


# ITUC

## FRONTLINES REPORT 2012

Workers are in the frontlines of a war on their living and working conditions, from the very forces that brought the financial system to its knees in 2008.

International Trade Union Confederation

A large background photograph of a man with dark hair and a goatee, wearing a brown and white striped polo shirt, sitting on a rocky ledge. He is looking directly at the camera. In the background, a small town with colorful buildings is visible in a valley, surrounded by green hills and mountains under a slightly overcast sky.

“We’re forced to work more than 12 hours. They promise us overtime, but we don’t get it.”

*Narayan Nepali - Nepal*



“They yelled at me, ‘fire him, fire him!’”

*Ivan Boychev - Bulgaria*



“They have taken away my right to be a mother, I can’t have a child with the money I earn now.”

*Georgia Koutsoukou - Greece*



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# ITUC FRONTLINES REPORT 2012



Photograph: Ben Crowe

## Introduction

Unemployment, economic insecurity and income inequality have reached intolerable levels. Political stability and social cohesion are increasingly under threat.

Those who remain in jobs are facing an unprecedented attack on their wages, working conditions and their rights. Collective bargaining systems are being dismantled and the fundamental aspects of labour codes are being weakened. The remaining labour laws are often not enforced.

Workers are in the frontlines of a war on their living and working conditions.

The scale of this coordinated attack on workers is unprecedented. We have seen nothing like this since the trade union movement fought and won the right for workers to join a union and collectively bargain.

The international institutions we fought hard to create are also under attack. Institutions that have traditionally supported workers and their rights including the ILO and the UN require strengthening, but many employers and some governments are determined to undermine and destroy them.

The ITUC's Frontlines campaign highlights these unjustified attacks on ordinary working people. We signal to those governments, financial institutions and unscrupulous employers who are using the veil of the global economic crisis to undermine labour rights that workers are fighting back.

With profits before decent work, a declining wage share, precarious work, a reduction in social protection, tax evasion, rampant speculative capital and serious growth in the desperation of the informal economy - this is not acceptable to our people and our communities as a basis for this century.

The ITUC has drawn a line in the sand. This blatant and unjustified attempt to strip workers of their basic rights can go no further and must be rolled back.

This ITUC Frontlines 2012 report includes:

- ▶ a summary of global economic conditions and policy recommendations;
- ▶ a picture of the economic and social crisis in six countries including Bulgaria, Dominican Republic, Greece, Indonesia, Nepal and Zambia;
- ▶ testimony from workers presented to the ITUC Global Panel of Inquiry into Workers' Rights held in Bulgaria, Greece and Indonesia; and
- ▶ the views of the general public collected through the ITUC Global Poll recently conducted in thirteen countries including Belgium, Brazil, Bulgaria, Canada, France, Germany, Greece, Indonesia, Japan, Mexico, South Africa, the UK and the USA.

We have sat with many of the workers in crisis countries and captured their stories. They are heart breaking, they make you angry, but most of all they make us determined to fight alongside them.

These workers and many more around the world are in the frontlines; the frontlines of a war on workers from the very forces that brought the financial system to its knees in 2008.

ITUC Frontlines 2012 provides specific recommendations to the global community and national governments about the fight back that unions are mounting. In summary we demand that:

- ▶ **influential international financial and regional organisations** immediately halt their attacks on worker rights and recognise that their campaign to promote deregulated labour markets is causing deep economic, social and political damage;
- ▶ **national governments** urgently deliver basic rights for all workers including a social protection floor, a fair minimum wage and a comprehensive system of collective bargaining to restore and improve living standards; and,
- ▶ **societies** ensure investment of at least 2% of GDP in the green economy, to create millions of sustainable jobs.

*Sharan Burrow, General Secretary ITUC*

# Global Economic Conditions

It is nearly five years since the first signs of the global economic crisis emerged<sup>1</sup>. No sustained recovery is in sight, and economic uncertainty is soaring again. In fact, in the last year global economic growth decelerated sharply and labour market conditions deteriorated further.

Despair among working people and disillusionment with government are the result. 58% of the general public in the ITUC Global Poll 2012 said their country was going in the wrong direction. 67% think that voters do not have enough influence over economic decisions. The democratic contract with voters is broken in many countries.

Spiralling youth unemployment constitutes a social and economic time-bomb. 67% of respondents think that future generations will be worse off.

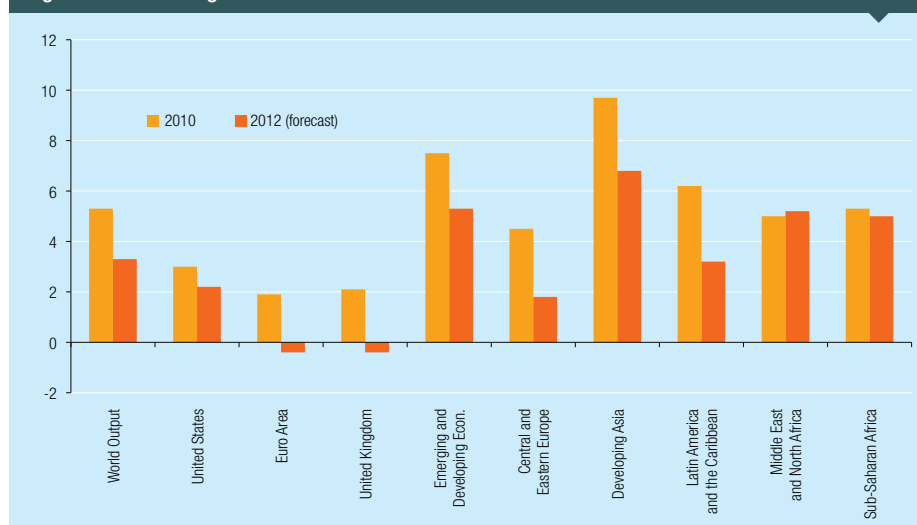
## 1. Economic growth trends

According to the IMF, world output is expected to expand by just 3.3% in 2012 and only marginally faster in 2013<sup>2</sup>. This is nearly two percentage points slower than global growth recorded in 2010 when recovery seemed more feasible. Other international organisations, such as the United Nations, are also forecasting a significant deceleration in global growth.<sup>3</sup>

This double dip is reminiscent of what happened during the Great Depression when the initial recovery in the early 1930s stalled and the world economy was stuck in reverse or low gear for over a decade. Policy makers have failed to learn from history. This time around the economic rebound has been cut short since 2010 by the premature withdrawal of stimulus measures in many countries and severe austerity in others. Large cuts in government expenditure when private sector investors and consumers were trying to pay down their own debts have failed to rally confidence and investment in the way orthodox pundits predicted. The pain inflicted by such policy mistakes is concentrated among working people and the poor.

As can be seen from Figure 1, the slowdown in growth since 2010 is spread across most regions. In fact several of the largest emerging economies (Brazil, India and even China) that had been the main drivers of global growth

Figure 1: Economic growth rates across the world



Source: IMF, World Economic Outlook 2012.

in recent years are now slowing noticeably. In Brazil, for example, output is expected to expand by a mere 1.8% in 2012, down from 7.5% in 2010. Similar trends are evident for Latin America as a whole with growth slowing from 6.2% in 2010 to just 3.2% in 2012.

The weaker outlook for emerging countries reflects the weaker external environment that slows exports; some moderation in non-oil commodity prices; and lower domestic demand. In response, governments in several emerging economies, including Brazil and China, have started to backpedal on the monetary and fiscal tightening they had started to implement.

But the main drag on global growth remains depressed conditions in advanced economies. Output in the Euro area is expected to fall by 0.4% in 2012 with sharp declines forecast in countries that have been forced to implement extreme austerity measures such as Italy and Spain.

The cumulative decline in output has reached Depression-like proportions in some countries: for example, in Greece real output declined by about 20% over the last five years and has further to fall with another round of austerity measures yet to be implemented.

However, even the powerhouse of the European economy in recent years, Germany, is now facing a substantial slowdown with growth of just 0.9% expected in 2012 compared to growth rates between 3% and 4% in recent years. This demonstrates the limits of export-led growth strategies even in economies that have depressed wages for long periods.

Outside the Euro area economic conditions are extremely bleak in the United Kingdom, despite it having its own national currency and the ability to cheaply finance increased government expenditure if the Government chose to do so.

Among the advanced economies, the United States and Japan recovered faster from the

global economic crisis than most European countries thanks largely to a more expansionary and unconventional monetary policy and some degree of fiscal stimulus. Despite predictions to the contrary, these counter-cyclical policies did not lead to a surge in inflation or a spike in the interest rates on public borrowing. On the contrary,

prices remain subdued and these governments can currently borrow at record low interest rates. However, in the absence of a larger and more sustained fiscal stimulus, both Japan and the US have failed to secure a strong and sustained rebound. In the US, economic growth of around 2% in 2012 and 2013 will be inad-

**Global unemployment has increased by over 27 million since the onset of the crisis and there are now more than 200 million people officially unemployed.**

equate to make any dent in unemployment. Moreover, the much feared “fiscal cliff” awaits at the end of the year.

Developing countries that are relatively sheltered from financial shocks have managed to dodge the recent downturn so far. For example, on average sub-Saharan Africa, North Africa and the Middle East are expected to maintain economic growth rates around 5% in 2012. But the outlook for 2013 and beyond is highly problematic. If the renewed slowdown in the advanced economies is deep and prolonged, developing economies will again be hit by reduced remittances, lower commodity prices, less opportunities for exports and reduced capital inflows as uncertainty augments.

Results from the recent ITUC Global Poll underlined the recent deterioration in global economic conditions. The general public are really feeling the pinch. One in seven respondents to the Poll who had a job did not earn enough money for essentials like housing, food and electricity. For 58% of people their income had failed to keep pace with increases in the cost of living. One in three people think their jobs are less secure than two years ago.

## 2. Labour market trends

Since the onset of the global economic crisis millions of jobs have been eliminated, more workers than ever have been forced into precarious employment and many people have become so frustrated that they have given up searching for work. As a result labour market stress has reached alarming levels and social cohesion is threatened.

Official statistics reflect some but not all of this pain. For example, the latest estimates from the ILO suggest that global unemployment has increased by over 27 million since the onset of the crisis and there are now more than 200 million people officially unemployed.<sup>4</sup> The ILO also estimates that the global employment-to-population ratio declined from 61.2% in 1997 to 60.2% in 2010. But these figures grossly understate the real damage being inflicted by the crisis,

**The ILO’s “World at Work Report 2012” shows how workers’ rights have been eroded by governments between 2008 and 2012 under the guise of the economic crisis.**

since “unemployment” is not a realistic concept in many developing and emerging countries. Here everyone has to undertake some form of economic activity to survive and underemployment, which is difficult to measure, is a real cause of concern.

Consequently, a better guide to current labour market stress is the ILO estimate that globally, vulnerable employment surpassed one-and-a-half billion in 2011. Between 2007 and 2011 vulnerable employment increased by 22 million in sub-Saharan

Africa, 12 million in South Asia, nearly 6 million in South-East Asia, 5 million in Latin America and 1 million in the Middle East.

According to the ILO the global economy needs to create 600 million productive jobs over the next decade to maintain social cohesion. This will be impossible to achieve based on current expectations about global economic growth and with the current policy settings in key countries.

## 3. Labour market institutions and income inequality

To maintain their living standards and share in the benefits of economic development, workers have the right to expect that their real wages will increase in line with productivity.

In the vast majority of advanced economies this was the case in the decades that followed

## CASE STUDY

Ivan and Julia Boychev, Bulgaria

Twenty-one years ago Ivan and Julia Boychev met and fell in love at the Central Station in Plovdiv, a regional town in Bulgaria. They have worked for the railways all their lives. Earlier this year Ivan was intimidated by the police for taking part in a legal strike action and his wife Julia was dismissed, replaced by younger person on lower wages.

This is their story.

Ivan: “We met at Central Station in Plovdiv. That is where we got to know each other, and we got married. I’ve worked in Bulgaria State Railways for 24 years.

I took part in a strike after they started saying our jobs would be cut. Every day there were threats of dismissals. And there was no other way, we had to strike.

About 90% of the staff at the transport office in Plovdiv took part in the strike. I went to the station at 7 a.m., and my supervisor asked me if I was going on strike. I explicitly answered yes that I was going on strike, and they entered my name on the list.

Then five policemen – three uniformed, two in plain clothes – burst into my office. They yelled at me, ‘fire him, fire him!’ because I had said I wouldn’t brief anybody. One of the policeman turned to me and said, ‘what do you want, do you want me to handcuff you?’. I said, ‘Yes, cuff me, but I will still be on strike.’

Julia: “I had sued the railways before when I was dismissed, and was given my job back. This time just the two of us who had sued were given advance notices of our dismissal. And then just before we were due to be dismissed, we were given another order, and were left at work. But we didn’t know for how long.

You live and wait, for four months every day I expected to be dismissed. Then in January I was told I could no longer work in luggage office.

After so many years of experience we are going, almost all of us are out. They brought in some younger people to replace us who have no idea of the railways.”

You can watch Ivan and Julia tell their story at [www.ituc-csi.org](http://www.ituc-csi.org).



Photograph: Damienne Caron



## CASE STUDY

Georgia Koutsoukou, Greece

Georgia is a woman who should be in the prime of her life. In her mid-thirties, she lives in Athens and works at the Metro. But in the last three years her salary has been cut by 45%, and with it her hopes of having a family of her own.

This is her story.

"I work at the metro of Athens. I've been about eight years working at the metro.

It was perfect the money was good. I had a very good career but suddenly in 2009 things came upside down.

I still haven't understood why all these things happened.

They start cutting our salaries. They start telling us things like we are lazy people, you're awful people, you're awful as a workers, you're awful as employees you're awful as a person, you're awful as people

Day by day things are getting worse...our friends started to be unemployed, our parents, our brothers, people start losing their pride.

In 2009 the Prime Minister of Greece, George Papandreou, told us that he have to cut off our salaries.

In the Easter of 2010, the Troika started giving us laws about how to act, how to live, how to do our things. The April of 2010 was the first law which was about the metro and the buses and all these companies. ...the companies it was the first law that we have to cut off your salary because you are over-paid persons.

In the last three years my salary was cut off by 45%, my legs also. My life has totally changed. I can't do any more the things I used to do. For the first time in my 38 years, I can't pay my bills.

I can't go eat in a restaurant, I think I deserve it. I work, I'm young, I like to live and not to survive. The troika did that to me. They have changed my life, they have changed my friends life.

I want my life back. I want to eat fresh fish. It's a product of my country. It's my right to eat it.

The IMF have ruined my life. The life of my family, my friends, my unemployed friends. They have taken everything. I will never forgive them. They have cut me off the right of being a mother because I don't have the possibly to grow up a child with the money I have now.

My friend left Greece because he was unemployed. He spent five months on the sofa, of drinking coffee, smoking, living off my salary, and we couldn't afford it and he left. I will never forgive them. I will never forget them for my mother's life. Her pension is 320 euro a month, she can't live, and I can't help her."

You can watch Georgia tell her own story at [www.ituc-csi.org](http://www.ituc-csi.org).



Photograph: Damienne Caron

**“They have cut me off the right of being a mother because I don't have the possibly to grow up a child with the money I have now.”**

Unfortunately these successful policies were jettisoned after the economic shocks of the 1970s. The re-emergence of highly conservative political and economic policies in the 1980s resulted in fundamental changes at the workplace. For much of the last 30 years unions, collective bargaining and labour market regulations have been under attack.

The ILO's "World at Work Report 2012" shows how workers' rights have been eroded by governments between 2008 and 2012 under the guise of the economic crisis.

