Chapter II

The impact of global economic and social liberalization

The current era of globalization has been defined by as the systematic spread of capital and open markets, by fewer constraints imposed by institutions or regulatory interventions and consequently by increasingly internationally integrated markets. The long-term trend is supposed to be fully open markets for goods and services, capital, technology and labour. However, a fully global market for labour has been the slowest to emerge, despite greater labour-market flexibility at the national level.

This globalization process has been accompanied and reinforced by social and economic reforms in countries all over the world. The key aspects of these reforms over the past three decades, insofar as they have a bearing on employment and the labour market, are the liberalization of goods and services markets, economic privatization, the deregulation and commercialization of social services and social protection, the strengthening of poverty reduction strategies, labour-market re-regulation and labour contracting, whereby more workers and employees are hired through intermediaries or have individual written employment contracts setting out personal conditions, entitlements and expectations, instead of standard or collective contracts.

Liberalization, commercialization and economic volatility

The impacts of these trends on the situation of employment and work are twofold. Some of these changes have direct consequences for the conditions and terms of employment and work, while others affect employment and work indirectly through the performance of the economy. Both the direct and indirect effects need to be examined in order to fully understand the extent to which employment and work have evolved in the twenty-first century.

Trade liberalization

The rate of growth of trade (exports and imports) has long been much greater than the rate of growth of gross domestic product (GDP). This has affected the structure of production and employment in developing countries to a very considerable extent, especially since the shift in recent decades from "import substitution" and food security to "export-orientation".

Trade liberalization alone, however, does not lead to higher economic growth unless other policies, such as those that encourage investment, allow effective conflict resolution and promote human resources development, are introduced at the same time (Winters, 2004; World Bank, 2005a). Recent evidence suggests that only in exceptional circumstances, does trade liberalization seem to boost growth and employment. What it also seems to do is increase income inequality and wage differentials (see, for example, Lee (2005)).

One aspect of trade liberalization that has had a rather dramatic effect in recent times was termination on 1 January 2005 of the Agreement on Textiles and Clothing, which largely removed quantitative quota restrictions. This had an immediate effect on the international structure of apparel and clothing exports and imports. Since developing countries accounted for more than half of the world's exports of those products at the time (World Trade Organization (2006)), this change had a major effect on those countries.

Liberalization of trade in clothing and textiles would appear to offer advantages to developing countries because they are deemed to have a comparative advantage in those sectors, which traditionally rely on manual labour. However, the disruptive effects on production and labour markets of the termination of the Agreement on Textiles and Clothing were considerable, and different developing countries were affected in different ways. Indeed, trade and production patterns changed dramatically while total trade grew in 2005 and 2006. A few countries benefited, while sharp losses of jobs occurred in other countries, some of which had relied on making garments to a much greater extent than those that benefited from the termination of the Agreement.

Finally, as far as trade liberalization is concerned, policymakers need to assess the impact of the growing number of bilateral arrangements. A concern is that bilateral trade agreements might reflect the relative bargaining strength of the respective countries, thus imposing more onerous terms on the weaker party. In particular, such agreements might impose conditions that could impede a country's ability to pursue domestic employment and social policies that would be welfare-enhancing. It is for this reason, among others, that many believe that a multilateral framework is inherently superior to a mishmash of bilateral agreements.

Financial market liberalization

Although trade liberalization has probably received most attention, financial liberalization, including capital-account liberalization, has caused most concern in recent years. Financial market liberalization has led to financial integration, which clearly has imposed limitations on the autonomous capacity of national policy-makers to shape their policies and control the extent of macroeconomic stability. The inability to operate counter-cyclical fiscal and monetary policy means inter alia, that recessions are more likely to be deep and prolonged; and for this reason alone, such recessions are likely to lead to more long-term unemployment.

Integration has also meant that movements on one national market are more closely linked to movements in financial markets elsewhere, resulting in greater market volatility. It has also intensified bank competition and increased the focus on short-term investments relative to longer-term investments (Williamson, 2002). All of these aspects of financial integration have imparted a greater degree of market volatility, which translates into greater volatility in national economies and labour markets, particularly in smaller countries.

