

UN SYSTEM TASK TEAM ON THE **POST-2015 UN DEVELOPMENT AGENDA**



**Macroeconomic stability,
inclusive growth and
employment**

Thematic Think Piece

ILO*, UNCTAD, UNDESA, WTO

The views expressed in this paper are those of the signing agencies and do not necessarily reflect the views of the United Nations.

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Following on the outcome of the 2010 High-level Plenary Meeting of the General Assembly on the Millennium Development Goals, the United Nations Secretary-General established the UN System Task Team in September 2011 to support UN system-wide preparations for the post-2015 UN development agenda, in consultation with all stakeholders. The Task Team is led by the Department of Economic and Social Affairs and the United Nations Development Programme and brings together senior experts from over 50 UN entities and international organizations to provide system-wide support to the post-2015 consultation process, including analytical input, expertise and outreach.

Macroeconomic stability, inclusive growth and employment

1. Introduction

Around 900 million adults in the developing world are unable to earn enough to keep their families above the US\$ 2-a-day per person poverty line; 200 million people are unemployed globally, among them 75 million young people; hundreds of millions more work long hours under inhumane conditions and with no job security in the informal economy. Poverty remains either a stark reality or a real threat for the majority of workers in the developing world, despite the rapid economic growth that has characterised many regions over the past decade.

Productive and decent employment is the most important source of income security. In order to generate decent employment at the required scale, countries will have to achieve sustained and inclusive growth, which in turn critically depends on supportive macroeconomic policies. For this reason, questions of macroeconomic stability, employment generation and inclusive growth should be more prominently reflected in the post-2015 development agenda.

2. Macroeconomic stability and growth

The recent financial crisis has highlighted the damaging impacts on living standards that can result from macroeconomic instability. Large swings in economic activity, high inflation, unsustainable debt levels and volatility in exchange rates and financial markets can all contribute to job losses and increasing poverty, endangering progress towards achieving the MDGs. Maintaining macroeconomic stability therefore is a prerequisite for sustained and inclusive development.

The broad objective of macroeconomic policy is to contribute to economic and social well-being in an equitable and sustainable manner. Because unemployment and

underemployment are the main causes of poverty, a critical task is to maintain the economy as close as possible to full employment. This target implies that in developing countries, employment in the formal sector at least keeps up with labour force growth and rural-urban migration.

Continued and sustained economic growth is not only a precondition for employment generation, but also provides countries the fiscal space to address other critical social concerns, such as access to health services, sanitation and safe drinking water, and others. Growth has therefore been a critical factor in reducing global poverty over the last two decades. Accordingly, the primary goal of macroeconomic stabilization policies should be to achieve stable economic growth. This key policy objective is complemented by the need to stabilize intermediate variables that can have a strong impact on growth. Price stability and external balances in particular play an important role through their impact on investment decisions. To achieve these intermediate goals, countries need policy space to use macroeconomic tools flexibly, including counter-cyclical fiscal and/or monetary policies, appropriate investment and exchange rate regimes, and strong financial sector regulation and supervision. Country-level policy space needs to be complemented by policy coordination on a global level, especially between areas of systemic importance.

3. Policy coherence for economic growth

In addition to active macroeconomic policies, countries that have achieved sustained economic growth have used a range of supportive policy interventions. They involve a country-specific mix of trade, finance and investment policies, along with active labour market and social policies. However, certain common features can be identified.

First, it is primarily the private sector that invests, innovates, and trades. It is an important stakeholder in any country's broader development strategy. However, to play this role, companies rely on functioning infrastructure, public education and research, and access to credit and business services. Current gaps are particularly glaring in rural areas and for micro-, small and medium-sized enterprises, and addressing them will require a sustained public effort and international support, for example through aid for trade, reliable access to development finance and public investments in infrastructure.

Second, scale matters. Structural transformation, which is at the heart of a dynamic growth process, requires large investments. Developing countries often lack local enterprises of sufficient scale to finance such investments and to manage large-scale projects that facilitate industrial and technological upgrading. More attention needs to be given to building and regulating medium to larger sized enterprises, so that the links between profits and domestic reinvestment are strengthened.

Third, successful countries have coherent macroeconomic, employment, trade, industrial, environmental and social policies. Only when these policies mutually reinforce each other can they bring about sustained economic growth. Policy coherence at the national level has to be complemented by policy coherence at the international level, providing countries with the policy space to implement their national development strategies.