- ▶ 60% of workplace reforms by governments have taken away workers' rights
- ▶ 15 out of 25 countries have relaxed collective dismissal rights for economic reasons
- ▶ 65% of workplace reforms have taken away the rights from temporary workers

This neo-liberal offensive has intensified in the last few years. As output tanked and jobs vanished after 2008, governments and their big backers searched for a scapegoat. Rather than fixing the financial system that caused the crisis they have blamed the victims. In Europe, draconian labour reforms have weakened unions and dismantling collective bargaining in order to slash labour costs. These reforms have been advanced by the international financial institutions and key regional organisation like the EC and ECB.

The general public know these attacks are unfair and unjustified. That is why strikes and protests in the countries concerned are strongly supported. The ITUC Global Poll demonstrates there is global solidarity on this issue and high levels of support for laws that protect worker rights. In fact 70% of people think current laws do not adequately protect job security. 89% of people support the right to join a union and 86% support the right to collectively bargain.

zthe Second World War. This was also the period in which trade union strength and collective bargaining coverage reached the high water mark. Many middle income and developing countries attempted to follow this lead and adopted labour legislation that encouraged the establishment of unions and collective bargaining in this period.

During this era strong unions and comprehensive collective bargaining led to rapid eco-

nomie growth, high employment rates and an expanding middle class in the advanced economies. Between the 1950s and 1980s income inequality narrowed, and the benefits of economic advances were spread widely. High union density and highly coordinated collective bargaining also fostered investment in skills and industrial peace. As a result average productivity growth in advanced economies was double or even triple that recorded in the last decade.

The great danger now is that as global growth slows again the tactics being implemented in the “peripheral” countries of Europe will be copied in emerging and developing countries that are trying to maintain the competitiveness of their own exports in shrinking markets. The risk of a new and rapid race to the bottom on labour standards has emerged.

The long-term impact of a thirty year campaign to weaken unions and collective bargaining is reflected in measures of the labour income share – income that workers receive through wages and other forms of remuneration. For many decades the labour income share remained remarkable constant in the vast majority of countries. This was because real wages were growing in line with productivity improvements. This also allowed profit levels to remain sufficient to finance the great expansion of the private sector in the post war boom.

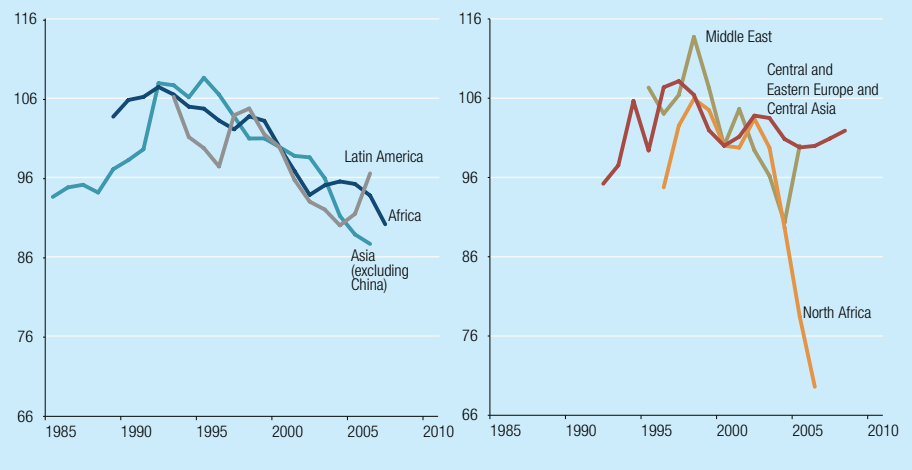
But, as can be seen from Figure 2, since the 1980s the labour income share has been on a sharp long-term downward trend in advanced countries. The decline is particularly pronounced in Japan and some European countries such as Germany.

The decline of the labour share in the US appears at face value to be more moderate than in some other countries. But these aggregate figures mask the dramatic increase in wage inequality in the US. As is well documented, the tycoons who comprise the top 1% of income earners in the US have dramatically increased their share of national income in recent decades while the remainder of the population have seen their incomes stagnate or decline. If the incomes of the super rich in the US, which are largely derived from lightly taxed dividends and capital gains, were counted as profits the labour income share would have declined much more dramatically. Conservative political forces in the US are seeking to accelerate and deepen this trend.

Importantly, similar trends are evident in developing countries. Figure 3 shows long-term trends in the labour share of income in a selection of emerging and developing countries.

Mention has already been made of widening income inequality in the US, which is the result of exploding incomes for the mega rich. Figure 4 provides additional information on income inequality for a range of advanced economies where data is available. Two things are apparent. First, the trend towards widen-

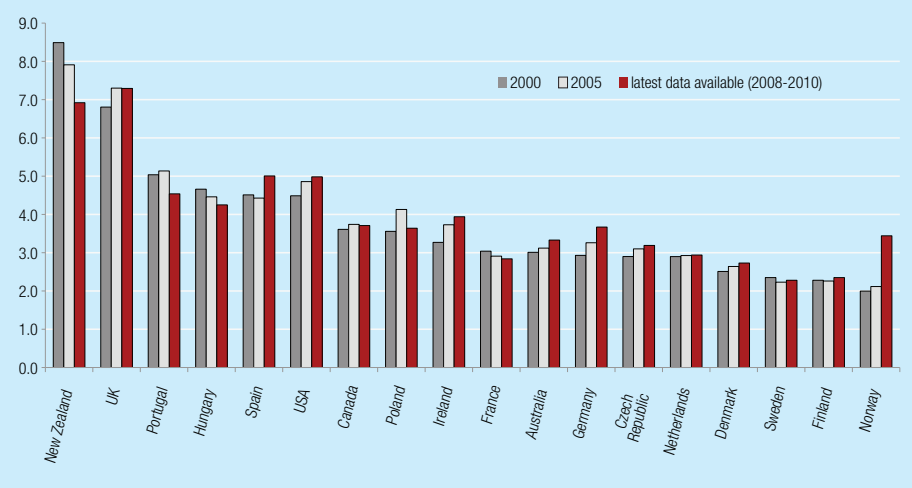
Figure 3: Adjusted wage share changes in developing regions (2000=100)



Note: The wage share is adjusted for changes in the incidence of self-employment when the information is available. The regional averages shown in the figure are GDP-weighted averages, transformed into an index to facilitate the comparison of trends. For further information see Appendices B and C of the World of Work Report 2011.

Source: estimates of the International Institute of Labour Studies of the ILO.

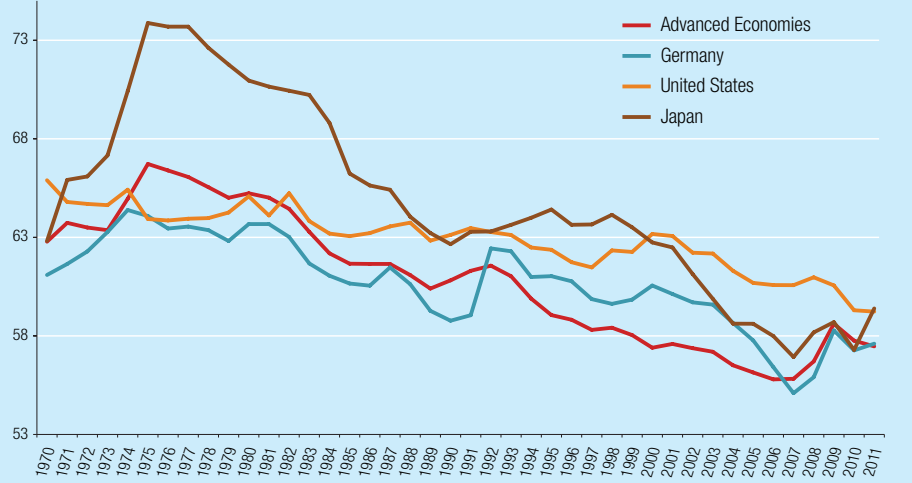
Figure 4: Wage inequality between top and bottom 10 % (D9/D1) in a selection of countries between 2000 and 2010



Note: Data for Poland refer to 1999 instead of 2000.

Source: ILO Global Wage Database updated with OECD and Eurostat Data.

Figure 2: Adjusted wage shares in advanced countries, Germany, the USA and Japan, 1970-2011



Note: Advanced Economies stands for the unweighted average of high income OECD countries (Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Spain, Sweden, the United Kingdom, and the United States).



ing income inequality continues, with most countries experiencing a widening differential between the top and bottom 10% of income earners in the last decade. Second, there are vast differences in the extent of income inequality across advanced economies. Generally speaking Anglo-Saxon countries (New Zealand, United Kingdom and the USA) with relatively lower union density, limited collective bargaining coverage and decentralised bargaining systems have the widest differentials. In general European countries with higher union density and collective bargaining coverage have more equal societies. Moreover the latter group of countries (Sweden, Norway, Finland, Denmark and Germany) have performed relatively well since the onset of the global recession, while on many indicators those countries with so-called “flexible” labour markets have performed poorly.

#### 4. Policy Conclusions

The main short-term economic priority of the ITUC is the urgent restoration of strong, sustained and balanced economic growth in the advanced economies. The living standards of workers across the world will be influenced by what happens in Europe and the other advanced economies over the next few months. The possibility of a global depression cannot be ruled out. The policies pursued so far in most advanced economies have been inadequate or counterproductive.

A key aspect of a sustained and balanced recovery must be income-led growth particularly in those advanced countries that do not face a severe balance of payments constraint. Real wage increases that catch-up for past productivity improvements in Northern European countries are central to restoring growth and resolving competitiveness problems within Europe. This requires strengthening unions, collective bargaining, and minimum wages

## CASE STUDY

Atun, Indonesia

Atun is one of millions of women workers in Asian countries who work in textile factories for low wages.

This is her story.

“I work for an adidas supplier making sportswear clothes. With such a low wages it's not easy to work in Jakarta. We have to send our children to their grandparents in the country as we can't afford to look after them in the city, so we send what little money we have to look after them. Our wages are not enough to survive.”



Photograph: ITUC

**“Our wages are not enough to survive.”**

while reversing the explosion of precarious forms of work.

Stronger unions and more centralised or co-ordinated collective bargaining combined with comprehensive social dialogue is also the best way to achieve reasonable and sustainable policies in advanced economies that face both fiscal and balance of payments constraints. Countries like Greece, Spain, Portugal and Italy require more time and support with adjustment. Structural changes become politically feasible if workers know that the costs and benefits of reforms are fairly distributed; fiscal constraints have a finite life; and their prospects for getting a decent and secure job are improving. To meet these conditions workers must have a real voice inside the policy discussions.

Without this their only alternative is action on the street and in the workplace.

In most emerging countries further progress is also required to rebalance the sources of growth and stimulate domestic demand. Boosting the incomes of the poor through a comprehensive social floor, higher minimum wages, supporting democratic unions and spreading collective bargaining is the best way of combining social cohesion and a strong market economy. As growth slows in the main emerging economies, progress on these fronts must be combined with economic stimulus measures.

If the economic slowdown in the advanced economies is deep and prolonged, developing countries will eventually suffer. Protecting aid budgets and providing food security must therefore remain priorities. But this is not sufficient. Development is contingent on reducing the informal economy and boosting access to decent wage employment. Industry and trade policy has a key role to play in generating good jobs along with strengthening the enforcement of international labour standards.

# BULGARIA

Bulgaria provides stark evidence that an economic strategy based on low wages and labour market flexibility will fail. For more than a decade Bulgaria has been encouraged to pursue such a strategy by both the IMF and the European Union. Unfortunately the country closely followed this guidance resulting in catastrophic consequences. Within the EU Bulgaria has endured one of the worst labour market performances since the onset of the global economic crisis despite having by far the lowest wages and one of the most flexible labour markets in the region. Living and working conditions in Bulgaria remain at levels that should not be tolerated in the EU.

The Bulgaria record demonstrates that the draconian labour market reforms being forced on workers in Greece, Portugal, Spain, Italy and other peripheral countries in Europe are misplaced.

Bulgaria requires a significant reversal in its economic and social policy. It must move urgently from a “low road” to a “high road” strategy by encouraging investment in more productive and better paying industries. To do so requires investment in physical infrastructure and human capital development as well as a comprehensive industry policy. It also requires a significant boost to wages and social benefits plus an expansion of collective bargaining. Bulgaria is fortunate to have the fiscal space to make such critical investments if the political will can be mustered. The removal of the cur-



Photograph: Damien Caron

rent “flat tax” regime and a more effective crackdown on corruption would provide even more resources for productive public investment.

## 1. Recent macro economic trends

The economic challenges confronting Bulgaria are substantial. The global recession hit economic growth in Bulgaria relatively severely, with real GDP declining by roughly 9% from a peak in the fourth quarter of 2008 to the trough in the fourth quarter of 2009. While there were some tentative signs that economic growth was starting to recover during 2010 and the early part of 2011, this was almost entirely due to a pick-up in net exports. However, exports slowed significantly thereafter.

As a result, economic recovery stalled in mid to late 2011. Since then the economy has been teetering on recession (see Table 1 for details). In Bulgaria, as elsewhere, the global economic crisis and the events that followed were reflected in a dramatic shock to domestic

demand. Investment expenditure had been a major contributor to growth in the boom prior to 2008. But both private consumption and investment expenditure declined rapidly in 2009 and 2010. While domestic demand had started to recover in many of the EU-New Member States by early 2011, there is no clear sign of a substantial turn-around in these two key drivers of growth in Bulgaria.

In fact households are heavily constrained by low incomes, high unemployment, the negative wealth effect of declining property prices and the fear that the jobs market will deteriorate further. While domestic investment is being held back by the legacy of high corporate debt, excess capacity and insipid demand. Severe constraints on access to credit, concerns about liquidity in banks with strong linkages to EU-15 countries and very high real interest rates are also major factors inhibiting investment.

In the ITUC Global Poll 2012, fear trumps hope for the people of Bulgaria. 75% of respondents think the economic situation is bad.

**Table 1: Real changes in main economic indicators**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 f.
GDP	5.7	4.2	4.7	5.5	6.7	6.4	6.5	6.4	6.2	-5.5	0.2	1.7	0.5
Domestic Demand	8.5	8.6	3.5	9.1	8.4	9.8	10.9	8.7	6.4	-12.7	-4.5	-0.6	0.0
Household Consumption	7.3	7.9	3.6	6.7	7.7	6.8	8.7	9.0	3.4	-7.5	0.0	-0.6	...
Government Consumption	9.4	2.8	1.2	8.8	3.5	0.4	3.5	0.3	-1.0	-6.5	1.9	0.5	0.8
Gross Capital Formation	12.4	17.6	5.5	16.9	14.8	25.9	21.4	13.0	16.3	-24.9	-14.0	-1.6	-1.9
Exports	-15.9	6.0	9.8	10.6	11.9	-17.5	50.7	6.1	3.0	-11.2	14.7	12.8	3.3
Imports	-9.5	14.3	6.8	16.7	13.9	-7.6	47.7	9.6	4.2	-21.0	2.4	8.5	2.7

Source: Eurostat statistics.

**Table 2: Recent labour market indicators (rates and percentage change)**

2008		2009		2010		2011		2012
Q1	Q3	Q1	Q3	Q1	Q3	Q1	Q3	Q1
Employment rate (15-64)								
62.6	65	62.6	63.1	58.8	60.6	57.3	59.9	56.9
Employment rate change (y/y)								
2.9	2.3	0	-1.9	-3.8	-2.5	-1.5	-0.7	-0.4
Participation rate (15-64)								
67	68.5	66.9	67.7	65.5	67.1	65.2	66.8	65.4
Unemployment rate (15-64)								
6.6	5.2	6.4	6.7	10.2	9.6	12.1	10.3	13
Youth unemployment rate (15-24)								
14.4	11.4	14.2	16.5	23.8	21.4	29.1	23.3	31.4
Long-term unemployment (over 1 year)								
3.3	2.7	2.8	2.8	4.3	4.5	6.3	6.2	6.9

Source: National Statistic Institute, Labour Force Survey.