Advocates of liberalization have long argued that financial market liberalization in itself would boost economic growth and lead to more stable growth, as well as a convergence in living standards between countries. These strong claims have been highly controversial and, as indicated in the next section, there are reasons for scepticism. After having advocated liberalization, even the World Bank (2005a), in reviewing growth performance of developing countries in the 1990s, concluded that: "Contrary to expectations, financial liberalization did not add much to growth, and it appears to have augmented the number of crises" (p. 21).

Greater economic volatility leads to greater income and employment insecurity. A crucial social policy point is that the growing tendency for shocks and economic volatility to arise means that conventional social insurance and contingency benefit schemes are made weaker, since whole communities are hit by adverse events, rather than a few individuals at a time. This situation leaves traditional social security schemes under intense pressure and traditional informal networks of support unable to cope.

Foreign direct investment

Even in the case of actual foreign productive investment, foreign direct investment (FDI) has engendered more national economic insecurity, since increasingly capital can be switched between countries relatively easily. Indeed, FDI has been part of a trend towards multinationalization of production, whereby corporations with numerous subsidiaries can switch production and thus employment from one location to another quickly and at little cost.

This enhanced flexibility gives them a stronger bargaining position with national Governments and with workers as well as trade unions bargaining on their behalf. In effect, the character of globalized FDI has been changing, and instead of a central base linked to subsidiaries, there is a more globally integrated production system, which has effects on labour and employment practices.

The (International Labour Office, 2004b, para. 35) has argued that in developing countries, the employment effects of FDI have been "rather weak" and that:

> At the same time, a rising share of FDI in total investment tends to reduce the overall employment elasticity while shifting the pattern of labour demand in favour of high-skilled labour. Rising wage inequality is also a consequence. On the positive side, a rising share of FDI in total investment leads to an improvement in the average quality of employment for both high-skilled and low-skilled labour.

Others have argued that FDI makes the demand for labour more sensitive with respect to changes in prices and growth, meaning that the growth of FDI has increased the volatility of employment and earnings, thus making for greater economic insecurity among workers and local communities (Slaughter, 2001; Görg and Strobl, 2003). Indeed, some have concluded that multinationals pay higher wages than local firms in part to compensate workers for the greater employment volatility (Sheve and Slaughter, 2002), as multinational plants are more likely to close in response to economic downturns (Bernard and Jensen, 2002).

In sum, FDI and the global integration of production have become a driving force of the global economy, and appear set to determine the nature of labour markets and foster the tendency towards a global convergence of labour and employment practices, for better or for worse.

Fiscal policy reform

Fiscal prudence has been the watchword in the past decades. In reality this implied a requirement that Governments slash social spending to levels not exceeding fiscal revenues. At the same time, revenues were reduced by tax cuts intended to create incentives. In particular, developing countries have been obliged to cut import taxes, owing to trade liberalization and multilateral trade rules. This has impeded their social and other public spending by which they could have boosted growth and employment. Health-care spending particularly has suffered (United Nations Conference on Trade and Development, 2006). Severe health problems facing many developing countries have impaired the productive capacities of workers and made it correspondingly harder to boost employment.

More generally, there has been a steady shift away from taxation of capital towards greater taxation of labour. Country after country has cut tax rates on capital. At the same time, there has been a shift in the direction of fiscal subsidies: subsidies to capital have gone up sharply and steadily while those to labour have declined and consumer subsidies in particular have been whittled away in the name of removing market distortions. This double shift in fiscal policy obviously has a regressive effect on overall income distribution. It also affects the demand for labour, as the relative prices of capital and labour are affected, and thus the level of employment.

Cutting social spending that could have boosted employment growth is only one element of fiscal reforms that have had adverse effect on employment and labour. Indeed, the changing level and distribution of subsidies have constituted one of the most striking features of the globalization era, involving annual payments worth about 4 per cent of global GDP (van Beers and de Moor, 2001).

Governments provide subsidies for many reasons (World Trade Organization, 2006). The most laudable is to ensure universal access to services and infrastructure and to take account of externalities. However, very often subsidies are designed to favour strategic sectors, or to boost exports or limit imports, or to limit job losses or assist in job-generation. These are the sorts of reasons that generate criticism of subsidies. Sometimes, subsidies involve deadweight effects, that is to say, they are given to firms for doing something that they would have done anyway. Often, subsidies also involve large substitution effects, that is to say, they enable one firm or sector to displace another, whether or not that is the intention.