Fourth, coherent policies require a capable state. Efficient and accountable state action is essential for the management of large-scale economic and social change. The state is the only institution that can conduct such policies and that is (or, at least, is potentially) accountable to the general citizenry for its decisions. If there are institutional weaknesses and governance deficits, they must be confronted at every level of development. Regardless of its preferred policy goals and instruments, any successful state must be able to strengthen its own capacities to promote learning and cooperation and to deepen the institutional networks that are needed by non-government actors to support long-term growth and innovation.

4. Inclusive Growth

The MDGs were designed not simply to eradicate poverty, but to uphold the principles of human dignity, equality and equity. A prerequisite for the achievement of these goals is that benefits cannot persistently and disproportionately accrue to one or more groups in society. For this reason, it is crucial that growth is inclusive – that it provides broadly shared opportunities to accumulate productive assets like education, that it allows people to utilize these assets in growth-enhancing activities and to benefit from such activities, and that it provisions for those that do not benefit directly from growth. Both the Arab Spring and the

global ‘Occupy’ movements point to the importance of equity both as an objective in itself, as well as an important factor to buttress the political legitimacy of economic and development policies.

Economic growth does not automatically translate into widely shared gains. Policy choices matter: abject poverty has persisted despite rapid growth in several economies, while some poorer and slower-growing economies have been remarkably successful in alleviating extreme poverty and social deprivation. The relatively even distribution of income and wealth in several Asian “tiger” economies and, before them, in the Nordic countries, demonstrates that equality is associated with sustained strong economic performance. By contrast, high levels of inequality in other economies have coincided with volatile economic performance.

An analysis of 131 positive growth spells in 80 countries over the years 1984 to 2001 showed that in 42 per cent of cases growth spells benefited the poor relatively more than the non-poor. 58 per cent of the time, inequality worsened. So growth and social inclusion can be pursued together, but only if countries build a resilient social contract that supports structural change but also mitigates its social costs. Policy choices will determine whether growth can promote social development, and whether social development in turn further fuels economic growth, putting a country on a sustainable and inclusive growth path.

The links between inequality and growth are many and complex. Greater inclusiveness depends on the distribution of income, employment creation, and its gender dimensions, among other factors. With regards to gender, there is a close and well-known relationship between socio-economic development and women’s empowerment. Economic policies, particularly those aimed at fostering market integration, tend to impact on men and women differently, and development strategies should aim to promote gender and other forms of equality, in order not only to increase social welfare and facilitate the realization of human potential but also to improve the underlying performance of the economy.

Policy makers will have to pay particular attention to the agricultural sector, public investments in the social sectors, and, most importantly, the employment content of growth in order to achieve inclusive development paths.

Over half of the labour force in many developing countries works in agriculture. Farmers work under insecure conditions and with poor rewards, often mixing paid employment with work on their own small plots. Experiences in Asia and Latin America (though less so in Africa) show that the expansion of non-farm rural employment and improvements in job conditions for these workers can have a large and immediate impact on the economic security of households. In order to reach rural smallholders, the state will need to partner with producer associations, the private sector and other non-state actors to deliver support services. These include investment in agricultural research and development, rural infrastructure, education and extension services, as well as improved access to credit, inputs, insurance, land for rent and secure property rights.

In terms of social sector spending, public sector investments in education, training and health programmes allow countries to address different aspects of poverty and exclusion directly. Investments in social services can also boost aggregate demand that “crowds in” private investment. Cash transfers can support vulnerable groups, including single parents, children, older persons, and persons with disabilities or chronic illnesses, who may have few alternative sources of income.

5. Employment and decent jobs

The most critical component of inclusive growth is the creation of decent jobs. Full, productive and decent employment is the most important source of income security and it paves the way for broader social and economic advancement, strengthening individuals, their families and communities. The prolonged jobs crisis and decent work deficit we are currently experiencing means that 45 - 50 million jobs need to be created net each year over the next five years to get back to the pre-crisis situation in 2007.

In order to succeed at this task, sustainable development strategies need a strong employment component which aims at raising the productivity of the poorest workers, and at ensuring that they get to keep most of their increased earning power by progressively

strengthening labour market institutions. A focus on decent jobs is critical both in the short-term, to curb the dramatic effects of a prolonged jobs crisis, and in the longer term, to make economic growth more sustainable, inclusive and equitable. Components of an employment-focused development strategy include macroeconomic, environmental and industrial policies that foster structural change, investment and job creation, as well as sound social and labour market policies.

