

DECENT WORK AND FAIR GLOBALIZATION: A GUIDE TO POLICY DIALOGUE

Macroeconomic Policies for Decent Work

The June 2009 UN Conference on the World Financial and Economic Crisis and its Impact on Development committed "...to work in solidarity on a coordinated and comprehensive global response to the crisis and undertake actions aimed at, *inter alia*, restoring confidence and economic growth and creating full and productive employment and decent work for all..." Later, the G-20 Summit in Pittsburgh in September 2009 decided to "put quality jobs at the heart of the recovery," and agreed on "the importance of building an employment-oriented framework for future economic growth."

There are several dimensions to re-integrating employment objectives into macroeconomic policies. These include **fiscal** and **monetary policies**, as well as supporting **sectoral policies** (targeting particular sectors of the economy, often referred to as "industrial policy"). Fiscal policies comprise both public revenues and expenditure as expressed in the government budget. Monetary policy includes policy on interest rates, exchange rates and money supply, and the regulation of the financial sector.

Remembering the forgotten lessons of the Great Depression: A role for the State

The prevailing doctrines of "sound" macroeconomic policies (sometimes referred to as "**orthodox**," "**neoliberal**" or "**Washington Consensus**" policies) include objectives such as limited public intervention in the market, low or zero budget deficits, an exclusive focus of monetary policy on consumer price stability. However these policies have been seriously challenged in the wake of the global economic crisis. The crisis has reminded us that one of the most important lessons of the Great Depression was that markets are not self-correcting and that government intervention is required to ensure recovery ("**counter-cyclical**" measures). In the aftermath of the 1930s crisis, governments introduced policies that provided automatic stabilizers for aggregate demand and implemented context-specific policy frameworks to reduce economic instability and promote full employment (so-called "**Keynesian**" or what are today called "**heterodox**" or alternative policies). These policies have

been dismantled and their usefulness overlooked since the 1980s, when advocates of across-the-board economic liberalization influenced the policy agenda.

Impacts of financial liberalization

One of the most problematic dimensions of globalization in the last few decades has been the increasing unpredictability (volatility) of capital movements resulting from widespread financial liberalization around the world. This includes policies to free the cross-border movement of capital through **opening up the capital account**. In many developing countries, these policies were applied as part of the IMF and World Bank stabilization and structural adjustment policies which marked the 1980s and 1990s. The idea was that an open capital account was supposed to allow countries to achieve greater economic growth and stability through a more efficient global allocation of capital. But the record has shown otherwise:

Impact on growth and employment: A good measure of whether investments are supportive of job creation is whether they are directed at increasing **productive capacities** (including investments in new equipments and infrastructure). However, the surge in international capital flows in the 1990s pursuant to financial liberalization did not bring the expected growth benefits. Actual investment as a percentage of GDP into new infrastructure and productive capacity stagnated. Gross fixed capital formation (the most commonly used measure for physical investment) as a percentage of GDP was actually lower on average than in the 1980s and 1970s. This was likely due to capital being allocated to intensified financial intermediation (that can generate very high profits without in itself producing value-added in the real economy) and the fact that much foreign direct investments (FDI) was spent on mergers and acquisitions (companies that merge or are taken over by other companies) rather than into new factories that would generate new jobs.

Impact on stability and employment: Worse, this period of financial liberalization was associated with a sharp rise in financial instability and the frequency of disastrous financial crises, especially in developing countries. Workers are disproportionately affected by crises, not

only in terms of mass unemployment, but through a permanent deterioration of wages – even when previous employment levels are recouped after the significant time period between economic recovery and job recovery.

Impact on inequality: Several extensive cross-country studies have shown robust correlations between capital account openness and increased inequality. The most telling measure is that in most cases, there is a consistent correlation between capital account liberalization and significant declines in the share of national income going to labour (wages) vis-à-vis capital. Falling labour shares is evidenced in both developed and developing countries and is persistent over time.

Another consequence of financial liberalization in developing countries is the significant *build-up of reserves* as a cushion against future crises. Because this money is not being spent in productive uses, building such reserves intensifies the “*deflationary bias*” in the current global reserve system that is inconsistent with global full employment.

These negative trends are in great part explained by the fact that the potential for greater mobility of capital reduces the bargaining power of even organized labour to claim a fair share of the benefits of growth. This new phenomenon suggests that, while a great deal of effort needs to go into restoring or extending basic workers rights of association and collective bargaining as part of worldwide efforts to reverse inequality, it may in itself not be enough. These new asymmetries generated by financial globalization need to be factored into the broader decent work strategy that also involves alternative macroeconomic policies.

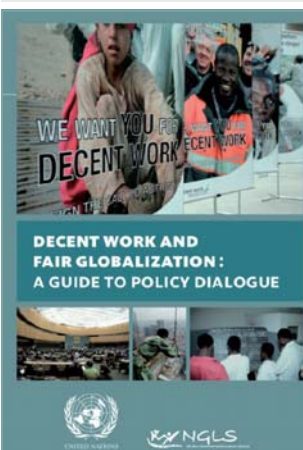
Alternative policies for full employment include:

Capital management for employment and decent work: rules that prevent risky behaviour by banks and investors, better regulate the flow of money in and out of countries, and that can keep the overall system more stable while creating incentives for investment in more productive employment opportunities.

Central banks as agents of employment creation: expanding the mandates of central banks to not only focus on consumer price inflation, but also to watch out for asset price inflation (of the kind that led to the recent financial crisis) and to create targets for achieving full employment goals. Public development banks can also play roles that private banks are unable or unwilling to do in terms of facilitating greater investment in building national productive capacities.

Exchange rate management policies: that can enable governments to maintain a stable and competitive real exchange rate which can help to prevent an overvalued exchange rate from causing mass unemployment or volatile exchange rate gyrations that are a major source of job and livelihood insecurity. Achieving a stable real exchange rate that can enable local firms to compete fairly with imports is an important goal, but international cooperation on broader exchange rate management agreements are also needed.

Such alternative policies can be better understood with a broader social dialogue around very important questions, such as the relationship between inflation and employment levels, and whether inflation in the lower single digits is always appropriate if it disproportionately affects the prospects of employment growth; how inflation targets could be relaxed with a better understanding of what constitutes “moderate” inflation (that is good for growth and employment); how policy makers might better differentiate the sources of inflation, such as supply shocks (e.g. caused by commodity speculation on the world market); and why higher wages for ordinary working people can make good economic sense and should not be systematically opposed by monetary authorities as a cause of inflation. Exploring answers to such questions among a broader group of public stakeholders can re-shape the conventional policy agenda and inform new approaches that are better geared to achieving full and decent employment goals.



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