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Committee on Employment and Social Policy **ESP**

SECOND ITEM ON THE AGENDA

Global employment trends and examples of policy responses

1. At its November 2002 session, the Committee requested the Office to prepare a paper reporting on global employment trends in the current economic conjuncture, presenting an analysis with examples of the effectiveness of economic and employment policies to promote employment growth. The paper presents a summary of current global and regional employment trends as recently published by the ILO [1] with selected examples of national policy responses. It concludes by identifying some key policy issues for debate by the Committee.

Global employment trends

2. The continuing economic slowdown in 2002 and uncertain economic prospects have resulted in an alarming global employment situation. The ILO estimates global unemployment to be 20 million more than at the end of 2000, reaching approximately 180 million at the end of 2002. This rise in open unemployment has affected women most severely, as their sources of income and employment are particularly vulnerable to economic shocks. Furthermore, large numbers of young people entering the labour market are increasingly unable to find employment, and global youth unemployment rates are rising again after the decline of the late 1990s. Some 74 million women and men aged 15 to 24 were unemployed at the end of 2002.

3. The unfavourable employment situation of the last two years, however, has mainly led to an increase in informal employment rather than open unemployment, contributing significantly to a rise in the number of working poor, increased job insecurity and worsened working conditions. Reductions in working poverty achieved in the late 1990s are being reversed and the ILO estimates that by the end of 2002 the numbers in working poverty, i.e. workers not earning enough to keep themselves and their families above the US$1 a day poverty line, [2] will once again have reached 550 million, their 1998 level. If

[1] ILO: *Global Employment Trends*, Jan. 2003, Geneva. (See appendix for full list of reference documents.)

[2] At 1985 purchasing power parity prices.

present trends continue, the United Nations Millennium Development Goal (MDG) to halve world poverty by 2015 will be seriously threatened in many parts of the world.

4. The information and communication technology (ICT) bubble that burst in spring 2001 set the initial economic slowdown in motion. Employment in the ICT sector decreased drastically throughout the world, making a large contribution to the global increase in open unemployment. The events of 11 September 2001 amplified the effects of the economic slowdown and badly affected employment in travel and tourism, with an estimated 10.5 million jobs lost worldwide (World Travel and Tourism Council, 2002). In developing countries, many jobs have been lost in export sectors as a result of the industrialized countries' economic slowdown. Labour-intensive sectors, such as the garment sector, have been hit severely. The employment impact is widespread and has a greater effect on women than men, as they are more likely to work in such sectors.

5. In addition, fragile financial situations in many parts of the world were brutally exposed by lack of investor confidence. Employment decreased significantly in crisis-hit Argentina, resulting in extremely high unemployment rates of above 20 per cent in 2002, with knock-on effects in neighbouring countries.

6. Armed conflicts, violence and natural disasters have also contributed to rising unemployment and poverty in the past two years in countries as far apart as Colombia, Mozambique and Nepal. In the Middle East, unemployment spiralled in the West Bank and Gaza Strip, and Israel went into further recession.

Regional employment trends and selected policy experiences

7. Employment trends by regions and subregions vary as they were hit in different ways by the global economic slowdown and post-11 September developments (see box 1). These trends give some pointers as to how national policy may react.

8. Open unemployment increased most in East Asia (principally China) and the industrialized countries – the United States in particular, while it remained stable or increased marginally in the other regions (table 1). Obviously these regions suffered from the economic slowdown, but its consequences are felt mainly through an increase in underemployment and working poverty.

9. **Latin America and the Caribbean (LAC)** was the region most affected by the 2001 global economic slowdown in terms of output growth (box 1). Unemployment increased in almost all of Latin America and the Caribbean between 2001 and 2002, bringing the unemployment rate close to 10 per cent in 2002, despite fewer people joining the labour force. One of the major challenges in Latin America and the Caribbean is youth unemployment, which hit 16 per cent in 2001, up from 12 per cent in 1997. Moreover, nearly all of the jobs for young people are emerging in the informal economy.

