United Nations TD/B/C.I/MEM.8/8

United Nations Conference on Trade and Development

Distr.: General
17 December 2018

Original: English

Trade and Development Board
Trade and Development Commission
Multi-year Expert Meeting on Enhancing the Enabling Economic Environment at All Levels in Support of Inclusive and Sustainable Development, and the Promotion of Economic Integration and Cooperation
Third session
Geneva, 25 and 26 February 2019
Item 3 of the provisional agenda

How labour and macroeconomic policies can contribute towards the achievement of the Sustainable Development Goals

Note by the UNCTAD secretariat

Executive summary

The 2030 Agenda for Sustainable Development represents the most ambitious programme that the international community has ever set for itself. It has also helped to raise awareness of the complexity and interdependent nature of the sustainable development challenge. Yet, the 2030 Agenda lacks a narrative that can frame policy proposals and institutional reforms, thereby missing some key economic connections, beginning with how labour and macroeconomic policies can contribute towards the achievement of the Sustainable Development Goals.

This note highlights some of the key macroeconomic issues that policymakers may wish to consider and further discuss during the third session of the Multi-year Expert Meeting on Enhancing the Enabling Economic Environment at All Levels in Support of Inclusive and Sustainable Development, and the Promotion of Economic Integration and Cooperation in order to define a road map to reach the Sustainable Development Goals.

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I. Introduction

1. The 2030 Agenda for Sustainable Development, including its 17 Sustainable Development Goals and their related targets and indicators, represents the most ambitious programme that the international community has ever set for itself. The Agenda has helped to raise awareness of the complexity and interdependent nature of the sustainable development challenge, but it lacks a narrative that can frame policy proposals and institutional reforms, thereby missing some key economic connections, beginning with how labour and macroeconomic policies can contribute towards the achievement of the Sustainable Development Goals.

2. The aim of this note is to highlight some of the key macroeconomic issues that policymakers may wish to consider and further discuss during the third session of the Multi-year Expert Meeting on Enhancing the Enabling Economic Environment at All Levels in Support of Inclusive and Sustainable Development, and the Promotion of Economic Integration and Cooperation, in order to define a road map to reach the Sustainable Development Goals.

3. Drawing from previous UNCTAD research,[1] this note starts from the observation that sufficient good-quality jobs are necessary for achieving the 2030 Agenda. In both developed and developing economies, a high level of employment is clearly one of the most important ways of mitigating inequality and alleviating poverty, as it raises wage incomes, boosts aggregate demand and counters deflationary pressures. In addition, decent work, which has social, civic and creative implications, is an essential plank of an inclusive society. Furthermore, a full-employment agenda, by boosting global aggregate demand, will enable a revitalizing and rebalancing of world trade and help fend off protectionist threats. For all these reasons, UNCTAD has consistently argued for active labour-market institutions and policies, tailored to a country's development needs and conditions.

4. Insofar as labour markets are linked in various ways to other markets, such policies will have to be incorporated in a broader macroeconomic framework because their outcomes depend crucially on the level of private investment in real productive capacity, which in turn depends on demand expectations, availability and costs of finance, and a strong public sector. Wages have an impact on corporate profits from both the cost and the demand side, with attendant effects on investment in real productive capacity. This in turn feeds back into the demand for labour. Overall, as economies approach full employment and wage costs rise, aggregate demand also increases, with new investments contributing to trigger technical progress and productivity growth.

5. However, the policies that help approach full and decent employment can only succeed in a healthy and stable global environment. But all too often, the current global monetary system has hindered strategies of development and has even caused lasting crises in both developing and developed countries. The dominance of foreign capital, including direct investment and speculative portfolio flows, and the implied need of reserve currencies for international transactions and insurance, have made domestic priorities secondary. In a context characterized predominantly by international capital flows, the promotion of productive investment, the determination of fair wages and the enhancement of social protection are in practice constrained by the changing mood and expectations of financial investors, whose operations can also cause large fluctuations and persistent misalignments of exchange rates. Exchange rate fluctuations, in turn, create destabilizing dynamics on trade performance and the balance sheets of domestic institutions, forcing

[1] The following UNCTAD publications are the primary basis for the argumentation of chapter 2 of this note: UNCTAD, 2010, *Trade and Development Report, 2010, Employment, Globalization and Development* (United Nations publication, Sales No. E.10.II.D.3, New York and Geneva); UNCTAD, 2016, *Trade and Development Report, 2016: Structural Transformation for Inclusive and Sustained Growth* (United Nations publication, Sales No. E.16.II.D.5, New York and Geneva); UNCTAD, 2017, *Trade and Development Report, 2017: Beyond Austerity – Towards a Global New Deal* (United Nations publication, Sales No. E.17.II.D.5, New York and Geneva).

further adjustments on domestic demand, investment and employment. Revisiting international trade and financial arrangements is, therefore, unavoidable when designing employment policies in support of the Sustainable Development Goals.

