

Boosting growth and jobs:
The relationship of macroeconomic, employment and social policies

International Labour Organization

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Introduction

While the global economy has recovered from the depths of the financial crisis, growth remains below pre-crisis trend levels and is uneven across countries and regions. Continued volatility in financial markets has negatively affected growth in some emerging economies. The global employment rate stands at 55.7 percent, a percentage point below the pre-crisis rate. Employment growth was stronger in many emerging and developing economies than in developed countries in the immediate post-crisis years but more recently the negative spillover from advanced to emerging economies has led to employment growth deceleration in most countries and regions. Policy makers in some countries have responded by shifting the macroeconomic policy stance to strengthening growth and employment, notably through monetary policy measures. This shift, however, has not yet produced broad-based and self-sustaining increases in consumption or investment.

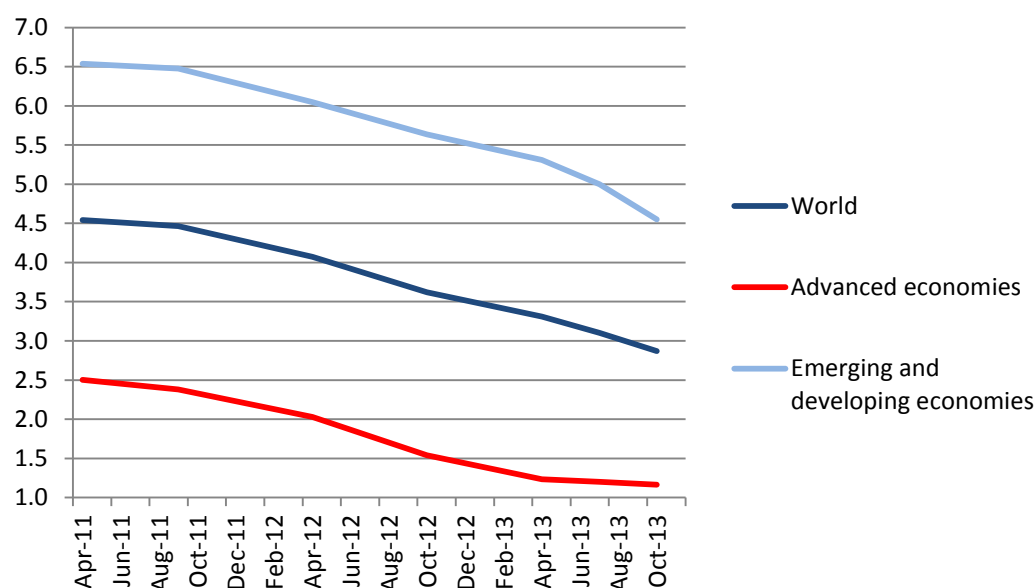
This paper argues that there are labour market and social policy tools that can be used, hand-in-hand with macroeconomic policies, to boost aggregate demand and thus achieve a sustainable recovery. . In many cases these policies can be implemented with little or no fiscal effort and, if coordinated with sound and growth-oriented macroeconomic policies, could produce higher rates of growth that both self-sustaining and more equitable.

The paper reviews recent macroeconomic and labour market trends (section I), assesses job quality issues and the extent to which they may retard recovery (section II) and discusses policy options for sustainable growth (section III).

I. Macroeconomic headwinds in the global economy and labour markets

Global growth has not returned to pre-crisis levels and remains well below the trend growth rate of 4.2% that prevailed from 2000 until the crisis in 2007. The most recent IMF projection for global economic growth for 2013 and 2014 has been revised downward, continuing the pattern of downward revisions of forecasts that has prevailed since 2011 (Figure 1). The world economy is projected to grow by 2.9% in 2013, the lowest rate since 2010. The growth projection for 2014 was also downgraded from 3.8% to 3.6%.

Figure 1. Economic growth in 2013 as projected by IMF in subsequent issues of the World Economic Outlook

