



Promoting productive capacity and employment in a globally responsible environment*

In reaching the conclusions on the theme of its 2012 high-level segment, the Council may wish to take into account the analysis and recommendations contained in chapter II of the present report, in particular those related to the adoption of sectoral and macroeconomic policies for the promotion of productive capacity and

employment. Supporting the development of small and medium-sized enterprises is considered particularly important. Attention is also called to the role public employment programmes can play in offering temporary relief for workers affected by unemployment.

A. Introduction

The generation of productive employment is a critical factor for self-respect and poverty reduction as well as increased production. Employment has emerged as a major global concern, especially following the financial crisis of 2008 and despite progress in poverty reduction in many parts of the world.

The employment situation varies according to the stage of development of countries. In many poor economies, a large share of the working population is in agriculture and in vulnerable employment, while manufacturing and modern services form a larger proportion of the total in most higher-income economies. In general, women face adverse conditions in employment, and correcting this needs to be an intrinsic part of any employment promotion strategy.

The policy environment at the macro level has a major influence on growth, while sectoral policies can shape both the rate and pattern of growth in employment-friendly directions. Sectoral policies are needed for effective job creation and the promotion of a dynamic structural transformation of the economy, which must also be compatible with environmental sustainability,

including consideration of the impact of climate change. In addition, public employment programmes can play an important role in complementing those policies. They generate more immediate results than macro and sectoral policies and provide income and a productive safety net for the working poor and those affected by adverse economic shocks.

B. Current employment situation

Recent trends indicate a deceleration of the speed at which global employment has been improving. The number of people unemployed in the developing world stood at 150 million in 2010, as compared with 141 million in 2007. The Committee notes that in many developing countries, particularly the poorer economies, open unemployment is not indicative of the magnitude of employment problems, which include significant and pervasive underemployment. At the global level, the ratio of employment to working-age population declined somewhat, from 61.2 per cent in 2007 to 60.3 per cent in 2011, suggesting a diminishing capacity of the world economy to generate employment opportunities.

* Excerpt from Committee for Development Policy, Report on the fourteenth session, See Official Records of the Economic and Social Council, 2012, Supplement No. 13 (E/2012/33)

While some people are employed in the modern sector and generally enjoy good labour conditions (i.e., “decent work”), others face restricted livelihood choices. Some, often those lacking qualifications and skills, are self-employed or engaged in low-productivity small-scale enterprises, while others work as casual labourers. Workers in this category are described as being in “vulnerable employment” and often lack formal social protection. In 2011, some 1.5 billion people were engaged in vulnerable employment.

Gender imbalances are to be found in every sector of most economies. In all regions, the employment-to-population ratio for females was lower than for males. Women are overrepresented in agriculture in many developing countries, particularly in Africa and Asia.

Young people (aged 15-24) have been hit hardest by the crisis. The youth unemployment rate was almost three times as high as the corresponding rate for adults in 2011 and, even when employed, a large number of youth were engaged in vulnerable employment. High youth unemployment tends to have significant societal implications, as it affects long-term economic growth by reducing individual skill acquisition and lifetime earning capacity, while also tending to undermine social cohesion.

C. Macroeconomic instability and slow employment generation

Persistent unemployment and underemployment are due largely to slow growth of output and low employment intensity of growth. Thus, in order to generate more employment, there is need to accelerate and sustain output growth and to ensure that economic activities underpinning such growth are sufficiently employment intensive. In addition, in countries with a very large number of workers in agriculture and the informal sector, policies need to focus on improving conditions in those sectors (including raising productivity and investment).

A factor contributing to the employment problem in recent years has been the volatile macroeconomic performance of the developed economies associated with the financial crisis and related macroeconomic responses, which have involved lower import demand from those economies. Moreover, persistent large external imbalances remain a concern because of the threats they pose for sustainability and global exchange rate stability.

Most countries have suffered a slowdown in the process of structural transformation that is needed to

accelerate job creation. The slowdown is due largely to the currently dominant macroeconomic policy framework, which stresses the importance of maintaining low inflation and containing budget deficits while paying limited attention to growth, employment, productive investment and the composition of output. In fact, the resulting policies have been associated with stagnant investment, and many economies have experienced gaps between demand and the existing productive capacity. This in turn discourages future investment and employment growth. The problem is compounded by persistent volatility in aggregate demand.