6. Based on these stylized facts, this note sets out to examine some basic relationships between growth, investment, productivity, employment and wages. It argues that unsatisfactory labour market outcomes are more likely to be due to insufficient investment in real productive capacity and inadequate wage growth than to insufficient flexibility in labour markets and the replacement of labour by capital. The period of hyperglobalization, with its emphasis on the liberalization of labour markets to achieve greater flexibility in contractual wages and employment conditions, has not delivered the promised results in terms of labour market performance. What is needed is a set of alternative proposals that are further detailed below. The note concludes with some policy recommendations that point to the tasks that lie ahead for policymakers, both at the national and international levels.

II. The neglected role of aggregate demand in employment creation

A. Supply-side fallacies

7. For most people, finding a "good job" is the route to a better life, and providing such jobs is key to creating an inclusive economy. Good jobs are associated with decent work, and they tend to be in the formal sector, where earnings are higher, job ladders accessible and working conditions better regulated. In a development context, these jobs are more likely to be located in the industrial than in the agricultural or services sectors.

8. According to the mainstream microeconomic approach, the reason for a shortage of such jobs, and therefore for underutilized labour and high or rising unemployment, is that real wages are too high or are rising too fast. This may be attributed to various factors, such as strong labour unions, excessively high legal minimum wages or other legal impediments, that prevent wages from falling sufficiently to absorb the available supply of labour and for businesses to be sufficiently profitable to encourage them to invest in activities that could generate new jobs.

9. Such rigidities in labour markets also make smooth adjustments difficult in the face of exogenous economic shocks, such as those associated with new technologies or the entry of large economies into the global trading system, producing unequal outcomes that can only effectively be dealt with, it is argued, through a mixture of liberalization and training.

10. There are serious analytical weaknesses with this approach. In particular, for prices and competition to play both a balancing and incentivizing role, the supply and demand sides of the market must be independent of each other. But even if this is the case at the microeconomic level, this is not necessarily true at the macroeconomic level. A fallacy of composition is particularly true of the market for labour; cutting wages can make sense to the individual firm looking to minimize the costs of making its particular product; however, if all firms adopt a similar approach, the overall demand that each firm faces for its output will be reduced. Rather, employment growth is typically associated with growth of aggregate demand and output. Whether or not aggregate demand rises sufficiently to create net employment depends crucially on the distribution of the gains from productivity growth, which in turn is greatly influenced by policy choices.

11. The evidence linking unsatisfactory labour market performance and greater inequality to either trade or technology remains inconclusive, in part because the scale of changes in both these areas over the past two decades does not directly match the pattern of job destruction in the manufacturing sector.[2] This is particularly so, given recent evidence

[2] L Mishel, H Shierholz and J Schmitt, 2013, Don't blame the robots: Assessing the job polarization explanation of growing wage inequality, Working Paper, Economic Policy Institute–Centre for Economic Policy Research.

of falling productivity growth, and the heavy skewing of rewards in favour of those at the very top of the income ladder. Moreover, rising inequality also reflects growing wage differentials among those with the same or similar educational credentials.[3] These discrepancies have led to more hybrid accounts of rising inequality, which incorporate institutional changes in labour markets, changes in macroeconomic policies and changing interactions between trade and finance.

12. The trade-versus-technology discussion of labour market conditions has, however, served to highlight the critical role of employment in fostering inclusive economies, particularly given that a growing number of households are increasingly worried that the kind of stable, well-paid jobs needed to secure a middle-class lifestyle have already been hollowed out in the developed economies, and are also increasingly out of reach for an aspiring middle class in many emerging economies.[4]

13. In today's global environment, prevailing policy choices, combined with the forces of technology and structural change, have limited the availability of jobs – particularly good ones – relative to labour supply. The policies generally adopted during the period of hyperglobalization have sought to keep wages low and have served to translate productivity gains either into higher capital income or into lower prices. But keeping wages low to generate higher profits has been self-defeating, because without a stronger purchasing power of wage earners, domestic demand will not rise sufficiently to enable owners of capital to fully employ their capacity, and thereby translate productivity gains into profits. The balancing act has only been achieved through a rising mountain of household and corporate debt, which has contributed to the widening inequities and heightened instability of the global economy. Moreover, when these debt-fuelled imbalances generate an economic crisis, the macroeconomic policy response has invariably been one of austerity, with further damaging effects on labour market conditions.