58% of Bulgarians say family incomes have fallen behind the cost of living. 79% say they are unable to save any money, with Bulgarian coming second after Greece for widespread poverty.

## 2. Labour market trends

The deterioration in Bulgarian labour market conditions since the recession is among the worst in the EU-27. Despite having a very flexible labour market, Bulgaria has experienced a very large and disproportionate decline in employment compared to the change in output over the same period. Bulgaria lost over half a million jobs during the recession. This is a dramatic outcome for a country where total employment is only around three million. As a result the employment rate declined by nearly six percentage points between 2008 and 2012.

Over the same period the unemployment rate more than doubled, and the European Commission has forecast that unemployment will remain above 12% in 2012. This was despite the fact that many people became discouraged

and gave up searching for work. It is reflected in a 1.6 percentage point decline in the participation rate between the first quarter of 2008 and 2012. The ILO estimates that if open unemployment and discouraged workers are taken together, the composite unemployment rate at the end of 2011 would be close to 19%. See Table 2 for details.

On top of this, outward migration accelerated. Estimates concerning the proportion of Bulgarian citizens living outside the country vary but the numbers are significant. The World

Bank recently estimated that in 2010 16% of the population had migrated. Moreover, a survey in 2011 by the Bulgarian Academy of Sciences suggested that an additional 20% of Bulgarians currently working in the country would like to migrate and that this proportion has been increasing in recent years. The main rea-

son cited for wishing to leave Bulgaria is the prospect of better paid and more secure employment outside the country.

## 3. Wages and indicators of decent work

In the period between 2000 and 2008 Bulgaria – like many other transitional countries in Central and Eastern Europe – experienced average GDP growth rates of about 6% p.a. This outcome relied heavily on strong capital inflows, an excessive expansion of credit to the private corporate sector and a rapid expansion of the non-traded goods sector. This led to the emergence of an unsustainable current account deficit. The pre-crisis growth model proved compatible with increased labour force participation, a significant jump in employment levels and much lower unemployment. However, the gains in labour force participation and employment were not sustained and have been largely reversed since the recession.

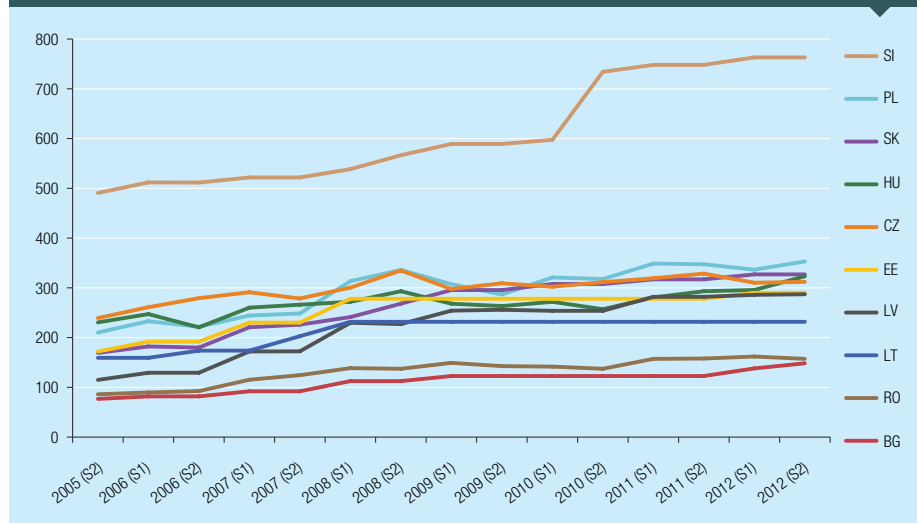
While the quantity of employment improved in the pre-recession period, serious questions remain about the quality of the jobs created. The emphasis in public policy on labour market deregulation and increased flexibility over the last decade has been one factor preventing Bulgaria making more progress towards decent work.

For example, wage levels remained very low relative to other EU countries and employment conditions were inferior. Today Bulgaria has by far the lowest wage levels and labour costs among the EU-27 countries. The monthly national minimum wage was frozen for two and half years at 240 BGN (122 Euro)

**79% of Bulgarians  
say they are unable to  
save any money. ITUC  
Global Poll 2012.**



Figure 1: Gross monthly minimum wages in selected EU-12 countries (in Euro)



Source: Eurostat statistics.

Figure 2: Percentage of population materially deprived in 2010 (lack of at least three items)



Source: Eurostat statistics (SILC).

before being increased in September 2011 to 270 BGN or 138 Euro and now stands at 290 BGN (148 Euro). After adjusting for income tax and social security charges, a worker (and their dependents) receiving the minimum wage would have to survive on around 4 Euro per day.

Despite the recent increase, the Bulgarian minimum wage is still around or significantly less than half the minimum wage applying in Poland, Czech Republic, Slovakia, Hungary, Latvia and Estonia and around one-fifth of that in Slovenia (see Figure 1). Average wages in Bulgaria are a mere fraction of those prevailing in the advanced countries of Europe. But Bulgarian workers also earn less than workers in the other EU-12 countries. For example the average wage in Poland is nearly two and a half times that in Bulgaria. Even in Romania the average wage is some 43% higher than in Bul-

garia. As a result of low average wages, Bulgaria enjoys substantially lower unit labour costs than all EU countries, including a substantial differential with the other EU-NMS.

But low labour costs have not proven a formula for sustained and strong economic progress. Rather this strategy has condemned Bulgaria to reliance on industries with low value added that will prevent catchup with the more advanced countries of the EU. This is evident from Bulgaria's export structure, which remained very heavily specialised towards exports with the lowest skill content. In 2000 about 70% of Bulgarian manufacturing exports were of products with very low skill content. Over the last decade this ratio has declined but remained at about 55% in 2010.

Thus, despite relatively rapid economic growth between 2000 and 2008, Bulgaria has re-

mained at the bottom of the EU league table with a level of GDP per capita that is only 15% of the EU-27 average.

Wage and income inequality has also widened considerably since 2000. Poverty also remained pervasive, and productivity growth was moderate by comparison with many other EU-NMS. The European Commission provides comparable data on the proportion of the population considered to be 'materially deprived', which is one important indicator of living standards across EU countries. In Bulgaria it is estimated that 55% of population were materially deprived (see Figure 2) while 35% of population were considered to be severely materially deprived. On this measure, living standards among the poor in Bulgaria would seem to be worse than in all other EU countries. In terms of housing deprivation, 15.4% of the total population in Bulgaria had neither a bath, nor a shower in their dwelling in 2010 while 25% had no indoor flushing toilet.

Throughout the rollercoaster economic ride over the last two decades, the magnitude of the informal economy remained excessive, and recent evidence suggests it is once again expanding as workers seek survival strategies in the face of declining formal job opportunities. High level corruption and organised crime continue to be issues of concern that are cited by the European Commission.

#### 4. Policy conclusions

Bulgaria faces major economic and social challenges. The current outlook is for a very prolonged period of slow growth, high unemployment and extremely high youth unemployment, increased social tension plus continued outward migration of young people and skilled workers. Despite achieving macroeconomic stability, Bulgaria has failed to match the progress in other EU New Member States in terms of catchup with the advanced economies in the EU. This is partly because Bulgaria has failed to adequately expand high productivity and high value added industries in the traded goods sector of the economy. Low wages and poor working conditions have compounded these problems.

Given the global economic conditions that currently prevail, a return to the pre-crisis growth model is unrealistic and would be socially undesirable. The EU is forecasting economic growth of just 0.5% in 2012. The rapid

## WORKER TESTIMONY

Hristomil Delchev – Civil Servant

"I worked in public administration for 12 years, the payment I received was miserable and I barely survived. I worked as a replacement for a colleague who went on maternity leave in Canada. My superiors did not like me and exerted pressure on me to try to force me to leave. When I did not succumb to the pressure, they prepared a fake letter in which she says she will return to work."



Photograph: Damienne Caron

deterioration in economic conditions in the last year is underlined by the fact that in October 2011 the IMF was forecasting growth of 3% for Bulgaria in 2012.

Growth of the magnitude now expected this year will be insufficient to prevent a further deterioration in the labour market, which in turn will have adverse consequences for social cohesion and political stability. Consequently, the key short term challenge in Bulgaria is to boost economic growth to levels that are compatible with improving the current dire state of the labour market to provide relief to those most affected by the crisis and poverty. Over the medium term the priority must be to move decisively towards a society that reflects the social values and sustainable living standards expected in an advanced economy within the European Union. Tangible progress towards these goals is required to build a more cohesive society and avoid an escalation of the social tension and strikes that spread in the latter months of 2011.

Achieving economic growth rates that are compatible with acceptable employment levels and decent work in the circumstances that

are likely to prevail in 2012 and beyond will therefore require alternative drivers of growth to those relied upon in the pre-crisis period plus institutions and policies that will share the benefits of growth more equitably.

Bulgaria is fortunate to have some fiscal space. The public debt to GDP ratio is around 16%, and the European Union has forecast a general government deficit of 1.7% and a structural budget deficit of just 0.7% of GDP in 2012 for Bulgaria. Moreover, the country has a small surplus on the current account balance. In these circumstances it would be appropriate to focus a moderate fiscal stimulus on the most appropriate public expenditure targets.

To enhance decent work in Bulgaria, collective bargaining must be strengthened. The vast majority of collective agreements have traditionally been negotiated at the enterprise level, but in recent years the importance of branch or sector level agreements has increased slightly. The Labour Code provides for the extension of collective agreements by decree by the Minister for Labour and Social Affairs. This procedure has been used on a few occasions in

the recent past and should be used more extensively in the future. The Ministry of Labour and Social Policy has expressed concerns about the impact of low incomes and the need for increased coordination of bargaining. In a recent paper the Ministry noted that:

*"Bulgaria needs a considerable change in the income policy concerning the population, mostly with regard to the employment income. The low income represents something like a barrier to economic development because it does not provide incentives for quality reproduction of the work force. A debate is needed in this area, a clear vision and coordinated action on the part of all partners."*

Along with a move towards improvements in minimum wages and social protection, increased collective bargaining coverage and greater coordination of bargaining would be desirable. The Minister for Labour and Social Policy could make more extensive use of the powers provided in the Labour Code to extend branch level collective agreements in order to help overcome the problem of low pay in Bulgaria.

The ITUC Global Poll 2012 demonstrated that Bulgarians are highly critical about laws that provide job security, with 75% of respondents saying labour laws do not provide adequate job security.

The overwhelming majority of Bulgarians believe that legal protection for a fair wage is inadequate with 86% saying they don't believe laws protect fair wages.

### What we're fighting for:

- ▶ Jobs
- ▶ Minimum wage
- ▶ Social protection
- ▶ An end to the economic and social damage imposed by the Troika

## WORKER TESTIMONY

Ivan Boychev – Railway Worker

"24 November 2011 was the first day of our strike action. In the afternoon five policemen burst into my office. They interrogated us about why we are on strike. They shouted 'fire him, fire him'. I told them this is a legal strike and we are going to defend our right to the end."



Photograph: Damienne Caron

# DOMINICAN REPUBLIC

The Dominican Republic's economic performance in recent years should put to rest the notion that when a country achieves high GDP growth rates, everything else – employment, decent work, wage increases, reduction of poverty, etc. – follows. The country has enjoyed one of the highest economic growth rates in Latin America in the 1990s and 2000s, but unemployment has not decreased from double-digit levels, real wages have gone steadily down and poverty rates have increased over the past decade. Relatively low spending for health and education and high inequality explain the country's low Human Development Index rating as compared to other countries with similar levels of income. The Dominican Republic must devote more public resources to vital social programmes, including through setting a target date for the social protection floor; to infrastructures; to training necessary for creating higher value-added jobs; and take measures so that enterprises of all sizes have access to affordable finance. Improved enforcement of labour regulations and workers' rights, along with establishment of the social protection floor, will help to reverse growing informality and falling real wages in the Dominican economy.

## 1. Recent macroeconomic trends

Although the Dominican Republic has experienced one of the highest growth rates in Latin



Photograph: ITUC

America and the Caribbean over the past two decades, GDP growth has been volatile since the year 2000, with years of slow and even negative growth alternating with years where annual growth approached and even surpassed 10%. A financial crisis in 2003 led to a one-year recession, from which the country emerged with high GDP growth rates in 2005-2007. The global economic crisis of 2008-2009 made itself felt in the Dominican Republic through a reduction of exports and resulting slower GDP growth. The economy began to recuperate in 2010, with GDP growth of close to 8% that year. However, the economic activity began to slow again in 2011. See Table 1 for details.

In the latest economic slowdown, the cause has been a decline in internal demand. Export growth in 2011 remained strong but investment fell, private consumption increased at a reduced rates and government spending was almost stagnant. The slower rate of GDP growth in 2011 is expected to continue in 2012. Investments are expected to remain weak, per-

sonal consumption is constrained by low and declining real wages, and government consumption has been constrained by fiscal measures adopted by the government, partly due to loan conditionality of an IMF programme that lasted from November 2009 until March 2012. The same constraints could continue to have a dampening effect on economic growth into 2013, but a further deterioration of the global economic situation would worsen the situation of this small export-dependent economy.

## 2. Labour market trends

The years of high economic growth rate that the Dominican Republic experienced over the past decade has not led to a marked improvement of the labour market situation. On the contrary, at 14.6% the country's official unemployment rate – which includes a large number of so-called discouraged workers – is higher than in 2000, when the rate was 13.9%. Open unemployment using the ILO definition was at the same level in 2011 as in 2000: 5.8%. In-

**Table 1: Changes in main economic indicators (year on year)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Real GDP	5.7	1.8	5.8	-0.3	1.3	9.3	10.7	8.5	5.3	3.5	7.8	4.5
Exports	8.7	-6.1	2	10.6	3.6	-1.2	0.7	3.2	-4	-7.4	11.6	8.8
Imports	8.5	-4.7	1.5	12.9	5.3	11.3	8.2	6.8	4.7	-9.8	14.4	2.9
Private Consumption	4.7	3.3	5.6	-4.6	3.1	15.7	12	8.9	7.8	5.2	7.7	3.9
Gross Capital Formation	9.6	-3.9	3.5	-28	-2.3	13.1	20.8	12.4	9.2	-14.7	17.5	-2.6
Government Consumption	3.7	9.2	8	-12.6	3.8	10.2	11	10	7.7	-3.4	3.3	0.4

Source: Banco Central de la República Dominicana.



**Table 2: Recent labour market indicators**

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Participation rate	54.3	56.3	55.9	56.0	56.1	55.6	53.8	55	56.2
Employment rate	45.2	46.0	45.9	46.9	47.4	47.7	45.8	47.1	48.0
Unemployment rate	16.7	18.4	17.9	16.2	15.6	14.1	14.9	14.3	14.6
Open unemployment rate	7.3	6.1	6.4	5.5	5.0	4.7	5.3	5	5.8
Employment in the Informal economy (% of total employment)	54.2	53.8	56.1	56.2	55.7	57.1	56.6	56.5	...

Source: Banco Central de la República Dominicana, ILO

formality, however, has increased. The proportion of informal sector workers has advanced from 52.9% of total number of employed in 2000 to 56.5% in 2010. Recent labour market data are presented in Table 2.

The rate of unemployment would likely be far higher if a large proportion of Dominicans of working age did not earn their living outside the country, particularly in the United States. About 12% of Dominicans have US residency permits, which is a higher percentage than any in other Latin America-Caribbean country. According to the ILO, many of those who work in the US do so at jobs which are low-skilled, but which are relatively well-paid compared to jobs in the Dominican Republic.

Because the country shares an island with Haiti, the lowest income country in the Americas, many Haitians have immigrated to the Dominican Republic to work largely in agriculture, construction and service industries at low wages. According to some estimates, as much as 8% of the Dominican Republic's population is composed of Haitian immigrants. The labour market is thus characterised by a high level of both emigration and immigration flows.

