REPORT OF THE EXPERT GROUP MEETING ON "THE CHALLENGE OF BUILDING EMPLOYMENT FOR A SUSTAINABLE RECOVERY"

23-24 June 2011
Geneva, Switzerland

Organized by the Division for Social Policy and Development, UN Department of Economic and Social Affairs, in collaboration with the International Labour Organization.

I. Introduction

A. Background and purpose of the meeting

The Division for Social Policy and Development of the Department of Economic and Social Affairs (DESA) of the United Nations organized, in collaboration with the International Labour Organization (ILO), an Expert Group Meeting on "The Challenge of Building Employment for a Sustainable Recovery". The meeting, which took place in Geneva from 23 to 24 June 2011, was convened in response to ECOSOC resolution 2010/L.5, in which the Economic and Social Council decided that the priority theme for the 2011-2012 review and policy cycle of the Commission should be "Poverty eradication, taking into account its relationship to social integration and full employment and decent work for all" and in the context of ECOSOC draft decision E/2011/L.4, in which the Council decided to adopt the theme "Promoting productive capacity, employment and decent work to eradicate poverty in the context of inclusive, sustainable and equitable economic growth at all levels for achieving the Millennium Development Goals" for its 2012 Annual Ministerial Review (AMR). These proceedings and other outcomes of the meeting are intended to provide input to the Commission and to inform regional, international and expert-group discussions taking place in preparation for the AMR 2012.

The financial and economic crisis has led to a global jobs crisis, with sharp falls in employment and wages in both developed and developing countries. The number of jobless persons is estimated to have reached 205 million in 2010, up from 177 million in 2007. Global growth in real wages was cut by half in 2008 and 2009, compared to earlier years. In developing countries, the proportion of workers in vulnerable employment has increased, working conditions in the informal sector have worsened and, as a result, working poverty has risen after some earlier progress. These trends compound employment deficits that already existed before the crisis.

Governments in many countries have already abandoned the fiscal stimulus plans and employment-generation measures they implemented at the onset of the crisis and have moved towards austerity and reduced public sector social spending. The move towards fiscal tightening threatens to make the global jobs crisis a long-term problem.

Yet sustainable development and the overarching goal of poverty eradication require inclusive, equitable economic growth which generates more and better jobs. Productive employment is also an essential means of social integration, as it provides income security and access to social protection, and facilitates integration into social networks. The effects of long-lasting labour distress on youth, whose unemployment rates are more than twice those of the adult population, are of particular concern; early labour market experiences shape youth's lifelong earning potential and the social wellbeing of current and future generations of young people.

At the High-Level Plenary Meeting of the General Assembly on the MDGs, in 2010, Governments reiterated the need to create full and productive employment and decent work for all, recalling the commitment made at the World Summit for Social Development in 1995. They also committed to adopting forward-looking policies which increase employment opportunities and lead to sustained, inclusive and equitable economic growth and sustainable development. However, the prevailing economic policy framework has not led to a sustained improvement in productive employment, and the ongoing move towards fiscal consolidation will only worsen the global jobs crisis. The meeting was also part of ongoing efforts by the United Nations system, including the ILO, to rethink national and international strategies aimed at job creation.

B. Objectives of the meeting

The Expert Group Meeting aimed to inform national and international debates on the challenge of creating productive employment and to call attention to the importance of promoting job-rich growth to reduce poverty. Specifically, the meeting had two main objectives:

- To undertake a review of national and regional perspectives on the global jobs crisis, identifying good practices in preserving existing jobs and in generating new ones, and discussing lessons learned;
- To consider strategies, at the national and international levels, to create productive employment during the recovery as a central strategy for poverty eradication and social integration, so as to assist Member States to adopt policies consistent with the Global Jobs Pact.

Nearly 40 participants attended the meeting, in which invited experts from the UN system, other intergovernmental organizations, trade unions and academia as well as ILO staff presented recent research on the aforementioned topics and discussed concrete policies and strategies to promote job-rich growth.

II. Summary of the proceedings

Job growth is poor in both developing countries, which are growing fast, and developed countries, which are growing slowly. Even in those developing countries that have experienced employment growth, jobs have not been a means to income security. In developed countries, the crisis has led to sharp falls in employment. The longer the distress in labour markets persists, the more the affected workers, their families and their communities run the risk of being trapped in long-lasting poverty.

High unemployment among youth is of particular concern. Young workers are caught in multiple traps leading to higher unemployment, including lack of experience, the existing mismatch in skills and the fact that they are more often hired under temporary contracts and other non-standard forms of labour contract. As early labour-market experiences tend to be strong predictors of future earnings potential, such high levels of unemployment do not bode well for the well-being of the current and future generations of young people.

