

TWN

Third World Network

AN EMPLOYMENT-LED NATIONAL DEVELOPMENT STRATEGY:

PRODUCTIVE EMPLOYMENT AND INCOME EQUALITY AS THE FOUNDATION TO SOCIAL AND ECONOMIC DEVELOPMENT

The United Nations inter-agency task team on the Post-2015 development framework concurs that the most critical component of inclusive growth is the creation of decent jobs. Indeed, full, productive and decent employment is identified as the most important source of income security, which paves the path for broader social and economic advancement by strengthening individuals, their families and communities.

Aligning with the rights-based path to development, the UN's report affirms that a post-2015 development agenda should reaffirm international commitments in regard to work as a fundamental human right.

The prevailing notion in the past few decades of globalization and financialisation (where the economic paradigm centered around liberalization, deregulation, privatization and labour market flexibility), is that employment is a variable or consequence, rather than a lead determinant, of growth and development. This notion has been reinforced by the economic and social turmoil precipitated by the worst global economic downturn since the Great Depression.

The recent global economic and financial crisis offered the policy world an opportunity to rethink the pattern of market-led growth and the characteristics of open economies, such as liberalization and deregulation. Consequently, there has been widespread consensus, including that of the IMF, that economic recovery includes a recovery of jobs.

The ILO identifies the central problem facing labor markets in an interdependent global economy as the unequal distribution of productive employment opportunities. Addressing this inequality of productive employment will require sustainable development strategies with a strong employment component that aims to raise the productivity of the poorest workers, and then ensures that they get to keep most of their increased earnings by progressively strengthening labour market institutions.

A focus on decent jobs is critical both in the short-term, to curb the dramatic effects of a prolonged jobs crisis where global unemployment has reached 200 million and

where 600 million new jobs need to be created over the next decade; and in the longer term, to mobilize the main source of national development and growth from productive employment that takes place within domestic borders, rather than from excessive dependence in the global export and capital markets.

Components of an employment-focused development strategy include macroeconomic, environmental and industrial policies that foster structural change, investment and job creation, as well as sound social and labour market policies.

Employment in an era of globalization and financialization

Various academic and international organization studies reveal that globalization has had negative and downward impacts on the share of wages in the national economies of both developing and developed countries. Liberalisation of trade and production, technological changes, welfare state retrenchment and labor market flexibility, which are some of the defining characteristics of globalization, have not created more jobs nor have they raised wages in line with rising productivity levels.

Financialisation is a phenomenon underpinned by financial deregulation and the mushrooming increase of capital directed to financial trading and assets rather than to the real economy of production, goods and employment.¹ Besides contributing to the rise in income inequality, financial deregulation has given rise to speculative episodes and, over long periods, to increasing debt levels for financial institutions and households. Household debt has thus compensated for the impact of reduced wage growth on consumption expenditures.

Underpinned by the international liberalization of capital flows, financial deregulation has given rise to two symbiotic growth models: a debt-led growth model (with foreign capital inflows) and an export-led model (with capital outflows). This is important for defining how an employment-led development model needs to part ways from how the paradigm of globalization and financialization generated growth through external stimulation of demand, even while wage and employment stagnated.

Both growth mechanisms can work for some countries for some time, but both are ultimately unsustainable. The debt-led growth model comes with rising debt levels of households and of the financial sector. The recent crisis and its painful deleveraging process illustrate the limits of this model. The export-led growth model requires high (or rising) current account surpluses in some countries and thus deficits in others. In other words, the export-led model is premised on a state of global imbalances, which is widely considered to have contributed to the financial crisis. In short, globalization and financialization has given rise to unstable and unsustainable growth.

¹ In 2011, the global financial economy had an estimated value of \$607 trillion, or 13 times the size of global GDP, within which derivatives trading made up 80% of all financial flows.

The excessive focus on macroeconomic stability within both the export and debt-led growth models led to an emphasis on contractionary fiscal and monetary targets, while the significance of counter-cyclical policies was discarded. The consensus on low fiscal deficits and tight monetary policy stemmed in large part from the perspective that the quality of the investment climate is a primary driver of economic growth.

It is now high time for an alternative model that aspires toward social and economic development rather than just growth, and that mobilizes employment and income with equity and productivity, rather than profits and surpluses for the few.

Distributional policies

Distributional policies can help increase aggregate wage share and reduce wage inequality by increasing or establishing minimum wages, strengthening social security systems, improving union legislation and increasing the reach of collective bargaining agreements, for example.

All of these policies go against the wave of austerity policies that has swept over many countries in recent times, where, under the perceived pressure to reduce public budget deficits and calls for 'structural reforms,' which are a euphemism for more flexible labour markets and wage cuts, social and economic expenditure and employment opportunities are being sacrificed.

As many economic pundits and international organizations have pointed out in recent years, in times of crisis and a lack of effective demand, what economies need is a national employment strategy based on more state involvement, not less. Only when incomes grow with productivity growth will consumption expenditures and economic output grow without rising debt and income inequality levels.

