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**Keynote Address by Guy Ryder, Director-General ILO**

Thank you, Angel, for the invitation to speak to this impressive international gathering of competition policy experts.

You will be examining how increases or decreases in the intensity of competition affect employment. That a particular policy change will have a positive effect on jobs is always a key argument of advocates of reform, especially these days when unemployment remains persistently high.

In recent years, especially since the crisis, we have had a wave of reforms, mostly of a liberalizing character, yet labour markets are still weak measured not just by employment or unemployment but also by various benchmarks of the quality of jobs. Neither has investment picked up.

I propose to first summarize the current outlook for growth and jobs, as the essential context for competition policy initiatives.

Second, I will look at recent work by international organizations on inequality and growth which has pointed to more intense product market competition as one of several factors that could be causing a decline in the labour share in national income in many countries and widening income inequality.

Third, I will bring in the notion of creative destruction as a way of thinking about the appropriate employment institutions that should accompany policies to sustain competitive product markets. And I will also underline that the ILO Constitution and therefore the standards that guide our advice on labour market institution building states very starkly that labour is not a commodity.

My fourth point is that a broad consensus over employment policy priorities is emerging which can support enhanced competition in product markets. It is pointing in a different direction from a simplistic "get rid of rigidities" approach.

Finally, I will conclude that because labour markets are about people they work differently from product markets. Since competition both creates and kills jobs, getting the policy setting right requires recognition of that reality.

***First then, growth and jobs.***

The Secretary-General has referred to the increasingly close collaboration between our two organizations in recent years.

That includes our joint work done at the request of the Turkish Presidency of the G20 to look at factors affecting employment and growth and especially the inclusivity of growth. As he has stressed, most of our countries' Leaders, and electorates, are very preoccupied by the weak prospects for growth and the rise in inequality.

Overall, employment growth remains well below pre-crisis levels with growth decelerating in 2015 and expected to remain sub-par in 2016. The G20 unemployment rate remains high and only slightly down on its post crisis peak. Labour force participation rates have declined in several countries, in part because discouraged workers have left the labour market.

Particular concerns are long term unemployment and youth unemployment, both of which are higher now than before the crisis in most countries.

The quality of jobs created is also an important indicator of labour market performance. Much of the net new employment created between 2009 and 2014 in advanced economies was part-time.

Leaving aside the involuntary nature of many of them, part-time jobs generally offer lower earnings, lower levels of job security and weaker social protection coverage. So this type of job creation has obvious implications for employment quality and provides less support to aggregate demand.

In emerging economies, growth has been associated in recent years with welcome reductions in the number of workers in poverty or near the poverty line. However, 51 per cent of workers were still in vulnerable employment in 2014, a 3.9 percentage point reduction since 2009.

The large share of workers remaining in vulnerable employment shows that the informal economy continues to be stubbornly large and a crucial drag on the creation of better quality jobs.[1]

***This brings me to my second point, relating to inequality and growth.***

An ever-growing body of research documents the rise in inequality across the globe, in some cases to historic highs. The middle class has been squeezed in many advanced and some emerging economies, with their incomes stagnating or even declining.

The share of national income going to labour has declined in almost all G20 countries, with productivity rising much faster than real wages. Within the labour share, the highest earners have captured an increasingly large portion, while those at the bottom have seen their shares decline significantly.

Many emerging G20 economies, despite having lifted millions of people out of absolute poverty over the past two decades, have seen sharp increases in income inequality. Overall, the reality for emerging markets and developing countries is more mixed than for the developed world. Inequality has been increasing in some — such as Indonesia and China — while falling in others — such as Brazil and Argentina.

Rising inequality has raised longstanding concerns about its corrosive effect on social and political cohesion. More recently, a growing body of research has demonstrated that high inequality may also lead to slower and less sustained economic growth. This occurs through

[1] This analysis comes from a paper entitled G20 Labour Markets in 2015: Strengthening the Link between Growth and Employment by the ILO, OECD, and World Bank Group with inputs by the IMF.

various channels, including lowering consumption, under investment by firms in the face of slack demand, less government revenue and less investment by low-income households in education and skills.