### 3. Wages and indicators of decent work

Workers have clearly not been the beneficiaries of the high economic growth periods of the past decade, whether in terms of a reduction of the number of unemployed or through increased real wages. In fact, the Dominican Republic sets itself apart from most other countries in Latin America by the fact that real wages have fallen substantially over the past twenty years. According to the ILO, real average wages in 2010 were 20% lower than in 2000. The average real value of the minimum wage was 7% lower, but it should be noted that 30% of private-sector workers are reported to

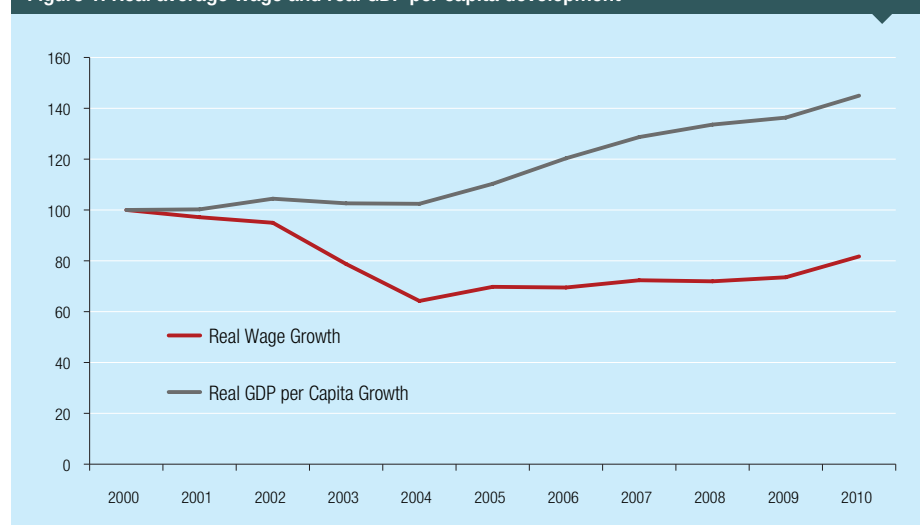
earn less than the minimum wage, again according to the ILO. Wage increases have fallen far behind productivity increases during the past decade (see Figure 1), with the result that the wage share in national income has fallen dramatically, from 47% in 2000 to 28% in 2010.

Several factors explain the deterioration of workers' real incomes over the past decade, but

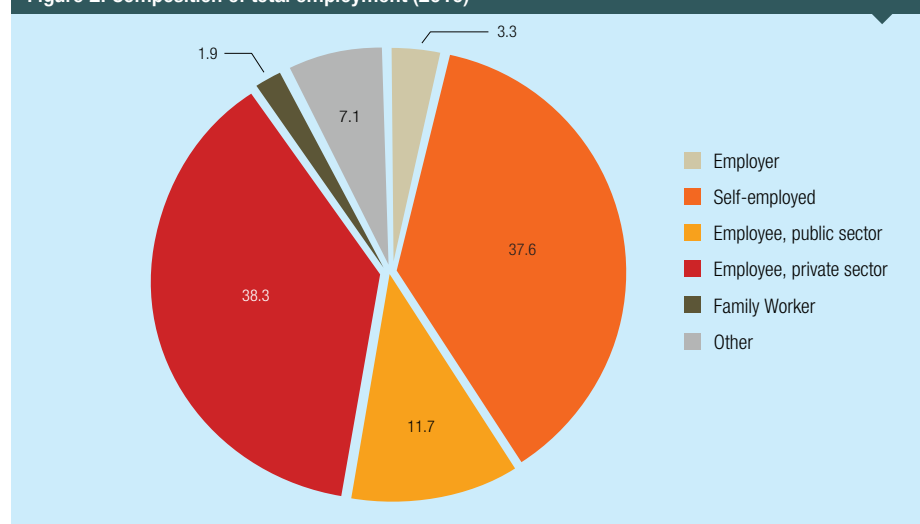
one is the significant restructuring of the composition of employment that has taken place. Manufacturing employment has undergone an important decline, passing from 17.3% of total employment in 2000 to 10.3% in 2011. The shift has been towards services industries, and the strongest growth has been among the self-employed (see Figure 2), which are the category of workers associated with a high degree of informality.

Thus it is not surprising that, as already noted, even though the country is considered by international institutions to have progressed from low- to middle-income category because of its high GDP growth, the rate of informality has increased since 2004 (see Table 2).

Equally disconcerting has been the growth of poverty in the midst of an increasingly prosperous economy overall. Using the World Bank's definition of extreme poverty – less

**Figure 1: Real average wage and real GDP per capita development**


Source: ILO Global Wage Database and Worldbank WDI Database

**Figure 2: Composition of total employment (2010)**


Source: Central Bank of the Dominican Republic

## Average wages have fallen by 20% in the last decade.

than US\$1.25 income per day – the number of extreme poor were a higher percentage of the population in 2009 than they were in 2000: the rate increased from 9.0% to 10.4%. Those in a situation of what the government defines as general poverty (“pobreza general”) increased even more, from 27.7% of the population in 2000 to 34.0% in 2009. Additionally, the Dominican Republic’s ranking on the human development indicator is very low compared to its level of income. Explanatory factors provided by the UNDP, which calculates the HDI, include the low levels of spending for health and education and the high level of income inequality in comparison to other countries in the same income range.

High wages have clearly not been an obstacle to investment and decent work creation in the Dominican Republic. On the contrary, it can be argued that the low and declining real wages and an overly flexible labour market have accentuated the drop of aggregate demand by decreasing workers’ buying power during economic downturns and have therefore added to economic volatility.

Though one should use perception surveys with caution, surveys of Dominican businesses on constraints to their expansion carried out by the World Bank seem to bear out the evaluation of the ILO that the labour market is highly flexible. Labour market regulations were mentioned by less than 2% of firms as constraints to business; they were mentioned third to last in a list of fifteen obstacles. The five major problems identified by businesses

in the Dominican Republic as important constraints were unreliable provision of electricity, tax rates, corruption, unfair competition from the informal sector (probably indicating lack of sufficient regulation) and insufficient access to finance. For larger enterprises (100 employees and more) skills shortages in the workforce were also mentioned among the five most important constraints.

## 4. Policy conclusions

The economy of the Dominican Republic has enjoyed several years of high growth in the past two decades, although these have been interspersed by periods of slow and even negative growth. However, the fruits of the generally strong growth have not benefited workers. Unemployment has remained high and real wages have fallen over the past decade, while rates of informality and poverty have increased.

The unacceptably high and growing level of informality, and the associated growth of poverty, must be combated by expanding access to basic social security, including old-age pensions and health care. A commitment by the government and the international institutions to implementing a social protection floor by a specific target date would do a great deal to stop the growth of poverty and inequality. Women, who are unfairly discriminated against in the current social protection schemes, would be the principal beneficiaries of the establishment of the SPF.

A stronger commitment to enforce fundamental workers’ rights would also contribute to reversing the dramatic fall of the wage share in national income. Dominican trade unions frequently report cases of denial of freedom of association and refusal of employers to engage in collective bargaining. In a country where less than 10% of workers are covered by collective bargaining agreements, it is clear that the government has a responsibility to do more to promote the expansion of collective bargaining so as to stop the decline in workers’ real incomes. Additionally, improvements in labour regulations such as minimum wages and their enforcement are necessary in order to create decent work. Even employers complain

of unfair competition from the unregulated informal economy.

Lack of modern infrastructure is another major obstacle to decent work creation. Substantial investments have been made in the country’s telecommunication system over the past decade, but the same cannot be said of the electricity sector. Inadequate provision of electricity is a major obstacle to creation of higher value-added jobs in the Dominican Republic. International institutions should assist the Dominican government for carrying out the necessary public investments to improve electricity generation capacity and the distribution grid.

Access to finance has also been an important impediment for small and medium enterprises, especially after the not-completely-resolved financial crisis of 2003 and the more recent global financial crisis. Lack of adequate regulation and oversight of the financial sector by public authorities, with assistance from international institutions, must be put in place such that Dominican enterprises can obtain the access to appropriate financial services that they require to operate and expand.

International institutions must also assist the government of the Dominican Republic to upgrade and expand vocational and professional training institutes, such that an adequately trained workforce is available both to increase the effectiveness of the public service and to contribute to the growth of higher value-added manufacturing and service enterprises in the country.

## What we’re fighting for:

- ▶ What we’re fighting for:
- ▶ Organising the informal economy
- ▶ Social Protection Floor
- ▶ Collective bargaining
- ▶ Infrastructure and industrial policy

# GREECE

Greece remains in a deep economic crisis. Social and political tensions have reached extreme levels. Ordinary workers rightly feel they are paying an exorbitant price for the policy mistakes of others. Harsh austerity measures and draconian labour reforms have failed.

87% of Greek respondents in the ITUC Global Poll 2012 think their country is going in the wrong direction.

The notion that a massive internal devaluation was political feasible and would generate export-led growth was a fallacy from the outset. The concept of “austerity with growth” was equally flawed. When households, investors and the government simultaneously attempt to deleverage their debts, a depression is inevitable.

Nearly all 97% respondents in the ITUC Global Poll 2012 rate the economy as bad. Numbers of this magnitude in public opinion polling are normally found in countries that have just experienced a war.

Radical labour reforms that were forced on the country by the Troika destroyed centralised collective bargaining, abolished employment security for those still in jobs and infringed international labour standards.

In the longer term, fiscal restraint and far reaching structural reforms are required, but these must be implemented in a fair and sustainable manner. In the short term, Greece

needs to boost growth. The international community should be providing additional time and support. The future of Greece, the Euro and the European Union hangs in the balance.

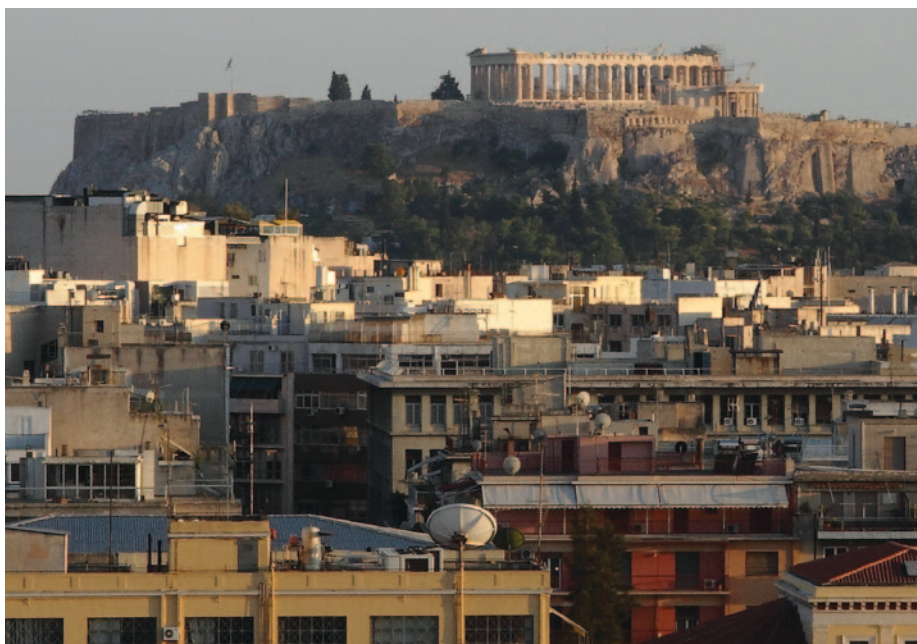
## 1. Recent economic trends

Economic output has been in freefall for the last four years, with real GDP declining by over 17% over this period.<sup>1</sup> Unfortunately the downward spiral continues to accelerate. Real GDP declined by well over 3% in both 2009 and 2010. In 2011, the fall in output was close to 7% and in the first quarter of 2012 over 6% on an annual basis. See Table 1 for details.

Greece was one of the first countries that had to seek outside financial assistance after the onset of the global economic crisis. However, loans from the so-called Troika (IMF, EC, and ECB) have come with strenuous conditions. This has included massive cuts in public sector jobs, large nominal wage reductions and slashed social expenditure. As a result the Greek government substantially reduced the

primary fiscal deficit (the deficit before accounting for interest payments on government loans) from 4.8% of GDP in 2008 to 2.2% of GDP in 2011. However, the resulting austerity measures produced declines in private and government consumption of 7.1% and 9.1% respectively in that year. Investment expenditure has been hit even harder with gross capital formation plummeting by a cumulative 49.8% since the beginning of 2008.

The prospects for private consumption and investment in the period ahead are dim. Households face higher taxes, mounting unemployment, cuts in social protection and public services, declining property prices and lower wages. As a result, disposable incomes of low and middle income families have declined sharply. Vast numbers of ordinary citizens are relying on charity to survive. Meanwhile, despite crackdowns, the wealthy continue to evade their tax obligations and capital flight accelerates. Insipid demand and high debt levels mean there is no incentive to invest,



Photograph: Damien Caron

Table 1: Real GDP and main components in year on year changes

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Real GDP	4.2	3.4	5.9	4.4	2.3	5.5	3.0	-0.2	-3.3	-3.5	-6.9
Private Consumption	4.5	4.9	3.3	3.9	4.6	3.9	3.8	4.3	-1.5	-3.7	-7.1
Government Consumption	0.7	7.2	-0.9	3.5	1.1	2.3	7.6	-2.1	4.8	-7.2	-9.1
Domestic Demand	4.1	4.4	5.7	2.4	0.9	6.9	5.7	0.3	-5.6	-5.9	-8.5
Gross Capital Formation	3.9	1.3	18.5	-2.4	-9.3	19.2	10.1	-8.0	-26.6	-13.3	-14.4
Exports	0.0	-8.4	2.9	17.3	2.5	3.1	6.9	3.0	-19.5	4.2	-0.3
Imports	1.2	-1.3	3.0	5.7	-1.5	8.2	14.6	3.3	-20.2	-7.2	-8.1

Source: Eurostat statistics.



and in any case the absence of credit hinders entrepreneurial activity. Foreign investors are deterred by political uncertainty and rising social tensions. The prospect of slower growth and greater economic uncertainty in the rest of Europe limits tourism and depresses exports.

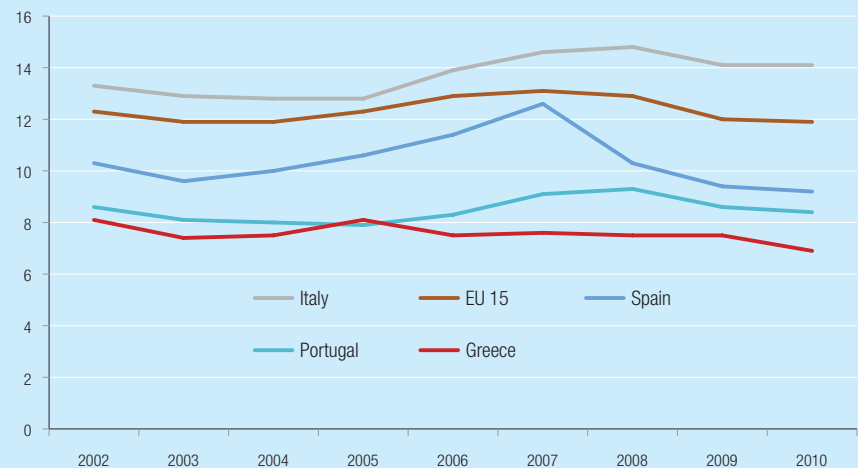
But prior to the global crisis, it appeared on the surface that Greece was making steady progress towards economic convergence with the more wealthy European nations. Between 2001 and 2007 real GDP expanded at an annual rate slightly above 4%, well in excess of the EU-15 average. But below the surface, pressure was mounting through trade imbalances. In Greece the export of goods and services over the last decade accounted for 20% to 25% of GDP: lower than Italy, Spain and France and far lower than northern EU countries. Greece failed to diversify its limited exports based on sectors such as tourism, food and beverages, chemicals, petroleum products and textiles.