Although subsidies are now often needed to develop new productive and export capacities, employment opportunities or greater productivity, they are difficult to sustain and involve trade-offs with alternative public spending choices. They are also likely to be abused and typically go to socio-economic interests that have a relatively strong political bargaining position, inside the country and/or outside it. When observers claim that Governments cannot afford the public social spending that would overcome the economic insecurity of the disadvantaged, they should look closely at the extent and *distribution* of subsidies provided by the State.

Social service liberalization

The recent deregulation, privatization and marketization of social services have had a profound effect on labour markets in sectors of employment that had set standards of social security for several generations. Several trends have emerged. There has been increasing commercialization of service provision, entailing larger payments by users and the greater centralization of pricing and profitability decisions. There has also been a trend towards decentralization of services, with responsibility devolved to local authorities though not necessarily contracted out to private commercial providers. Moreover, the progress of the processes of privatization has been uneven, with formerly public services being sold off to private commercial providers, and Governments creating openings for private firms so they can provide such services.

The transformation of social services — health, education, employment services, pensions, care, social services, prisons, water, gas, electricity and so on — has been a crucial aspect of the transformation of labour and work across the world. There have been many consequences. For example:

(a) Workers providing social services have tended to experience a reduction in employment security and income security, and to lose representation, since private sector workers are much less likely to be unionized or to have the workplace safeguards that have been the norm in the public sector. Liberalization and privatization have meant that "permanent" employment, characteristic of civil services until a few years ago, is diminishing rapidly. Many more workers have been placed on short-term contracts, with periods of short notice for dismissal. Outsourcing and subcontracting have become far more common, so that more workers in the service sector are receiving incomes that reflect specific demand, and thus experience more fluctuations in their earnings. All these changes may have helped to reduce labour costs, but at the cost of creating many more insecurities for those providing the services;

(b) Commercialization, decentralization and privatization have tended to produce greater differentiation among occupational groups within specific services in terms of wages, benefits, job security, employment security, work safety and representation (Rosskam, 2006);

(c) Those using the services have also been affected in several ways, primarily because the more fortunate, those with the ability to pay, have benefited from greater ”choice” and from the higher-quality services on offer to those who can pay. This has, inter alia, freed up more of their time for work and leisure activities, while those with little ability to pay have had not only to pay a larger proportion of their income (and often, a larger premium for some services, owing to their lower insurability), but also to use up more of their time and energy in order to obtain the service. In effect, the poor pay for the service with income and their work time, while the rich pay only with their income.

Example (c) has received insufficient attention. For instance, if schooling or medical services are provided on a private commercial basis, those able to pay can obtain priority treatment, avoiding queues and being less likely to travel long distances to obtain the service. Those who are poor tend to have to walk long distances, join long queues and pay higher premiums for insurance and they are often forced by financial circumstances to try to rely on a run-down public service.

Advocates of the commercialization, decentralization and privatization of social services claim that these promote greater efficiency, which they believe will eventually benefit whole societies. This may be correct. However, it is fairly clear that various forms of inequality have widened, affecting in the process the character of the work of those providing the services and the work situation of many of the groups receiving them (United Nations, 2005a).

Labour- market flexibility

The three main forms of flexibility are considered to be external/internal (or functional) flexibility, working time flexibility and wage flexibility. Critics of many welfare State labour markets contend that these markets are made inflexible by the existence of institutional distortions, which prevent greater employment. Labour regulations, trade unions, collective bargaining and statutory minimum wages have been identified as the main sources of labour-market inflexibility.

External flexibility is high if workers can and do move rapidly and relatively costlessly from sectors or occupations experiencing declining demand to those that are expanding. The claim is that barriers, usually including employment protection legislation, prevent employers from cutting their employment in times of shrinking demand, thus imposing higher labour costs and impeding their productivity and profitability, and in the longer term, preventing them from being sustainable enterprises. They also claim that such barriers cause employers to opt for more capital-intensive technologies than might otherwise be the case, and deter them from hiring because of a fear of a downturn that would leave them with high fixed labour costs.

Many have challenged this argument maintaining, for instance, that employment protection boosts long-term commitment and labour productivity and induces employers to plan their employment more carefully. The evidence is mixed. What is clear, however, is that in their effort to remain or become economically competitive, Governments and employers around the world have taken numerous steps to increase external labour-market flexibility, and in doing so have imposed greater labour-related insecurity on most groups of workers.