The crisis emphasizes the need to monitor employment targets, together with inflation and other macroeconomic targets. It also shows that macroeconomic stability alone does not necessarily lead to job-rich growth. Raising employment and aggregate demand must be included among macroeconomic policy goals.

At the onset of the crisis, the Secretary-General called for a Global Green New Deal to ensure a more economically and environmentally sustainable economic recovery. Ensuring that the recovery is sustainable will require creating jobs while reviving growth. It will also involve policies aimed at alleviating poverty, reducing carbon dependency and protecting the environment.

A. Regional and national perspectives on the global jobs crisis: lessons learned and outlook

The impact of the crisis on employment differs significantly by country and region. On average, unemployment has barely declined in Europe since the start of the crisis, but there is significant heterogeneity in unemployment trends across countries and socio-economic groups, with workers under temporary contracts and youth having been most affected by the crisis. Low job-finding rates have resulted in an increase of long-term unemployment. Some countries have adjusted to the crisis by reducing the number of hours worked while, in others, the full adjustment has taken place through job cuts. There has also been a downward adjustment in wages, yet the nominal unit labour costs have increased in many countries.

Initially, European countries avoided a downward spiral between output losses and unemployment at the cost of increasing public debt. Despite the move towards fiscal tightening, countries in the European Union have strived to continue providing adequate income support to the unemployed and other vulnerable groups, to maintain active labour market policies and have considered measures to buttress labour demand.

However, these measures are not proving sufficient to overcome the jobs crisis. More needs to be done to improve labour market regulation and reduce labour market segmentation. Beyond labour market policy, additional efforts are needed also to stimulate effective demand, promote job-rich growth and ensure that increases in productivity are translated into increases in employment.

Differences in policies and regulations and differences in transmission channels explain the diverse impact of the crisis across European countries. In Spain, for instance, the impact of the crisis on Gross Domestic Product (GDP) was not as strong as in other countries, yet unemployment increased from 8 per cent in 2007 to 20 per cent in mid-2011. The housing burst and a strong concentration of resources in the construction sector partly explain the strong increase in unemployment at the crisis' onset. However, such increase was stronger in Spain than in other countries with similar characteristics, mainly because the crisis affected employment only, while wages and working hours remained unchanged.

Employment protection legislation in Spain establishes a stark distinction between open-ended and temporary labour contracts, which involve much lower hiring and firing costs. Workers under temporary contracts are more vulnerable to losing their jobs in times of crisis and have, indeed, born the blunt of employment losses during the latest recession. Such segmentation has reduced the incentives to acquire education and skills, and has resulted in excessive turnover. In addition, strong collective bargaining systems, each of which protects workers and firms in a specific sector of the economy, prevented adjustment through wages.

Although the crisis has made the employment situation worse, employment creation before the crisis was not sufficient to absorb the still growing working-age population in Europe as well as in other regions, particularly developing regions. In Western Asia and Northern Africa, for instance, the working-age population has been growing rapidly in the last decades and the cohorts of young workers are very large. As a result of these demographic trends and of job-poor economic growth, youth labour force participation is low and the number of discouraged youth is high, youth unemployment is the highest in the world and working poverty is still high. Improved education levels have not resulted in better labour market outcomes in the region.

In addition, wage growth declined in Algeria, Egypt and other countries of the region, even before the crisis started. In Egypt, the labour market relies too heavily on the public sector for employment under better working conditions than those offered by the private sector, which is dominated by low-productivity small and medium enterprises. While several Northern African countries received praise for the economic reforms implemented before the crisis hit, labour market indicators were overlooked.

In East and South-east Asia, recovery from the crisis was generally fast. The large economies of China, India and Indonesia are rapidly regaining their pre-crisis growth rates and unemployment is declining from the peaks reached during the crisis. Overall, however, the bulk of new jobs is generated in the informal economy. Underemployment and vulnerable employment remain high. New and old vulnerabilities are largely unattended to as a result of widespread informality, chronic poverty, large gaps in labour market policies, and inadequate systems of social protection. In India, for instance, growth is driven by the services sector, but productivity in the manufacturing sector and in agriculture is very low –off-farm activities have grown in India only because agricultural productivity is too low to sustain the rural population. One of the challenges in creating employment in India is that technical education is of very low quality or else too expensive, so there is a mismatch between existing skills and those needed.

Latin America was not as affected as other regions by the most recent crisis, but its impact differed greatly by sub-region, with Mexico and other Central American countries and sectors highly connected to markets in the United States suffering the largest impacts. In contrast with trends in the United States, unemployment increased more among women than among men in Latin America, as the crisis affected mostly textile and apparel, tourism and other sectors with high shares of female employment. Emigration did not provide a way out of the crisis this time: migration to the United States and Europe declined, and the amount of remittances declined sharply in 2008 and 2009. However, GDP growth has returned to pre-crisis levels in a majority of countries.

