

**Annex A – Country presentations on labour dimensions of integration  
Country: Canada**

**XII Inter-American Conference of Ministers of Labour  
XII Conférence interaméricaine des ministres du Travail  
XII Conferencia Interamericana de Ministros de Trabajo  
XII Conferência Interamericana de Ministros do Trabalho**

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**Country presentation by Canada**

**"THE LABOUR DIMENSIONS OF THE SUMMIT OF THE AMERICAS PROCESS:"**

**A. Human Capital Strategy for Sustained Growth**

A growing body of evidence has shown that sound and effectively administered labour policies play a key role in economic success. In an increasingly knowledge-driven global economy, states and firms that mobilize human effort, knowledge and creativity at work obtain important advantages that support economic development and industrial leadership. They are better able to adapt to changing conditions and to learn or innovate more efficient production methods. The labour policies of such states play a key role, fostering the development and efficient use of human capital, acting as an important element within a national human capital strategy.

Such a strategy includes other elements that are prominent in the Summit of the Americas agenda, such as support for education and training. It may include income security programs that enable workers to take the risks and make the investments required to fully develop their potential as productive members of society. A human capital strategy necessarily includes effective protection of safety and health at work. It also includes ensuring respect for internationally recognized fundamental labour rights.

Comprehensive reviews of the relationship between international trade and labour standards undertaken by the Organization for Economic Cooperation and Development (OECD) have found a mutually supportive relationship between successfully sustained trade reforms and improvements in respect for internationally recognized fundamental labour principles and rights.

Nations that are stable politically and socially with important or growing domestic markets, high quality workforces and good infrastructure are better able to attract high quality investment that supports long term growth. Respect for labour standards is associated with such conditions. On the other hand, low labour standards often signal low productivity, or are one element in a linked package of characteristics that discourage high quality investment and ultimately inhibit improving export performance. The evidence strongly suggests that core labour standards can increase growth and efficiency by raising skill levels in the work force and encouraging innovation and higher productivity.

Taken individually, each of the core principles and rights recognized in the ILO Declaration on Fundamental Principles and Rights at Work can, if effectively implemented through national laws, policies and practices, make an important contribution to increased economic efficiency. Economists have long recognized that discrimination wastes human capital and opportunities for improved performance. The persistence of child labour undermines the human development by depriving children of opportunities for education, among other things. Moreover, it is becoming

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increasingly clear that in the long run child labour perpetuates household poverty through lower human capital formation and its association with gender discrimination against girls in opportunities for education. Forced labour is not only a profound violation of human rights; it is a direct assault on efficiency that completely displaces market forces. Freedom of association and collective bargaining can, under conditions of mutual respect and cooperation, make an important contribution to increased efficiency by providing a market based mechanism for correlating wages and productivity, improving worker commitment, and motivating investment in more advanced production technology.

If modern labour policy is viewed from the context of a national human capital strategy, its economic potential, as well as its role in social protection, is made more apparent. An effectively administered labour policy provides vital support to what the World Bank has termed a "National Innovation System". Such a system is what drives economic competitiveness in a knowledge-based economy. It is made up of a web of institutions and practices which include: (a) knowledge-producing organizations in the education and training systems; (b) appropriate macroeconomic and regulatory frameworks; (c) innovative firms and networks of enterprises; (d) adequate communications infrastructures; (e) access to the global knowledge base and markets.

Modern labour policy supports the National Innovation System in two ways. First, it helps generate a vital resource for any successful economy or society – a well trained, healthy, adaptable and committed workforce. Secondly, it provides what has been termed "commitment technology" that enables the trust and coordination that is essential to high performance work systems at the firm level, and to stable national policy making that provides incentives for innovation.<sup>1</sup> At the firm level, high performance work systems that depend upon knowledge sharing, minimal supervisory structures, continuous improvement and innovation tend to be more durable and effective when firms can make commitments to gains sharing and respect for worker dignity. National labour policies support such commitments. Good governance in labour administration is essential to implementing such a "commitment technology".

