

**Expert Group Meeting on
“Full Employment and Decent Work for All”
2 - 4 October 2007**

Background Note

**“International policies for creating an enabling environment conducive to
employment and promotion of decent work”**

Introduction

The last few years have witnessed an expansion in the global economy as a result of greater economic integration, rapid technological change and higher levels of productivity. However, the benefits of globalization and growth have largely accrued only to a few countries. Furthermore, despite strong growth in many developing countries, this has not translated into enough jobs.

These developments have had varied impacts on employment conditions, wages, and labor standards. In many countries, the growth in trade and capital flows has resulted in job losses, a fall in real wages, and a deterioration of labor standards. Globalization has led to growing disparities in incomes among the employed and growing job insecurity for workers.

Enhanced international cooperation in addressing macroeconomic and trade-related issues is essential to sharing the benefits of globalization and economic growth more equitably among and within countries, through the creation of more and better jobs. Particularly important is a more balanced and coordinated international strategy for sustainable global growth and full employment, based in part on equitable sharing of responsibility for maintaining high levels of effective demand in the global economy and for distributing the gains of globalization.

Policy Response

Although there are some countries that have been able to achieve high and sustained economic growth rates and to translate this growth into jobs and reduce poverty, a much broader enabling environment is still required to create additional jobs that can offset an increase in the number of people seeking work. This enabling environment has to address the challenges posed by trade and financial market liberalization, foreign direct investment, fiscal policy reforms, social service liberalization, labour market flexibility, labour re-regulation, contractualization and individualization as well as international migration. It also means that domestic constraints such as low levels of human capital formation, poor governance, weak public institutions and high rates of population growth need to be addressed.

International economic and financial interdependence requires that countries work together to monitor the impact of trade liberalization and financial policies as well as create sound policies that can stimulate job creation. This is particularly relevant today given the growing job insecurity among low-skilled workers as a result of the lowering of tariff barriers on some products and the volatility in global financial markets that are impacting local job markets. These developments, therefore, call for multilateral trade liberalization and financial market strategies that allow a country's ability to pursue domestic employment and social protection policies that are welfare enhancing.

And for many developing countries where the agricultural sector is still the main employer, creating decent work opportunities is hampered by limited access to global markets and low prices for agricultural commodities in the international markets. Therefore, more action is needed to focus on rural development, aimed at expanding market access, employment and productivity.

With regard to foreign direct investment (FDI), studies have failed to show its strong employment promotion effects in many countries. For FDI inflows to be instruments of job growth, they should complement domestic investments and be guided by a multilateral policy framework. International cooperation and coordination to minimize excessive investment-switching from one country to another are necessary to avoid the adverse impact of international capital mobility on employment situations in FDI receiving countries. These policies should also be complemented by effective aid targeting.

As regards the linkages between fiscal policy reforms and globalization, there is little doubt that developing country governments' ability to adjust their levels of spending to achieve domestic social and economic objectives has been negatively impacted by the increasing role of global trade and capital flows. For instance, in low and middle-income developing countries, the tax breaks granted to foreign companies to attract FDI often result in reduced public spending on infrastructure, health and in other areas, thereby making it harder to boost employment creation and social protection systems. Therefore, international policy coordination is needed to preserve national fiscal policy space in an increasingly globalizing world.

To effectively respond to labour market deregulation, changes in the terms and conditions of employment and the weakening of social policy objectives in areas such as health and education, governments and their international partners need to note that enhanced free trade alone does not automatically lead to the creation of social services needed for growth and development. In order for trade liberalization to stimulate overall development, jobs and service growth, policy responses should first put in a place a minimum set of preconditions that enhance the role of policies and regulatory frameworks while undertaking trade reforms in services. And to blunt the consequences of globalization, the scope of international policies should be expanded to include extending support to governments so that they are better equipped to support dislocated workers as well as provide them with job retraining, counseling and placement assistance.

The issue of labour market flexibility and employment and income security (often called "flexicurity") has become a major discussion point. Although there is some evidence to support the view that rigidities in the labour market harm growth and employment, it is equally important

to have policies and regulatory frameworks that protect the rights of workers, particularly temporary workers and immigrants. Globalization has led to an increase in the flexibility of labour markets, it has also made workers more vulnerable by moving towards contractualization and individualization. Therefore, appropriate policy responses are needed to protect the welfare of workers affected by short-term contracts and without access to collective bargaining instruments. And in low-income countries that still have large numbers of workers in the agricultural and informal sectors, closer attention should be paid to income security rather than flexibility. There is need for policy measures that strike a balance between labour market flexibility and employment and income security.

While the process of labour market re-regulation has been uneven through out the world, most countries have generally been moving towards notions of self-regulation through promotion of voluntary codes of conduct and corporate social responsibility; fiscal regulation, a process which involves the use of taxes, tax credits and subsidies to influence the behavior of labor markets; and privatized regulation. For successful re-regulation to occur, global economic and social liberalization processes should give countries policy space that allows them to grow the economy and improve employment creation and conditions of work.

Lastly, for trade and investment policies to work, the international community should also address the issue of international labor migration. The free movement of goods and services has been accompanied by the regulated movement of labor. Consequently, there has been an increase in clandestine migration, human trafficking and discrimination of the migrants. Therefore, countries should formulate a multilateral framework that assists in the management of international labour movements as well as facilitate the secure transfer of worker remittances.

Against this backdrop, it is important to ensure that economic environment at the international levels, especially in the areas of trade, finance, investment, and international migration supports the goal of full employment and decent work. There are some encouraging signs that as the UN agencies and the international financial institutions are placing more emphasis on employment issues, the UN system needs to attach high priority to promoting international cooperation and standard-implementation that will facilitate the achievement of high levels of productive employment.

Suggestions for discussion:

Given the challenges highlighted above, the meeting should aim at developing policy recommendations that address how the international community can harness trade, FDI, fiscal policy reform, migration and other global developments to create an enabling environment conducive to employment and promotion of decent work for all. To contribute to the objective, the following questions can be addressed:

- How can an appropriate balance between national policy space and global commitments on trade and finance be achieved to pursue macroeconomic policies aimed at increased growth in output and employment?

- What are the options for promoting better global economic governance that will have a positive impact on developing countries to achieve employment and decent work?
- How can a better international coordination of policies contribute to higher growth and employment creation?
- What actions would you recommend for the UN system, including international financial institutions, to support national strategies to achieve employment and decent work?