

Growth with equity

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Although the world economy is expected to grow at a robust 4.4 per cent in 2011 ([IMF, 2010](#)), sustainable economic recovery will not be achieved unless key employment challenges are addressed ([Note 1](#)).

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Employment and balanced income growth are central to sustainable recovery

Without job creation economic growth is not sustainable for three reasons.

First, in most advanced economies, a growing proportion of the workforce is dropping out of the labour market. Long-term unemployment has increased and 40 per cent of the unemployed have not worked for over a year. Young people are affected disproportionately: on a global level, the number of unemployed youth rose by 8 million between 1997 and 2007 ([ILO, 2008](#)),

Second, several emerging and developing countries will need to consolidate the gains made in boosting domestic sources of growth in order to compensate for weaker export markets in advanced economies. There is no one-size-fits-all strategy for achieving this. But in all cases, respecting core labour standards and rights at work is key. Various studies show that boosting domestic sources of growth are more effective in sustaining employment and reducing global imbalances than exchange rate changes on their own.

Third, sustainable growth is threatened by the persistence of unbalanced income developments. One contributing factor is that labour incomes have tended to lag behind productivity growth ([ILO, 2010](#)). In the case of advanced economies, this can lead to excessive recourse to debt in order to fund household consumption and housing investment. In some emerging countries, the growing gap between labour income gains and productivity growth has contributed to their rising export-dependency. Another factor is the attractiveness of financial investment vis-à-vis real investment in advanced economies.



Evidence has shown (and recent events in the Middle East and North Africa have born this out) the centrality of employment and balanced income developments to social cohesion – itself a key ingredient of sustainable growth ([ILO, 2010](#)).

Promoting jobs and balanced income growth through well-designed policies

The crisis created an opportunity for developing new policy approaches. Below we review some of the lessons learned.

Initial conditions matter

Similar policy responses can produce different outcomes. One reason is that the employment multiplier is larger when measures are adopted quickly. This was easier in countries where effective labour and social programmes were already in place ([Note 2](#)), or where countries with relatively large internal markets, such as China, India and South Africa, reacted quickly to stimulate domestic sources of growth.

Effective job-centred measures

The most successful policy instruments to reduce unemployment are those that seek to prevent these trends from taking hold in the first place.

Employment policies which are effective

- **Safeguarding employment:** Shorter working-time schemes can successfully lower the number of dismissals. In Germany, employment was stabilized largely through working-time adjustments.

- **Direct support to employment-intensive sectors:** Well-targeted support can help workers keep their jobs and also stimulate new jobs. In Brazil, reducing the industrial production tax is estimated to have saved up to 60,000 jobs. In Indonesia, cutting personal income taxes to boost domestic consumption had a strong positive effect on job creation in the wholesale and retail trades and the restaurant and hotel sectors.

- **Training to address skills erosion and changing skill demands:** Skill needs change during periods of adjustment. Improving the delivery and effectiveness of training programmes, for example by leveraging better private–public partnerships, can reduce skills mismatch. Training for young people is particularly urgent. Skills loss at an early age can permanently compromise their employment prospects.

- **Effective delivery of public employment services:** As seen in both Spain and Germany, training provisions and active labour market programmes (such as job-search assistance) are more likely to be successful if administered by a well-resourced public employment service.

- **Target disadvantages rather than groups:** Policy instruments are more effective when they target a specific disadvantage, rather than a specific group. This is particularly the case for young people. France and the UK, for example, launched specific programmes to reintegrate the long-term unemployed and unemployed youth into the labour market.

Creating new jobs, though, is not enough. Job quality is also critical. During the crisis, many temporary workers were laid off, or informal jobs replaced formal ones. If informality persists, there is a risk that overall job quality will deteriorate as the recovery takes root. Reducing the job quality gap will not only achieve equity but, with the right policy mix, can enhance productivity and improve resilience to economic shocks. This too is an area where recent innovations can help.

Improving job quality

- **Well-designed employment protection legislation:** Good design protects workers while avoiding excessive labour market duality. Austria and Brazil have shown how this delicate balance, facilitated through social dialogue, can be achieved

successfully.