A human capital strategy is not a luxury of advanced industrial societies. Most economically successful states put such policies in place before or during periods of rapid growth, not after them. Moreover, adopting such a strategy need not and

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<sup>1</sup> This sort of "commitment technology" is a key element of the governance structures more generally associated with innovation and sustained growth. As Harvard economist Dani Rodrik noted in a paper presented to the International Monetary Fund Conference on Second Generation Reforms:

Healthy societies have a range of institutions that make such colossal coordination failures less likely. The rule of law, a high-quality judiciary, representative political institutions, free elections, independent trade unions, social partnerships, institutionalized representation of minority groups, and social insurance are examples of such institutions. What makes these arrangements function as institutions of conflict management is that they entail a double "commitment technology:" they warn the potential "winners" of social conflict that their gains will be limited, and assure the "losers" that they will not be expropriated. They tend to increase the incentives for social groups to cooperate by reducing the payoff to socially uncooperative strategies. Dani Rodrik, "Institutions for High-Quality Growth: What They Are and How to Acquire Them", IMF Conference on Second General Reforms (November 1999) p. 8.

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should not place employment growth at risk. There is no evidence that sound labour policies - including policies that fully respect freedom of association and the right to bargain collectively – need increase informal sector employment at the expense of employment in the formal sector.<sup>2</sup>

In short, modern labour policies can provide important keys to competitiveness and growth in an integrating and increasingly knowledge-based international economy. They provide a concrete example of how, as World Bank Chief Economist Nicholas Stern has noted, the empowerment of individuals is both an end and a means of development.

**B. Human Capital Strategy and International Economic Integration**

International economic integration provides important opportunities for growth. Increased trade and foreign direct investment are key to the economic development of many states. On the other hand, as an important OECD study has noted, despite their economic advantages it remains possible that in some circumstances international competition can act as a deterrent to optimal labour policies. For example, in industries with highly labour intensive and mobile methods of production short term economic incentives may generate significant resistance to more advanced labour policies and practices. Policy makers, employers and workers in open economies that depend heavily upon remaining competitive in such industries may thus face difficult choices and pressures.

It is doubtful, however, whether a competitive strategy that depended upon maintaining low costs at the expense of fundamental labour rights and investments in human capital could maintain competitiveness in the long run. Moreover, such strategies can diminish the opportunities of many workers in both developing and developed countries.

The short term incentives to adopt such an approach are obviously complicated by the limited reach of national institutions of labour governance, which, within national borders have been designed to mitigate these pressures. For this reason it is appropriate that the Summit of the Americas process has included an important labour dimension. An international commitment is needed to support and encourage the adoption and maintenance of labour policies and practices that are in the long run to the mutual advantage of all parties within the Americas. Such a commitment has been expressed by the Heads of States in the Summit of the Americas process in the

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<sup>2</sup> In fact, a recent empirical study based on 14 countries in Latin America in the 1990s found a clear cyclical pattern for the share of informal employment. It acted as a buffer for formal employment in large firms, resulting in robust pro-cyclical employment in the formal private sector and robust counter-cyclical employment in small firms and self-employment. Countries with stronger civic rights, including freedom of association, collective bargaining and civil liberties, and also countries with higher wage shares tended to have higher proportions of formal employment and lower shares of informal employment, even controlling for GDP per capita. [Werner Sengenberger, "Globalization and Social Progress: The Role and Impact of International Labour Standards", Nov. 2002, p. 47., and sources cited therein] Where labour policies contribute to increasing informal employment it is likely due to the fact that they impose excessive obligations on employers to provide income security to workers without providing a means through which the risks to employers can be spread, leaving small employers vulnerable to the risk of large legally mandated payouts.

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Declaration and Action Plan of the Third Summit. It remains important to find means to follow up on that commitment in order to ensure that it is effective in practice.

**C. The Labour Dimensions of the Summit of the Americas Process**

The labour dimensions of the Summit of the Americas process include and extend beyond ensuring respect for fundamental rights in the international economy. The Heads of State of the Americas have set out an agenda of mutually supportive goals that support a human capital strategy for achieving high rates of sustainable growth. The Inter-American Conference of Ministers of Labour has been tasked with advancing that agenda.

This means looking for more effective ways to support efforts:

- to reflect in legislation and effectively implement the fundamental labour principles and rights recognized by the ILO;
- to build effective labour administrations that can develop and implement sound labour policies and legislation oriented to the contemporary economy;
- to obtain and disseminate the best possible information on preventing occupational injuries and disease;
- to provide training and skills upgrading to workers who need or want to enhance their productive potential;
- to ensure that workers have the economic security that they need to pursue their own personal development and that of their families.

Such measures should be treated as linked components of an overall approach recognizing that the responsibilities of labour ministers lie at the centre of a growth and innovation agenda keyed on human capital.

Canada believes that economic integration in the Americas combined with a mutually reinforcing human capital strategy implies a vital and substantial labour dimension oriented towards the economy of the 21<sup>st</sup> century.