But as growth accelerated in the early and mid 2000s, Greece sucked in more imports, and the net current account deficit expanded from 10.7 billion Euro (equal to 5.8% of GDP) in 2004 to a peak of 34.8 billion Euro (equal to 14.9% of GDP) in 2008.

In the mid 2000s the consequences of large imbalances on the trade account were moderated somewhat because foreign capital and bank credit was fluid and flowing from the centre to the peripheral European countries, including Greece. But this meant that net financial liabilities of the Greek economy doubled within five years from an already high 56% of GDP in 2002 (EU 27 average was 10.9%) to a peak of 111.5% of GDP in 2007. To a large extent these capital inflows were seeking high returns rather than solid long-term investments in the export sector. However, when liquidity and investor confidence evaporated in 2008, these capital flows reversed and the underlying balance of payments crisis took centre stage.

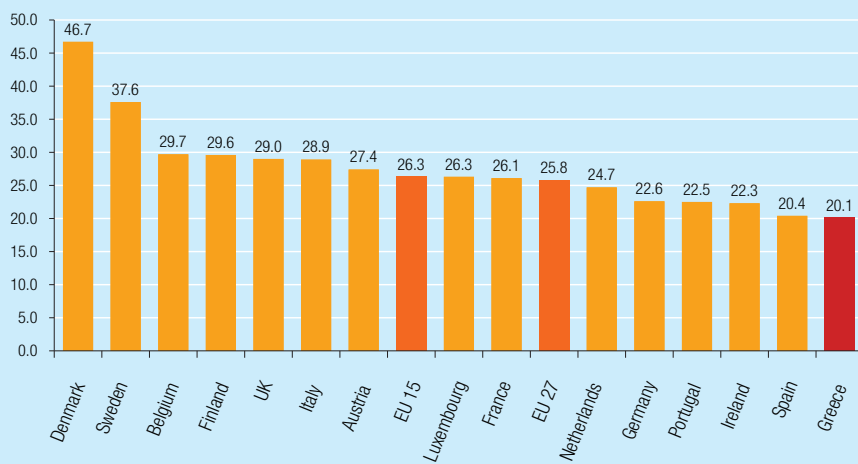
Greece has been heavily criticised for failing to maintain a prudent fiscal policy for many years. However, the Government has not really been a big spender. In fact, total government expenditure as a percentage of GDP was constantly below the EU 15 average between 2001 and 2007 despite high interest rate payments on public debt. Moreover, social expenditure amounted to between 15 to 17% of GDP – on average three percentage points below the EU 15 average in this period. It was the revenue

Figure 1: Taxes on income as percentage of GDP in selected countries



Source: Eurostat statistics.

Figure 2: Total tax receipts as percentage of GDP across the EU 15 in 2010



Note: Social contributions not included.  
Source: Eurostat statistics.

side of the ledger that caused problems. From Figure 1 it can be seen that the ratio of income tax to GDP is significantly lower in Greece than in other southern European countries and well below the EU-15 (by some 4 percentage points). Even more worrying is the fact that in the pre-crisis boom years, income tax as a proportion of GDP was declining in Greece.

Total tax revenues in Greece are very low. Among the EU-15 countries Greece has the lowest ratio of total taxes to GDP (see Figure 2).

Poor governance, particularly in the tax administration field, widespread corruption and a large informal sector are the main factors explaining the low tax take.<sup>2</sup> According to Transparency International, Greece was ranked 80th on their corruption transparency index in 2011 – a rating that was comparable to Colombia, El Salvador, Morocco, Peru and Thailand.

Since the onset of the global economic crisis and the implementation of austerity measures, the level of corruption in Greece, on this measure at least, has deteriorated.<sup>3</sup>

In the pre-crisis years the magnitude of the informal sector diminished marginally, but it still accounted for one quarter of all economic activities in 2007. Despite the introduction of measures to try and reduce the informal economy after the onset of the recession, it expanded between 2008 and 2010, mainly due to a lack of job opportunities in the formal sector. Since then it has contracted slightly and is now estimated to constitute 24% of all economic activities.<sup>4</sup>

At the onset of the crisis investor and consumer confidence vanished rapidly and domestic demand weakened. The resulting recession cut tax receipts leading to a deterioration in the

fiscal balance in countries that were already in deficit like Greece. Panic in financial markets then saw bond spreads spike, and the peripheral countries faced problems financing their rising public debt. Eventually, as mentioned above, several countries including Greece sought financial support from the IMF and European institutions which came with strings attached – most notably in the form of fiscal austerity which has exacerbated the decline in domestic demand. The downward spiral in economic growth, employment and confidence has continued, until the present time. Furthermore, as we will see below, the Troika demanded draconian labour reforms destroying the legal protection of workers.

## 2. Labour reforms

Prior to the crisis, the framework for collective bargaining was based on a law that reflected the contents of a “Social Pact”, which had been endorsed unanimously by all political parties following extensive social dialogue.<sup>5</sup> In other words there was strong political and social support for the system of collective bargaining. The system provided scope for the parties to negotiate at various levels. It provided for National General Collective Agreements, Sectoral Collective Agreements, Occupational Collective Agreements, and Enterprise Collective Agreements. The law stipulated that the National General Collective Agreement would set minimum standards for wages and conditions of work and these conditions would be binding on all em-

ployers. The law made provision for the parties to improve upon these minimum conditions through the lower level agreements.<sup>6</sup>

Reforms to the legislation adopted as a result of the loan agreement between Greece and the Troika resulted in the following: the reduction of pay and benefits for public sector employees;<sup>7</sup> the decentralisation and weakening of collective bargaining by permitting deviations from higher level collective agreements;<sup>8</sup> and easing of conditions related to mass layoff plus reductions in severance payments.<sup>9</sup>

In addition, minimum wages for workers under the age of 24 were cut substantially and youth were effectively excluded from the minimum wage set by National General Collective Agreement: youth under the age of 18 are only entitled to 70% of the minimum wage rate; youth aged between 18 and 24 are entitled to 80% of the minimum wage rate. Salary increases were prohibited in 2010/11 and restricted in 2011/2012 by law.<sup>10</sup>

As a result of these reforms, in 2011 Greece was the subject of a case before the ILO Conference Committee on the Application of Standards, concerning the Right to Organise and Collective

Bargaining Convention, 1949 (No. 98). It was held by the trade unions that the reforms adopted by Greece were disproportionate and had been

adopted without the consultation of social partners. The unions argued that by allowing collective agreements at the enterprise or branch level to derogate (i.e., allow for weaker provisions) from national or sectoral agreements, the collective bargaining system was dismantled.<sup>11</sup> The combined effect of the legislative

changes would result in a permanent and unjustifiable dilution of workers' rights.<sup>12</sup>

The ILO Committee of Experts on the Application of Conventions and Recommendations (CEACR) was deeply concerned that the legislative changes<sup>13</sup> permitted derogation from higher level collective agreements through “negotiations” with non-unionised structures, which could have a devastating impact on industrial relations in Greece. The fact that unions cannot legally be formed in enterprises with less than 20 workers means that there are no guarantees that workers' would have a choice about who should represent them. The CEACR warned that the entire foundation of collective bargaining was now vulnerable

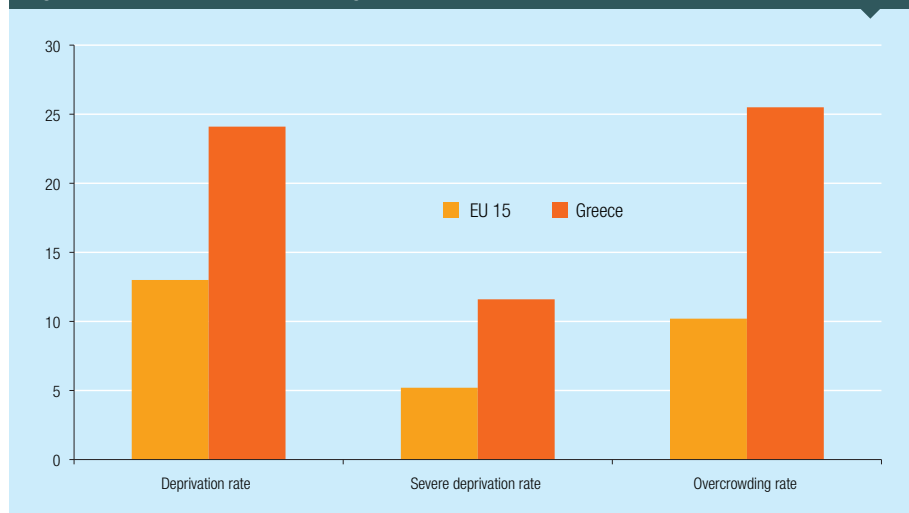
**90% of respondents  
in Greece say they are  
unable to save any money.  
ITUC Global Poll 2012.**

**Table 2: Key labour market indicators**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 Q1
Employment rate (15-64)	57.7	58.9	59.6	60.1	61.0	61.4	61.9	61.2	59.6	55.6	52.3
Employment change (y/y)	1.2	1.2	0.7	0.5	0.9	0.4	0.5	-0.7	-1.6	-4	-4.6
Temporary employees (% of total employees)	11.8	11.3	12.4	11.8	10.7	10.9	11.5	12.1	12.4	11.6	..
Part-time employees (% of total employees)	4.2	3.9	4.5	4.8	5.5	5.4	5.4	5.8	6.2	6.6	..
Participation rate (15-64)	64.2	65.1	66.5	66.8	67.0	67.0	67.1	67.8	68.2	67.7	67.7
Unemployment rate (15-64)	10.1	9.5	10.4	10.0	9.0	8.4	7.8	9.6	12.7	17.9	22.8
Youth unemployment rate (15-24)	26.1	25.7	26.5	26.0	25.2	22.9	22.1	25.8	32.9	44.4	52.7
Long-term unemployment (% of total)(over 12 month)	52.6	56.2	54.8	52.1	54.3	49.9	47.5	40.8	45.0	49.6	54.7

Source: Eurostat statistics.

Figure 3: Different indicators of living conditions in 2010



Note: Material deprivation refers to a state of economic strain and durables strain, defined as the enforced inability (rather than the choice not to do so) to live a decent life. Nine indicators represent this concept which include rent, food, heating, etc. For the full list of items see [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Glossary:Material\\_deprivation\\_rate](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Glossary:Material_deprivation_rate). People considered materially deprived have a lack of 3 or more items.

Severe material deprivation is defined as the enforced inability to pay for at least four of the above-mentioned items.

The overcrowding rate is defined as the percentage of the population living in an overcrowded household, which is defined as not having at its disposal a minimum number of rooms. For further details see [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Glossary:Overcrowding\\_rate](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Glossary:Overcrowding_rate)

Source: Eurostat statistics (SILC).

to collapse and deeply regretted that these changes were adopted without full and thorough consultation of the social partners.<sup>14</sup>

Given the structure of the Greece economy, which is dominated by small and medium enterprises, these reforms have a major impact. Based on 2010 estimates, 96.6% of enterprises in Greece were microenterprises<sup>15</sup> with less than 10 employees. These microenterprises accounted for 57.6% of all employed persons.<sup>16</sup>

So far these reforms have had no positive economic impact. In fact private investment collapsed further after the introduction of the reforms, declining by 13.3% in 2010 and by 14.4% in 2011. As we will see below, the impact on the labour market and social conditions has been devastating.

### 3. Labour market trends

The Greek labour market is in the doldrums. In the last four years, the employment rate has declined by almost 10 percentage points. The official unemployment rate reached 23% in May 2012, up from 8.8% in January 2009. This is more than double the average EU27 unemployment rate. Youth unemployment is chronic with 55% of persons between the ages of 15 and 24 looking for work. In absolute numbers, there are around four million people working and 1.1 million looking for work.

But many of those in work are now in highly

precarious low-paid jobs. The percentage of self-employed facing the risk of poverty<sup>17</sup> stood at almost 26% in 2010 – 6% above the EU 15 average. Permanent positions were replaced by temporary contracts with an increasing share in 2009 and 2010. Full-time jobs shrunk by 11.3 percentage points between 2008 and 2011 and were partly turned into part-time working arrangements, which increased by 9.8% in the same period. See Table 2 for details.

Greeks increasingly look for jobs abroad. Similarly, many migrants who had been in Greece before the crisis have returned home or moved elsewhere as economic opportunities have vanished in Greece. The number of registered foreigners has fallen from roughly 600,000 in 2009 to 450,000 in 2011. However, the number of illegal immigrants arriving from Africa

and the Middle East is on the rise and estimated to amount to more than a million fuelling xenophobia, racism and social tensions.

### 4. Wages and indicators of decent work

In several of the peripheral countries of Europe, including Greece, wage levels have historically been relatively low by European standards. Consequently during periods of robust economic growth and tighter labour markets in the mid- 2000s, there was pressure in these countries for convergence towards higher wage levels prevailing in the more prosperous countries to the north of the continent. The combination of rising wages in peripheral countries and stagnant wages in the core countries contributed to the imbalances and competitiveness problems that are a critical component of the current European problem.

A key objective of the Troika policy since 2008 has been to reverse this imbalance through a dramatic reduction in Greek labour costs. For example, a key condition for the last loan was a 22% reduction in the nominal value of the national minimum wage which came into effect in February 2012. Today the minimum wage in Greece is only slightly more than a third of the Irish minimum wage.

Average earnings are also falling in nominal terms. Net nominal earnings of low and middle income households went down by around 20 to 23% in 2011. For example, the nominal annual net earnings of a family with one average income and two dependent children declined from 19,300 Euro in 2010 to slightly above 15,000 Euro in 2011. This corresponds to a 21% nominal decrease and a disposable income per person per month of just 314 Euro.

Poverty levels are increasing. In 2010 more

## WORKER TESTIMONY

Georgia Koutsoukou  
works at Athens Metro

"In the last three years my salary was cut by 45 percent. They told us we are lazy people, they said you're awful people, you're awful as workers, as employees, as a person. My life has totally changed. I can't do any more the things I used to do. For the first time in my 38 years, I can't pay my bills. The Troika did that to me. They have changed my life. I want my life back. I want to eat fresh fish, it's a product of my country. It's my right to eat.



Photograph: Damienne Caron



## WORKER TESTIMONY

Irini Kyriakopoulou  
Unemployed

"For the eight years I worked at the Kotsovolos company I felt secure. The problems started in Greece, but in our company there was a climate of security, they assured us we were not going to be influenced by all this, that they were going to comply with the laws and the collective agreement we had signed.

At closing time one night, they produced a private contract with a salary cut of 12%. We were asked to sign it on the spot. They said that those who didn't sign the contract would be sacked immediately."



Photograph: Damienne Caron

than 3 million Greeks or 27.7% of the population were at risk of falling into poverty with rising tendency. Among the "old" EU Member States Greece has the highest poverty level. The NGO "SOS Children" reported a 70% increase in requests for assistance in Greece the last year due to families not having the financial means to provide basic food and other essentials for their children.<sup>19</sup>

Figure 3 presents additional indicators demonstrating the poor living standards of people in Greece relative to conditions prevailing in the other EU-15 countries. It shows that a considerable share of population is unable to afford a decent living including basic durables and an acceptable housing situation.

### 5. Policy conclusions

After four years of tough Troika medicine, the Greek economy is sicker than ever. Economic activities and jobs continue to disappear at an alarming pace, rights are under attack, people are desperate and crime is spreading. Greece has been rocked by strikes and demonstrations. Society is disintegrating. The political system has gone through a major upheaval that has allowed a neo-Nazi party to gain representation in the Parliament.