Latin America has suffered from repeated economic crises and the region’s ability to recover from them has improved over time. A majority of countries in the region were not able to implement strong stimulus programmes in response to the crisis, but some policy measures were put in place immediately at its onset –including on-the-job training; temporary employment programmes, typically at minimum wage or below; and, in middle-income countries, wage subsidies, extended unemployment insurance or reduced social security contributions. While crisis-driven, short-term interventions have often had limited effectiveness and tend to suffer from poor administrative controls, this and previous crises have also triggered some systematic efforts to build or reform labour market policies and pension systems.

However, most Latin American countries still lack automatic stabilizers: only 5 per cent of the population in the region is covered by unemployment insurance, for instance. Regionally, the percentage of the population working in the informal sector is still high and has not declined significantly during the last decades. Existing labour market regulations have not fulfilled their purpose.

B. Macroeconomic frameworks and employment creation

Macroeconomic stabilization policies aimed at keeping inflation low and controlling fiscal deficits have increased volatility in the real economy and in the labour market. Yet the move towards fiscal consolidation undertaken by many developed countries and a growing number of developing countries indicates that the crisis is not being used as an opportunity to review the inadequacy of existing macroeconomic frameworks. An analysis of fiscal consolidation – that is, tax increases and spending cuts- in developed countries over the last 30 years finds that consolidation reduces output and increases unemployment, at least in the short term. Cutting the deficit by one per cent of GDP typically reduces domestic demand by one per cent and GDP by 0.5 per cent within two years, and raises the unemployment rate by 0.3 percentage points. While the impacts on short-term unemployment are short-lived, the rise in long-term unemployment prevails beyond five years. Fiscal consolidation has stronger effects when it takes place in several countries simultaneously, as it becomes harder for each country to ease its impact through an increase in exports. In addition, consolidation tends to increase income inequality, as it brings about long-term declines in the share of wages in GDP, while profits continue growing or suffer short-term reductions only.

In the least developed countries, volatility in growth and inflation declined during the 2000s but these countries also experienced a decline in public investment and increased borrowing costs, which exacerbate constraints to private sector development. Enterprise-level surveys show that lack of access to finance, the high cost of credit and the low quality of infrastructure are among the main constraints to growth in the private sector of these countries. Even though the conventional macroeconomic framework has not been effective at overcoming these constraints, a review of policy statements from 50 developing countries shows that current macroeconomic policies continue to emphasize fiscal adjustment and include inflation targets, yet none makes explicit reference to the goal of full employment and decent work.

Aligning macroeconomic frameworks with the twin goals of job creation and poverty reduction requires resources to meet the national development goals and implement a social protection floor while maintaining fiscal sustainability. In most cases, this demands mobilization of additional domestic and external revenues. It also requires re-prioritizing public expenditures and increasing their efficiency. Monetary policy needs to move beyond inflation targeting and support financial inclusion. Moreover, it is essential to move towards a competitive and stable real exchange rate regime.

At the onset of the crisis, most Governments implemented expansionary policies, and about one quarter of all fiscal stimulus funds was allocated to social protection programmes. Yet current calls for fiscal consolidation are in fact calls for fiscal austerity stemming from fears of raising public debt. Such calls ignore that, at a time when private spending is restrained, only increased public spending can help revive income and employment. If public spending has an effect on economic growth and such effect is larger than increases in indebtedness, the debt-to-GDP ratio would tend to fall. Although lessons learned regarding fiscal consolidation depend on each country's circumstances, the existing evidence indicates that the effect of spending is larger if used in infrastructure and social transfers. Even though many countries may not be in a position to implement fiscally expansionary policies at this point, public spending which helps raise productivity and improve income distribution should be protected during fiscal consolidation processes.

C. Labour market policies for sustainable employment

Unemployment, informality and employment under non-standard labour contracts have grown, putting into question the quality and effectiveness of labour market institutions. The ratio of employment to working-age population has increased very little since unemployment levels peaked, in 2010. While productivity growth often takes political priority over employment growth, the crisis calls for a stronger focus on employment if economic growth is to increase the wellbeing of the majority of the population.

Labour market policies such as the provision of minimum wages and employment protection are important tools for an equitable distribution of productive opportunities and inclusive growth. In countries that have managed to maintain relatively low unemployment since the crisis started, for instance, spending on labour market programmes at the start of the jobs crisis was higher than in those countries where the labour market has been hard-hit.