Incomes policies

Due in large part to the fact that wage employment is a minor share of the aggregate labour market in the developing world, governments need to consider 'income-led growth' rather than or alongside 'wage-led growth' in order to increase both quantity and quality of good jobs beyond the formal economy. Incomes policies direct public transfer payments to where the poor live and work, create public employment schemes, or provide loan credits for livelihood promotion, or for education and health benefits.²

Contrary to the paradigm of labour market flexibility, UNCTAD has recommended incomes policy in many of its Trade and Development Review reports (TDR). According to the 2010 TDR, an incomes policy can be a proactive employment-

² A successful example of a public employment scheme is that of India's National Rural Employment Guarantee program, and a successful example of public transfers and credits is that of Brazil's Bolsa Familia program.

creating policy that can help build institutions that facilitate productivity-led growth of labour income, and thus domestic demand.

Public employment schemes can provide an effective floor to the level of earnings and working conditions (the historical example is that of public works projects and infrastructure projects). Such a strategy should be combined with collective bargaining mechanisms and empowerment of trade unions, as well as wage increases in line with productivity and improvements in the working conditions of the economy, especially in the informal sector.

In the absence of wage employment, minimum wages do not apply, even if they might be on the books in a de jure sense. Nor does collective bargaining in the formal sense. Instead, alternative forms of bargaining may involve acceptance by citizens of governments' tax plans in exchange for services, social protection, employment guarantees and income support. This makes the politics of domestic resource mobilization inextricably inter-connected with the politics of social development.

Fundamental re-orientation of macroeconomic policy goals

A development strategy for equitable and productive employment and income creation also requires an overhaul in the current global macroeconomic policy framework, social protection systems and labour market policies. Below are some alternative pathways to a post-crisis future outlined by the ILO's Decent Work Agenda.

(1) Monetary policy for job-creation

The aim of monetary policy will be to support employment and income creation through boosting domestic money supply and keeping interest rates low. As such, bank finance with affordable interest rates will be made available to Small and Medium Enterprises and domestic firms, incentivizing them to create jobs and sustain wage growth.

(2) Fiscal policy and public investment

Fiscal policy will be re-directed and prioritized in long-term and sustained public investment for infrastructure, agriculture, non-farm wage employment, rural entrepreneurship, skills training and other inputs.

This public expenditure will be part of an overall domestic resource mobilization strategy that encompasses domestic tax revenue, expenditure reprioritization and efficiency, deficit financing and debt cancellation.

(3) Capital account management and FDI test

Capital controls will be an important way to maintain and defend macroeconomic stability in the context of free capital flows. When surges of capital inflows or capital flight lead to financial instability, exchange rate appreciation and financial market bubbles, capital account management can protect economies from falling into

another crisis. Furthermore, it can enable governments to abstain from the 'precautionary hoarding' of foreign exchange reserves as a method of self-insurance against capital flight (and sudden exchange rate devaluation).

FDI liberalization should be subject to a 'national benefit test' in which its relevance to national development needs includes the potential to create productive and sustainable employment.

(4) Social protection and economic security

Rather than reactive social safety net schemes, a social security package that provides a basic floor of economic security for all citizens, regardless of where they work and live and regardless of the state of the economy, will be prioritized.

This includes labour market interventions, rural employment guarantee schemes, cash transfer schemes and public employment programmes targeting vulnerable groups of women and youth.

(5) Active labour market policies

Labour market policies will be based on an agenda of core labor rights and worker empowerment. Such policies include minimum wage legislation, trade union rights and social bargaining and freedom of association.

This entails the right of workers to organize and represent themselves and the strengthening of cooperatives and community organizations, for example. The notion that labour market regulations represent a binding constraint on growth and employment creation will be discarded.

Labour market policies also include training programs and employment services for displaced workers and an education and training system that bolsters the productive potential and employability of the work-force.

Four key issues that a proactive employment strategy needs to address

(1) A global employment strategy should address not just quantity but also quality, or productivity, of employment. This requires addressing the geographical distribution of unproductive employment, which is overwhelmingly rural, agricultural, and geographically concentrated in Sub-Saharan Africa and South Asia. Measures to improve productivity include infrastructure—a predominant constraint in world in which 30% of commercial, agricultural output never makes it to market.

(2) More equal distribution of paid employment opportunities should to be addressed. Creating more equal distribution of employment opportunities require industrial and sectoral policies that resolve constraints such as barriers in access to credit, time-consuming and costly regulations and unqualified labour supply. Such policy measures for scaling up productive employment can be implemented irrespective of the national growth rate.

(3) *The productive distribution in the existing state of employment should be addressed.* A preoccupation with 'formalizing the informal' is secondary to the objective of improving the productivity and thus incomes of people regardless of the regulatory regime they are working within. Examples of measures to boost productivity include skills training, product diversification, access to credit and infrastructure.

(4) *The state needs to direct equitable distribution of capital and labour in public spending.* Because the market alone cannot ensure equity, the role of the state is critical to ensure the equitable distribution of capital and labour. Through public expenditure on needs-based infrastructure investment, governments can make technology choices that are more labour-intensive than capital-intensive.

The result can be a relative increase in incomes to labour over those to capital, with both direct and indirect effects on local economic dynamism and (job-generating) growth. In the aftermath of the recent global financial and economic crisis, the State, in its role as '*employer of last resort,*' proved its worth in mitigating what one could call without exaggeration, a crisis of distribution.

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