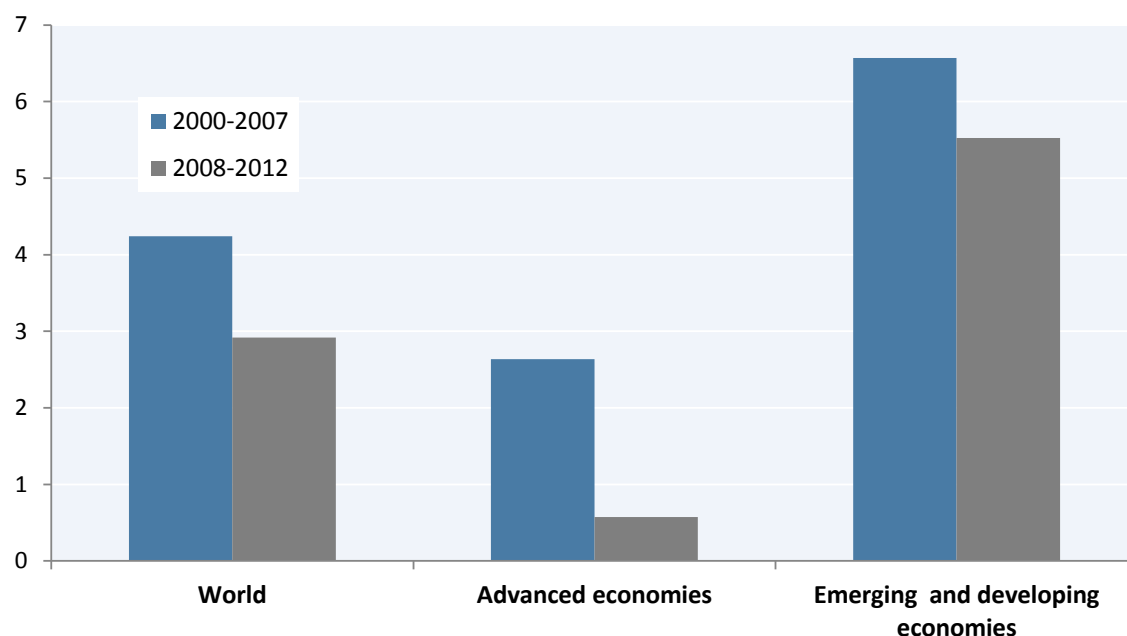


Note: This figure shows GDP growth projections for 2013 as contained in subsequent issues of the IMF World Economic Outlook. For example, in the World Economic Outlook of April 2011, the world economy was projected to grow by 4.5 per cent in 2013. In the October 2013 publication, the growth projection for 2013 was 2.9 per cent (over one and a half percentage point less than projected in April 2011).

Source: IMF *World Economic Outlook*, several editions.

Most emerging and developing economies continue to grow, but at a slower pace than before the crisis; in some cases the slowdown has been marked (Figure 2). There have been small but welcome improvements in some recent economic data from several advanced economies, but the overall recovery in the United States, Japan and especially Europe remains weak, even when compared with recessions induced by previous financial crises. The anticipated tapering of monetary stimulus by central banks in some advanced economies has created uncertainty and volatility in global financial markets, with potential negative effects on some emerging and developing economies. Parts of South Asia and Southeast Asia in particular have seen periods of significant capital outflows and currency depreciation over recent months, thereby affecting economic growth and employment prospects.

Figure 2. Annual average GDP growth rate by country group, pre-crisis versus post-crisis



Note: This figure shows average annual GDP growth rates for 2000-2007 and 2008-2012, in per cent.

Source: IMF *World Economic Outlook*, October 2013.

There are intense, on-going debates over the range of causes of slower global economic growth. However there is a broad consensus that one factor dominates, namely a deficit of global aggregate demand. This deficit originates in large advanced economies where consumption is the largest component of economic activity, often two-thirds or more of total GDP. Private households have been unable to support a stronger recovery, particularly in those economies where wages have stagnated for years or even decades and in countries where debt was used to compensate income shortfalls and must now be repaid. Because of the size of these economies, their consumption deficits weigh heavily on global aggregate demand. This in turn leads to reluctance by firms to invest, despite high average profitability and historically low average interest rates, because there is excess capacity in many sectors and sources of new demand are not clear.¹ This reluctance to invest has been exacerbated by some banks' reluctance to lend, reflecting their own weak balance sheets. Inadequate access to credit is especially problematic in some European countries and is a major problem for small businesses, which rely heavily on bank credit for operations and expansion, in many countries.

While private consumption and investment demand are sluggish, governments in most advanced economies have engaged in fiscal tightening to address debt worries. As a

¹ For a discussion of investment patterns, see ILO, *World of Work Report* 2013.

result, the public sector is reducing demand at the same time as the private sector in many countries.

In this context many countries are trying to boost exports as a way to compensate for weak domestic consumption, investment and government spending. But such a strategy cannot revive the global economy, given that some countries export gains are mirrored by others' losses.

Box 1: Fiscal Contraction Traps

In some countries facing the most severe fiscal crises, the shortfall in overall demand and reduced tax receipts has been so strong that public indebtedness has actually increased rather than declined despite severe cuts in public expenditure, triggering further cuts and threatening to become a vicious circle. In Greece, for example, 25% of economic activity has been lost since the beginning of the crisis, the largest fall of an economy outside wartime periods in recent history. The cost of adjustment in many Eurozone countries has cascaded onto the labour markets, both through efforts to increase exports by reducing labour costs and through reductions in public employment. The lack of exchange rate flexibility in the Eurozone prevents external devaluation to raise exports and reductions in wages have been seen as a form of "internal devaluation". These competitiveness-induced cuts in the private wage bill have dovetailed with the public expenditure cuts in the public sector wage bill. Hence the dual costs of adjustment have fallen largely on the labour market and had the effect of reducing household income and domestic consumer demand. This also subtracts from global aggregate demand.

The main response to these challenges in the U.S., the euro area, Japan and some other countries has been a continued and coordinated effort by central banks to support economic growth through accommodative monetary policies. However four key factors are reducing the effects of these measures on growth in the real economy:

First, relatively high public debt levels have increased sovereign borrowing costs and created the risk of contagion in sovereign debt premia. This has led many advanced economies to prematurely tighten fiscal budgets, putting strong brakes on public spending and thus working at cross purposes with monetary stimulus.²

Second, high private debt levels, unemployment, underemployment and stagnating wages have led many private households to deleverage and postpone consumption.

