



# **IOE Statement to the Meeting of G8 Labour and Employment Ministers**

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

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*The International Organisation of Employers (IOE) is the recognized organization representing the interests of employers in international social and labour policy debates, with over 142 member federations in 136 countries. The IOE is the largest global business network and the only recognized voice of employers on social and labour issues at world level.*

I would like to open these remarks by stating my total agreement with the Collective Statement on behalf of the business community. In the short time allocated to me let me expand on a few specific themes, in particular the importance of structural reform.

Let me start by stating that enterprise creation and development, which leads to employment generation, is the *essential ingredient* for functioning and developing societies. When it is hampered, emasculated or not properly cultivated, the consequences are dire. Major economic and social pressures emerge. Development and innovation is retarded and political systems can be compromised with instability resulting.

The private sector is the principal engine of employment growth, creating investment opportunities and driving technological innovations that keep our societies evolving. It also has an enormous stake in the creation and fostering of prosperous stable societies. Business works best and most effectively in well functioning communities. In simple terms, business thrives when its workers and customers thrive.

## ***Entrepreneurship: The lifeblood of vibrant economies***

The underlying basis of enterprise creation and development is entrepreneurship and the essence of entrepreneurial activity is innovation. Innovation is the crucial element in generating endogenous growth – the chain reaction that leads to virtuous circles of growth by utilizing new technologies – which leads to increase in productivity, thus expanding further existing market opportunities and, in turn, leading back to incentives to innovate. Importantly, innovation does not only mean new product or new technology development, but also more efficient production processes and better management practice.

Entrepreneurship is as important in developing countries as it is in developed economies because it reinvigorates economic activity and challenges existing ways of thinking and orthodoxies. It is the essential ingredient that keeps economies vibrant and dynamic.

In order to create sustainable and durable development conditions there needs to be a focus on the long term – creating the conditions for innovation. This means: investment in basic sciences in universities (and more generally in technical and scientific education); keeping a strong emphasis on productivity improvements; and creating the conditions to enable markets to expand. Governments needs to ensure that incentives are in place to motivate individuals to create innovative companies in all economic sectors, especially in those that require knowledge-intensive skills.

## ***Creating the environment for productive employment***

The last two decades, in particular, have shown us that when the right policy mix that enables the market economy to function effectively and the private sector to thrive, underpinned by open access to global markets, extraordinary results in terms of employment and opportunity have been produced.

The key to promoting employment is investment – for the most part indigenous – but also foreign investment. Foreign direct investment brings benefits in terms of real capital, technology and human resources. An important element in attracting that FDI is security of tenure - private enterprise thrives where the rights of private property are recognized and safeguarded. Property rights are tools for empowerment and play a key role, particularly in helping small enterprises to develop into fully fledged and growing enterprises.

In order to create productive employment and as a consequence social stability, enterprises need a conducive 'investment climate'. The investment climate consists, inter alia, of the following:

- ✓ regulations (entry-exit procedures and costs, property rights, labour market flexibility, etc.);
- ✓ resources (human, financial, technological, material);
- ✓ infrastructure (power, communications, transport, etc.);
- ✓ established or expanding markets.

The first three of the above criteria, plus investment, lead to the last. Together they present opportunities for getting a return on investment, which in turn triggers market-driven entrepreneurship, which in turn helps to produce employment.

A good investment climate makes it easier for firms to enter and exit markets in a process that contributes to higher productivity and faster growth and more jobs. Firms experiencing

strong competitive pressure are more likely to innovate than those reporting no such pressures. Above all, enterprises need the space to experiment and learn. Some will thrive and create jobs and wealth, others (rightly) will fail.

Businesses above all need a level playing field in which to operate. Where subsidies are in place, this can act as an unfair barrier and discourage competition. Rules that constrain market entry and expansion can have a negative effect on aggregate development. Protected firms lack the incentive to improve and productivity can fall behind international standards, making them less competitive.

Predictable rules and access to enforcement of contracts and dispute resolution mechanisms are essential for enterprises to enable them to innovate, scale up existing activities and diffuse their knowledge. Likewise, a supportive tax regime needs to be in place to encourage their development.

Governments have publicly committed to this agenda, notably at the UN General Assembly Summit Outcome Document (September 2005) and most recently the 2006 United Nations Economic and Social Council (ECOSOC) Ministerial Declaration, which stated:

*"We encourage Governments to continue to pursue the creation of a conducive environment for enterprise development in both rural and urban areas. Particular attention should be given to policies that promote micro, small and medium-sized enterprises and women's participation and entrepreneurship in formal and informal sectors through, inter alia, simplified and improved administrative regimes for the registration of small businesses access to microcredit, social security systems and information on markets and new technology, as well as better regulations. Such policies should contribute to the integration of informal economic activity into the mainstream economy."*

While the national investment climate remains the most critical factor in development, all successful economies have also reduced barriers to international trade and foreign direct investment to accelerate growth and employment development. In fact, it is hard to find an example of a consistently well-performing economy that has not made integration into the global economy a piece of its development strategy.