While most Greek and European politicians as well as the key European policy makers all claim that the future of Greece is within the Euro and the European Union, there are many

others who fear this may not be the case. If the politicians and policy makers are to make good on their promises, urgent action is required.

It is time to review and adjust the policies that have created the current political and social disaster. On the plus side, policies now being implemented appear to be making some progress against deep seated governance problems and corruption. Reforms to radically reduce tax evasion and avoidance are necessary. Moreover, financial mismanagement must be terminated and new accountable institutions should replace any dysfunctional agencies. Product market reforms are also desirable.

However, along with the attack on collective bargaining, further cuts in social expenditure, public sector staffing levels and wages cannot be tolerated. People have reached a breaking point. Further austerity measures along these lines will merely exacerbating the decline in aggregate demand while doing nothing to boost export led growth.

Greece requires more time to meet its fiscal targets; it may indeed require a debt freeze to avoid default. It also requires a more buoyant and helpful external economic environment. Greece cannot improve the international competitiveness of its economy while other European countries with a trade surplus are depressing labour costs. Higher wages and marginally higher inflation in the core European countries

would be highly beneficial to Greece.

Greece historically had a strong culture of collective bargaining and social dialogue. These labour institutions helped generate social cohesion rather than widening income inequality prior to the recession. As indicated above Greece has been required to implement far-reaching labour reforms which have been strongly criticised by the ILO authorities with responsibility for monitoring the Application of International Labour Standards. If the Government of Greece, as well as the international and regional organisations influencing Greek policy, do not respect their obligation to ensure that Greece takes urgent action to fully comply with the comments of the ILO Experts and reinstates the labour laws and institutions that existed prior to the recession, then significant legal action may be necessary.

It is not too late to avert disaster. Greece can still have a positive economic, social and political future provided the reform agenda is adjusted and the international community accepts they need to be patient in the interests of both Greek citizens and their own.

### What we're fighting for:

- ▶ A debt freeze with time to meet fiscal targets
- ▶ Investment in jobs
- ▶ Restoration of collective bargaining rights
- ▶ Increased social protection

# INDONESIA

The vast Indonesian economy has performed relatively well on several important indicators since the onset of the current global economic crisis. Nevertheless, there remain significant decent work deficits in the country.

The ITUC Global Poll 2012 reflected pessimism in Indonesia but high hopes for the future. 57% of those polled in Indonesia believe their country is headed in the wrong direction. However, an overwhelming 60% of people think future generations will be better off than their own generation.

Now would be an opportune time to: invest in a more comprehensive social protection floor; more forcefully tackle the expansion of precarious work and the large informal economy; and ensure that international labour standards are fully implemented

## 1. Recent macroeconomic developments

At 6.5%, economic growth in 2011 was the highest in over a decade, and in 2012 growth is expect to remain around 6% before accelerating again in 2013.<sup>1</sup>

Perhaps more important was the economic performance at the height of the crisis. In



Photograph: ITUC

2008 and 2009 Indonesia was the only G20 and Asian country where economic growth remained positive and where a significant deterioration in the labour market was avoided.<sup>2</sup> By contrast most countries, including those in Asia, experienced some decline in real output in 2008/2009 and some significant increase in unemployment.

In Indonesia growth did slow at the end of 2008 and in the early part of 2009, but the setback was modest. In 2009 GDP expanded by 4.6% compared to growth rates of around 6% in the previous few years. But growth bounced back above the 6% mark in 2010. The relative strength of the Indonesian economy over the last four years can be attributed to the strength of private consumption, which was supported by modest but well-focused fiscal stimulus measures and monetary easing.

The initial impact of the global economic crisis was transmitted to most Asian economies through the trade and finance channels. Indonesia was not isolated from the trade effect with exports such as oil, gas, iron and steel declining sharply in the first half of 2009 as demand for such inputs from China and elsewhere contracted. But unlike most Asian economies, the traded goods sector in Indonesia is not excessive. Exports represent about 30% of GDP compared to more than 75% in several other countries in the region like Thailand and Vietnam. Consequently, by having a more balanced economy, Indonesia was able to absorb the trade shock without going into recession.

Over the last few years when the danger of financial contagion spread, Indonesia managed to avoid repeating the mistakes of the late 1990s when the country suffered a major

Table 1: Key economic indicators

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 (f)	2012 (f)
Real GDP (% change)	4.9	3.6	4.5	4.8	5	5.7	5.5	6.3	6	4.6	6.1	6.4	6.3
Domestic demand (% change)	4	5	2.4	6	5.4	6.3	3.2	4.1	7.6	5.2	5.7	6.4	6.7
FDI net inflow (% of GDP)	..	-1.8	0.1	-0.3	0.4	0.3	0.6	0.5	0.7	0.4	1.5	1.4	..
Private consumption (% change)	1.6	3.5	3.8	3.9	5	4	3.2	5	5.3	4.9	4.6	4.9	5
Gross fixed investment (% change)	16.7	6.5	4.7	0.6	14.7	10.9	2.6	9.3	11.9	3.3	8.5	9.4	10.5
Exports (% of GDP)	..	38.2	32.8	29	34.1	35	31.6	30.2	30.3	24.7	24.7	25.9	23.7
Imports (% of GDP)	..	30.4	26	23.6	30.1	32	26.1	25.4	28.4	20.3	21.7	23.3	21.8

Source: OECD Database and IMF Article IV.

setback during the Asian economic crisis. Reforms that tighten supervision and regulation of the finance sector after the Asian economic crisis meant that private sector debt levels and recent capital inflows were at more sustainable levels. Moreover, in recent years inflows of foreign capital were directed more towards the real economy rather than into speculative bubbles in the construction sector or equity markets as had occurred in the 1990s.

Meanwhile, domestic demand has remained strong in recent years. Private consumption was not adversely impacted by the global economic crisis, and although gross fixed investment slowed in 2009, it remained positive and rebounded strongly in 2010 and subsequently. In fact investment expanded by about 9% in 2011, and similar growth is expected this year. See Table 1 for details. Clearly, unlike many other countries, consumer and investor confidence in Indonesia were not dramatically shaken by the global economic crisis.

Although growth has remained robust, the Indonesian Government moved swiftly to counteract the possible negative effects of the global economic crisis. Interest rates were cut sharply in 2009 (declining by about 3 percent-

**Female employment to population ratio is 47.2% compared to a male employment ratio of 78.6%.**

age points) and the Government implemented a fiscal stimulus package that amounted to about 1.4% of GDP. The bulk of the stimulus took the form of tax cuts and physical infrastructure spending. Importantly, a significant part of the tax reforms were directed at lower income earners thereby protecting the disposable incomes of those sections of the population who purchase locally produced products. Although the magnitude of the fiscal stimulus was moderate, it was well targeted and implemented rapidly to support domestic demand.

Despite the fact that the Indonesian economy has performed relatively well in recent years,

there are concerns about how it will handle the very recent deterioration in the global economy. In particular the recent economic slowdown in China and other emerging economies increase the downside risks for Indonesia.

## 2. Labour market trends

The Asian economic crisis of 1997-98 had a deep and prolonged impact on the Indonesian labour market. The employment to population ratio had reached 63.6% in 1996, but declined steadily over most of the next decade. In 2005 this ratio hit a low point of 59.3%. Over the same nine year period the unemployment rate climbed steadily from 4.9% to 11.2%. Thus, although the recession at the end of the 1990s was relatively short and sharp, the legacy of this shock lasted a decade.

After 2005 the labour market strengthened significantly. As can be seen from Table 2, the employment-to-population ratio has been increasing steadily over the last half decade and is now back around the level that prevailed before the Asian economic crisis. The unemployment rate has also been falling and was down to 6.6% by 2011 and is expected to remain at that level in 2012. This is despite the fact that

**Table 2: Labour Market Indicators**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Employment-to-population ratio, ages 15+, %</b>											
Total	63.6	63	61.6	61.3	60.9	59.3	59.4	60.9	61.5	61.9	62.9
Male	79.4	80.1	79.2	78.9	79	77.1	77	76.9	77.1	77.4	78.6
Female	48.2	46.3	44.2	43.8	42.9	41.3	41.7	44.8	46.1	46.7	47.2
<b>Unemployment rate, ages 15+, %</b>											
Total	6.1	8.1	9.1	9.7	9.9	11.2	10.3	9.1	8.4	7.9	7.1
Male	5.7	6.6	7.5	7.9	8.1	9.3	8.5	8.1	7.6	7.5	6.1
Female	6.7	10.6	11.8	12.7	12.9	14.7	13.4	10.8	9.7	8.5	8.7
<b>Share of youth not in education and not in employment, ages 15-24, %</b>											
Total	10.1	12.5	14.6	14.6	15.7	17.3	15.8	12.9	11.5	10.8	10.2
Male	11.7	13.8	15.9	16.2	17	18.4	16.8	14.6	12.7	12.7	12.1
Female	8.5	11.3	13.4	13	14.4	16.2	14.8	11.1	10.2	8.9	8.4
<b>Informal employment, ages 15+, %</b>											
Total	...	61.5	63.3	64.7	63.2	63.2	62.8	62.1	61.3	61.6	59
Male	...	57.9	60.4	61.9	60.5	61.4	61.4	59.9	59.3	60.1	57.2
Female	...	67.5	68.3	69.5	68.2	66.6	65.4	65.9	64.5	64	61.8
<b>Precarious (casual) work, ages 15+, %1</b>											
Total	...	6.7	8.8	8.5	8.7	10.5	10.6	10.4	11	11	10.1
Male	...	7.3	9.9	9.6	10	11.8	12.3	11.8	12.8	13	12.1
Female	...	5.6	6.9	6.6	6.4	7.9	7.7	7.9	8	7.8	6.9

Notes: Precarious work represents all casual employees in agriculture and non-agricultural sectors as a percentage share of total employed persons. Informal employment estimates are based on cross-tabulations of employment status and occupation, as defined in the Sakernas reports (see Chapter 2 of the ILO Decent Work Country Profile for Indonesia for further details).

Source: ILO Decent Work Country Profile for Indonesia 2011.



## WORKER TESTIMONY

Atun, Indonesia

Atun is one of millions of women workers in Asian countries who work in textile factories for low wages.

"I work for an adidas supplier making sportswear clothes. With such a low wages it's not easy to work in Jakarta. We have to send our children to their grandparents in the country as we can't afford to look after them in the city, so we send what little money we have to look after them. Our wages are not enough to survive."



Photograph: ITUC

labour force participation has increased somewhat since the mid 2000s.

However, Indonesia still faces significant labour market challenges.

First, the above aggregate figures mask some important labour market adjustments in recent years. During both the recent economic slowdown and also during the Asian economic crisis, there were mass retrenchments in the formal sector combined with an expansion of informal working arrangements. In the recent crisis, job losses were concentrated in the construction, transport and communications sectors.

In fact, prior to 2008 wage employment, which tends to be relatively better paid and provide more secure jobs, was expanding at a fast pace (in excess of 6% a year). But the growth of wage employment slowed dramatically as the global recession hit (to only 1.4% growth in 2008-09). This would suggest that the quality of jobs declined during the recession.

Second, there are major and long lasting gender disparities. The female employment to population ratio is 47.2% compared to a male employment to population ratio of 78.6%. Moreover, the female unemployment rate is significantly higher than the male rate. Even among young people there is a stark gender divide. Among youth aged 15 to 24, the proportion of males that are neither in employment or education is around 20%, while the corresponding ratio for young females is almost double this figure. Unfortunately, there is no convincing evidence to suggest these gender disparities have narrowed over time.

Third, as the above figures suggest, there is a significant youth employment problem. In aggregate the proportion of young people neither in a job or education has declined marginally

since the mid 2000s but remains stubbornly high at close to 30%.

Fourth, the magnitude of the informal economy is a major concern. It is estimated that around 60% of all employment is in the informal economy, and there has been only a marginal decline in this proportion since the mid- 2000s despite a tightening in the labour market. In the absence of adequate employment protection legislation and no unemployment benefits system, the informal economy acts as buffer, expanding significantly in periods of slow growth.

Fifth, within the formal economy precarious work has been expanding rapidly. For example, the number of casual workers increased from six million in 2001 to nearly 12 million in 2009, and the real wages of casual workers has remained static since the early 2000s.

## 3. Poverty, wages and indicators of decent work

Real wages for all workers grew at an annual average rate of 2.2% over the decade 2000 to 2010, which was below the average rate of productivity growth in this period. However, within the decade real wage growth has fluctuated dramatically. In the early 2000s real wages grew rapidly, catching up for significant real wage declines in the late 1990s. But between 2005 and 2009 real wages declined despite this being a period of robust economic growth. The changes in the composition of employment, including the expansion in precarious employment, help explain this trend. Indonesia would benefit from a more consistent pattern of wage adjustments with real wages moving in line with productivity movements.

Over the last decade Indonesia has made impressive progress in reducing the overall poverty rate. Despite this, nearly 30 million people still live below the official poverty line, and according to the World Bank, an additional 65 million remain vulnerable to falling into poverty.<sup>3</sup>

A key problem is the low level of public expenditure on social spending. Indonesia devotes roughly 2% of GDP to public expenditure on social protection, education, health and housing.<sup>4</sup> By comparison Brazil devotes over 25% of GDP to public expenditure on the same items. Even by comparison with other Asian countries, Indonesia has a poor record on social expenditure. This is despite the fact that the Government established, and subsequently expanded, a variety of social assistance programmes since the Asian economic crisis.

Figure 1: International comparison of social spending and social protection in 2008



Source: ILO Study on growth with equity 2011.

Another factor contributing to poverty, or the risk of poverty, is the large proportion of workers in very low paying jobs. In 2002 it was estimated that nearly 50% of all wage and salary workers in Indonesia belonged to the working poor (with earnings below the 2 US dollar a day poverty line).<sup>5</sup> The so-called “low pay rate” measures the proportion of employees with monthly earnings less the two-thirds of median earnings. This ratio has increased steadily over the last decade, rising from 29% in 2001 to 35% in 2010.<sup>6</sup>

Following the Asian economic crisis and changes in the Government, Indonesia ratified the ILO Convention on Freedom of Association in 1998. Prior to this there had been only one trade union that was recognised by the Government. Thereafter there was a rapid proliferation of new trade unions. However, trade union density remains limited. The ILO estimates that there are about three million trade union members and that the ratio of union members to total employees was about 12% in 2009, down from 13% in 2005. The ILO attributes this decline in union membership to the expansion in precarious work, including the growth in casual and short-term contractual work. Moreover, the proportion of workers covered by collective contracts is actually lower than the trade union density.


Indonesia has made progress in reducing the incidence of child labour. It is estimated that the number of people aged 10 to 17 engaged in child labour fell from 2.5 million in 1996 to 1.6 million in 2010. There has been a corresponding increase in school attendance; nevertheless, it is estimated that around 18% of

## WORKER TESTIMONY

Furqon, Indonesia

Furqon experience is one tragic example which shows the difference social protection can make for a family.

“When he was one month old, my son had to go to hospital for two months. He underwent surgery on his heart and lungs. He didn't survive. He died. I owe my company 170 million rupiah, and every month my salary is deducted 200,000 rupiah. Now my employer wants to increase the amount I have to pay every month. I'm 30 years old and it will take me 40 years to pay back this debt. This shouldn't happen to anyone else.”



Photograph: ITUC

children were not attending school in 2009. Progress has also been made in reducing the level of forced labour including the trafficking of women and children, but further work is required to eliminate such practices.

#### 4. Policy conclusions

The Indonesian economy has performed relatively well in the recent global recession. Now it is essential to ensure that these economic gains are translated into more concrete social progress. This will require a significant expansion in public resources devoted to health, education and social spending. Scope exists to significantly expand the tax base and to expand the role of the State in providing a meaningful social floor. Action is also required to reverse the expansion in precarious forms of work and to more decisively tackle the enormous informal economy. The union focus on minimum wages and social protection is critical, and the full implementation of trade union rights and international

labour standards should be an urgent priority.