The new body of evidence, from the OECD, IMF, World Bank, ILO and many others shows that reducing inequality can lead both to stronger economic growth and the creation of better jobs and more inclusive societies.

The interrelated factors causing rising inequality and declining labour shares of income have been identified as including:

- labour market developments,
- technological change,
- shifts from labour-intensive to more capital-intensive production,
- globalization, in particular the intensification of international competition and the entry of labour-abundant countries into the global economy,
- financial deepening which may have increased pressures to maximize profits and shareholder value or to pay dividends rather than improve wages and conditions, and
- regulatory reforms to strengthen product market competition.

On this latter point let me quote from a joint paper on Income inequality and labour income share in G20 countries by the ILO, IMF, OECD and World Bank:

*On the one hand, a recent OECD study points to the significant positive impact of reforms on employment levels largely by reducing market rents and expanding activity.* <u>*On the other hand, most of these policies and regulatory reforms have also contributed to widening wage disparities, as more low paid people entered employment in the deregulated sectors and the highly-skilled reaped more benefits from a more dynamic economy.*</u>

The labour market developments increasing inequality highlighted by the report were:

- the gap between wages and productivity;
- employment levels;
- changing patterns of employment relationships;
- a weakening of labour market institutions; and
- increasing wage dispersion.

***This brings me to the notion of creative destruction.***

Whether the economy is at full employment or as in many countries in recent years well below, affects the impact of increased competition in product markets on employment.

Many of the model-driven studies showing the positive effect of increased competition and trade on productivity, wages and employment assume full employment as a baseline. But that is not where most of us are.

Businesses, large and small, are constantly creating and destroying jobs as Schumpeter described more than 70 years ago with his memorable phrase describing the attributes of capitalist economies, “creative destruction”. In up swings, hiring exceeds firing and you get the reverse in down swings. We seem to be in the midst of one of those 'cycles of creative destruction'.

Young women and men entering the world of work are particularly at risk of failing to get a decent start in working life when hirings are less than job losses for a prolonged period.

Around the same time that Schumpeter was writing, the ILO held a historic conference in Philadelphia in 1944 which adopted a Declaration that was taken into our Constitution. It reaffirmed that “labour is not a commodity”.

**Re-**affirmed, because the 1919 Versailles Treaty, by which the ILO was founded, enunciated the principle that “labour should not be regarded merely as a commodity or article of commerce.”

To 21st century ears, the phrase may sound a little antiquated. But it encapsulates a critical consideration for policy makers which they are unwise to ignore or forget. The factor of production which is being reallocated, in good part because of the forces of creative destruction in product markets, is people – individual women and men or whole communities.

The Nobel prize-winning economist, Robert Solow, in his series of lectures “The Labour Market as a Social Institution”, concluded that

*“…labour is not a commodity exactly like others. It does not seem to me at all inconsistent or strange to suppose a society might be happy to see fish or candy bars or computers traded in a competitive market, but would rather not allocate and pay labour in quite the same way. It would then follow that the achievement of wage flexibility through unrestricted competition might not be the way to go.”*

As Solow goes on to conclude, we need to focus on how to provide the job security and wage continuity that people want without falling into inefficiency, not least the inefficiency of large scale under employment and out right unemployment.

Labour market institutions therefore need to balance several objectives including protection of workers’ rights, inclusive economic growth and cohesive societies, as well as innovation in products and processes.

Finding that balance is best realized by dialogue between government, employers and trade unions because one size does not fit all especially in the design of labour market institutions. Attempting to identify a set of “best practice” institutions that set the direction of reform for all countries is unlikely then to be a promising guide for the adaptations that all countries need to consider from time to time as economic, social and indeed environmental circumstances change.

***My fourth point relates to a convergent agenda of employment policy priorities.***

Discussions in the OECD, the ILO and elsewhere seem to me to be converging around an agenda of labour market policies that are capable of making positive contributions to accelerating growth, narrowing inequality and smoothing structural change.