Third, many firms have opted to postpone investment and hiring due to the lack of demand and uncertainty about short and medium term economic prospects, despite the availability of historically inexpensive capital and a recovery of profitability.

² IMF, *World Economic Outlook*, April 1 2013, Washington, DC.

Fourth, in the advanced economies in particular, banks and other lending institutions still carry significant non-performing assets, including sovereign debt, on their balance sheets, hampering them from expanding credit. As banks continue to experience difficulties of their own, financing remains unavailable for some firms that wish to expand, particularly small and medium sized enterprises.

The expansion of money supply and low interest rates thus has not been sufficient to overcome these constraints in the real economy. By way of illustration, Table 1 shows the persistence of deleveraging and low investment by firms in many regions, despite policy-induced low interest rates. The initial impact of the crisis over 2008-09 led to a reduction in gross fixed capital formation in all regions and countries with available data except China. The recovery up to Quarter 2 2013 shows that investment growth is still negative in the EU 27 countries, flat in developed East Asia and still quite low in other regions and countries.

Table 1. Average quarterly growth rate of gross fixed capital formation, by region and selected countries, for impact and recovery period

	Impact	Recovery
	Q2 09-Q2 08	Q4 12-Q4 09
European Union (27 countries)	-4.01	-0.18
Developed East Asia ¹	-2.38	0.31
South Africa	-0.36	1.08
United States	-4.1	1.09
Latin America ²	-3.55	1.36
India	-0.67	1.58
South East Asia and Pacific ³	-0.75	1.74
Russian Federation	-4.13	1.88
China ⁴	5.29	2.54⁵

¹ Japan, Korea

² Argentina, Brazil, Chile, Mexico

³ Australia, Indonesia, New Zealand

⁴ Calculation based on annual growth rates data taken from the World Bank WDI

⁵ Calculation based on last available data: 2011

Source: ILO calculations based on OECD Statistics and national sources.

As a consequence of the above factors, the global employment rate stands at 55.7 percent, almost a full percentage point below the pre-crisis rate. Employment growth is projected to decline gradually over the medium term (see Table 2) and, at the global level, will remain half a percentage point below rates experienced during the 1990s. In emerging and developing economies the situation is somewhat more positive, with employment rates in 13 of 28 countries with available information surpassing their pre-crisis levels and an additional 11 countries showing some improvement. In the early years immediately after the financial crisis, some divergence between high and low employment-growth countries was observed as discussed in the ILO's *Global Employment Trends Report*,

January 2013. However, the negative spillover from advanced to emerging economies has led to a general tendency for employment growth deceleration in most countries and regions.

Table 2: Average employment growth

	1992-95	1995-00	2001-05	2006-10	2011-15	2016-18
WORLD	1.7	1.6	1.7	1.2	1.4	1.2
Developed Economies and European Union	0.4	1.1	0.6	0.3	0.4	0.5
Central and South-Eastern Europe (non-EU) and CIS	-0.3	0.1	1.0	0.8	0.7	0.0
East Asia	1.4	1.1	1.0	0.5	0.7	0.2
South-East Asia and the Pacific	2.7	2.1	1.7	2.0	1.7	1.4
South Asia	2.4	2.0	2.7	0.8	1.9	1.8
Latin America and the Caribbean	3.2	2.3	2.5	2.1	1.9	1.6
Middle East	3.5	3.2	4.8	3.4	3.0	2.4
North Africa	2.4	2.6	3.2	2.7	1.8	1.9
Sub-Saharan Africa	3.2	2.6	3.0	2.9	3.1	3.1

Note: Average employment growth rates per five-year averages.

Source: ILO, Trends Econometric Models, July 2013.

Global unemployment remains substantially above its pre-crisis level. Revised unemployment figures for 2012 show that 196 million people were looking for work, with unemployment expected to reach 202 million in 2013. The global unemployment rate will tick upwards from 5.9% of the global labour force in 2012 to 6.0% this year. The crisis has led to a loss of 32 million jobs over the past five years, of which about half were in the advanced economies and European Union (Table 3).

Table 3. Jobs lost to the crisis (millions) by region, 2007-2013

WORLD	32.2
Developed Economies & European Union	15.8
EU28	10.1
USA	4.9
Central, Southeast Europe (non-EU) & CIS	0.6
East Asia	8
Southeast Asia & the Pacific	-1.6
South Asia	0.5
Latin America & the Caribbean	1.2
Middle East	1.9
North Africa	1.3
Sub-Saharan Africa	4.5

Source: ILO, Trends Econometric Models, July 2013.

Little reduction in the global unemployment rate is foreseen over the medium-term, with the projected rate expected to remain broadly at its 2013 value over the next five years, half a percentage point above its pre-crisis level. At the same time, the number of jobseekers will continue to grow as the total global labour force expands. On average, there will be 2.5 million more unemployed every year until 2018 under current projections. Male unemployment is expected to increase slightly to 5.7% this year and 5.8% in 2014, below the peak crisis level. In contrast, women's unemployment stands at 6.4%, growing to 6.5% next year, which is above the peak crisis level.