The level of trade union membership remains low, the coverage of collective bargaining is limited and the role of social dialogue is under developed. The trade union movement in Indonesia requires assistance to upgrade capacity and consolidate its structures. A strong and vibrant trade union movement will help safeguard the progress Indonesia has made with political reform and help ensure better balance between social cohesion and economic efficiency.

#### What we're fighting for:

- ▶ Social protection
- ▶ Minimum wage
- ▶ Collective bargaining
- ▶ Organising the informal economy

# NEPAL

The country is again facing Constitutional chaos. The Constituent Assembly set up four years ago to write a new Constitution was dissolved by the Prime Minister on 27 May 2012 after it again failed to reach agreement. The Maoist Prime Minister now leads a caretaker Government, but several of the other major political parties strongly dispute the legitimacy of this process. Plans for elections to a new constituent assembly in November 2012 have already been postponed to April 2013. One of the ITUC affiliates in Nepal (GEFONT) has described the current situation as a “political black hole” and has expressed grave fears that the democratic process may have been permanently derailed.<sup>1</sup>

Nepal remains one of the poorest countries in the world. It currently ranks 157 out of 187 countries on the Human Development Index. Despite making progress in recent years on some of the Millennium Development Goals, poverty remains endemic, economic growth is inadequate, the vast majority of jobs remain informal or precarious, and worker rights abuses are widespread.

## 1. Economic trends

Economic growth in Nepal has been modest by developing country standards. Real GDP growth averaged between 3% and 4% over the last decade, which is roughly half the growth rate achieved in neighbouring India over the same period.<sup>2</sup> Economic growth tends to be er-



Photograph: Ben Crowe

ratic and conditional on seasonal variations for the agriculture sector and uncertain political developments (see Table 1). Prior to the most recent political upheavals, the IMF was forecasting growth around the 4% mark in 2012 and 2013.<sup>3</sup> These forecasts may now prove optimistic.

Both the IMF and World Bank have praised Nepal for its prudent fiscal management in recent years that results from better tax enforcement, privatising public enterprises and public debt consolidation. This is reflected in a substantial decline in the Government debt-to-GDP ratio over the period 2003 to 2012 (see Table 1). The ITUC strongly believes that this fiscal space should be used to invest in better physical and social infrastructure, which is desperately required.

Nepal has also been urged to implement reforms that would encourage both foreign direct investment (FDI) and increased domestic investment. Total investment has been on an upward trend thanks largely to buoyant remit-

tances, but FDI inflows remain low. In the five years to 2009, net FDI into Nepal averaged only 0.1% of GDP as compared to an average of 1.9% for low-income developing countries.

The structure of the economy has undergone significant changes in the last few decades. For example, the agriculture sector accounted for between 60% and 70% of GDP in the period 1965 to 1980, but this ratio declined to 41% by 1999. In the decade that followed, the agriculture sector became even less important, and by 2009 it represented just 33% of GDP. At the same time the services sector has been growing rapidly and now accounts for more than 50% of GDP while the industrial sectors have remained static contributing around 15% of GDP.<sup>4</sup>

However, this transformation has not been reflected in the labour market. In 2008 there were still around nine million people working in the agriculture sector, which represented about 74% of total employment. By comparison the industry and services sector represented only 11%

Table 1: Key economic variables

	Unit	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Real GDP	% change	3.9	4.7	3.5	3.4	3.4	6.1	4.4	4.6	3.5*	4.2*
Non-agric. GDP	% change	..	..	..	..	..	..	4.1	5.4	3.1*	2.9*
Remittances	% change	13.6	6.7	47.3	19.9	19.3	57.3	9.5	16.2	17.3*	..
Total investment	% GDP	24.6	24.4	26.7	26.5	30.2	27.9	31.5	35.8*	34.5*	32.4*
Inflation	% change	4.7	4.0	4.5	8.0	6.2	6.7	12.6	9.5*	9.6*	7.8*
Government net debt	% GDP	60.7	58.3	51.9	49.3	42.8	41.3	39.0	36.1	34.1*	34.0*
Current account balance	% GDP	2.4	2.7	2.0	2.1	-0.1	2.7	4.2	-2.4*	-0.9*	2.5*

Source: IMF Article IV, WEO Database; Remittances: World Bank Remittances Database



and 15% of employment respectively.

Consequently agriculture remains a dominant feature of the economy, and the living standards of a major proportion of the population depend on the fortunes of this sector. But productivity in agriculture is extremely low, and most observers agree that enhancing physical infrastructure, including the efficiency of irrigation systems, will continue to be critical to increase agricultural productivity, incomes, and rural livelihoods.

As noted above, in recent years a major driver of growth was remittances from migrant workers that boosted domestic consumption and investment. Remittances are estimated to be equivalent to 25-30% of GDP and were expanding very rapidly in the period prior to the global economic crisis (See Table 1). However, remittances slowed significantly in 2009 before bouncing back somewhat in the last few years. While remittances provide critical capital, there are grave concerns about working conditions and decent work deficits in several of the countries that use migrant workers from Nepal (see below for details).

Exports were also adversely impacted by the crisis declining by 11% in 2009/10, and tourist arrivals were also badly impacted. This is reflected in a deterioration in the current account balance (see Table 1). A renewal of political tensions may exacerbate these negative trends.

**In 2008 it was estimated over 96% of all employment was informal and less than 17% of workers were in paid employment.**

## 2. Labour market trends

Accurate information concerning labour market trends in Nepal is scarce. Labour force surveys were conducted in 1998/99 and again in 2008. More regular surveys are urgently required.

Nevertheless, it is clear that the labour market in Nepal is characterised by a massive informal economy and underemployment. In fact, in 2008 it was estimated that over 96% of all

**Table 2: Labour market trends and education**

	1998/99	2008
Labour force participation rate (ages 15+)	85.8	83.4
Men	90.1	87.5
Women	81.9	80.1
Youth labour force participation rate (ages 15-24)	81.5	75.5
Male	83.1	75.6
Female	80.1	75.4
Employment-to-population ratio (ages 15+ in%)	84.3	81.7
Male	88.3	85.5
Female	80.5	78.5
Vulnerable employment in total employment (%)	83.1	81.9
Male	74.4	71.4
Female	92	91.2
Paid employees as share of total employment (%)	16	16.9
Informal employment of total employment (%)	n.a.	96.2
Population (aged 15+) who never attend school (%)	60.3	46.7
Population (aged 15+) with secondary or higher education (%)	8.8	20.1

Source: Nepal Labour Force Survey 1998/99 and 2008.

employment was informal and less than 17% of workers were in paid employment. Even many of the paid employees were not working under formal conditions, as they did not receive the rights they were entitled to under the Labour legislation including paid annual leave and social security contributions paid by the employer. Around 82% of all workers were in vulnerable employment (defined as the share of own account workers and contributing family workers in total employment).<sup>5</sup> Unfortunately there is very little evidence that labour market trends improved in the decade between 1998/99 and 2008. See Table 2 for details.

In a country like Nepal, unemployment is not really a valid concept: in the absence of any unemployment benefits and a social floor, the vast majority of workers must engage in some form of economic activity to survive. Consequently the overall unemployment rate in 2008 stood

at just 2.1%, although the rate in urban areas is substantially higher at 7.5%.

Youth unemployment and underemployment remain important issues for the future stability and prosperity of the country. In 2008 the under-utilization rate among the 15-24 age group was almost 40%. The under-utilisation rate is a combination of unemployment, time-related underemployment, inadequate earning and skills mismatch.

## 3. Wage trends and indicators of decent work

Recent and reliable information on wage trends is difficult to obtain in Nepal. The minimum wage was increased by about 30% in nominal terms in 2010-11, but this was the first adjustment in three years. In fact, Nepal has a history of infrequent adjustments to

## WORKER TESTIMONY Pralhad Acharya, Plumbers Assistant

"I had high hopes that because of the 2022 World Cup, companies would be good and I would come home with money. But the company I worked for was not good.

I think only 10% of companies are good in Qatar, 90% are crooked. I came across some young people who had not eaten for three days because they had not been paid."



Photograph: Ben Crowe

**Table 3: Poverty, working poverty and income distribution**

	1995/96	2003/04	2009
Poverty rate, national poverty line (%)	41.8	30.9	25.4
Working poverty, US\$ 1.25 a day line (%)	n.a.	50.4	n.a.
Working poverty, US\$ 2 a day line (%)	n.a.	74.1	n.a.
Gini coefficient	0.34	0.41	0.46

Source: National Planning Commission and UNDP: Nepal Millennium Development Goals Progress Report 2010 (Kathmandu, National Planning Commission and UNDP, 2010); ILO, Key Indicators of the Labour Market (KILM), 6th Edition.

the minimum wage. Over the past 30 years, the minimum wage has been adjusted just 11 times. The lengthy time lags between adjustments have entailed significant reductions in the real value of the minimum wage and workers' purchasing power, followed by fairly significant wage jumps to catch up lost ground. More regular adjustments would better preserve the real value of the minimum wage and better protect the living standards of workers. At the same time, this would also avoid sharp upward shocks to labour costs.

As can be seen from Table 3, in the period prior to the global economic crisis Nepal made substantial progress in reducing poverty although a significant proportion of the population remains clustered around the poverty line. In addition there are a substantial number of people in Nepal who are employed yet are living in poverty. The ILO estimated in 2003/04 that over 50% of all workers were not earning enough to lift themselves and their families above the 1.25 US dollar-a-day poverty line. At the 2 US dollar-a-day poverty line, the working poverty rate was 74%.

Income inequality is also rising rapidly. The Gini coefficient increased from 0.34 in 1996 to 0.46 in 2008/09.

Low domestic wages and poor employment prospects have encouraged large scale migration. Of the annual 450,000 new labour force entrants, around two-thirds seek overseas employment. There are 1.9 million registered overseas workers, and 3 million in total are estimated to be working abroad. As can be seen from Figure 1, the Gulf countries are increasingly the main destination of migration flows from Nepal. It is estimated that about 75% of the registered overseas workers are engaged in unskilled low-paying jobs.<sup>6</sup> Abuse of migrant workers is common, and a key concern of trade unions in Nepal is the registration and regulation of all enterprises

engaged in the recruitment and placement of migrant workers from Nepal. The ILO's Multilateral Framework for Migration provides a rights-based approach to labour migration to ensure migration is beneficial to both sending and receiving countries. Nepal and countries receiving workers from Nepal should urgently implement this Framework.

Infringements of worker rights are common, and widespread discrimination takes place on the grounds of ethnicity and gender. In fact, economic and social relations in Nepal continue to be governed by a deeply entrenched ethnic, caste and gender-based hierarchy. Child labour also remains a significant problem. Based on the 2008 Labour Force Survey, one third of all children aged between 5 and 14 were engaged in economic activities and only about 60% of children complete primary education.

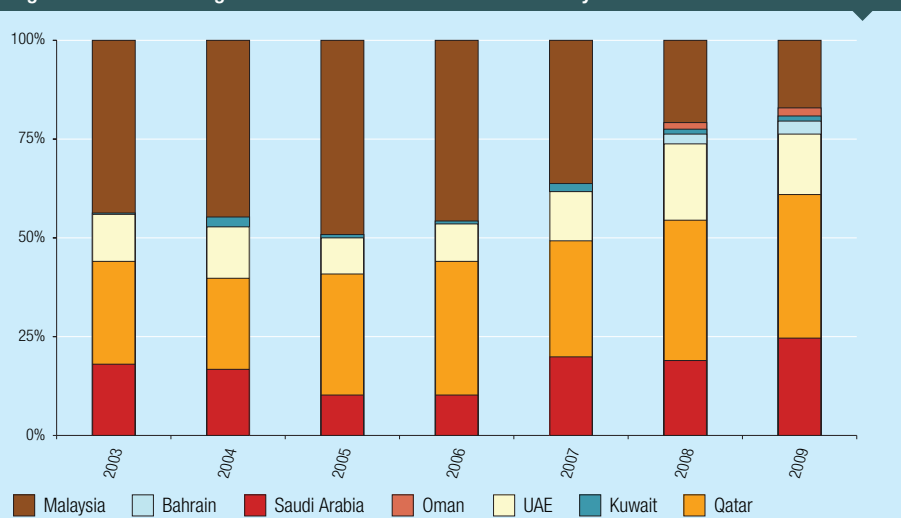
#### 4. Political instability and weak labour market institutions

Political instability has been a major feature of Nepal since the introduction of democracy in 1990. Between 1996 and 2005 the country was ravaged by civil war and on the threshold

of "failed state" status. Over the last six years, the country has been undergoing a slow and complex transition. However, as indicated above the political situation has deteriorated dramatically since the end of May 2012.

The conflict and the slow transition to peace and stability have highlighted concerns about the effectiveness of many state institutions. For instance, poor law and order has been a major concern, particularly in certain geographic areas.<sup>7</sup> The ILO has been highlighting significant shortcomings in labour market institutions and the social security system for many years.<sup>8</sup> In fact, the ILO has argued that there are several problems that need to be addressed. These include the dramatic expansion of exploitive forms of contract work; widespread evasion of the labour laws; inadequate social protection (e.g., social assistance, unemployment benefits, redundancy payments, etc.); and high levels of conflict at the workplace.

The above problems result in prolonged periods of disruption to production and public discontent. Resolving the above problems would have profound implications on at least three critical fronts. First, it would provide a significant boost to economic confidence, private investment including foreign direct investment and economic growth. Second, it would have positive implications for general law and order. Third, resolving these issues is vital to for the political transformation. The close relationship between industrial relations stability and peace has been recognised by all the political parties in Nepal. The Comprehensive Peace Treaty of November 2006 explicitly refers to the International Labour Organisation and the need for an improved industrial relations environment.

**Figure 1: Outflow of Migrant Workers to Gulf Countries and Malaysia**

Source: IMF Article IV 2010.

## WORKER TESTIMONY

Narayan Nepali, Electrician

"We're forced to work more than 12 hours, they promise us overtime but we don't get it. Workers faint and collapse in the heat. We live 10 to 12 in a room. The dreams we take with us to Qatar are not fulfilled because of the way we are treated when we get there."



Photograph: Ben Crowe

Both the Peace Treaty and interim Constitution of January 2007 committed the new Nepal to respect international labour standards concerning collective bargaining and worker rights.

Unfortunately little progress has been made in implementing these commitments. Although the ILO has been trying to assist the social partners in Nepal to re-draft the labour legislation and build labour market institutions to tackle the above mentioned problems, this process of reform has not reached fruition mainly due to the ongoing political instability.<sup>9</sup> However, in July 2012 representatives of all the main trade unions and employer associations committed themselves to resolving these problems and implementing the proposed reforms.<sup>10</sup>

### 5. Policy conclusions

Nepal requires a rapid return to a fully democratic process to urgently complete the political transition as well as fundamental changes to the economic and social model. Public investment in physical and social infrastructure must be expanded. Fiscal space exists to finance a more comprehensive social floor.

As indicated above the vast majority of workers in Nepal do not enjoy decent working conditions. Wages for the majority of workers are not adequate to lift them out of poverty, and a minimum wage on which workers can live is essential. Furthermore, employment conditions are poor and often unsafe, and abuses of worker rights are common.

Nepal is fortunate to have relatively strong trade unions, but most other labour institutions are under-resourced and fail to carry out their functions effectively. The reforms to the labour legislation and social security system discussed in Section 4 above must be implemented urgently. But other complementary reforms are also required. At present the labour inspections system and the labour court are not in a position to ensure that labour laws and collective agreements are complied with. These labour institutions require significant strengthening to ensure that labour laws are implemented. A move from enterprise level collective bargaining to industry level bargaining would be highly desirable.