In the short term, the main policy challenge is to provide adequate support to the unemployed and those at risk of poverty while political pressure to implement fiscal austerity programmes grows. Given the increase in the number of workers per vacancy and the increase in long-term unemployment, there is a strong case for extending the duration of unemployment benefits despite growing fiscal deficits. Active labour market policies and additional measures to support vulnerable groups (including unskilled young and older workers and persons with disabilities) are also necessary to prevent further discouragement, but will only be effective if complemented with measures to stimulate labour demand. A significant number of OECD countries have introduced subsidies for a voluntary reduction in working time, others have imposed reductions in non-wage labour costs and some others have offered hiring subsidies (often targeted to selected groups of workers) as ways to increase labour demand.

While necessary, these measures will not address the disproportionate impact of the crisis on youth employment. Youth are disproportionately affected by unemployment and overrepresented in the informal sector and among the working poor. In 2010, the unemployment rate among young people (aged 15 to 24) was 12.6 per cent, as compared to 4.8 per cent for adults, and 152 million youth were living on less than $1.25 per day. The number of discouraged young workers, who are not counted among the unemployed because they are not actively seeking employment, has increased sharply in many countries.

Youth employment programmes have traditionally focused on increasing the "employability" of young workers, namely by improving their skills through training and facilitating self-employment. While these measures are necessary, they have proven largely insufficient to produce the amount of jobs needed and even less to improve their quality. Durable solutions cannot rely solely on better preparing young workers for an insufficient number of decent jobs but must address job shortages.

Increased labour market flexibility has been commonly advocated as a way to encourage the private sector to hire. However, flexibility has often resulted in increased labour market segmentation and has not eased youth employment or underemployment. Given the high cost to society of the unemployment and underemployment of young people, policies wherein Governments become the "employer of last resort" may prove to be a cost-effective strategy. Universal employment-guarantee or public works programmes could be put in place in many countries for a total cost of 1 to 2 per cent of GDP. An employment guarantee scheme would provide protection against economic risks and buy time for employment-friendly economic reforms to take root.

Public works programmes often have a double objective: providing social protection for poor households through labour and stimulating the economy (at the local and national levels) by providing wages, transferring skills, helping upgrade infrastructure and therefore creating assets at the macroeconomic level. These programmes have been implemented in a growing number of developing countries with significant donor support and were adopted by some additional countries as part of fiscal stimulus packages at the onset of the crisis in the hope that they would stimulate the economy by promoting demand. In a large majority of cases, the programmes consist of a short one-off episode of temporary employment and are only meant to meet a fraction of employment needs. In a few cases, however, these programmes have made a sustained contribution to employment creation and to the reduction of unemployment and underemployment. Notable examples include the Productive Safety Nets Programme adopted in Ethiopia in 2005, which provides 1.5 million jobs per year, India's National Rural Employment Guarantee Programme (50 million jobs per year) and Argentina's *Jefes y Jefas de Hogar Desocupado*.

Building social and labour market policies on sustainable and equitable financial arrangements constitutes a challenge, particularly in times of crisis. However, differences in public social expenditure across countries of similar income levels suggest that fiscal space and affordability are to a large extent a matter of political priorities and institutional legacies. In general, domestic financial instruments, if well designed, are preferable to external or private funding. Taxation revenue, in particular, is more stable and has stronger potential for distributional justice than other forms of revenue, especially if coming from direct taxes. For many developing countries, mineral rents represent a substantial proportion of Government revenues, yet they have often provoked increases of real exchange rates –the so-called "Dutch disease"- which have reduced the competitiveness of other sectors of the economies concerned. Any strategy to fund social policies should assess the economic and political advantages and disadvantages of different financing structures and should build on reliable calculations of the estimated long-term costs of planned programmes.

D. Conclusions

Overall, the economic development path followed by many developing countries has not resulted in a sustained improvement in productive employment and decent work. Where employment has grown, jobs have not been a vehicle promoting income security. Workers pushed out of agriculture by low productivity and population pressure have often gone into low value-added activities, mostly in the urban informal sector, where the scope for sustained productivity growth and upward mobility is limited, while farm productivity has remained stagnant in many rural areas.

Early policy responses to the economic crisis showed that there was political will to incorporate the creation of employment and decent work into economic recovery strategies.

However, the current move towards fiscal tightening in several countries suggests that the crisis is not being used as an opportunity to review the inadequacy of existing macroeconomic frameworks or increase policy coherence under the objective of employment creation. A growing number of countries have embarked in fiscal austerity programmes as a means to fiscal consolidation, cutting public transfers which have an important (multiplicative) impact on demand. Policy coherence will, in this case, deepen the impacts of the economic recession.

Sustainable development and the overarching goal of poverty eradication require that the creation of productive employment and decent work be at the centre of policies for sustained, inclusive and equitable growth. There is a need to rethink public policy, beyond labour market programmes, and to re-orient macroeconomic policy towards employment creation, to rebalance the sources of growth and to take a more proactive approach to industrial policy and sector-specific strategies. Increasing productivity in the informal sector should also become a policy priority in developing countries.