B. The external constraint

14. In an important twist to the supply-side story in developing countries, policy discussions of the last decades have mixed calls for labour market flexibilization with the support of export-led growth strategies. Thus, extrapolating from the single entrepreneur to a sector and then to an entire economy, it is maintained that any country can achieve persistently high growth by cutting wages and stimulating manufacturing export, and even if those exports reach a plateau, countries may still sustain fast growth by expanding exports in low-wage services. To fully reap the benefits of labour market flexibilization in the international environment, however, full liberalization of trade in goods and in services is required.[5]

15. Two underlying assumptions are critical in this line of reasoning. The first one is that the world economy is a fully competitive market, there are no monopolistic or oligopolistic structures determining prices and market shares, there are no undue advantages of first-entry innovations, technology is shared, resources are fully divisible and price competitiveness forces producers to transfer gains to consumers. As recent UNCTAD reports show, none of this is true, whether for the global economy or within any economy individually.

16. The other critical assumption is that production potential is fully realized because there is unlimited demand from the external (global) economy. Growth of external demand (exports rising at a faster pace than imports) is ensured, provided that each economy specializes in the products in which it is more competitive. This again denotes both a simplifying assumption about the process of aggregation and an oversight about income

[3] L Mishel, 2011, Education is not the cure for high unemployment or for income inequality, Briefing Paper No. 286, Economic Policy Institute.
[4] Organization for Economic Cooperation and Development (OECD) and World Bank, 2016, The squeezed middle-class in OECD and emerging countries: Myth and reality, Issues Paper.
[5] International Monetary Fund, 2018, *World Economic Outlook: April 2018 – Cyclical Upswing, Structural Change* (Washington, D.C.).

generation and effective demand. From an aggregation perspective, while it is true that for an individual economy, there could exist the possibility of being a successful export performer at the expense of others, this cannot be true for all at each point in time. At best, losers in one round could aim at being winners in the next if they succeeded in cutting labour costs more than the previous winners did in the round before, and so forth. In reality, trying to achieve success by this route is likely to mean net export gains come at the expense of others, raising the danger of a “race to the bottom”.

17. Thus, although heightened participation in international trade (exporting and importing) can increase the pace and extent of industrialization and raise productivity both within and across industries, these relationships are neither simple nor assured. Trade liberalization, if reciprocal, opens export markets and eases access to the import of capital goods and intermediate products, but it also may introduce some challenges for the industrialization process. Perhaps most formidable is the prospect of increasing competition from industrial imports, which has been linked to premature deindustrialization and informalization across several countries.

18. Another challenge is that export markets have become much more crowded and competitive, increasing the globally accessible supply of less-skilled labour at a time of general wage compression and weak aggregate demand. Whether and to what extent the export of manufactures induces industrialization and productivity growth depends on both the composition of exports of manufactures – the more technologically intensive the better – and their share of domestic value added. Moreover, scale probably matters as much as the share of domestic value added and technological intensity, not least because of the need to absorb labour into manufacturing activities in order to achieve aggregate productivity growth. Enclaves of manufacturing excellence are encouraging, but they are insufficient to generate the linkages and the economy-wide productive transformation required to achieve significant industrialization.

19. Even where scale may be large enough to substantively shape domestic production, the problem of price is still a limiting factor. The fallacy of composition – as an ever more crowded field of exporters pursues the same export-led strategy – compresses price and ultimately wage growth , even for the most successful manufacturing exporters in Asia. The terms of trade for developing-country exporters of manufactures declined at an average annual rate of 1.1 per cent between 1980 and 2014, and by 1.5 per cent for exporters of manufactures in Asia. Moving to more technology-intensive exports can seem a promising alternative, but the leap has to be large and sustained to outpace the many competitors vying for the same higher priced export markets.

20. The flip side of the fallacy of composition is the concentration of market and pricing power. The rise of global value chains is both a cause and an effect of this phenomenon. On the one hand, such chains facilitate a wider participation of developing countries in global trade of manufactures, thereby opening new avenues for industrialization. On the other hand, this wider participation generates more competition, which further strengthens the bargaining and pricing power of lead multinational enterprises based predominantly in developed economies. This makes it difficult for developing-country producers – even the large emerging market suppliers – to raise and capture value added in economically consequential ways.