#### What we're fighting for:

- ▶ Strengthening the social protection floor
- ▶ Minimum wage
- ▶ An end to the exploitation of Nepalese migrant workers



# ZAMBIA

Zambia's economy has been characterised by high economic growth over the past years. Given the country's heavy reliance on copper exports and a very large informal economy, the growth is not sustainable. Informal employment is high and poverty remains widespread.

Zambia will need to change gears and adopt a different set of policies to achieve sustainable growth and decent work.

Diversification is required, and a new industrial policy to create higher value added sectors and employment, building a social protection floor providing minimum levels of social security, measures to formalise the informal economy, the promotion of collective bargaining and an improvement in working conditions are all recommended policy areas.

## 1. Recent macroeconomic trends

In Zambia, agriculture accounts for 21.1% of GDP, industry (including mining) accounts for 34.4% of GDP and services for 44.5% of GDP.

The economic challenges confronting Zambia remain substantial. Despite recent improvements in economic performance, bringing down debts and inflation and maintaining high growth rates for several years (around 6%, up from 4.8% over the period 2002-2005), it remains very vulnerable due to its high dependence on copper and (subsistence) agriculture and due to the influence of copper on the ex-



Photograph: ITUC

change rate. Foreign Direct Investment after reaching a peak in 2007 has since decreased,<sup>1</sup> especially in mining, construction and services sectors. Exports and income from copper remained high (77% of exports 2006-2009), but given the uncertainty of global copper prices this might not last. The stock of Zambia's external and public debt remains relatively low. It declined from 86% of GDP in 2005 to around 9% in 2006, as a result of debt cancellation, and stood at 11.6% of GDP in 2011.<sup>2</sup> International reserves have increased.

It is clear that economic growth over recent years has not translated into significant reductions in poverty and improved living conditions of the majority of the population. The incidence of poverty remains high and stood at 61% in 2010, slightly down from 63% in 2006.<sup>3</sup> This percentage reaches over 80% in rural areas.<sup>4</sup> Growth has been concentrated in capital intensive sectors like mining, construction and low value services. Among the constraints are a large informal economy and agriculture sector,

poor infrastructure, low education and skills levels and high costs of financial services.

In terms of future outlooks, the IMF reports that for 2011 real GDP growth was estimated at 6.5% whereas it is projected to reach 7.7% this year.<sup>5</sup> This reflects a strong growth in copper production and non-maize agriculture as well as an expansionary fiscal policy. Inflation declined to 7.2% at the end of 2011 and is projected to stay at 6.0% this year. The crisis in Europe has not had much impact on the Zambian economy; so far, however, a further slowdown of the global economy could reduce the demand for Zambian exports and result in lower copper prices. It could also further reduce access to credit.

The IMF promotes a positive investment climate, meeting fiscal targets and financial sector reforms. It does acknowledge, however, that macro-economic stability and economic growth have not resulted in sufficient employment creation and poverty reduction. During the ILO-IMF meeting in May this year, they argued in particular for reforms for pro-poor agricultural sector development, addressing of skills mismatches and facilitation of growth of formal employment as priority areas. Challenges of unemployment and diversification were also outlined.

## 2. Labour market trends

In 2008, 67% of the 6.7 million persons of working age were employed. The majority of persons (71.3%) were employed in agriculture, forestry and fisheries while 0.7% were employed in administrative and managerial activities. Those in production activities accounted for 7.6%. In

Table 1: Main economic indicators

	2000	2005	2008	2009	2010	2011
Real GDP (% growth)	3.6	5.3	5.7	6.4	7.6	5.9
Exports (% of GDP)	27	35	36	36	44	37
Imports (% of GDP)	41	37	34	32	35	35
Inflation, GDP deflator (annual%)	30.0	17.0	12.3	10.7	11.7	13.5
Gross Capital Formation (% of GDP)	17	24	22	22	22	21
Household Consumption (% of GDP)	--	--	59.2	64.0	51.5	--
Government final consumption (% of GDP)	--	--	22.0	22.3	18.0	--

Source: World Development Indicator Database and AfDB Data Portal, IMF Art.IV report 2012

terms of sector, Agriculture, Forestry and Fishing had the highest share (71.3%), followed by wholesale and retail (9.2%) and community, social and personal services (8.4%). The share of women in agriculture is higher than the share of men, whereas this share is lower in mining and manufacturing.

In terms of employment status, over 80% of people engaged in economic activities are either self-employed (43.1%) or unpaid family workers (39.7%).<sup>6</sup> By comparison a mere 16.6% of people engaged in economic activities are paid employees and just 0.3% are employers. See Figure 1 below.

Zambia has a large informal economy, and the bulk of employment is therefore informal. The level of informal employment has remained high, despite substantial economic growth. The 2008 Labour force Survey, with the most recent data, indicates that out of the 4.6 million employed persons in Zambia, 4.1 million (89%) were in informal employment in 2008 while 511,338 persons (11%) were in formal employment. This was 12% in 2005. In rural areas, 96% of employment is informal compared to 71% of informality in urban areas. 6% of women are in formal employment compared to 15% of men. The majority of employed persons in the informal economy had tasks associated with agricultural, forestry and fishing activities whereas the majority of persons in formal employment had tasks associated with professional, technical and related activities. 78% of informal employment was in agriculture with 21% in non-agriculture. Among

**Table 2: Most recent labour market indicators**

	2000 <sup>1</sup>	2005	2008	2009	2010
Labour force participation rate (15-64)	..	..	80	79.9	79.8
Employment-to-population-ratio	..	..	67.0	67.0	66.9
Employment in Agriculture, total/female					
Total	71.6	72.2	73.0	..	..
Female	79.6	78.9	78.2	..	..
Share of persons employed in the informal sector in total employment (%)					
Total	..	88	90	89	..
Female	..	..	94	..	..
Unemployment (15+)	12.9	15.9	15.0	..	13.2
Youth unemployment (15 - 24)	21.4	23.4	28.0	..	..

<sup>1</sup> In 2000 age threshold is 12+ instead of 15+.

Source: ILO KILM Database; CSO Labour Force Survey, 2008 and An Overview of Women's work and employment in Zambia, 2009; IMF Staff report for the 2012 Article IV consultation, July 2012.

female workers informal labour is most widespread in agriculture (99%) followed by commerce (97%). See Table 2 for details.

According to the Results of the Labour Force Survey in 2008, unemployment stood at 15%. This percentage was 12% for men and 18% for women. Unemployment in rural areas was 6% and in urban areas 33%. Unemployment was highest in the 15-19 years age group (33%) followed by the 20-24 years age group (22%) with a total youth unemployment rate (15-24) of 28%. IMF data for 2010 show an unemployment rate of 13.2%, with 5.0% rural and 29.2% urban unemployment.<sup>7</sup>

But in Zambia, as in most developing economies, unemployment is not an adequate measure of labour market stress. Underemployment is a more accurate and comprehensive measure of labour market slack or stress.<sup>8</sup> From Figure 2 it can be seen that 70% of all workers are underemployed. As one would expect, underemployment is dramatic among unpaid family workers and the self-employed but more moderate among paid employees. Expanding wage employment is thus the key to sustainable development and poverty reduction.

### 3. Wages and indicators of decent work

Besides the enormous size of the informal economy, which is precarious in itself, the quality of formal employment has also declined. Real wages for most categories of workers have continued to fall.

The national average monthly income was estimated at Kwacha 723,468 (equal to around USD 143 at the current exchange rate) in the

2008 Labour Force Survey. For rural areas this was K 382,526 (USD 75) and for urban areas K 1,249,122 (USD 247). Men earned on average K 819,200 (USD 162) versus K 570,463 (USD 113) for women. The highest levels of income are associated with administrative and managerial activities with the lowest averages (35 times less) for workers in activities related to agriculture, forestry and fisheries. In terms of income distribution, 60% of all workers earned on average less than K 400,000 (USD 79) per month with 5% earning more than K 2,650,000 (USD 525) per month. Almost 90% of all workers earned less than K 1,649,000 (USD 326) per month.

Zambia has a statutory minimum wage (SMW) which is decided by the Minister alone. Since May 2006 the statutory minimum wage stood at Kwacha 268,000 per month<sup>9</sup> (approximately USD 53), based on the legal maximum working week of 48 hours. This is considered very low compared to costs of living. The SMW does not apply to casual workers, domestic workers, government employees and those occupations covered by collective bargaining. The share of earnings below K 250,000 (USD 50) was 35% in 2005. After the elections in 2011, the minimum wage has recently been adjusted by about 100 per cent, putting salaries for domestic workers at K 522,000 (USD 103) per month, while shop and general workers will now earn about K 1.1 million (USD 217).

There is also a high gender pay gap, though less pronounced in the formal economy than the informal one and bigger in manufacturing, mining, electricity, trade, construction and agriculture than in tourism, transport, community and social services and finance.<sup>10</sup>

**Figure 1: Percent distribution of currently employed persons aged 15 years and above by employment status in 2008**

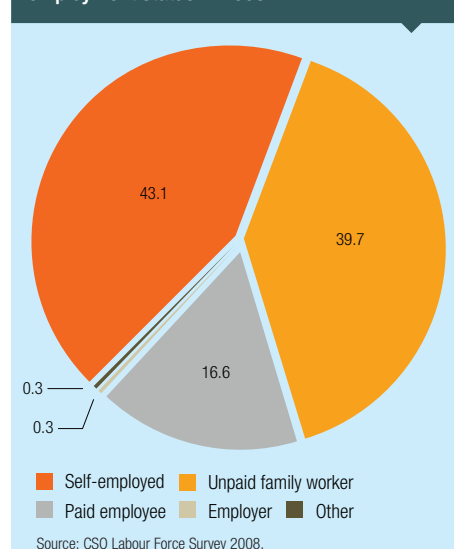
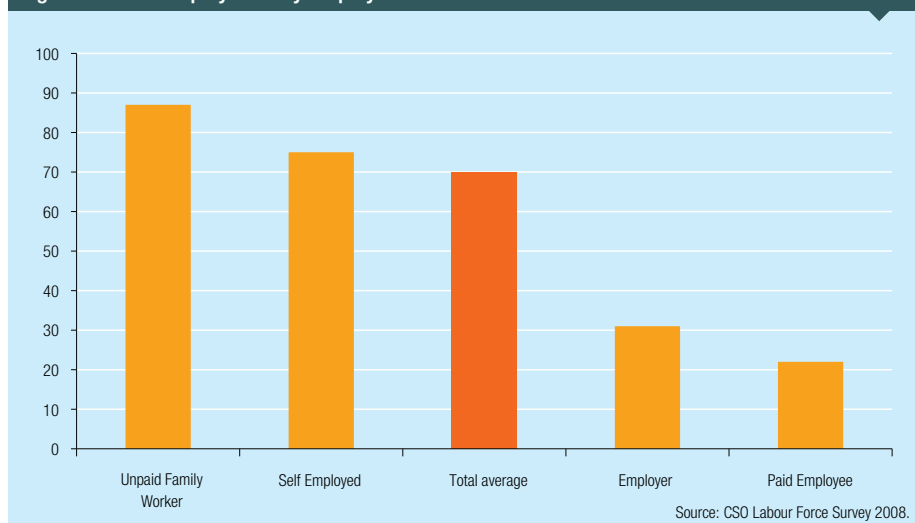


Figure 2: Underemployment by employment status in 2008



The Joint Industrial Council system, which was meant to institutionalise collective bargaining, was amended in 1997, removing the mandatory nature of the JIC and allowed employers to decide whether to conduct collective bargaining at industry or company level. This resulted in decentralisation of collective bargaining at company level whereas the coverage in the 1970s and 1980s of industry-wide bargaining was reaching 80% in the formal economy.<sup>11</sup> In general, collective bargaining has been limited to mining, finance, part of agriculture and the public service and is virtually non-existent in the expanding services, manufacturing sectors and more generally in SMEs.

Widespread poverty remains a major challenge in Zambia. Some 64% of Zambians were estimated to live below the national poverty line in 2006. Although extreme poverty rates have gone down, moderate poverty rates have increased.<sup>12</sup> Poverty is particularly high in rural areas with 80% of the population below the poverty line compared to 34% in urban areas.<sup>13</sup>

Zambia has ratified all ILO core conventions but many shortcomings remain, especially in their implementation in practice. Child labour is predominantly a rural phenomenon, with over 90% of all working children residing in rural areas (ITUC 2009).

Working conditions are generally poor in Zambia and workers' rights not well respected. Even in the major export sector, mining, working conditions are particularly poor. A Human Rights Watch Report on labour practices in Chinese-owned mines details a range of labour abuses in Zambian mines such as poor health and safety conditions (inadequate ventilation

and damaged protective equipment), regular 12-hour and even 18-hour shifts involving arduous labour, anti-union activities, threats to fire workers who refuse to work in unsafe places and threats to miners who report accidents.<sup>14</sup>

#### 4. Policy conclusions

Given the widespread poverty and extreme high informality of employment with its consequent low wages, poor working conditions and lack of protection of rights, a strategy to formalise the informal economy should be among the main priorities in Zambia. Organising strategies, incentives for formalisation and social protection coverage are some of the steps to be taken to help this transformation.

The large size of the agriculture sector of which a substantive part is subsistence farming also accounts for high levels of poverty, informality, low or unpaid jobs and low productivity. A dual strategy to increase on the one hand productivity levels in agriculture and on the other the development of an industrial policy to stimulate manufacturing and higher value-added production is crucial for Zambia to get out of the dependence on agriculture and mining and to increase formal economy employment. Such an industrial policy should go beyond the current plans to promote low value-added manufacturing linked to agriculture and mining, and should be far more ambitious with targeted investments in higher value added segments and creation of production, learning and research and development clusters.

To restrict the focus uniquely to increasing productivity in agriculture would be too narrow and only have limited positive effects in terms of formal employment, wages and poverty.

The minimum wage, although it has been adjusted recently, which is a very welcome development, remains far below a living wage and will also continue to put downward pressure on wages in the formal economy. More efforts should be made to reinstate the extension of collective bargaining coverage to give a new boost to collective bargaining in Zambia and to ensure higher sectoral wage levels.

Investments in infrastructure and the building of a social protection floor are two important agenda items for the Zambian government that would reduce poverty and inequality while at the same time boosting the economy and employment. A first step is to be made with an extension of old age pension to cover the entire population over 65, followed by child benefits, healthcare coverage and unemployment benefits. The government should further use the planned investments in infrastructure to promote employment intensive investment. Employment guarantee schemes are another area that should be considered.

Concerning FDI and investment policy there is a need for a different approach in Zambia. Boosting domestic investment and targeting specific foreign investment that complements the industrial development strategy is one part of the new approach that has to be taken. At the same time abuses by foreign investors need to be addressed more strongly, and royalties from the mining sector could be increased to finance infrastructure, social protection and industrial development.

Finally, social dialogue is critical in building a more equitable and sustainable economy. This requires respect for trade union rights, setting up the right mechanisms for dialogue across social and economic policy areas, and building the capacity of constituents to participate in such dialogue.

#### What we're fighting for:

- ▶ What we're fighting for:
- ▶ Organising the informal sector
- ▶ Social protection floor
- ▶ Reduce the gender pay gap
- ▶ Increase minimum wages
- ▶ Invest in agriculture, infrastructure and value added production



# NOTES

## Introduction

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- 3 United Nations, World Economic Situation and Prospects 2012, (update as of mid- 2012).
- 4 ILO, Global Employment Trends, 2012.

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## Dominican Republic

## Greece

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- 6 Article 8 (1), Law 1876/1990 on "Free collective bargaining".
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- 14 CEACR, Observation with regard Convention No. 98, Greece, 2011, available at [http://www.ilo.org/dyn/normlex/en/f?p=1000:13101:0::NO:13101:P13101\\_COMMENT\\_ID:2556562](http://www.ilo.org/dyn/normlex/en/f?p=1000:13101:0::NO:13101:P13101_COMMENT_ID:2556562).
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