Moreover, it has not often been asked whether or not an economy can have too great a degree of flexibility. An extremely flexible system is likely to be a highly unstable one, and adjustment costs associated with unstable systems are high, rendering them less efficient than systems where resources are utilized for productive purposes. Above all, the global trend towards employment flexibility means that fewer workers can expect to be engaged in stable protected employment.

Labour-market re-regulation

Contrary to common belief, systematic labour-market re-regulation, as part of a global restructuring of regulations and regulatory institutions, has taken place. Some researchers have focused on non-statutory and "indirect" regulation (see, for example, Arup and others, 2006), while others have concluded that the primary objective of the changes has been to increase as part of the thrust towards more labour market flexibility, the degree to which labour is treated as a commodity, (Standing, 2006). In other words, the intention has been to limit or remove the factors that prevent wages from adjusting so that demand equals supply. This has led to a curbing of the ”power” of trade unions through legislation limiting the right to strike and, in some cases, the right to form some types of union. It has included a strengthening of individual protection in some respects while weakening the protection of collective rights.

While the reform process has been uneven around the world, most countries were moving in the same direction until fairly recently. In this regard, it is probably fair to conclude that the role of statutory protective regulations has been diminishing, while greater emphasis has been placed on the following three forms of regulation:

(a) Self-regulation, through the promotion of ”voluntary codes of conduct” and “corporate social responsibility” schemes;

(b) Fiscal regulation, that is to say, the use of taxes, tax credits and subsidies to guide labour-market behaviour, and to provide incentives for some types of action and penalties for others towards which there has been a steady shift;

(c) Privatized regulation, that is to say, regulation that fosters a growing role for private, commercial organizations in exerting regulatory pressure on firms, local authorities and Governments as a means of determining their labour and social practices and policies.

Although it has been the least analysed, this last trend raises important questions about the legitimacy of having non-accountable commercial entities shaping labour practices. In particular, in the context of globalization, powerful multinational institutions such as credit rating agencies are increasingly able to influence labour practices and social policies by judging which are good and which are bad.

No doubt one could argue that the credit rating agencies are operating as a market mechanism to promote best practices, but many observers suggest that they have gained quasi-regulatory powers, are generating “adaptation pressure” that are neither accountable nor democratic, and are rather untransparent. They are a means by which national autonomy and even corporate autonomy are being curtailed.

Contractualization and individualization

Globally, there has been a spread of short-term contracts, giving workers few entitlements and little sense of permanence in their employment. Extensive casualization has always characterized labour relationships in developing countries, where workers in large informal sectors often do not have any contract at all, but it has been growing in developed countries as well. For example, a significant development in developed countries in recent years has been the growth of agency labour, whereby private employment agencies hire out workers to firms for short-term assignments. Often workers retain short-term status even though they may have remained in their jobs for many years.

The development of an international labour market in recent years has also been linked to the trend towards more individualized labour contracts. Globally, the implications for employment services and for regulations are considerable.

Standardized contracts and collective contracts are giving way to more individualized contracts based on individual bargaining between employers and workers. One concern is that as the bargaining strengths of managers and individual workers differ enormously, a shift to more decentralized and individualized employment relations would tilt the balance in favour of employers.

Indeed, given the nebulous nature of many casual agreements involving work performed by one person for another, there is a belief that such relationships should be solidified as legal employment, entailing the entitlements, legal protection and obligations that come with such legal status. The tendency for more people to be in a nebulous work status intensified the international pressure that led the International Labour Conference to adopt a new standard, at its 95th session in June 2006, proposing that Governments adopt policies to ensure protection of workers' entitlements, distinguishing between employment and self-employment, while recognizing contractual responsibilities on both sides. This is important in that, in many countries, without an accepted employment relationship, workers cannot procure entitlement to social security or labour protection.

Ironically, with of the ongoing shift towards individual employment contracts in some economies a growing number of workers may find themselves without any contractual protection, to their considerable disadvantage. In contrast, under almost any system of collective bargaining, workers who do not have a specific agreement with an employer are nevertheless usually covered, whether by a system of judicial awards or by sectoral agreements.

The decline of collective bargaining may mean that more workers will have no contract worthy of the name. Instead, the market will rule. This need not happen, but it is a current reality to which policy responses will be required.

