

## **FULL EMPLOYMENT ENVIRONMENT**

**ECOSOC Preparatory Meeting, 4-5 April 2006**

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Mr. Chairman,

1. Given the time constraint, I will confine my remarks to suggesting a few issues for discussion. Though not new, they deserve to be considered carefully because each is of critical importance in creating a national environment conducive to full employment and decent work.
2. **First**, it is surprising how often it seems to be forgotten that economic growth and full employment are the means to important social ends, not an end. The goal – and all major economists agreed about this – is to provide people with a standard of living and economic security that will free them from poverty, squalor, ignorance, disease, despair and low self-esteem caused by unemployment and idleness. As President Roosevelt warned the Congress in 1938: “The liberty...is not possible [in a country] if its business system does not provide employment and produce and distribute goods in such a way as to sustain an acceptable standard of living.” The problem is that economic growth and high levels of employment do not guarantee automatically ‘an acceptable standard of living’ for all.
3. **Second**, how this problem is solved will have a lasting effect on the quantity and quality of economic development and employment. Modern industrial economies and societies can function only through a highly complex collective effort. The intricate division of labour, on which their success is based, makes every individual and group highly dependent on countless other individuals and groups. To achieve important

economic and social objectives under these conditions requires solidarity, widespread commitment to the same goals and equally widespread consensus on how to realize them. Not surprisingly, virtually all the countries that, according to UNDP, enjoy the highest level of human development tend to share two characteristics: a high degree of social inclusion and a distribution of benefits from economic progress that are generally regarded as 'fair'. People will give full support to economic change when they have a stance in it.

4. **Third**, these countries tend, actually, to share something else that is equally important for success in the collective effort: a pragmatic approach to solving their economic and social problems – adapting the best practice institutions and policies from other countries to their own traditions, circumstances and needs. This is of particular relevance to our discussion today. Countries around the world are under considerable pressure now, not least from some members of my own profession, to deregulate labour markets, emasculate the welfare state and cut labour taxes. These measures are believed to be the only way to achieve high levels of employment.

5. They may well be appropriate in some countries – provided that their population is prepared to tolerate the kind of problems that I mentioned at the beginning. However, the fact is that many of the countries that have the highest levels of human development, employment and economic security in the world are continuing to enjoy all these benefits even though they regulate their labour markets, have a highly advanced welfare state and high labour taxes. They have also an effective consensus creating framework that involves labour unions, employer organizations and the government.

6. **Fourth**, even some of my fellow economists seem to forget these days that demand for labour is *derived* demand. It depends on demand for the goods and services that labour produces. In other words, taking the economy as a whole, it depends on the level and growth of aggregate demand. The goal of full, even high, employment is unlikely to be achieved, therefore, if the primary, overriding objective of macroeconomic policy is to maintain a low and stable rate of inflation irrespective of what is happening to unemployment.

7. The result of such a policy, as the world learned in the 1930s, is persistent deflation, economic stagnation, unemployment, low levels of economic security and income, greater inequality and poverty. These are precisely the conditions that, as happened then, give rise to political upheavals and military conflicts.

8. **Finally**, globalization may affect the effectiveness of macroeconomic management in a single country. It does not make it irrelevant. A number of small countries in Europe, for example, - whose economies are, because of their size, always 'open' and therefore 'globalised' – continue to demonstrate the relevance of appropriate macroeconomic policies that take into account more than the inflation objective.

9. However, globalization inevitably reduces the ability of a country to create an environment conducive to full and productive employment if its most important trading partners pursue either different goals or policies inconsistent with the objective of full employment. As a result, in conditions of globalization economic prosperity and socio-political stability become increasingly an internationally shared responsibility – though the main responsibility for economic welfare of each country continues to rest with its people and the national authorities.

10. How this shared responsibility is exercised is probably going to present the international community with its biggest challenge in the present century. ECOSOC could hardly have chosen therefore a more important topic for the Preparatory Meeting and the UN to consider.

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