Due to the length of the crisis and slow recovery, long-term unemployment has increased in many countries, particularly in the hardest-hit labour markets (Table 4). For example, long-term unemployment increased by more than 20% in Ireland and Spain. Many of those unable to find a job drop out of the labour market. This loss in labour force participation may become structural in some countries, with long-term effects on the labour market and constraining effects on overall growth.

Table 4. Change in unemployment, long-term unemployment and inactivity rate by type of employment recovery (percentage points), G20 countries

		Countries with employment rates above pre-crisis levels	Countries with improved employment rates but below pre-crisis levels	Other G20 countries (continued deterioration)
Unemployment rate	2007-12	-2.2	2.8	2.2
	2010-12	-1.4	-1.1	0.3
Incidence of long-term unemployment	2007-12	-8.0	15.7	2.0
	2010-12	-1.5	0.4	3.8
Inactivity rate	2007-12	-1.4	1.7	0.6
	2010-12	-0.7	0.6	0.0

Notes: Countries with employment rates above pre-crisis levels include Argentina, Brazil, Germany, Indonesia, Russian Federation, Saudi Arabia and Turkey. Countries with improved employment rates since 2010 (but where employment rates are still below pre-crisis levels) include Canada, India, Mexico, Republic of Korea, South Africa, United Kingdom and the United States.

Incidence of long-term unemployment refers to the number of unemployed persons out of work for 12 months or more, as a share of total number of unemployed.

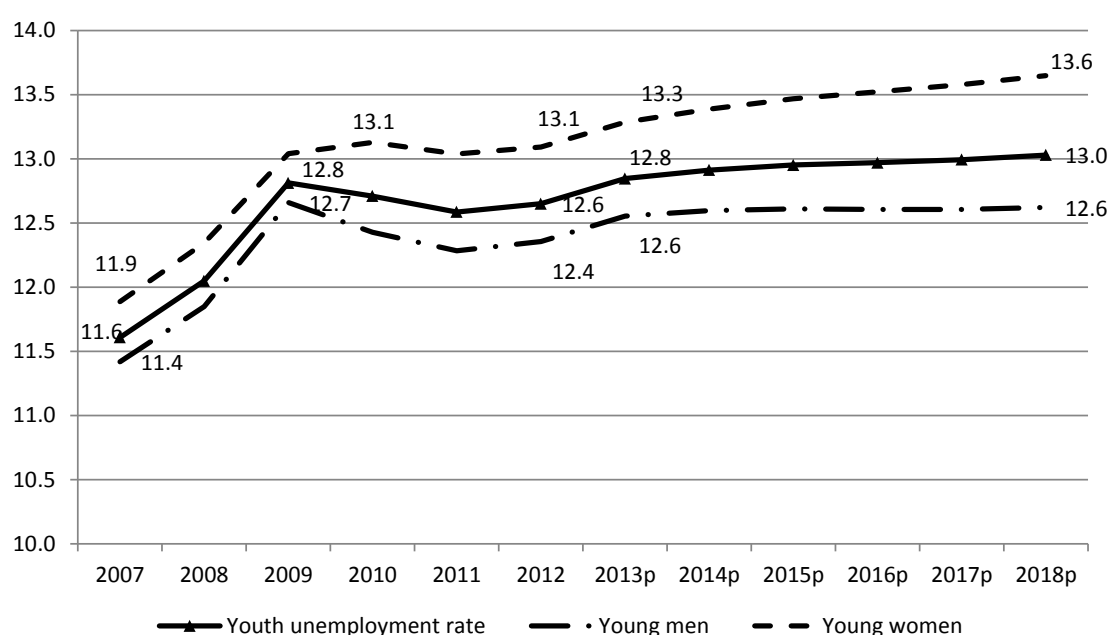
Data correspond to 2008 instead of 2007 for Argentina and to 2011 instead of 2012 for China.

Source: ILO estimates based on Eurostat and ILO Department of Statistics.

Young people continue to be particularly affected by the slowdown in activity. After some improvement in the global youth unemployment rate since the end of 2009, the number of young jobseekers appears set to jump up again in 2013 (see Figure 3). The

youth unemployment rate is expected to reach 12.8%, as high as during the peak of the crisis in 2009, and will continue to rise, reaching 13.0% in 2015. Due to demographic changes and different educational choices, youth cohorts on the labour market will become smaller over the next 5 years. As a consequence, despite a rising youth unemployment rate, the number of young jobseekers will stabilise at around 73 million worldwide, 4 million more than prior to the crisis in 2007. Young women are particularly affected by the crisis, with youth female unemployment rates projected to rise to an all-time-high of 13.6% globally by 2015.

Figure 3: Global youth unemployment (15-24 years old)



Source: ILO, Trends Econometric Models, July 2013.

It should be noted that in certain crisis countries employment losses have been more pronounced for the group of young adults aged 25 to 34 than for youth.³ These young adults are often the first to face job losses in crisis times, as a consequence of their lower seniority and experience, while they sometimes cannot benefit from specific youth labour market programmes or retraining offers, making a return to employment for this age group particularly challenging.