Migration

The global movement in recent decades towards greater social and economic deregulation and liberalization has also helped to facilitate migration both within countries and internationally. Most migration is intended to better the life prospects and welfare of those who move. In that context, it remains a challenge for those promoting societies of decent work to facilitate the process and to reduce the costs and increase the benefits of movement both for the migrants and their families, and for communities and labour markets. In this regard, it is important to consider the main forms of movement.

Perhaps rural-urban migration, much of which is seasonal and circular, is still the most substantial form. Several concerns stand out. First, those who leave rural areas tend to be the young, relatively educated and potentially most productive. In some parts of the world, their departure has led to ageing rural labour forces and a consequent decline in productivity and production. Second, there is a tendency for the more successful among such migrants to accentuate the extent of inequality and differentiation in the rural areas by sending back remittances that are used to buy up land or other resources from those in debt or under economic duress. Third, rural migrants tend to be relatively exploitable in urban industrial areas without social networks to support them or knowledge of what wages and benefits they should receive, and with all the fears that accompany being in unfamiliar circumstances.

Another, more particular form of labour migration has been from rural areas into export processing zones, much of it involving young women. Although much has been written about this phenomenon, it deserves to be highlighted, in part because the institutional safeguards for workers in such zones have often been weaker than elsewhere. Often, trade unions have been banned or their activity has been severely curtailed and labour inspections have been less common in the interest of encouraging FDI. In effect, Governments have been deliberately fostering a dualistic labour market as well as a dualistic economy. In these circumstances, migrants, most of whom are short-term, have been especially vulnerable, and there is considerable evidence that they have been treated as a disposable labour reserve, employed for short periods and then laid off when illness or even disability makes them less productive.

A third important form of migration is that of rural young people emigrating to work abroad for short periods, which may stretch into several years. Usually, this has involved young men who go abroad to take jobs as labourers or in mines, and young women who go as maids, as caregivers for children or, intentionally or not, as sex workers. Human trafficking is only one of grave consequences of this form of migration, which has affected millions of people in recent years and almost certainly constitutes one aspect of globalization.

Often, forms of bonded labour and debt bondage have been involved, in which debts are first incurred in rural areas when families pay labour middlemen or agents to assist in the acquisition of job contracts or to ensure transport. In some countries, the resultant indebtedness has led to land dispossession and impoverishment, often because the promised jobs did not materialize, or because the young emigrants were dismissed from their jobs or not paid.

A fourth form of migration, which is more benign in origin and, for the migrants, often beneficial in effect, is represented by the much-discussed phenomenon of brain drain, whereby mostly young and newly educated urban-dwellers move abroad to obtain higher-paying employment than they could obtain in their home countries. By most accounts, this movement has become much greater in the globalization era; and whereas developed countries have tended to erect more barriers against the migration of so-called unskilled workers, they have tended to facilitate the influx of educated skilled professionals.

The movement of students, many of whom combine studying with employment in the country of their studies, that is less well monitored than some others constitutes a form of international migration. Some countries have restricted such employment, but as the market for students has developed, Governments have tended to relax the restrictions, while trying to ensure that they do not substitute for local workers by regulating the extent of the employment that they are allowed to take. The emerging norm seems to be an upper limit of 20 hours per week during term time, with restrictions on the duration of any particular job. Thus, students are becoming a new source of flexible low-wage labour. They tend not to appear in any official statistics either as workers or as labour migrants.

In general, international labour migration, one of the defining features of the globalization era has been substantial and is growing, although the pace may have slowed in the last few years as receiving-country Governments have raised barriers to immigration. In 2005, according to estimates of the United Nations (2006a), there were 191 million migrants living outside their country of origin or citizenship, including those migrating for employment, their dependants, and refugees and asylum–seekers. This was more than double the figure of 82 million recorded in 1970.

An emerging international labour market?

Although international labour mobility has grown at a much slower rate than international capital mobility, there are signs that a new global labour market is emerging in which all forms of migration are growing and global supply chains are moving jobs around the world. For managerial and professional workers, the enhanced opportunity for international mobility is unquestionably advantageous. Many are moving around with secure employment contracts with national corporations or multinational ones. Others move from contract to contract, with high incomes and access to private benefits and investments. However, for a large number of others with fewer skills, many forms of insecurity and deprivation are associated with their labour mobility.

According to official data, international migrants still represent only a small proportion — about 3 per cent — of the world's population. Nevertheless, by 2000, international migrants had accounted for more than 10 per cent of the population in 70 countries, compared with 48 countries in 1970 (Global Commission on International Migration, 2005). The official figures probably understate the full extent of movement, in part because they rarely pick up clandestine movement or short-term labour circulation.