Table 1. Unemployment rates by region, 2000-02

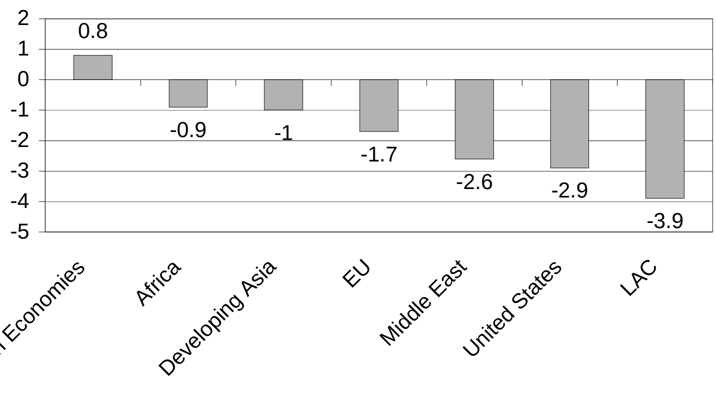
	2000	2001	2002*
Asia and the Pacific	3.8	4.1	4.2
East Asia	3.2	3.6	4.0
South-East Asia	6.0	6.8	6.5
South Asia	3.4	3.5	3.4
Latin America and the Caribbean[1]	9.7	9.6	9.9
Middle East and North Africa	17.9	18.9	18.0
Sub-Saharan Africa	13.7	14.0*	14.4
Transition economies	13.5	12.6	13.5
Industrialized countries	6.1	6.4	6.9

* Projection. [1] Open urban unemployment.
Source: Estimates and projections based on ILO data using the method developed in Berger and Harasty (2002); for industrialized countries, OECD (2002a); for transition economies, UN/ECE (2002).

Box 1. Effects of the 2001 global economic slowdown and the 11 September events on GDP growth across regions of the world

The graph below shows the percentage point difference between the 2001 GDP growth rate forecast in September 2000 and the 2001 GDP growth rate estimated in September 2002. Assuming that both forecasts and estimations were realistic, this difference can be taken as the loss of output attributable to the 2001 economic slowdown as well as to the 11 September attacks.

Difference between realized and forecast output growth in 2001 (%)



Source: IMF (2000 and 2002).

10. While serious challenges remain, some of the countries in the region have responded actively to the downturn and have demonstrated some medium- to long-term improvements in their economic and employment performance. **Costa Rica** during the past decade has created a favourable environment for employment and economic growth, while sustaining relatively high social security coverage (box 2). **Chile** has used exchange rate devaluation and restrictions on capital flows as a key policy instrument to promote growth and employment (box 3).

Box 2. Policy mix for growth, employment and social development – Costa Rica

In Costa Rica, economic policies followed over the long term have allowed for a stable macroeconomic environment, in spite of internal and external constraints. This was complemented by policies to attract investment into export-oriented activities using high- and medium-level technology, which required highly skilled workers. At the same time, education policies were strengthened at all levels, which was reflected in Costa Ricans receiving, on average, the highest number of years of education in the subregion (along with Panama). Similarly, training policies were strengthened and training in low-income sectors was improved.

The promotion of investment into non-traditional export sectors (agriculture, industry and tourism) has balanced out the negative employment effects of efforts to contain public spending and public employment. In the four years 1995-99, private sector employment rose by 188,000 and public sector employment fell by 3,000. Exports to the United States quadrupled.

At the same time, social security coverage is the highest in the region and remained stable during the 1990s (the coverage of wage earners was 78.5 per cent in 1990 and 77 per cent in 2001). In addition, minimum wages increased by 1.1 per cent per year. Finally, Costa Rica managed to achieve a relatively low level of unemployment during the last decade.

Source: MDT San José, ILO.

Box 3. Exchange rate and short-term capital flows for employment growth – Chile

Exchange rate policy has often posed serious dilemmas. Some countries have held on to exchange rate pegs as an anti-inflationary device long after it was obvious that they were an obstacle to employment and output growth. Conversely some countries have allowed their exchange rates to be set by market forces alone, often dominated by short-term capital movements. Both extremes can have negative output and employment impacts. Better management of exchange rates can well be instrumental in promoting employment.

Moving away from an overvalued rate gives a boost to jobs through making exports more profitable and encourages labour-intensive import-competing activities. On the other hand, one reason for the Asian financial crisis was that capital inflows pushed exchange rates too high. Thus, one ingredient in a successful exchange rate policy in a globalizing world is the means to dampen volatility of short-term capital flows. Chile is one of the countries that effectively restricted short-term capital inflows during the 1990s, and in its trade agreement with the United States has insisted that this tool could be used again in case of strong speculative capital movements.

Efforts at exchange rate devaluation, made effective by control on short-term capital flows, showed a significant positive impact on the economy. The Chilean export sector improved its competitiveness, and the international pressures on sectors producing mainly for the domestic market were eased.

Source: MDT Santiago, ILO.

11. Asia suffered most from the downturn in the ICT industry due to the drop of exports to the United States. **South-East Asia** was faced with this downturn just as it was beginning to fully recover from the 1997 financial crisis. Experiences of individual South-East Asian countries varied considerably. Indonesia, Malaysia, the Philippines, Singapore and Thailand, which depend heavily on trade, suffered severely from falling exports, while Cambodia, Lao People's Democratic Republic and Viet Nam sustained high growth rates due to improved access to markets in industrial economies or improved performance in the agricultural sector. Unemployment, which had not recovered from the 1997 crisis, rose in Indonesia, Malaysia and Thailand and recent progress in poverty reduction was partially eroded.