21. A big part of the problem is that export-led industrialization in the current era has been a generally disappointing generator of broadly shared, high-wage employment – an often overlooked but essential aspect of successfully linking exporting and industrialization. Even where productivity gains offer the potential for social upgrading, they may mostly increase profits, or be used to lower prices to solidify an existing competitive advantage, rather than raise wages. If most of the productivity gains are transferred abroad through lower prices, the virtuous circle of productivity supporting domestic demand and investment may be weakened. These competitive dynamics have been particularly problematic for countries in Africa and Latin America, where globalization has been associated with the movement of labour from high- to low-productivity production, but also to the informal economy. Conversely, a number of Asian countries have been better able to exploit the opportunities created by exports of manufactures with a simultaneous increase in productivity and employment.

22. The causal mechanism here is twofold. On the one hand, increased competitive pressures in export and domestic markets have induced more outsourcing and the proliferation of informal work. On the other hand, combining domestic labour with more capital-intensive production technologies has both lowered the employment intensity of manufacturing and raised the relative demand for skilled labour. Ultimately, it must be recognized that part of managing structural change involves designing an employment policy that ensures inclusive and self-sustaining processes of industrialization.

C. The gender dimension

23. For half the world's population, finding a good job encounters the barrier of gender discrimination. The call for making hyperglobalization more inclusive has therefore, rightly, acquired a strong female voice. But there is much more to this challenge than increasing the participation of women in markets and boardrooms. And even adding a gender dimension to financial inclusion, entrepreneurship or trade facilitation offers, at best, a limited path to a more inclusive economy. The institutions and social norms underlying gender inequality tend to be reproduced in labour markets. In the workplace, most women experience discrimination and segmentation – practices that cannot be delinked from the wider pressures of hyperglobalization (see box).

Gender discrimination in the workplace

In the workplace, most women experience discrimination and segmentation – practices that cannot be delinked from the wider pressures of hyperglobalization. In particular, the prevailing global policy environment, combined with the forces of technology and structural change, has limited the availability of jobs, in particular good jobs, relative to labour supply. And the scarcity of good jobs has intensified both job rationing by gender and the exclusion of women from better work opportunities, even as women's employment participation has increased and that of men has declined overall.

There is a risk of greater gender equality in employment becoming gender conflictual, with women's employment rates rising (which they are in most countries of the world), and men's employment rates falling. This is an almost invisible phenomenon that is not widely discussed, and although its strongest manifestations are in the more advanced economies, it is now a troubling feature of job markets worldwide.

Simply increasing economic growth and hoping for a trickle-down effect on gender equality has not been successful; it has had a limited impact on women's relative access to good jobs. What is more worrying for gender equality is that increasing women's labour force participation without supportive demand-side policies and structures to productively absorb these new market entrants worsens gender segregation in labour markets and encourages the crowding of women into low value added, informal service sector activities.

The gender segregation in labour markets (or occupational hoarding by gender) has a negative impact on labour overall, as reflected in the wage share of income. Controlling for other factors, there is evidence that the decline of women's relative access to industrial sector work has been associated with a decline in labour's share of income in developing countries since the early 1990s. However, at the same time, when good jobs are scarce, higher labour force participation by women hinders wage growth, potentially setting in motion a low-wage growth path characterized by increasing economic insecurity and gender conflict, since women's labour participation appears to adversely affect men's employment prospects.

Given the employment challenges associated with structural and technological change, and women's primary responsibility for both paid and unpaid care work, transforming unpaid and paid care activities into decent work should become an integral part of strategies aimed at building more inclusive economies.

Source: UNCTAD, 2017, chapter 4.

24. The hollowing out of traditional factory jobs and manufacturing communities has been a very visible feature of growing inequality in developed countries and is taking a particularly heavy toll on middle-aged working-class men. But the number of industrial sector jobs is also declining in many developing countries that are facing premature deindustrialization and stalled industrialization, and the negative impact is much larger on women's industrial employment than on men's.

25. In developing countries, the share of industrial employment in men's total employment declined by an average of 7.5 per cent between 1991 and 2014, compared with a 39 per cent average decline for women. Moreover, as industrial production becomes more capital-intensive, women tend to lose jobs in this sector, even after controlling for education, thus challenging the argument that women lose these jobs because of differences in skills. With the increase in capital intensity and automation, it seems unlikely that a technological revolution in the South will improve gender equality.