The number one priority is tackling the shortfall in demand in many countries in which a key factor is the sustained downward trend in the labour share of national income, driven particularly by significant losses in labour shares for middle- and lower-earning workers.

This points to:

- Setting minimum wages to provide an adequate wage floor for low-paid workers.
- Counteracting the long-term decline in union density and collective bargaining coverage in many countries, as part of wage policies that ensure the growth of living standards in line with productivity.
- Building up social protection systems that help households to weather economic shocks and smooth consumption, thus acting as automatic stabilizers.
- Implementing public employment programmes and guarantees to increase employment and raise incomes among low-income and vulnerable households, particularly in countries with large shares of informal, self-employed and unpaid work.

A second area of focus is the better and faster matching of workers with job opportunities. And here the work of public employment agencies, skills development and apprenticeships are clearly important ways to improve the working of supply and demand.

Employment protection laws are often a focus of alleged labour market rigidity. Recent research for an ILO Conference on Regulating for Decent Work, based on an index of labour laws covering 63 countries for the period from the early 1990s to the present day, finds that the economic effects of employment protection laws are not negative, and may sometimes be positive. Either way, such effects are relatively small when set against wider economic trends.[2]

The ILO recommends that countries should have laws covering the termination of employment which prevent unfair dismissal, provide a reasonable period of notice or compensation in lieu, a severance allowance, consultation with workers' organizations and notification of a competent authority. Many countries have laws along these lines although the way these issues are dealt with does vary.

Since increased production market competition may increase both hiring, firing and voluntary severance, support to workers in moving to a new job perhaps in a different

[2] Labour Regulation over Time: New Leximetric Evidence, Zoe Adams, Louise Bishop, Simon Deakin, Colin Fenwick, Sara Martinsson and Giudetta Rusconi. Paper prepared for the 4th Conference of the Regulating for Decent Work Network, Developing and Implementing Policies for a Better Future for Work, ILO, Geneva, July 2015

region and requiring new skills is critical to assuring that overall productivity and employment is enhanced.

Similarly, the coverage and level of unemployment insurance schemes to maintain income during job search is part of a package of employment mobility policies that need to accompany competitive product markets.

This emerging consensus on employment policy priorities can support the positive impact of enhanced competition both by helping workers to move from less to more productive jobs with a lower risk of falling out of the labour market, and also by lifting consumption by ensuring that wages do not lag behind productivity or fall below a reasonable minimum.

***In conclusion, therefore:***

Embedded in the ILO's mandate is the idea that work should be an act of self-realization, imbued with the notion of personal and collective purpose.

Work must certainly meet material needs, but it must also respond to an individual's quest for personal development and the instinctive desire to contribute to something larger than one's own or one's family's welfare.

Sigmund Freud said "work is the individual's link to reality" and when that link is broken through unemployment the consequences for the individual are serious, and in the long-term devastating – extending even to health status and longevity. Access to work is a precondition for personal development and social inclusion. And this can be more or less satisfactory, depending on the nature and the conditions of the work undertaken.

The individual will want to find meaning and purpose in work and material compensation for it that allows him or her to become an independent, full and valued actor in society. The workplace itself is also where socialization processes initiated in education are deepened and where many of the individual's social relations are forged and maintained.

Frustration of these desires and pressures is a serious matter. And policy makers should recognize it.

Does competition kill or create jobs? The answer is clearly yes. It does kill and create jobs.

Employment systems therefore need to address the societal challenges that competitive product markets generate. They need to move with the times. But in doing so considerations of fairness or social justice must not be set aside because that starts us down the slippery slope to treating labour as a commodity. And at a time of weakening economic growth worldwide, there is equally a serious danger of countries getting into the other slippery slope of beggar thy neighbour policies of cutting wages and other conditions of work and undermining essential labour market regulations. We can all get more productive – but we can't all get more competitive.

So, policies to enhance competition in product markets, domestically and internationally, need to be complemented by sound labour market policies recognizing that the labour and product markets work very differently and therefore need very different approaches to policy design.