12. **East Asia** also recorded significantly lower output growth and deteriorating employment during the two-year period, with joblessness rising from 3.2 per cent in 2000 to 3.6 per cent in 2001 and 4 per cent in 2002. In China, the official figure for urban unemployment in 2001 was 3.6 per cent, though recent estimates suggest it might be as high as 7.5 per cent today because of high underemployment in the agricultural sector and because of an end to the practice of keeping redundant workers in the public sector, known as labour hoarding.

13. To respond to the externally induced economic slowdown without overly compromising employment generation, **South-East and East Asia** have adopted a combination of expansionary macroeconomic policy and active labour market policies (box 5).

14. As a long-term development strategy to reduce external vulnerability, **Malaysia** is one of the countries in the region which has shown that managing trade liberalization can promote long-term domestic economic development, growth and employment (box 4).

Box 4. Stimulating employment growth through trade liberalization – Malaysia

Trade liberalization, when managed properly, can have significant positive effects on employment, output and incomes. Malaysia implemented a two-faceted strategy of import substitution and export promotion. The emphasis shifted over time between the two, but both elements co-existed throughout. Particularly since the mid-1980s, trade liberalization together with active encouragement of FDI inflows led to rapid employment creation, directly in export-oriented sectors and indirectly, through a multiplier effect, in domestic market-oriented sectors. Unemployment rates fell more rapidly and substantially during phases when export orientation was the dominant strategy, and Malaysia actually became a significant importer of labour by the late 1980s. As the labour market tightened, real wages for all types of workers grew. The emerging export-oriented industries, moreover, generated a rapid growth of demand for unskilled labour. At the same time, the Government's efforts to expand training opportunities, particularly from 1993 onwards, through the creation of a Human Resource Development Fund and other measures, helped raise the skill level of the workforce.

Even in 1998, despite the Asian financial crisis, the unemployment rate rose only marginally to 3.2 per cent. It should be noted, of course, that this was partly because much of the retrenchment affected the mostly unskilled foreign workers who had, by then, come to constitute around 20 per cent of the labour force. During the recent slowdown, the unemployment rate rose to 3.6 per cent in 2001.

Source: Ghose (forthcoming); Rasiah (2002).

15. During 2001 and 2002, **South Asian** economies have shown resilience in the face of the global slowdown and post-11 September developments. Nevertheless, security concerns, poor weather conditions, a slowdown in exports and declining tourism revenues have meant that the employment situation has deteriorated in the region, with a negative impact on the poverty situation and a rise in the number of working poor. Poverty increased, as did the number of working poor. The region's unemployment rate rose from 2.9 per cent in 1995 to 3.4 per cent in 2002, with unemployment rates in Pakistan, for example, climbing in recent years to nearly 8 per cent. The unfavourable employment situation in 2001 and 2002 also points to an increase in the number of people with low incomes and poor working conditions in the informal economy, rather than sharp increases in unemployment rates.

16. **Sub-Saharan Africa** has managed to sustain a fairly constant output growth rate, though in per capita terms it is often below 1 per cent. The open unemployment rate increased from 13.7 per cent in 2000 to 14.4 per cent in 2002, though the estimates for 2002 may have to be revised due to the growing food crisis (table 1). Armed conflicts and natural disasters repeatedly destroy local economies and create situations of unemployment and poverty. Ensuring rapid response to a situation is critical for sustaining livelihoods in the aftermath of a crisis, as the example of Mozambique shows (box 6). In addition to job loss due to conflicts, an issue of growing importance for this part of the world is the "brain drain", depriving the continent of much-needed human capital; it is associated with the serious problem of unemployment and underemployment of young people despite improvements in their education. The health situation is also worrying in sub-Saharan Africa, depleting the labour force of much-needed human resources. A recent study in the United Republic of Tanzania shows that, as a result of the HIV/AIDS epidemic, the age structure of the labour force is changing, with children 10-14 years and juveniles

15-19 years old, comprising a significantly larger share than prime age adults aged 20-35 in 2000-01 compared with 1990-91.[3]

Box 5. Responding to a downturn through a combination of macroeconomic policy and active labour market policies – East and South-East Asia

Some of the countries in East and South-East Asia – Indonesia, Malaysia, the Philippines, the Republic of Korea and Thailand – have demonstrated that sound but expansionary macroeconomic policy can considerably dampen the effects of negative external shocks to the economy. With the exception of Indonesia, monetary policy was relaxed in late 2001 and 2002 and administered interest rates were brought down in all these countries. Budgetary stimulus packages were introduced in Malaysia, the Republic of Korea and Thailand and produced quick and positive impacts on employment and incomes. This was made possible by the fact that fiscal deficits were low at the time of the downturn and these countries thus had room for expansionary policies. But the other important fact is that these stimulus packages are short-term measures and the objective of all these countries is to reduce their budget deficits again over the medium term.

