

The role of macroeconomic and trade policies in employment creation

Employment should be a key objective of macroeconomic authorities, including central banks. However, it appears that, as globalisation intensifies, a country's conduct of macroeconomic policies becomes increasingly sensitive to international conditions and influences. Therefore, while national Governments play a key role in developing a national policy environment conducive to employment and decent work, enhanced international cooperation in addressing macroeconomic and trade-related issues is also essential to compensate for the shrinking policy space. Particularly at the international level there is need for a more balanced and coordinated strategy for sustainable growth and full employment – one which includes equitable sharing among countries of responsibility for maintaining high levels of effective demand in the global economy.

- 1. How can full employment become a priority goal of macroeconomic policies at the national and international levels? How to ensure that the employment implications of policy decisions at all levels, including central banks, are assessed with a view to maximising decent work opportunities?**
- 2. How to devise, at the international level, a more balanced and coordinated strategy for sustainable global growth and full employment? How to upgrade the quality of policy coordination between international organisations on issues where implementation of their mandates intersects and their policies interact?**

Trade. The global transition to economies based on market principles and external openness has clearly had positive effects, but not everywhere, and not without significant adjustment costs and adverse consequences for employment. Also, while trade in manufactures has stimulated industrial growth in a small number of developing countries, it has also led to the “marginalisation” of those countries that remain dependent on export of primary commodities under fluctuating commodity prices and falling terms of trade. In addition, many developing countries are de facto unable to access developed countries' markets due to persistent trade distortions, particularly regarding products where developing countries have a potential comparative advantage.

- 3. How to ensure the necessary coordination of trade policies at the international level in conjunction with sufficient policy space at the national level so as to shape economic integration in a way that facilitates the creation of domestic employment?**

Foreign finance. Cross-border financial flows have grown massively, but the system is unstable, prone to crises and largely bypasses poor and capital-scarce countries. Portfolio investments and other financial flows increasingly influence the macroeconomic environments that shape patterns of trade and investment, while the use of macroeconomic policy tools has become more circumscribed. Increasing tax competition and a general reduction in the role of the State has also often reduced the fiscal capacity of Governments. At the same time, increasing international competition for markets and for foreign direct investment (FDI) has generated pressures to increase labour market flexibility and erode labour protection.

- 4. How to promote more transparency, coherence, as well as flexibility and policy space for countries to manage investment in a way that ensures that the benefits are realised, and the adverse effects, such as the crowding out of domestic investment and tax competition, are minimised?**