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In its macroeconomic analysis UNCTAD has shown that income growth is sustainable if it is based on investment growth. Sustainable income growth is the most important provider of decent jobs. The successful countries of the past, Asia in particular, have succeeded in employing a profit-investment-nexus to establish these conditions. Linkages between capital accumulation, technological progress and structural change constitute the basis for dynamics reflected in rapid and sustained productivity **and** employment growth, rising living standards and a successful integration into the international economy. Investment holds a central place in this interplay, because it simultaneously generates income, creates new jobs expands productive capacity and carries technological progress, skills acquisition and institutional deepening.

Countries raise the standard of living of their populations by raising labour productivity through capital deepening. This is associated with a substantial change in the sectoral pattern of production and employment, from agriculture to industry, and a shift from labour-intensive activities to a growing range of capital- and technology-intensive activities. The production structure of an economy is of key importance for the development process and for the supply of decent jobs, because the level of productivity and the potential for technical progress and productivity growth vary significantly across agriculture, industry and services.

In a market economy transformation of the production structure requires entrepreneurs who are capable and willing to invest in new activities. At the beginning of the last century Schumpeter pointed to the importance of innovative investment for economic development, and Baumol recently argued that innovation and the consequent rise in productivity, account for much of the extraordinary growth record that has occurred in various parts of the world since the Industrial Revolution. Both suggest that market pressures force firms to integrate innovative investment into their routine decision processes by providing higher pay-offs to those firms that are more efficient in renovating production processes and whose products are better equipped to create additional demand of consumers.

However, the occurrence of innovative investment, and, more important, the occurrence of waves of such investment, is, even in well functioning market economies, not automatic; it asks for structural and institutional framework and an appropriate macroeconomic environment encouraging investors to create or expand productive capacity and jobs for higher qualified workers on a broad scale.

In economies characterized by high domestic labour mobility (or centralized wage bargaining) and by a similar level of wages for workers with similar qualifications across the economy, structural development and jobs are driven by profit differentials. Uneven productivity growth and more even wage growth across enterprises or sectors create profit differentials which are the most important source of both structural change in the domestic economy and changes in the comparative cost advantages of different countries in specific industrial sectors[1]. The search for temporary monopoly rents is the major incentive for starting the process of "creative construction" or "destruction" along Schumpeterian lines, and hence for making innovative investments and for creating sustainable jobs.

Whilst innovative investment in developed countries shifts the technological frontier in developing countries it very often means the adoption, imitation and adaptation of technology invented elsewhere. While this does not affect the key importance of productivity-enhancing investment for competitiveness and profits at the firm level it facilitates the exercise of raising the level of technology used by domestic firms. Developing-country imports of goods that embody foreign technology positively affect the domestic competitive position without the need to invest directly in shifting the technological frontier. This process very often is driven by foreign direct investment in fixed capital in low wage countries.

An important condition for innovative investment to govern the evolution of the economic system in general is that firms have access to reliable, adequate and cost-effective sources for financing their investments and complementing profits. Even if profits are the main source of

1 See UNCTAD 2004, p.139-141. Indeed, as Keynes put it in his "Treatise"(Vol. V of The Collected Writings, p. 141): …"the departure of profits from zero is the mainspring of change in the ... modern world. ... It is by altering the rate of profits in particular directions that entrepreneurs can be induced to produce this rather than that, and it is by altering the rate of profits in general that they can be induced to modify the average of their offers of remuneration to the factors of production."

investment financing, for waves of investment to carry the creation of jobs the stance of domestic monetary policy is of crucial importance. High levels of nominal and real interest rates do not tend to crowd out the innovator but all those following the pioneers. In addition, a restrictive monetary policy biases investment decisions in favour of financial assets, or fixed investment in production activities with known cost and demand schedules over innovative production activities for which investors face uncertainty as to the volume of sales and the true costs of production.

Econometric evidence prepared by UNCTAD has shown that the freedom to set pro-growth macroeconomic conditions (interest rates and exchange rates) has been the main (and quantitatively by far the most important) feature of Asia's success in comparison with Latin America. Monetary conditions in Latin America were anti-growth and volatile since the 1980s whereas in Asia they were stable and pro-growth.

Moreover, macroeconomic and institutional conditions are crucial for employment creation associated with high growth rates. Recently, many developing countries have increased their growth rates without improving significantly the employment situation. Rising demand for raw materials and the improvement in the terms of trade boosted these countries' gross domestic income and encouraged new investment to increase the production of commodities. Despite relatively high growth rates in several African, West-Asian and Latin American countries, the employment performance is rather disappointing. In a number of cases, growth is concentrated in a few capital-intensive branches, like mining and hydrocarbons, with little productive linkages with the rest of the economy.

In these cases the creation of new employment depends crucially on the use of the income generated in the export-oriented sectors. If the bulk of that income doesn't spill over into the domestic sector at large then the initial GDP growth will only have small effects for the sustainability of growth and for employment. If the domestic sectors including the government and workers receive a significant part of that rent then the positive repercussions inside the country will be high. Governments receiving higher revenues from rising natural rents (directly, through the ownership of the resource, or indirectly through taxation) will be able to finance domestic projects and to provide public services which generate many formal jobs. The question of the distribution of natural rents, one of the oldest development issues, has recuperated centre stage with the recovery of prices of primary commodities (TDR 2005).

Summing up, employment-oriented policies should include active support for investment and innovation through a pro-growth macroeconomic framework (avoiding overvaluation and high interest rates) and an income distribution (including that of natural rents) disseminating the increase of purchasing power to all citizens and social classes. These conditions are necessary for a sustainable and inclusive growth, where the dynamism of production and productivity in the leading sectors generates employment and growth in other sectors of the economy.