Prior to the 1990s, growth volatility, particularly in middle-income countries, was due to fiscal deficits and terms-of-trade shocks. More recently, volatility caused by periodic crises in the financial sector associated with trends in foreign capital flows have gained greater prominence and have compounded trade shocks. With the liberalization of the capital account, financial flows have become more unstable and highly procyclical: inflows of external capital increase as domestic aggregate demand grows and contributes to currency appreciation, which encourages further financial inflows. Large external liabilities emerge, often leading to sudden and significant reversals of capital flows. Reversals tend to magnify the volatility in aggregate demand and discourage investment, thereby seriously affecting long-term growth.

Besides prudential financial regulation, macroeconomic policy for employment creation requires a mix of countercyclical policies and a proactive strategy to diversify production. Countercyclical policies are necessary to withstand the adverse impact of abrupt swings of capital flows. Yet, the current reliance on international financial markets has constrained the fiscal space of countries, limiting the adoption of countercyclical policies.

D. Innovations for structural transformation

1. Effective approaches to sectoral policies

One of the major problems in the creation of productive capacity and employment is the identification of the types of goods and services that could be produced profitably. Most Governments see their role in this respect as one of building on existing knowledge in the economy by encouraging diversification and providing a development-friendly, stable macroeconomic environment, as well as building up and maintaining

appropriate infrastructure. In this regard, it is important to develop public-private institutional arrangements — or other organizational innovations at the national level — in which information on profitable and productive activities as well as useful interventions can be elicited. A main objective of such a joint arrangement would be to identify the obstacles that prevent current activities from expanding and new ones from emerging. Assistance is desirable to encourage venture capital, promote coordination and clustering among the producers and facilitate their access to markets. The integration of such activities with local production and the rest of the economy is also an objective, so as to generate development at the national level beyond a narrow enclave isolated from the domestic economy.

The potential of an industry as a long-term generator of jobs lies mostly with knowledge of that industry and its evolving technology and markets. Choosing which types of industries or activities are likely to succeed is a complex task and requires some specific procedures to assist in reducing errors.

One way of reducing mistakes is by setting performance standards and making government support conditional on performance. Standards should be clearly set and easy to monitor. Moreover, the prospects for the success of a nascent industry or activity in developing countries are increasingly enhanced by the mobilization of skills from abroad, including through reverse brain drain or circular migration. Thus, industries or services should have complementary support from persons with experience abroad who have been exposed to emerging technologies and processes and are able to apply and/or adapt that experience to national contexts. The role of returning nationals is particularly important here, as illustrated by the development of a service-based information and communications technology sector in India. Lastly, without neglecting traditional local knowledge, most ideas for possible new industries must be sourced globally. Before a country commits itself to promoting a new industry, it must verify the status the industry has in the rest of the world, assess its technological evolution, study its often global value chain, including whether it is located in markets that show growth potential, and determine the extent of existing and potential competition.

2. Role of small and medium-sized enterprises

Small and medium-sized enterprises make a much larger contribution to employment creation than large-scale enterprises. They often have significant linkages — which need to be encouraged — with the

agricultural and service sectors, as well as with large-scale industry. Accordingly, Governments should consider supporting small and medium-sized firms that are appropriate for local conditions, such as those processing raw materials and carrying out labour-intensive production and service outsourcing processes. In this regard, facilitating access to finance and providing credit for small and medium-sized enterprises play a role in supporting the emergence of new enterprises and sustaining operations.

3. Additional considerations for job creation

Microentrepreneurs, too, need support to remain in business, increase productivity and grow. Microfinancing can potentially assist such entrepreneurs in upgrading family enterprises beyond the subsistence level. Moreover, the provision of basic infrastructure needs to be enhanced in many developing countries, but especially in low-income countries where the deficiencies are considerable. International cooperation can play an important role by providing much-needed financial resources. In addition, there is a need to improve the business environment by establishing and implementing predictable policies. For instance, reducing bureaucratic procedures can lower transaction costs, increase competitiveness and encourage businesses to operate in the formal economy.

Furthermore, upgrading the skills of the labour force is of critical importance. Despite the expansion of formal education, there is often a major deficiency in appropriate skills (see E/2011/33, chap. II). Skills training — through public-private sector arrangements, apprenticeships and school-firm links — needs to match the requirements of the sectors that offer the greatest potential for employment-generating growth.