Expansionary macroeconomic policies allowed more resources to be directed to necessary active labour market policies which bring maximum impact to employment creation. These include training and retraining policies and programmes, labour market information services, credit and livelihood promotion programmes and special employment (or public works) programmes offered considerable scope for expanding wage and self-employment and raising income levels. Active labour market policies have been an important component of response to the Asian economic crisis and to the more recent global economic slowdown. They benefit not only workers in large-scale establishments but also persons working in informal enterprises, as well as those in casual employment.

Public works or emergency work programmes form a component of active labour market policy. They can be used to quickly create jobs, sustain purchasing power or jump-start a sagging economy. Their role as a means of rapid response to crises to reduce vulnerability of an economy should be better appreciated.

Source: Islam and Krishnamurty (2002).

Box 6. Rapid response to the 2000 and 2001 floods in Mozambique

The Mozambique floods had a devastating impact not only on life and property, but also on productive assets and jobs. The ILO estimated that the floods in 2000 alone may have resulted in the loss of some 300,000 jobs and damaged the prospects of many small businesses. About 19,000 fishermen lost boats and fishing gear, 141,000 hectares of food crops were washed away, 20,000 cattle perished, 40,000 women-headed households lost their livelihoods and many small traders lost all their stocks.

While other agencies were focusing on the loss of life and property, the ILO drew attention to the massive loss of employment opportunities and its implications in terms of widespread distress and poverty. Its response centred on the revival of the badly affected economy at the local level through employment-friendly policies and programmes. This was done through an approach which also ensured that national capacity to respond to the crisis, particularly within the Ministry of Labour, was simultaneously strengthened.

Among the specific measures adopted through the ILO intervention in the Chokwe district in just eight months were: (1) rebuilding of four local markets and rehabilitation of small traders; (2) rehabilitating the district labour office; (3) creating a microcentre for vocational training; (4) arranging training in making and repairing agricultural equipment and motor pumps; and (5) providing goats and draught animals for livestock and agricultural activities.

The project assisted 1,385 direct beneficiaries, of whom 87 per cent were women.

Source: ILO, InFocus Programme on Crisis Response and Reconstruction.

17. The **Middle East and North Africa** experienced a deterioration of overall economic conditions over the last two years. GDP growth fell from over 6 per cent in 2000 to 1.5 in

[3] Arndt and Wobst (2002).

2001.[4] Of all the developing regions in the 1990s, this region had the highest share of government employment in the labour force, the highest government wage bill to GDP and the most extensive economic production by the public sector. Reforms launched in the 1990s resulted in a significant downsizing of the public sector leading to dismissals and redundancies and subsequent open unemployment reaching double-digit levels (table 1). Youth unemployment was distressingly high in some countries, including Syria, Algeria, Bahrain and Morocco. Moreover, the Gulf countries are increasingly adopting policies to substitute migrant workers with their nationals. This can have significant consequences for employment and remittances to the countries supplying labour. Given the very high rate of population growth, youth employment is the biggest challenge the region has to face.

18. Unemployment in **transition economies** is on the rise again, despite economic recovery and high growth rates achieved in 2000 and 2001. This is because enterprises are seeking to become competitive by ending the practice of keeping redundant workers on their pay roles and by phasing out labour-intensive technologies. At the same time, governments are cutting civil service employment. This is the only region recording a fall in employment between 1995 and 2000. Accelerating structural change in anticipation of the European Union accession has also pushed up unemployment in the candidate countries.

Box 7. Managing the transition through incentives for enterprises and labour market policies – Slovenia

Slovenia successfully emerged from the transition crisis as early as 1993. Since then, the country has been able to sustain reasonably high economic growth rates above 4 per cent per annum and the medium-term economic outlook is equally good. Slovenia and Hungary are the only transition countries experiencing significant employment gains in recent years. Unemployment started to decline systematically after 1998 to 6.5 per cent in 2002.