What is perhaps most interesting is that, in spite of the social disruption associated with resentment directed at migrant communities that occurs from time to time, Governments' resistance to migration seems to be declining. According to the United Nations (2006a) the proportion of Governments stating that they wished to reduce migration dropped from 40 to 22 per cent between 1996 and 2005. Many Governments have taken measures to facilitate the in migration of the types of worker they need, while 30 countries have policies to promote the inflow of highly skilled workers.

Many countries are trying to augment their supply of skilled labour by luring emigrants back home. In 2005, 72 countries had policies to encourage the return of their nationals; of those, 59 were developing countries. Meanwhile, receiving countries are increasingly adopting policies that focus on the integration of migrants. In 2005, 75 countries had programmes for integrating non-nationals, up from 52 countries in 1996.

In sum, international labour migration is already very substantial, and, while the pace of recorded migration may have slowed, a rising proportion of the world's workforce consists of migrants, with millions in clandestine situations. Although net immigration may be concentrated in a relatively small number of countries, most countries are experiencing both immigration and emigration, as well as a great deal of labour circulation.

Impact of international migration

According to ILO (2006a), there is a "global consensus" that international labour migration has a beneficial effect on growth and development in both source and destination countries. It may contribute to home-country economic development through worker remittances, the transfer of capital and skills through returning migration, and the transfer of skills and technology and investments by diasporas. It helps destination countries by filling gaps in the labour market, providing essential skills and injecting social, cultural and intellectual dynamism.

The World Bank (2005b) also claimed that an increase in migrants that would raise the workforce in high-income countries by 3 per cent by 2025 could increase global real income by 0.6 per cent, or $356 billion. Such an increase in migrant stock would be in line with the migration trend observed during the past three decades. The Bank said the relative gains would be much higher for developing-country households than for developed-country households, rivaling potential gains from global reform of merchandise trade, and estimated that $162 billion to new migrants, $143 billion to people living in developing countries (mainly by way of remittances) and $51 billion to people living in high-income countries.

However, such arguments for the beneficial effects of international migration in global aggregate terms have to be balanced by an examination of national circumstances. For instance, for developing countries, the most worrisome form of migration is that associated with the movement of the highly educated — the proverbial brain drain — although the causes may have positive aspects and the personal consequences may be beneficial, as noted earlier. A common claim is that this results in developing countries' being deprived of vitally needed skills, which deprivation impedes growth and development.

Broadly speaking, the brain drain is likely to have a much more severe effect on small countries than on large ones. While the absolute numbers working abroad may be large, some large developing countries have only about 3-5 per cent of graduates living abroad. In sub-Saharan Africa, where skilled workers make up only 4 per cent of the total workforce, they account for more than 40 per cent of those leaving the region (Özden and Schiff, 2005). Indeed, the loss of crucial skills in source countries, particularly small ones, is a cause for concern. Developing countries lose from 10 to 30 per cent of skilled workers and professionals through brain drain (International Labour Office, 2006a). Nearly 6 in every 10 highly educated migrants living in countries members of the Organization for Economic Cooperation and Development (OECD) in 2000 had originated in developing countries (United Nations, 2006b). Least developed countries are especially affected: it is estimated that about one third of migrants from Least Developed Countries to OECD countries are skilled workers (United Nations Office of the High Representative for the Least Developed countries, Landlocked Developing Countries and Small Island Developing States, and Office of the Special Adviser on Africa, 2006).

Migration, in its various forms, is an integral part of the emerging global labour market, and this movement is bound to have numerous effects on national and subnational labour markets and the character of employment and livelihoods. All forms of migration have implications for both receiving and sending societies and labour markets. While it is understandable that much of the focus should be on the migrants themselves, the fact remains that the externalities of the various forms of migration should be given more attention than has been the case.

Findings on the effect of the growing international migration on unemployment in sending and receiving labour markets are rather inconclusive. The standard theoretical position is that emigration should lower unemployment in sending areas, since the labour supply is cut; but some commentators believe that emigration is selective for the relatively employable and, by removing scarce skills, raises so-called structural unemployment.