To achieve structural transformation that is pro-poor, a set of coherent macroeconomic, trade and labour market policies that all have an impact on wages and employment conditions will be needed. Increasing trade presents an opportunity for job creation if farmers and domestic firms are able to expand, participate in global value chains and increase their demand for labour. But greater openness to trade can also lead to disruptive adjustment processes. In some cases, rapid liberalization of trade and financial markets combined with tight macroeconomic policies has contributed to downward pressure on wages in the formal economy and has led to a pattern of employment that has added to rather than reduced informal employment. In part, this reflects the recent additions to the global labour force along with heightened mobility of capital. But policy choices also matter. Low levels of inflation and labour market flexibility have been given priority in some countries over job creation and decent work conditions.

Structural transformation also provides an opportunity for achieving environmental sustainability of growth. There is considerable potential for the generation of decent work from 'greening' the economy.

More appropriate macroeconomic policies, along with active labour market policies, can help to manage the cyclical threats to employment, and also boost skills and capacities to ensure that workers can adapt to longer-term structural changes. The pace and sequencing of market opening measures needs to be aligned with investment in physical infrastructure and human capital so that wage improvements are better aligned with rising productivity. Skills development, minimum wages and employment protection legislation can all contribute to a fair distribution of opportunities and benefits. Formal social protection

systems complement productive inclusion by providing social security guarantees that ensure that all people have access to essential goods and services.

Decent and productive work also leads to broader social development and has positive feedbacks on other areas of life. Decent work in conditions of freedom, equity, security and human dignity is central to people's lives and a key factor in their sense of identity and their social relations. Evidence shows that as work becomes more decent in income terms, people's concerns over corruption and interest in democratic governance increases. They are also more likely to invest in their children's health and education as well as their own health. Employed wage-earners are almost twice as likely to report having a general trust in people than are the unemployed. They also report a substantially higher propensity to have some type of civic engagement.

6. Implications for the post-2015 development agenda

In summary, inclusive and sustainable development will depend on the integration of growth-promoting macroeconomic policies with developmental industrial policies and redistributive measures, all geared towards the creation of decent employment. These elements must be combined with a social protection framework aimed at eliminating the causes of poverty and exclusion – such as dispossession from land, poor housing, education and health provision (see the Think Piece on a Social Protection Floor).

Achieving macroeconomic stability and inclusive growth are significant challenges to economic development and should be reflected in the post-2015 agenda. However, macroeconomic stability encompasses a wide spectrum of sub-issues, whose inter-relationships are often difficult to untangle and that are usually country-specific. Hence they do not easily lend themselves to common, measurable, and synthetic quantification applicable across countries. Thus, rather than proposing them as explicit targets, we suggest they be included as critical conditioning factors highly relevant to a post-2015 development agenda.

Like macroeconomic stability, inclusive growth should be considered an enabler of sustained growth and development. It should also be noted that creating the environment for inclusive growth is at least partially contained in some of the existing MDG targets, for example, in the form of universal access to the income enhancing investments in education and health.

Employment creation, on the other hand, lends itself to explicit targeting. A post-2015 development agenda should reaffirm international commitments in regard to work as a fundamental human right. Currently, the indicators for the goal of achieving full and productive employment and decent work for all, including women and young people are (i) the employment-to-population ratio, (ii) proportion of own-account and contributing family workers in total employment, and (iii) proportion of employed people living below \$1.25 a day. A fourth on productivity has also been used although not in the most recent UN MDG report.

Looking ahead, a new framework should provide for national specific employment targets. Such targets would have to vary from country to country to reflect specific national context and ensure relevance. A major drive to collect and use gender disaggregated data is needed. For many developing countries a central objective might be a rate of growth for non-agricultural formal employment that exceeds that of labour force growth and the trend of movement from agriculture to other sectors. Supplemented by additional decent work indicators, such a job creation target could be an important driver of a new “out of crisis” development agenda.

UN System Task Team on the Post-2015 UN Development Agenda

Membership

Department of Economic and Social Affairs (DESA), Co-Chair

United Nations Development Programme (UNDP), Co-Chair

Convention on Biological Diversity (CBD)

Department of Public Information (DPI)

Economic Commission for Africa (ECA)

Economic Commission for Europe (ECE)

Economic Commission for Latin America and the Caribbean (ECLAC)

Economic and Social Commission for Asia and the Pacific (ESCAP)

Economic and Social Commission for Western Asia (ESCWA)

Executive Office of the Secretary-General (EOSG)

Food and Agricultural Organization of the United Nations (FAO)

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