aimed at achieving a balance between work and family responsibilities

85. Numerous studies have stressed that the difficulty of reconciling paid employment with family responsibilities is an obstacle to equal participation by women in the labour market. Evidence of that inequality is seen, for example, in the fact that women account for the lowest rate of labour market participation and the highest incidence of part-time work and interrupted career paths.
86. In the light of this finding, which is widely repeated internationally, policies have been developed to promote an appropriate balance between home and work. Assessments have shown that their immediate effect is to increase women's rate of participation, the number of hours worked and income from employment, as well as increasing their chances of a high-level career. At the enterprise level, it was noted that enterprises became more attractive, recruitment costs fell and more women returned to work after maternity leave. In the medium term, cost-benefit calculations show that, in some cases, the return on investment could reach 8 per cent, if not more.

The impacts of policies to promote self-employment

87. When the labour market constraints are too far-reaching to be able to integrate some sectors of society in enterprises, work in the informal economy is the only possible avenue to explore. The development of microcredit based on low-interest loans is seen as an attractive alternative that enables women to set themselves up in business. Research shows

that the use of microcredit results in increased income, autonomy and economic security for women. It also shows an improvement in the human capital of their children, in terms of health and education, which should spur on economic growth in the long term. In some cases, the inclusion of awareness-raising campaigns for contraception in microcredit programmes has led to greater use of contraceptives and a significant fall in the fertility rate.

88. In terms of economic development, the analyses show that microcredit is likely to boost the economic activity of communities by stimulating consumption and investment and potentially reducing the unemployment or underemployment endemic in many rural areas in the developing world.

Conclusions and recommendations

89. The studies reviewed in this research paper show that the benefits are varied and involve members of discriminated against groups, employers and society at large. One thing that emerges very clearly is the fact that, when these policies are applied correctly and succeed in attaining their goal, they also lead to improvements in corporate performance and profitability. Equality policies also have a significant impact on economic and social development.

90. The following recommendations are made on the basis of this study:

- Many of the studies reviewed clearly show that there is greater compliance with the goals of Conventions Nos 100 and 111, more substantial positive impacts, when the legal framework establishes specific and binding goals for equality and provides a relatively detailed methodological framework. These findings should be taken into account when legislation is enacted or amended.
- Most policies do not give rise to systematic and comprehensive data collection, which hinders impact studies. It is therefore important to develop a data collection framework centred on particular policy indicators and their outcomes.
- Studies show that there is no doubt that enterprises experience positive effects when they are genuinely guided by the objective of equality. However, these benefits often appear to be overlooked. It is therefore crucial to substantiate them in detail by means of sound research and, above all, to disseminate them broadly.
- The adoption of good practices determines how benefits are obtained, reinforces them and ensures their continued existence. It is therefore essential to probe more deeply into this field and to indicate clearly the context in which good practices evolve, as well as their content.
- Further investigation is required into the possible similarities between the global studies showing a correlation between equality and economic performance and the specific policy studies explaining how this connection takes shape.