Regional youth unemployment rates show large variations. In 2012, youth unemployment rates were highest in the Middle East and North Africa, at 28.3 per cent and 23.7 per cent, respectively, and lowest in East Asia (9.5 per cent) and South Asia (9.3 per cent). In countries and regions with high poverty levels and high shares of vulnerable

³ OECD. Employment Outlook 2013, Paris.

employment and informality, the youth employment challenge is as much a problem of poor employment quality as one of unemployment. While the South Asian and Sub-Saharan African regions present relatively low youth unemployment rates, this is linked to high levels of poverty, which means that working is a necessity for many young people. For example, in India, there is evidence that youth unemployment rates are higher for families with incomes over the US\$1.25 poverty line than for those with incomes below this line.

II. Diverging trends in employment quality and incomes

While the integration of the global economy means that spillovers from recession in the EU and slow growth in other large advanced economies have significantly affected other economies at all stages of development, there are notable differences in the evolution of job quality among countries and regions. There are also differences in the evolution of job quality across sectors and income groups within countries.

In a number of advanced economies the global crisis has been accompanied by deterioration in the quality of employment. The *World of Work Report 2012* showed that between 2007 and 2010 the incidence of involuntary part-time and involuntary temporary employment increased in 85 per cent and 80 per cent, respectively, of the advanced economies analysed. Since 2010, part-time and involuntary temporary employment has increased in many countries where employment growth has resumed. The shares of part-time employment have increased in one-half of the labour markets that performed best in terms of overall employment rates and the shares of involuntary temporary employment have increased by one-third in these markets in that period. There has been an increase in phenomena such as zero-hours contracts that create employment relationships in which all economic risk is borne by the employee.

In most advanced economies income inequalities have widened over the past two years, thereby resuming the trend that preceded the onset of the global financial crisis. Evidence also suggests a widening of wage inequalities, following a brief pause in the immediate aftermath of the crisis. The highest incomes recently resumed their upward trend in most advanced economies for which information is available.

In emerging and developing countries, the share of informal employment remains high, standing at more than 40 per cent in two-thirds of countries for which data are available. In this respect, the policy challenge for emerging and developing countries is to consolidate earlier gains, notably by facilitating the transitions to the formal economy and building adequate and sustainable social protection systems.

One positive trend that has persisted through the crisis is the reduction of poverty and narrowing of income inequalities in the majority of emerging and developing economies for which data exist. In these countries poverty has declined and the middle-income

group is expanding. In 2013 more than 42% of all employees in developing countries were in the group defined as middle class (based on a definition of income between US\$4 and US\$13 per day at purchasing power parity) or in the group with incomes above that. This represents an impressive gain from the 24.8% share held by this group a decade earlier. Poverty reduction and the rise of the global middle class have continued throughout the crisis, albeit at a slower pace than during the previous decade.

Most of the reduction in poverty has come from the fast growing countries in East and Southeast Asia but other regions have also seen a gradual increase in average earnings and a reduction of working poverty. These improvements are still fragile and it must be noted that poor and vulnerable people still represent the majority of the population in emerging and developing countries (see Table 5). The average Gini coefficient of income inequalities is still over 40 in the majority of developing and emerging countries and over 50 in many Latin American and African economies.

Table 5. Size of different income groups in emerging and developing economies, 1999-2010, in millions of people

	Poor	Vulnerable group	Middle-income group
Low-income economies			
1999	432.8	63.2	18.9
2010	493.5	131.5	38.5
Lower-middle-income economies			
1999	1,432.5	556.3	69.3
2010	1,371.1	904.8	171.4
Upper-middle-income economies			
1999	1,560.8	497.7	175.0
2010	1,046.7	888.9	484.2
Total			
1999	3,426.2	1,117.2	263.2
2010	2,911.3	1,925.2	694.1

Note: Estimates are of the number of people in millions, by country income group (based on World Bank country classifications). For the majority of countries the data are estimated from consumption surveys. In low income economies, poor are defined as ≤ USD 2, vulnerable (USD 2-4), middle-income (USD 4-13); in lower-middle-income economies poor are defined as ≤ USD 2, vulnerable (USD 2-6), middle-income (USD 6-20); in upper-middle-income economies poor are defined as ≤ USD 4, vulnerable (USD 4-10), middle-income (USD 10-50). For further explanation see ILO, *World of Work Report*, 2013.

Source: ILO *World of Work Report*, 2013.

The rise of the middle class in emerging and developing countries has provided welcome support for aggregate demand at the global level. These groups contribute substantially to economic growth through higher demand and investment in the education and skills of their households. Indeed, the rise in the middle class has fuelled consumption growth in these countries, which has partly offset the slowdown in exports as demand from advanced economies has weakened. In commodity-dependent countries consumer demand has partially compensated for the deceleration or fall in commodity prices. At

the same time, it has contributed to some progress on re-balancing international trade flows between advanced and emerging economies, a factor that is believed to lead to a more stable recovery of the world economy and may eventually lead to sustainable employment growth.