A recent United Nations report on migration (United Nations, 2006b) stated that, although immigration may have a small adverse effect on the wages of non-migrants in receiving countries, or may raise unemployment when wages are rigid, such labour-market effects are small at the national level. It concluded that over the medium and long term, migration can generate employment and produce net fiscal gains.

ILO (2006a) has claimed that "global labour mobility ensures efficient and optimal utilization of labour," but has suggested that barriers to mobility are preventing this outcome, leading instead to more smuggling and trafficking of migrants. Other studies have suggested that countries where migrants are welcome have fewer people out of work (cited in *Financial Times*, 2006). There may, however, be no causal relationship; or migration may simply be more welcome destinations where unemployment is low.

The relation between migration and the unemployment of migrants has similarly been subject of controversy. Although some observers have questioned the widely held view that migrants have higher unemployment rates than natives, in most OECD countries with a few exceptions, the unemployment rate of young workers (aged 15-24) born abroad is higher than that of their native-born counterparts (Organization for Economic Cooperation and Development, 2006). Unemployment rates of foreign-born women (aged 15-64) are higher than that of their native-born counterparts in every OECD country without exception (Dumont and Liebig, 2005).

Migration and remittances

Migration generates a huge flow of remittances, which have become an important feature of globalization, with various effects on labour markets around the world. It is estimated that migrant workers send home remittances officially recorded at $232 billion in 2005, more than double what it had been a decade earlier. The share of global remittances going to developing countries has also increased, from 57 per cent in 1995 ($58 billion) to 72 per cent in 2005 ($167 billion) (World Bank, 2005b). This was twice the level of development aid from all sources ($100 billion a year) and was second only to FDI ($625 billion).[1] Although they may have declined owing to stricter controls since September 2001, unrecorded remittances sent through informal channels could add at least 50 per cent to the official estimates, making remittances the largest source of external capital in many developing countries.

The recent surge of officially recorded remittances partly reflects growth in the number of migrants and their incomes, but also better data reporting, diversion of remittances from informal to formal channels, and lower transfer costs and expansion of the network of remittance service providers. Nevertheless, 13 Least Developed Countries (and perhaps others) do not report remittance data and most remittances to Least Developed Countries go through informal channels (United Nations Office of the High Representative for the Least Developed countries, Landlocked Developing Countries and Small Island Developing States, and Office of the Special Adviser on Africa, 2006). Reducing transaction costs, which can be as high as 20 per cent, would promote more flows through formal channels and could increase access to financial services, including microcredit for the poor.

The standard interpretation is that remittances result in a transfer from richer migrant-receiving countries to poorer migrant-sending countries. While this is probably correct, one should be cautious about the extent of the transfer because the flows of funds (and goods) that go with and to migrants from developing countries, both when they leave and for some time afterwards, are measured much less than remittances. Moreover, extensive research over the years has shown that remittances can be a strong force for greater social and income differentiation in the areas to which remittance income flows.

While remittances may lead to an economic transformation in rural areas, at the same time they enrich only those who receive them and may lead to land dispossession and more landlessness among those who do not benefit from such flows. This effect must be measured against the expectation that remittances can reduce rural poverty (Adams and Page, 2005).

Some household surveys suggest that remittances have been associated with significant declines in poverty (headcount) in several low-income countries (World Bank, 2005b). In addition, remittances appear to help households maintain their consumption through economic shocks and adversity. They are also associated with increased household investments in education and health, as well as increased entrepreneurship, but not with productive investments.

Remittances tend to be relatively stable financial flows, countering economic downturns in recipient countries due to financial crisis, natural disaster or civil conflict. At the macrolevel, remittances can generate foreign exchange earnings and improve the creditworthiness of a country for external borrowing. At the same time, large and sustained remittance flows can lead to currency appreciation, lower export competitiveness and dampen growth. Ghosh

(2006) warns against excessive reliance on remittances to generate growth and development as it may make recipient countries vulnerable to sudden changes in respect of remittance receipts which can be brought about by external shocks, economic mismanagement or political instability in the host countries. Ghosh cautions especially against reliance on remittances for investment-oriented purposes. Investment-oriented remittances tend to be procyclical, being sensitive to changes in the business environment and highly volatile depending on the macroeconomic situation, unlike remittances used to supplement the family budget, which are generally seen as having a counter-cyclical effect, since they tend to rise in times of economic decline, helping to smooth consumption and alleviate hardship. Moreover, remittances should not be treated as a substitute for official development assistance (ODA), especially for Least Developed Countries.