There are many reasons for the relatively favourable economic and employment development of Slovenia in the transition period, in marked contrast to other transition countries. Although previously a “market socialist” economy as part of former Yugoslavia, the Government adopted a gradual path of economic reform in combination with very prudent economic policy, which helped keep fiscal and trade balances well under control. As a result consumer price inflation, very high in the early 1990s, was reduced to below 10 per cent in 1996 and sustained at that level ever since. This created a favourable financial environment for investment – gross fixed capital formation exceeded 20 per cent of GDP in 1995 and has since increased – contributing to an increasing demand for labour. Furthermore, the stock of inward foreign direct investment tripled between 1993 and 2001 to almost US$3 billion, accompanied by significant job generation. Many restructured state-owned enterprises were put under strict financial control, which improved their performance. They became profitable and could later find new investors more easily.

In order to promote employment, the Government provided extensive support to business start-ups, which resulted in the establishment of some 23,000 new businesses during the 1990s. Also the hiving off of ancillary activities in the process of restructuring of large companies contributed to the creation of many new small companies, which have become the major new job generators, especially in construction and services.

The Slovenian Public Employment Service is the most developed among the transition countries and provides a wide range of programmes ranging from job mediation, through vocational guidance for unemployed youth, labour market training, subsidized employment, public works, small business promotion programmes, internships, mobility measures, local employment initiatives, programmes for disabled persons, as well as unemployment benefits and assistance. There are also programmes providing early intervention to redundant workers to prevent their open unemployment and facilitating their re-employment. In addition, a large proportion of employed persons participates in retraining or skills upgrading courses usually funded by their enterprise (in 1995 some 53 per cent of the workforce), which have improved their abilities and prevented their redundancy.

Slovenia’s Economic and Social Council has certainly contributed to the overall performance of the country, including in terms of employment by seeking tripartite cooperation and industrial stability among the social partners. The latest Tripartite Private Sector Pay Policy Agreement was concluded in June 2000 (there is a similar agreement for the public sector). The overall objective is to set common guidance for pay policy with a view to maintaining a balance between the needs of workers for increasing real wages and the concern of employers and government for enhancing enterprises’ and the country’s competitiveness.

Source: Cazes and Nesporova (forthcoming); OECD (2002b); www.eiro.eurofound.eu.

[4] IMF (2002).

19. Structural reforms compounded by increasing vulnerability to the external economic environment make the policy challenges for the transition economies particularly difficult. However, **Slovenia** – a small open economy with a population of approximately 2 million and a GDP per capita of US$9,105 in 2000 – was an exception in creating a favourable environment for both economic and employment growth (box 7). It managed macroeconomic policies well, implemented incentive mechanisms that created viable enterprises and provided active labour market policies to sustain and generate employment.

Employment prospects: Shaping and securing recovery

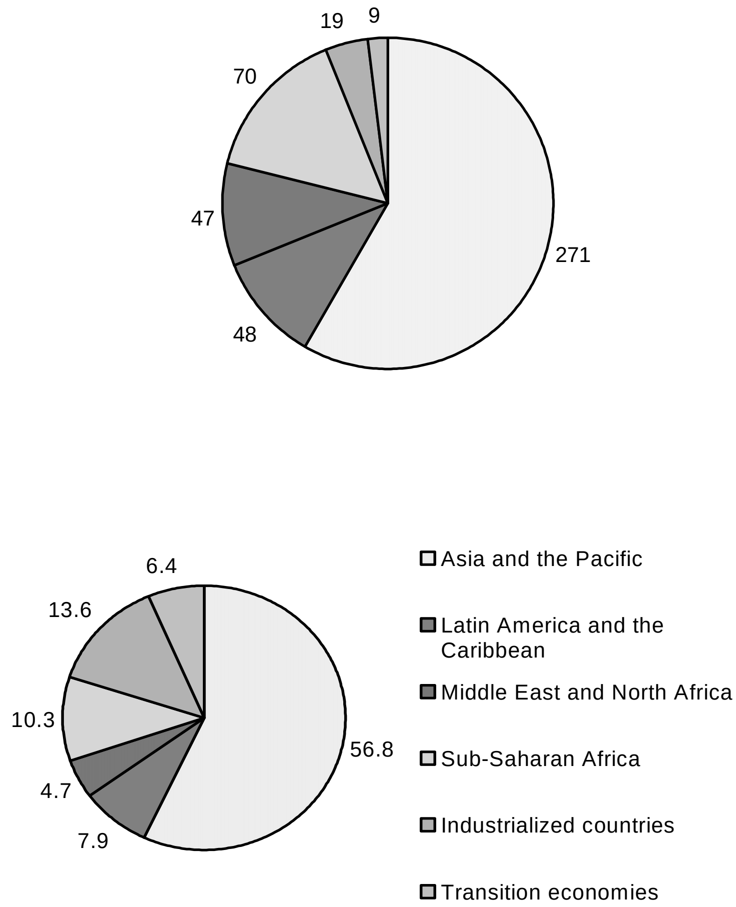
20. Close to 60 per cent of the world's labour force will be in Asia by 2010, China alone accounting for one-quarter. The other developing regions (sub-Saharan Africa, the Middle East and North Africa, and Latin America and the Caribbean) will also see their share increase by 2010. The industrialized countries and transition economies, on the other hand, will see their share decrease to about one-fifth of the world labour force by 2010 (figure 1(a)). As Figure 1(b) shows, the bulk of the jobs needed to be created by 2010 will be in Asia (60 per cent of them) and sub-Saharan Africa (15 per cent). Some 400 million jobs are needed to absorb the world's increase in the labour force between 2002 and 2010. However, it is not enough to create jobs that will simply add to the numbers already in working poverty. The challenge is to provide employment for all the new entrants into the labour force and to reduce working poverty through the creation of decent jobs.