III. Policy responses and options to address the employment challenges

At the global level, weak aggregate demand is holding back investment in the real economy. Thus two of the four main components of macroeconomic activity are underperforming. A third component, government spending, has been constrained in many countries by high debt levels, increased borrowing costs or fears of financial contagion that would affect the cost of servicing sovereign debt. In some countries with manageable debt levels, fiscal consolidation has nonetheless become the preferred political option. The final macroeconomic component, net exports, cannot be increased by all economies in the global economic system. With low overall demand, the economies that gain export share have done so mainly at the expense of other economies.

To break the vicious circle of low aggregate demand, a primary point for intervention is to address household income and consumption. This section discusses policy actions at the national level that can address deficits in household income, which in some cases have accumulated over decades. The section then addresses national level measures to improve investment. Finally, the section discusses the issue of international policy coordination.

Domestic policies to address household income

Restoring sustainable growth in incomes in order to achieve sustainable job growth will require, first, *wage growth in line with productivity*. Indeed, since 1999 average labour productivity has outpaced real average wage growth in G20 countries as a whole (see Figure 4). Countries trying to increase their competitiveness through wage cuts can find themselves in a wage moderation trap, in which export growth fails to offset falling domestic demand, producing an overall contraction in aggregate demand and growth. It is currently being observed in some advanced countries, particularly in Europe. A number of countries, particularly emerging economies, have instituted policies of increasing minimum wages and encouraging collective bargaining to raise overall wages and thus stimulate domestic consumption. Minimum wages can serve as a social floor for wage adjustments, to help reduce working poverty and inequality. They can also act as a buffer against wage deflation. During the crisis, roughly half of the world's economies, including Brazil, China, Japan, the Russian Federation, the United Kingdom and the United States, increased minimum wages (see ILO inventory of crisis responses).

Figure 4. Trends in growth in average wages and labour productivity in the G20*, excluding China (index: 1999 = 100)



*Argentina is excluded from the calculations. See endnote 12 of the *Global Wage Report 2012/13*.

Source: ILO Global Wage Database.

Second, in many cases labour market institutions need to be strengthened through well-designed labour market regulations and collective bargaining structures. The view that less labour market regulation is needed to create jobs fails to recognize the important role of labour market institutions in addressing market failures and preventing excessive inequality. Effective collective bargaining mechanisms provides a framework for achieving better balance between wage and productivity growth and addressing issues of job quality. Indeed, the weakening of such institutions and workers' bargaining position has been a major factor explaining the decline in wage shares.

There is also evidence that in countries like Argentina, Brazil and Turkey, well-designed regulations and institutions have contributed to facilitate transitions to formal employment. In Australia, Austria and Canada, such a balanced approach to regulation has contributed to maintain low unemployment and a reasonable degree of job stability. Given the difficulty with union organizing in the context of deepening labour market segmentation, more creative policy actions can be taken, including the possibility of extending collective agreements to unorganized workers, as demonstrated by some European countries. These workers, particularly low-paid workers, have taken a greater burden of the widening inequality and need a stronger protection in wage determination.

Third, well-designed *social protection* and income support measures, such as unemployment benefits and pensions can act as important economic demand stabilizers, helping to limit unemployment. Maintaining, extending or adapting these programmes can provide support to the vulnerable. In emerging and developing economies, social protection floors, including employment guarantees and cash transfers, can provide support to vulnerable households to keep them from distress activities, such as selling assets or taking children out of school, and thus can also improve medium-term productivity. Ethiopia, India and South Africa provide positive examples of public employment programmes, while Argentina, Brazil, Mexico and many other countries have instituted successful cash transfer programmes. These measures have also had measurable effects in reducing inequality and poverty.

Providing job search and employment services for the unemployed and others who can work is an investment that helps both to support aggregate demand and to boost the income and well-being of those who gain employment. The extent of coverage and the level of generosity of such labour activation services vary considerably across countries. There are often criteria for access (e.g. minimum number of hours worked) which reduce the number of unemployed or new labour market entrants who are covered. Unemployment benefit systems are often limited in scope in emerging economies. In a survey of 55 countries with available information, 42 per cent of the advanced economies and nearly one-third of the emerging and developing economies extended unemployment benefit coverage or implemented additional social assistance or protection measures during the crisis (ILO *World of Work Report*, 2013).

Box 2: Ghana's social insurance scheme for the informal economy

In 2003, Ghana passed the National Health Insurance Act, which created a member-based system for health insurance⁴. The programme specifically targeted informal workers, as less than 20 per cent of Ghana's working population is formally employed in the sense that it receives a wage or salary.⁵ The programme is financed in part by the individual, and in part by a 2.5 per cent value-added tax imposed by the government.

Between 2005 and 2007, the coverage rates of the national health insurance programme more than doubled, and one-quarter of the new signups came from individuals working informally.⁶

Still, there have been challenges with the expanded system. A 2009 report by Women in Informal Employment Globalizing and Organizing (WIEGO) cited focus group interviews that revealed poor communication about the nature of premiums and coverage, significant changes to the programme on short notice and a lack of consultation in

⁴ See full text of National Health Insurance Authority mandate at <http://www.nhis.gov.gh/nhia.aspx>.

⁵ International Labour Organization, 2010. *World social security report 2010-2011*. ILO: Geneva.

