

**Remarks by Abraham Katz, President
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Meeting of G8 Labour and Employment Ministers

*“Productive Employment as a Factor of Economic
Growth and Social Integration”*

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Having listened to the interventions and having read the papers, I will use my five minutes to give some personal reactions and not repeat all the points made by other employer representatives and of course the IOE statement, which you have, as well as host government's discussion paper. I am particularly grateful to be here because half a century ago I was studying possible economic reform in your country.

Let me make a few points and hope they hang together.

First, I was struck by the point made in the discussion paper about moving from job security to employment security as key to achieving flexibility of our economies essential to responding to the inevitable inexorable forces of globalization and technological change.

Further – and this struck me forcibly as I read the TUAC/ICFTU paper – flexibility requires in most countries structural adjustment, a doctrine I learned at OECD which developed the concept in the wake of the demise of the Keynesian concept. As I read this paper, the trade union position is to reject structural adjustment, i.e. micro-economic policies in favour of macro expansion, an idea I first heard in OECD consultations with TUAC in the 70s and still found firmly embedded in the ILO. Thus, there is a basic tension between job security and employment security, which is a major factor in domestic politics in one form or another in all our countries. And while we all say we believe in social dialogue, this tension between the protection of vested interests and the needs of flexible economies has been mediated in

some countries and will in the most important cases be resolved in the political arena. When thinking of structural adjustment, I like to use the metaphor of a three-legged stool.

The first leg is stabilization – meaning, financial stability, low inflation and the monetary and fiscal policy to achieve it. But also political stability – stability of the economic regime, especially as it affects the rules of the game for investment. There is nothing so off-putting to investors as changes in the rules of the game. Entrepreneurs can adapt to almost anything if they see a market and a chance to make a profit, but they fear frequent arbitrary changes in the rules.

The second leg is liberalization. Here I refer to trade liberalization, but also to domestic market liberalization, product market liberalization as well as labour market liberalization. And before anyone jumps down my throat, it must be accompanied by sound regulation. In many - if not most cases - deregulation, sound competition policy and regulation are essential, and sensible regulations for setting up a business, not the hundred-plus-days as in a many developing countries, and related to this the ease of establishing property rights pace Hernando de Soto.

And finally, the third leg is privatization, which is as much the cause for many popular demonstrations as agriculture and trade liberalization or labour market reform. The reason is simply to achieve more efficient production units and not have them as stores of disguised unemployment and burdens on the economy and, again, one must insist on sensible regulatory policies so that the privatized enterprises do not become exploitative monopolies.

All this adds up to a complex mix of macro and micro policy. With the demise of the Keynesian consensus, the recognition of the importance of the supply side and a variety of micro policies has come to the fore.

What does all this have to do with full and productive employment? A competitive flexible economy conducive to investment by entrepreneurs should lead to growth and growth will lead to employment. But my homilies – motherhood and apple pie may be necessary, but not

sufficient. Obviously, the resource base is vital and will require special adaptation, but we are generalizing in this segment on economic policies and we should focus on growth that leads to employment. Europe offers us examples of employment-less growth and not only low growth rates. I will assert that the main reason is structural rigidity in labour markets, the hardest market to liberalize because it has the most immediate effect on jobs, wages and individual welfare and, within the labour market rigidities, the most pernicious is the legal and regulatory obstacles to layoffs. For many years now, investment in Western European countries has been skewed towards the capital intensive. The entrepreneur chooses between a machine that he can turn off over a worker whom he cannot lay off.

This is the root of the political dilemma we read about in the daily press.

Obviously, structural adjustment, including – but not exclusively – labour market reform will entail some pain in the short run, in countries with already high rates of unemployment. This is where social safety nets are essential - and the kind tailored to increasing employment – a whole other chapter. But it is also where social dialogue is necessary—unfortunately all too frequently a dialogue of the deaf. Ultimately there is no substitute for political leadership and determination.

A further word on life-long learning – a subject in itself. The phrase is used as a panacea, but the basic truth is that in a period of rapid change workers must accept that they will have several jobs. Furthermore, in successful flexible economies business is increasingly knowledge-based – skills must match that reality. The successful worker will need to have the initiative and capacity to acquire the skills that will also give him greater bargaining power vis-à-vis the employer. The successful company will need to provide the worker with the wherewithal to acquire those skills even in the face of the risk that the worker will seek another employer.

A final word about international cooperation and policy coherence. It is clear that each institution should stick to what it does best – focus on its comparative advantage and its role within the multilateral system. This seems self-evident but sadly we see duplication between multilateral organizations. This is in no-ones interest.

It is sometimes not as clearly understood as it should be that employers also work for social justice! In fact it was the employers that came up with and drove the concept of a Declaration of Basic Principles and additionally, the Convention on the most Egregious Forms of Child Labour which garnered widespread support. Employers still believe strongly in this *Declaration of Fundamental Rights and Principles at Work* and feel that it is as relevant today as it was when it was conceptualized a decade ago. Our objective remains, in a context of dynamic flexible competitive economies, *social justice for all – not just a few*.