At the microlevel, remittances are mainly used for consumption by recipients, addressing their basic needs in the areas of food, clothing, housing, transport, healthcare and education. There may be secondary beneficiaries in the community who gain through their employment or their purchase of locally produced goods and services. When saved, remittances may serve as safety nets for the poor. Saving and investment of remittances also increase credit availability. To the extent that they finance health and education, create employment and provide access to credit for small entrepreneurs, remittances can boost growth; to the extent that they are used for consumption, remittances can increase income levels and reduce poverty.

The perceived drawbacks of remittances (Global Commission on International Migration 2005) include the following:

- The longer migrants are abroad, the less they remit to their country of origin. Second-generation migrants are less likely to remit to the extent their parents did.
- In some countries that have sizeable numbers of citizens working abroad, large-scale remittances may be a disincentive to reforms that would provide a better basis for long-term growth.
- The benefits of remittances are not shared equally and may exacerbate the socio-economic disparities that exist between households, communities and regions in the countries of origin.

- Remittances can create a “culture of migration”, encouraging young people to place excessive hopes on moving abroad.
- For some, remittances may be a disincentive to work at all.

In addition, high social costs can be incurred when migrants leave their families and communities to work abroad. The Global Commission on International Migration (2005) concluded that the pressure to remit can impose financial and psychological burdens on migrants. The World Bank (2005b), cautions against providing incentives in an attempt to direct remittances to specific areas or sectors through matching fund programmes, arguing that these schemes have had little success and that remittances should be treated like any other private income.

Box II.1

Impact of remittances in Mexico

With between 400,000 and 500,000 people leaving Mexico for the United States of America each year and an estimated 12 million Mexicans living and working illegally in the United States, the country is the biggest recipient of workers’ remittances in the northern hemisphere (Lapper and Thomson, 2006). Total remittance income is expected to have approached $25 billion in 2006, having grown from only $6 billion in 2000, and is the third biggest source of foreign exchange after manufacturing and oil. Most of the money received by families in Mexico goes to consumption, but up to 20 per cent of remittances are being invested in education, housing and similar activities.

Mexican hometown associations formed by migrants living in the United States are active. There are currently over 600 Mexican hometown associations in 30 United States cities. They support public works in their localities of origin, including through funding the construction of public infrastructure, donating equipment and promoting education (Global Commission on International Migration, 2005). Schemes that allow Mexico’s federal, State and municipal governments to match voluntary contributions with official funding to support road-building and other infrastructural improvements have been established for more than a decade.

Economic stability and the sheer volume of remittances, combined with the decline in average family size, have led to an impressive growth in the middle class. On one estimate, the number of families with an income of 9,000-20,000 pesos a month has doubled to 10 million in the past decade (Lapper and Thomson: 2006): but as many as 12 million Mexicans — more than one quarter of the workforce — work in the undercapitalized informal economy. Despite the success of social programmes such as Oportunidades, 8.6 million families still live in poverty. Moreover, some observers have attributed the continuing depopulation of Mexican villages to financial remittances (Lapper, 2006).

Concluding remarks

Globalization is transforming all labour-market systems and is doing so in ways that are yet to be fully understood or taken fully into account by Governments, employers and unions and others professing to represent the interests of groups of workers. Labour markets evolve all the time; but the evidence indicates that in the current phase of globalization, they have been evolving in the direction of greater levels of economic insecurity and greater levels of most forms of inequality, many of which have a direct adverse effect on the opportunity of people to live a life of decent work and satisfactory employment.

Increasingly, countries are being driven by the perceived imperative of competitiveness. International institutions, politicians and policymakers everywhere emphasize the need for national economies, enterprises and workers to become more competitive. From a social point of view, there must be limits to all this. But what should those limits be?

Another powerful lesson to have been drawn so far is the following: a precondition for liberalization's having beneficial effects for ordinary citizens is the establishment of institutions, legislation and regulations that can prevent its adverse effects from overwhelming them. This represents a different form of "conditionality" than that applied as part of the financial assistance given by the international financial Institutions in the past two decades.

Notes

1 Ghosh (2006) points out that World Bank figures for developing countries as a group are gross flows. Deducting South-South flows and reverse flows from South to North, developing countries' net remittance receipts for 2004 amounted to just over $100 billion, against gross receipts of $160 billion.