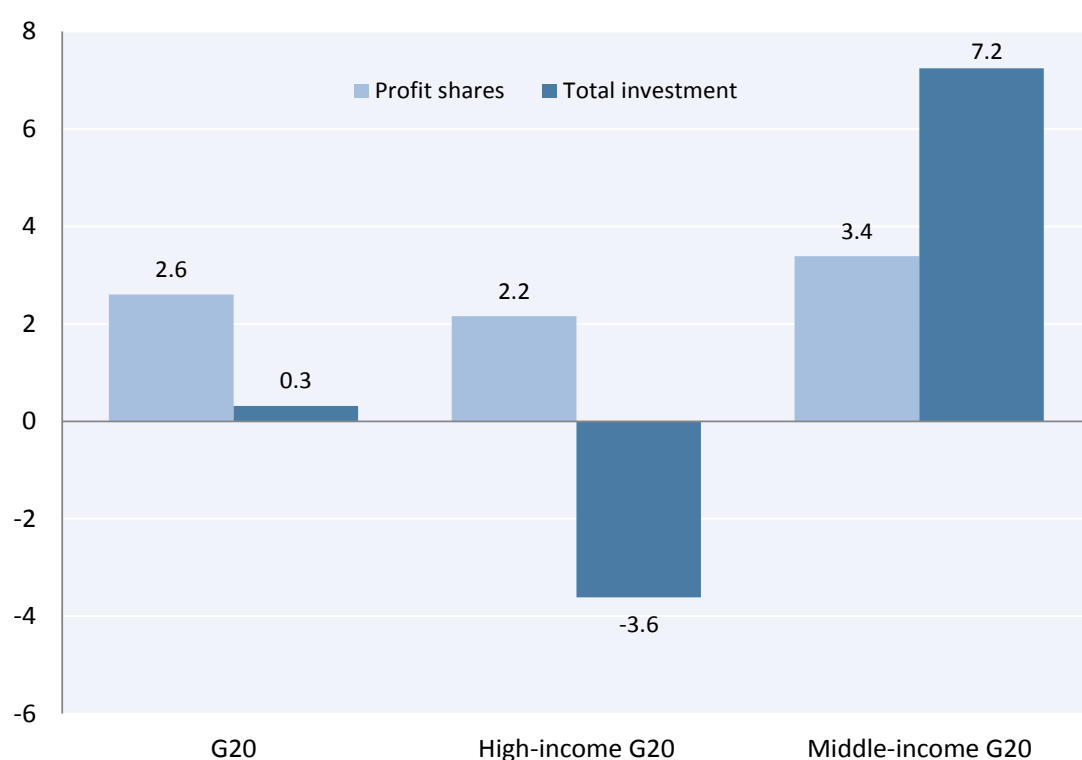
⁶ This issue is discussed extensively in International Labour Organization, 2011. *Tunisia: a new social contract for fair and equitable growth*. International Institute for Labour Studies, Geneva.

matters regarding the programme of the informal workers for whom the programme was designed.⁷ Despite these problems, the programme has been a strong stride forward in the protection of Ghana's most vulnerable citizens.

Domestic policies to address investment in the real economy

The weakening link between profits and investment is an issue which requires greater policy attention (Figure 5). In order to strengthen this link, corporate governance and financial reforms are called for. Financial reforms could also significantly contribute to realigning incentives and the supply of bank activity to the needs of the real economy.

Figure 5. Changes in profit shares and total investment between 2000 and 2010/11 (percentage points)



Note: Profit shares of the total economy and total investment are measured as a per cent of GDP. Data refer to the most recent available information for each country. For Australia, European Union, France, Germany, Italy, Japan, Mexico, Republic of Korea, Russian Federation, South Africa and the United Kingdom refer to 2011. Data for Canada refer to 2010, Brazil and Saudi Arabia 2009, and China 2008. Indonesia and Turkey are excluded from the analysis due to lack of data for profit shares and France, Germany, Italy and the United Kingdom are excluded from the EU-27 group to avoid double counting. Income groups are based on the gross national income (GNI) per capita, according to the World Bank country classification. High-income countries are those countries with a GNI per capita of USD 12,476 or more. Country group averages correspond to weighted averages based on 2010 purchasing power parity (PPP) GDP weights.

Source: ILS estimates based on national accounts.

⁷ Alfters, L. 2009. *The Ghana national health insurance scheme draft document*. Women in Informal Employment Globalizing and Organizing.

Job-centered macro policies

As shown by the experience of some countries during past financial and economic crisis, well-designed and coordinated macroeconomic, employment and social policies can have mutually reinforcing effects. In Argentina, for example, carefully targeted social and employment measures – combined with effective macroeconomic policies – were important factors behind the strong recovery from the severe crisis of 2001-02. In particular, a programme to help jobless households was launched in May 2002 (*Plan Jefes y Jefas de Hogar Desocupados*), the system of minimum and adjustable wages, which had been abolished in the 1990s, was reinstated and labour market institutions, such as labour inspection and collective bargaining, were strengthened. Sweden, likewise, successfully overcame the financial crisis of the 1990s through the use of a coherent policy package. As a first step, the Government reacted quickly to restore confidence in the Swedish financial sector by issuing an unlimited guarantee that no depositors or other counterparts to Swedish financial institutions would suffer any loss and by consolidating financial institutions. Moreover, banks demanding public support had an obligation to provide full disclosure of their financial positions and shareholders were not covered by the Government guarantee being exposed to the same degree of capital loss risk as the Government. Second, fiscal policy was accommodating and employment programmes were developed to reduce the risk of long-term unemployment and labour market exclusion. Finally, social dialogue was maintained and social partners agreed to wage increases in line with the need for international competitiveness in the manufacturing industry.