- **Simplifying the tax regime:** Providing enterprises, particularly small and medium-sized enterprises (SMEs), with tax and credit incentives to help them “formalize” can help spur the creation of formal jobs and encourage SMEs to remain in the formal sector. Hungary, for instance, lowered taxes for enterprises employing underprivileged workers and gave tax concessions to those sectors with informal workers. In Argentina, Bolivia, Brazil and Peru, various taxes (VAT, income tax, social security contributions) were replaced by a single tax. Kenya and Tanzania simplified their tax system to encourage SMEs to formalize.

- **Lower administrative burden on the self-employed:** Self-employed persons can bear a heavy burden by having to pay both employer and employee social security contributions. In 2009, Brazil introduced the Individual Entrepreneur Law which facilitates the registration of micro-enterprises with up to one employee. The law also entitles micro-entrepreneurs to pension, invalidity, and maternity benefits.

Conclusion

Policies are, of course, implemented within national contexts. The success of a particular policy is governed by the characteristics and the economic and social dynamics within a particular country. Nevertheless countries can learn from each other and tailor policies to fit their own national situation.

What is key, though, is that when economic, employment and social policies work together as a package they lead to a better overall outcome. Employment-centred programmes which create jobs can also improve long-term productivity prospects. Financial systems and macroeconomic policies should provide the space for well-designed employment and social policies which are conducive to decent work.

Note 1 This article is based on a paper presented to the ILO Governing Body ([GB.310/WP/SDG/2/1](#)) at its March 2011 session. That analysis is based on the findings of [country studies](#) carried out as a follow-up to the [ILO Declaration on Social Justice for a Fair Globalization \(pdf 382 KB\)](#), under the series title Reviews on Growth with Equity. Three studies, for [Brazil](#), [Germany](#) and [Indonesia](#), are available. ([back to text](#))

Note 2 Among the G20 economies, automatic stabilizers, e.g. unemployment benefits and social assistance programmes, were estimated to amount to 0.4 per cent of GDP on average in 2008 and 1.6 per cent in 2009. See IMF. 2009. The state of public finances cross-country fiscal monitor. ([back to text](#))

References

IMF. 2010. [World Economic Outlook: Recovery, Risk, and Rebalancing \(pdf 8.38 MB\)](#) (Washington DC). ([Back to text](#))

ILO. 2008. [Global employment trends for youth \(pdf 764 KB\)](#) (Geneva). ([back to text](#))

- [Français \(pdf 801 KB\)](#) • [Español \(pdf 803 KB\)](#)

ILO. 2010. [Global wage report 2010/11 : wage policies in times of crisis \(pdf 5.12 MB\)](#) (Geneva). ([back to text](#))

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Press Release: • [English](#) • [Français](#) • [Español](#)

ILO. 2010. [World of work report 2010: From one crisis to the next? \(pdf 8.79 MB\)](#) (Geneva). ([back to text](#))

Further resources




ILO Publications

- ILO. 2011. [Global Employment Trends 2011: The challenge of a jobs recovery \(pdf 9.67 MB\)](#) (Geneva).
Executive summary: • [English \(pdf 787 KB\)](#)
- ILO. 2011. [Policy options to support young workers during economic recovery \(pdf 656 KB\)](#) (Geneva).
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ILO Videos

- [Germany: Keeping Their Wages Through Kurzarbeit](#) - 
- [Global Employment Trends for 2011: BBC World Interviews ILO's Theodoor Sparreboom](#) - 
- [Global Employment Trends 2011: Weak Jobs Recovery to Continue](#) - 
- [Global Wage Report 2010/2011: An Interview with the ILO's Manuela Tomei](#) - 

ILO Websites

- [Decent work](#)
- [Employment promotion](#)
- [Global Job Crisis Observatory: Employment Promotion](#)
- [Skills knowledge and employability](#)
- [Global Job Crisis Observatory: Skills development](#)
- [Resource Guide on Youth Employment](#)