21. The deteriorating world employment situation and the risk of a weak or delayed recovery will exacerbate unemployment, underemployment and working poverty. A continuation of the trends of the past two years would set back the global drive to halve the incidence of extreme poverty by 2015. If the slowdown becomes a full-scale recession, there could be grave consequences for the social and political stability of large parts of the world. Furthermore, greater unemployment and efforts to relieve poverty will place severe pressure on government budgets and thus on efforts to stabilize the fragile financial position of many countries. Policy-makers should focus on measures to secure and spread the economic recovery and ensure that faster growth yields the maximum number of decent work opportunities.

22. Most economies in **Asia** are showing signs of a turnaround, but some elements are still impeding a full recovery. With most countries being oil importers, weakening oil prices in 2001 provided support for a recovery, but recent price increases have reduced this impetus. Moreover, Japan's prolonged economic difficulties are adding to weaknesses in the region and increases in unemployment across the region may mute the pickup in household spending. Economic growth in developing Asia is nevertheless forecast at 6.3 per cent in 2003, up from 5.6 per cent in 2001.[5] These GDP growth forecasts seem optimistic in light of the uncertainty of the United States economic recovery. However, even if output grows slower than forecast, open unemployment and poverty in employment could be halved in East and South-East Asia by 2010 from their 1998 levels (a growth rate of 4.3 per cent, or 3 per cent per capita would ensure this outcome). Prospects for South Asia are bleaker as the subregion would need to grow twice as fast as it did in the 1990s to achieve the same result.

[5] IMF (2002).

Figure 1. (a) Increase in labour force by region, 2000-10 ('000)
(b) Regional distribution of labour force, 2010 (%)



23. For Asia, maintaining growth in **China** is a key component of recovery. China's growth will increasingly be a source of demand for many Asian countries yet to recover fully from the employment consequences of the financial crisis of the 1990s. A more integrated labour market would open up prospects for greater employment, especially in the underdeveloped service sector. However the challenge involved in restructuring state-owned enterprises and agriculture, and reforming the financial system to avoid subsidizing loss-making units is very acute. China will no doubt continue to attract considerable FDI linked to both domestic market opportunities and increasingly to those in other Asian countries.[6] Subsequently, many Asian countries are looking at China as a market for their exports. The twin imperatives facing Asia in the near future are the need to sustain recovery and to improve levels of social protection for the most vulnerable, especially in South Asia.

24. The **transition economies** are expected to continue to attract foreign investment and strong domestic demand should be sustained. Growth should pick up to reach 4.5 per cent

[6] Background paper prepared for the China Employment Forum, ILO, 2003.

in 2003.[7] The employment situation should improve in the longer term as the transition is completed and income levels converge on those of Western Europe. However, unless the structural problems that have so far impeded the growth of employment are dealt with, the employment situation will remain deeply flawed. Particular attention needs to be paid to finding the correct incentive structure to encourage the development of new enterprises. European Union accession countries need to accelerate reforms and to make their economies more competitive. The large Eastern European countries need to take measures to consolidate their fiscal position.

25. **Latin America and the Caribbea**n is likely to continue to grow at a low rate. The adjustment measures implemented in Latin America do not appear to have initiated new growth and have often weakened employment relationships. Many Latin American countries are still vulnerable to financial disruptions and cannot reverse a balance of payments deficit as quickly as many East Asian countries. GDP growth is believed to be negative in 2002 and forecast to reach 3 per cent in 2003, on the assumption that the United States recession is over.[8] Even this optimistic forecast would be insufficient to significantly improve the employment situation in the region. A growth rate of at least 4.5 per cent, sustained over five to ten years is needed to halve both the unemployment rate and the working poor rate. Prospects are thus bleak: informality and poverty in employment will continue to increase in the short term. Increasing productivity is a major challenge for the region's competitiveness and that will be, at least in the short term, an additional constraint on employment growth.