4. Importance of a dynamic transformation in agriculture

A large share of the population of many countries in Asia and Africa remains in agriculture, even if the share of agriculture in gross domestic product (GDP) has declined substantially. Some 80 per cent of the world's poor live in rural areas, trapped in low-productivity agricultural livelihoods. Most are landless labourers or small-scale marginal farmers. An increasing proportion of them are women, as men move to non-farm jobs. In the past decades, most developing countries have neglected investment in agricultural infrastructure, crop research and extension systems, while the environment has degraded. Smallholders and especially women face substantial constraints in accessing land, credit, inputs, technology, information and marketing services.

Escaping the low productivity trap requires a range of measures, including investing in research, irrigation, roads and extension systems and instituting innovative ways of enhancing small farmer access to land as well as sustainable technologies and production methods in view of the contribution of agriculture to carbon emissions. New institutional mechanisms, such as group approaches to crop planning, service and input delivery and marketing, could make a major contribution in facilitating access, particularly by women.

5. Responsible transformations: climate change and its implications

In today's global context, the technological transformation to a greener and cleaner economy should percolate through decisions about structural transformation and job creation. Structural change needs to be consistent with a reorientation of innovations in all sectors towards technologies that rely on clean energy and adapt to climate change, supported by technology transfer. Investment in these technologies and related industries can also contribute to employment generation. Policies providing vocational retraining and employment services for workers in carbon-intensive industries will also be necessary to minimize costs associated with the transition to production systems and/or activities that are environmentally sustainable. Technological development, however, is highly concentrated in developed countries, which thus must be ready to support the developing economies through improved technology transfer, assistance in enhancing technological capabilities and financial resources. A low-carbon industrial policy requires global coordination and improved cooperation.

E. Public employment programmes

Governments often need to undertake direct interventions targeted to particular social groups or geographical areas to increase employment. Public employment programmes have recently attracted particular attention since the current economic crisis has led Governments to take a larger role in direct employment generation. Approaches to public programmes fall into two distinct categories: public works programmes and employment guarantee programmes.

Public works programmes are often considered important for the protection of the most vulnerable people against economic shocks. The majority of such

programmes offer temporary jobs and are designed to contribute to the recovery of domestic demand and as a way of providing some people with a form of unemployment insurance. The Government often uses them as an opportunity to improve socio-economic infrastructure and to ease the socially regressive impact of crises.

Employment guarantee programmes are still rare. They are longer-term schemes designed to protect workers against seasonal and other fluctuations in employment and to provide households with a minimum income. The most well-known example is the Mahatma Gandhi National Rural Employment Guarantee Act, adopted in India in 2005. Its twin objectives are to provide employment and income and to contribute to rural development. The scheme in principle provides a maximum of 100 workdays a year of guaranteed employment to every household at a minimum wage rate. It provides insurance for rural workers against unemployment or lower earning opportunities during the agricultural off season. It is also recognized to have benefited women especially and enhanced their independence.

Some of those schemes have been criticized, however, in particular for failing to provide for the acquisition of new skills and being often associated with low-productivity activities. Nonetheless, the schemes undoubtedly make a contribution to the employment and income of poor people.

F. Role of international cooperation

International cooperation and coordination among countries are required for both macroeconomic and proactive structural transformation policies. The current turmoil in global financial markets makes countercyclical policies difficult to implement without international coordination, while persistence with austerity measures will further depress output and employment growth. The sovereign debt crisis in Europe and the weak recovery of the world economy have demonstrated the need for stronger international coordination to support a financial safety net and the need for adjustments to promote growth. Yet finding ways to coordinate policy among major economies in a credible and effective manner remains a challenge. International coordination should involve deeper reforms of international and domestic countercyclical and pro-development financial regulation and better international pooling of reserves. Moreover, reforms in mechanisms of compensatory finance are necessary to

provide sufficient and timely financing for developing countries experiencing the impact of external shocks and natural disasters. This will contribute to reducing the resulting volatility in aggregate demand, which discourages investment and undermines employment creation (see E/2009/33, chap. III).

Enhanced international cooperation is also required to support structural change in developing countries, particularly in view of the challenges being posed by climate change and the need to control global warming.

In addition, increasing productivity in agriculture and ensuring food security rest on the development of crops and methods that take the implications of climate change into account. Global cooperation in research and technology transfer is needed. Finally, a globally responsible environment for productive employment creation must include coherent global and regional frameworks to address the international mobility of labour.¹

¹ See E/2011/33, chap. V, and José Antonio Alonso, "International migration and development: a review in light of the crisis", CDP Background Paper No. 11, December 2011 (ST/ESA/2011/CDP/11)