### ***Reform, Reform, Reform!***

Creating a conducive business environment needs to be achieved in many countries by structural reforms and adjustment. The metaphor of the three-legged stool is apt:

The first leg is stabilization – meaning financial stability, low inflation and the monetary and fiscal policy to achieve it and also political stability – stability of the economic regime, especially as it affects the rules of the game for investment. Political stability and effective rule of law are key platforms to stimulate enterprise creation and development. Business needs a predictable and stable environment in order to have the confidence to engage in entrepreneurial activity. Without that confidence, a vital cog in the process of economic development will be missing.

The second leg is liberalization, trade liberalization, but also domestic market liberalization, product market liberalization as well as labour market liberalization. In this respect we need to underline the importance of *sound regulation*. For instance, it is clear that often rigid or inappropriate labour legislation does the exact opposite of what it was designed to do – it protects *some* workers to the detriment of the workforce as a whole. Employment protection

measures that are too strict may lead to lower hiring rates, especially of certain groups of workers, such as first time entrants, re-entrants and migrants.

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 or she can turn off over a worker whom he or she cannot lay off. This is the root of the political dilemma we read about in the daily press.

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.

### ***The importance of safety nets***

Structural adjustment, including – but not exclusively – labour market reform may entail some pain in the short run. This is where social safety nets are essential - and the kind tailored to increasing employment. Fiscal responsibility is essential to ensuring the sustainability of such responses, whilst job creation, as well as being the best means of social security, is also key to sustaining the response. Social security must not become a barrier to employment nor a burden on the competitiveness of businesses and should actively consider the demographic trends within society and be planned accordingly. Social Security is above all a shared responsibility of society as a whole and employers should not bear an unequal burden in its financing.

### ***Providing opportunities for all***

A hallmark of successful economic and social policies is in providing access to opportunities for all citizens. But it is important in this respect that solutions take a holistic view, considering both those entering and leaving the job market. For example, youth employment policies impact on policies to increase older worker participation in the labour market, and vice versa.

Migrants at the bottom of the skills chain often provide an essential service to countries' economies namely, carrying out low skilled work. The principal challenge for governments in this sphere is to develop migration policies that can successfully integrate migrants into the labour market and provide them with opportunities to maximise their skills.

The importance of women to overall economic activity can often be underestimated as, in the first instance, available data does not always distinguish by gender and, second, because women are more likely to run businesses in the informal economy and to operate through domestic service and homework. Frequently, however, business laws, policies and services do not adequately consider the needs of women entrepreneurs and sometimes further exacerbate gender-specific constraints to entrepreneurship. Policy choices need to be cognizant of this factor particularly taking into account cultural considerations.

Flexible work arrangements; part-time work; temporary work; and providing incentives for those who want to work longer, can all be part of the policy response across these issues.

## ***Global Labour markets: A Moving Paradigm***

Globalization has enabled companies to increase productivity by transferring elements of their operations to others that can do such tasks more efficiently. Cost savings are enabling companies to offer new, cheaper, more flexible, and often higher quality services to their clients and allows them focus on what they do best, freeing up capital to be re-invested in research and development and more productive activities. This process also gives companies access to scarce talent and facilitates access to foreign markets.

The ability to outsource lower skilled jobs abroad rather than shutting up operations is also giving many smaller companies a future they may not have had. In low-income and transition countries it is enabling enterprises to provide increasingly sophisticated services around the clock. For these countries the development of labour-intensive high-tech service industries helps countries to gain high-income services jobs and boosts economic growth. The cross-border supply of IT and business process services helps to transfer technology and to reduce the technological divide.

Increasing economic global integration no doubt has created enormous opportunities and has provided hundreds of millions with opportunities where none existed before. But it also brings new challenges which we must equally face. Countries are increasingly facing competitive pressures and certain sectors have seen (and will continue to see) change – sometimes significant change – as operations move to more cost effective locations. While this needs to be seen in terms of the natural evolution of societies and economies – economic activity is not a static entity, it is a continuum of change, driven by demand for better, cheaper and more innovative products – policies need to be put in place to ensure that certain groups don't get left behind. The importance of protecting 'workers' and not 'jobs' therefore needs to be the central policy preoccupation. This will require an increased focus on training, life long learning, and adaptability.

Finally, in this connection, let me briefly say that as globalization has progressed, international attention has been focused on how best to improve social conditions and raise respect for labour principles. *The Declaration on Fundamental Principles and Rights at Work*, an initiative of the IOE, remains instrumental as the only truly global consensus on the labour principles that all governments should seek to achieve. The Declaration has played and continues to play an important role in social improvement.

### ***Concluding Remarks***

Labour markets evolve with time and, within a globalized economy, that evolution is perhaps even more rapid. Consequently, policy responses need to be equally rapid. Changes are not only inevitable but a healthy invigorating force and the only way for societies and economies to evolve and grow.

But when governments are implementing reforms – sometimes difficult reforms – it is in everybody's interest that these are clearly explained. When they are not, vacuums are created that can then be filled with half truths and distortions. That is in nobody's interest.

Governments need to face challenges in implementing the appropriate policy mix to maximise the opportunities presented by globalization and to grasp the nettle of reform where needs be. In this respect governments can count on the business community to be ready to play its part.