26. Prospects for **North Africa and the Middle East** are clouded. Oil prices are relatively high, but this must be set against continued security concerns, which are affecting both investment and tourism. The IMF forecasts a growth rate of 4.7 per cent GDP in 2003,[9] which if achieved and sustained could lead to an improvement of the employment situation, allowing the region to halve both its unemployment rate and its working poor rate. Nonetheless, most countries have still to manage their transition to a full market economy, and restructuring of the public sector in a context of very high population growth poses a significant employment challenge especially for the large number of youths entering the labour market. The question of the replacement of migrant labour with local labour in the Gulf countries affects migrants from other parts of the region and a number of Asian countries which could have significant consequences in the medium term on employment and remittances for the countries of origin.

27. Although growth perspectives in **sub-Saharan Africa** have improved, it will be difficult to tackle the problems of unemployment, underemployment and poverty effectively. According to estimates, the GDP growth needed to halve unemployment and working poor rates by 2010 would have to be 5.1 per cent annually for ten years in an optimistic scenario and 9.8 per cent in a pessimistic one (Berger and Harasty, 2002). In terms of economic development, there are some hopeful signs for the region: recent fundamental structural changes and strengthened institutions will have a significant impact on sub-Saharan Africa's prospects. The fact that median inflation and fiscal deficits have been reduced, while moderate gains in real investment and in foreign direct investment have also been achieved (although not in the last two years), give further reasons for hope. The debt relief some countries experienced recently has contributed to strengthen their economies: by the

[7] ibid.

[8] IMF: op. cit.

[9] IMF: ibid.

end of December 2001, 20 countries[10] qualified for debt relief under the Heavily Indebted Poor Countries initiative. The same is true for increasing school enrolment and the decline in illiteracy rates, as well as decreasing birth rates.

28. Global economic prospects hinge on the performance of the three main engines of the world economy, the United States, the European Union and Japan. However, a turnaround in Japan seems a distant prospect and Europe is preoccupied with creating the mechanisms for concerted counter-cyclical fiscal and monetary policies rather than using them. That leaves the United States – one-third of the global economy, and responsible for over half of the modest global recovery in 2002. In the United States, household expenditure remains strong, partly because of strong property prices. However, strong property prices could be another bubble, which if burst could cause further slowdown. In Japan, there are fears that a deflationary spiral is developing that might create a downward growth and employment cycle. Should this develop, it would not leave the United States and the European Union unaffected. The world is looking increasingly towards the European Union to stimulate its own growth by appropriate fiscal and monetary policy, as the United States is already attempting to do (see box 8). The present real danger is that none of the big players seems able to fuel the growth locomotive that the world economy needs in order to firmly proceed on a recovery path.

Box 8. Demand management in the United States

The capacity of the United States economy to absorb goods and services from the rest of the world has been an important element in world growth over the recent past. Two factors are involved, the growth rate of the United States economy and the size of its current account deficit. The latter at the beginning of 2003 is estimated at around 5 per cent of GDP, corresponding to a major public sector deficit of between 3 and 4 per cent of GDP and a household sector deficit of over 1 per cent of GDP. In 2002, growth in the United States economy was sustained largely by the fiscal stimulus given by an immense switch from public sector surplus to deficit and by setting administered interest rates at unusually low levels. The question now, with the announcement of a new ten-year tax programme, the Plan for Growth and Jobs, is twofold – firstly whether the short-term measures covered by the Plan, including tax credits and additional support to the unemployed in job search, will give a sufficient boost to private demand to sustain growth and, secondly, whether other tax measures foreseen often over a longer term will stimulate the business sector. The Plan attempts to meet both of these objectives – demand stimulus and tax reform. The Plan has been criticized because alternative packages of tax cuts and spending could have larger immediate effects on consumption; because many of its beneficiaries are among the better off; and because it threatens to raise the public sector deficit to such an extent that investment may be discouraged rather than stimulated. However, although the composition of the measures can be debated, their scale demonstrates a willingness on the part of the United States Government to contemplate higher levels of public borrowing and a sustained current account deficit which is missing elsewhere in the world.

Key policy issues

29. At this critical stage in the global economic cycle, reviving global economic growth is essential. Additionally, at the national level, vigorous efforts are required to ensure that this recovery translates itself into the creation of decent jobs to tackle the mounting employment problems outlined above. Some key short-term policy issues that merit debate in the context of the framework of the Global Employment Agenda[11] based on experiences presented above are: (a) is there scope for more fiscal measures to counteract slowdown or

[10] Benin, Burkina Faso, Cameroon, Chad, Ethiopia, Gambia, Guinea, Guinea-Bissau, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Sao Tome and Principe, Senegal, United Republic of Tanzania, Uganda and Zambia.