In general, a job-centred macroeconomic strategy would include more emphasis on the employment impacts of monetary, fiscal and structural reform measures. It would require careful consideration of the path and content of fiscal consolidation measures. Greater attention would be paid to domestic demand – in particular, to household incomes, as studies show that fiscal consolidation could worsen income inequality⁸ – and to addressing concerns about competitiveness in a manner which supports aggregate demand, investment and jobs.

Recent examples of such approaches include the United States, Japan and Republic of Korea. In the United States, with inflation running below the Government objective of 2 per cent and unemployment far above its frictional level, the long-standing dual mandate of US monetary policy to achieve both full employment and price stability has been reinforced. More specifically, the Federal Open Market Committee (FOMC) decided that interest rates would be held at low levels as long as the unemployment rate remains above 6.5 per cent; projected inflation for the following 1 or 2 years remains at no more than 0.5 percentage points above the 2 per cent objective; and longer term inflation expectations continue to be anchored.

The Government of Japan, in an effort to revive the economy and create employment,

⁸ See IMF Fiscal Monitor, October 2012.

approved US\$117 billion of spending on public works, incentives for corporate investment and financial aid for small firms. Moreover, the Japanese Government has called on employers and trade unions to raise wages in order to combat deflation and is calling for the Bank of Japan to add job growth to its mandate, as did the US Federal Reserve.

The Government of Republic of Korea recently announced a roadmap to achieve an employment rate of 70 per cent. The roadmap was designed to move the main axis of the job creation from manufacturing and large companies to services and SMEs; to spread a culture of work-life balance by reducing long working hours; and to create decent part-time jobs. Thus, the set of measures include financial aids for SMEs, incentives for job creation in high value-added services industries, part-time public jobs and tax incentives and subsidies for part-time job creation. In addition, the Government will remove obstacles that prevent women, youth and older people from entering the labour market and actively support specialized programmes for these groups in order to encourage their participation in the labour market.

Policy coordination

The latest G20 discussion has focused on global action to ensure rebalancing and stronger growth and job creation. In recognition of the need to coordinate macroeconomic and employment policies to achieve these goals, Russia for the first time convened a joint meeting of G20 Finance Ministers with G20 Employment and Labour Ministers to explore the challenges and potential policy responses.

The joint communiqué issued by the Ministers after their meeting is instructive as to the evolution of policy options under consideration.⁹ The Ministers concluded that: “Coordinated and integrated public policies are crucial to achieving strong, sustainable, and balanced growth, and restoring confidence in the global economy. We strongly support current efforts to find the right balance between labour demand and labour supply, while ensuring adequate social protection through a comprehensive and coherent policy package. Given the high relevance of long-term investment for growth and employment, we support measures to provide better access to financing sources, including for small and medium-sized enterprises, tailored to national circumstances. We will maintain supportive macroeconomic environments, which are conducive to job creation, investment, and business development, in order to allow the private sector to play its role as a driver of employment and growth.”

At the G20 Summit in September the Leaders endorsed the Ministers’ recommendations and agreed “to mobilize, coordinate and integrate, our national policies (macroeconomic, financial, fiscal, education, skills development, innovation, employment, social protection) to promote the creation of quality jobs, while increasing productivity with full respect for Fundamental Principles and Rights at Work, to ensure higher employment levels and a

⁹ G20 Labour and Employment and Finance Ministers’ Communiqué, July 19, 2013, Moscow.

sustained decline in unemployment, underemployment and informal employment.”¹⁰ The Leaders called on the Ministers “to continue to collaborate to promote quality job creation and job-rich and sustained growth.”

The emphasis by the G20 Leaders and Ministers on the need to coordinate macroeconomic and labour market policies is welcome, and echoes the position taken by the ILO over recent years. The range of policy options included in these statements and the Declaration of G20 Labour and Employment Ministers track closely with ILO policy positions and recommendations. The inclusion of representatives of regional groups of countries in the G20 deliberations broadens the relevance and increases the legitimacy of the conclusions reached.¹¹

The discussions and conclusions represent a significant evolution of the international policy dialogue on how to address employment challenges. The recognition of the need to address both the supply and demand sides of the labour market is an important innovation compared to earlier discussions, and the acknowledgement that labour and social policies also have an effect on aggregate demand and overall macroeconomic results is a sound foundation for further progress.

¹⁰ G20 Leaders’ Statement, September 6, 2013, St. Petersburg.

¹¹ Under the Russian presidency the discussion has also included Ethiopia as current chair of the African Union, Senegal as current chair of the New Partnership for Africa’s Development, Brunei Darussalam as current chair of ASEAN, Kazakhstan representing the Commonwealth of Independent States and the Eurasian Economic Community, Singapore as president of the Global Governance Group and Spain.