[11] See GB.286/ESP/1.

recession in many countries in the world (see box 9); (b) to what extent can active labour market policies serve as a useful complement to counter-cyclical policies and provide a safety net for the most vulnerable groups; and (c) in what ways can national efforts be assisted internationally by more concerted efforts in the fields of trade, aid, debt relief and financial flows?

30. In the medium and long term, to sustain increases in employment at the rates needed to create and improve a billion jobs over the decade ahead, governments need to address actively three sets of fundamental structural obstacles that constitute key policy challenges. These are the low pace of creation of decent jobs, managing and adjusting to the consequences of increased vulnerability to external shocks as the pace of globalization quickens, and the still high and rising levels of poverty and the working poor in many parts of the world.

31. First, the ability of output growth to create good, high-quality jobs is low and often decreasing further. Current developments in India and China illustrate how structural reforms and the search for greater competitiveness are cutting employment in the traditional industries at a faster rate than creation of jobs in the expanding sectors; the same applies to the transition economies of Eastern and Central Europe and to some Latin American countries. Therefore it is important to analyse policy measures which would assist in raising the employment intensity of output growth and creating decent jobs. These may include finding the right balance between the public and the private sectors as generators of employment, and between larger and smaller enterprises.

32. Second, as shown by the effects of the current slowdown, globalization leads to greater interdependence between the economies of the world and hence has increased the vulnerability of economies to developments beyond their direct control. Latin America and South-East Asia are examples of how economic shocks can be transmitted and magnified, bringing higher unemployment and increased poverty. In the short run, counter-cyclical macroeconomic policies have a very important role to play in cushioning the negative impact of slowdowns or recessions on employment. But many developing countries do not have the domestic capital markets necessary to finance deficits over a longer term, while access to foreign financing is apt to dry up just when it is most needed. In the long run, a number of policies can be used to reduce vulnerability. The role of the government is central in this regard. Broader diversification of the economy and a strategy to move up the value chain in line with a country’s comparative advantage will dilute the risks of vulnerability. In developing countries, building physical and social infrastructure, including information networks and skills in the workforce, would provide a stronger and more dynamic economic base to absorb shocks.

33. Thirdly, poverty inhibits employment growth. Poverty, understood as a lack of “capabilities”, means workers lack the education and skills to secure a job, their health is too poor for them to work productively and lack of empowerment combined with widespread discrimination limits them to the lower end of the labour market. Greater and fairer access to good quality education and health services is essential to enable the poor to secure productive and remunerative work in conditions of freedom and dignity.

34. Ensuring that the risks of a further slippage in growth are diminished and potential sources of recovery are supported involves serious consideration of how concerted action could reduce unemployment and poverty. The employment challenge in an integrated world economy cannot be fully addressed at the national level alone. Through the creation of alliances and partnerships at the global and regional levels, as proposed in the Global Employment Agenda, the ILO can play a role in placing the creation of productive employment at the centre of both economic and social policies and thus help to secure and shape the recovery.

Box 9. Macroeconomic policies towards growth, employment and poverty reduction

During the past two decades, the design of macroeconomic policy frameworks across countries was focused predominantly on the attainment of *price* and *balance-of-payments* stability. The so-called "Washington Consensus", which came to be adopted as the blueprint of stabilization and structural adjustment programmes, was largely concerned with restraining inflation and reducing fiscal and current account deficits faced by many countries.

Inflation has fallen in general, but growth and investment have often remained inadequate, volatile and far from reaching the sustained level needed to tackle the problems of high levels of unemployment and poverty. Many countries therefore find themselves increasingly drawn into low level growth or a "stabilization trap". Stability is indeed a crucial condition for growth to take place. But it must be understood that in certain conditions, stability is consistent with increasing critical public expenditures for social goods and poverty alleviation. A large body of empirical assessments, both at the national level and international level, supports these findings.

Widespread disenchantment with the inability of narrowly focused stabilization policies to spark economic growth has underlined the critical need to cast macroeconomic policies in terms of sustained investment and employment growth. Domestic efforts of this nature can be greatly assisted by tangible external support such as concessional loans and debt reduction.

Source: Muqtada (2002); Islam, I. (2002).

35. ***The Committee on Employment and Social Policy may wish to consider and discuss measures including those described in the paper towards achieving full and decent employment in the present global economic situation.***

Geneva, 11 February 2003.

Point for decision: Paragraph 35.

Appendix

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