III. Revising the macroeconomic policy framework for sustained growth, employment creation and poverty reduction

26. The institutional conditions for employment and labour market policies differ between developed countries, emerging-market economies and low-income developing countries, as well as within each of these groups. However, macroeconomic conditions favourable to fixed capital formation and the full participation of labour in the productivity gains emerging from innovative investment are necessary for achieving and maintaining a high level of decent employment, irrespective of an economy's stage of development. Thus, employment needs to be analysed in connection with output growth, and the macroeconomic policy framework must be strengthened to promote sustainable growth.

27. Accordingly, a potentially more successful strategy to pursuing labour market flexibilization, with its attendant danger of macroeconomic austerity, would be one oriented towards ensuring that the gains from productivity growth also accrue to labour: wages rising in line with productivity growth will feed rising domestic effective demand and nourish a virtuous cycle of growth, investment, productivity increases and employment over time. Therefore, faster employment creation requires appropriate macroeconomic policies and development strategies for accelerating growth of productive capacities and domestic demand. This, in turn, calls for a reassessment of priorities in macroeconomic policies, which is discussed further below.

28. Past experience and theoretical considerations suggest that such a strategy requires a greater reliance on domestic demand than has been the case in many countries over the past decades. Especially for developing countries, this may call for a rethinking of the paradigm of export-led development based on keeping labour costs low.

29. Some key elements for the establishment of a strong enabling environment for more good jobs are presented below.

A. Monetary and financial policies

30. Increased fixed investment will result from positive demand expectations, combined with favourable financing conditions. For sustained income and employment growth, proactive and permanent short-term management of monetary, financial and overall demand conditions is needed to ensure that planned investment exceeds planned savings. In such an environment, savings will rise, even if the propensity of households to save remains unchanged. Higher savings, which correspond to higher investment in the macroeconomic equilibrium equation, are eventually generated by higher profits. The initial real investment can be financed by bank credit if the central bank allows credit expansion through an appropriate monetary policy.

31. The central bank, through its provision of liquidity and determination of the short-term interest rate, can provide an important expansionary stimulus, and at least indirectly influence long-term interest rates according to its assessment of the economic situation.

Thus, the positive effect of its expansionary monetary policy on investment in fixed capital supports employment creation. Monetary policy that is permanently and exclusively used for fighting protracted or inertial inflation, a priori, hampers employment creation and sustainable income growth. Therefore, the macroeconomic policy instruments recommended to developing countries over the past three decades as the only rational choice, in line with the Washington Consensus, need to be revised in the light of the greater priority now being given to employment creation.

32. Central banks can do more for stable growth than keeping inflation low; they can function as agents of development by shifting their focus to employment. Moreover, monetary and financial policies have a bearing on the exchange rate, and thus on the competitiveness of domestic producers and employers, compared with foreign ones. There are numerous examples of successful experiences where central banks played an essential role in public policies in support of growth and structural change by maintaining low interest rates, exerting capital controls to help stabilize exchange rates at competitive levels and sometimes engaging in direct lending for selected projects. A monetary policy that focuses on creating favourable conditions for the financing of private investment can be complemented by the promotion of investment lending by private financial institutions and by the provision of credit through public financial institutions. In parallel, State investment banks have played an important role in providing cheap credit to investors and channelling capacity creation in a socially desirable direction.

33. Yet, monetary policy alone is not enough; a broad menu of proactive fiscal and industrial policies is essential for generating the structures and conditions that support the expansion of aggregate demand and domestic productivity growth. As long as loose monetary policy remains a major component of the policy toolkit, it should be increasingly directed towards boosting public expenditure rather than being directed to improving the balance sheets of commercial banks.

B. Public spending

34. The need for generating good-quality employment provides justification for reviving the idea of the State as “employer of last resort”.[6] This is urgent, given current levels of unemployment and underemployment throughout the world, and the informal and precarious nature of much of existing employment. With too many people chasing too few good jobs, not only is it taking longer than ever for jobseekers to find work, but the kinds of jobs they eventually find do not seem likely to support more stable and inclusive communities. Even where unemployment rates have declined, good jobs are in short supply; long-term unemployment, disability and drop-out rates remain stubbornly high, compared with pre-crisis levels; and youth unemployment is a persistent problem.[7]

35. In addition to direct employment, considerable indirect impacts on employment and output can be achieved through public spending more generally, which has much stronger multiplier effects than other forms of stimulus such as tax cuts.[8] In the current context of weak demand in most individual economies and the global economy as a whole, fiscal spending should become the single most important ingredient in public policy for employment creation.

36. However, the type of public spending matters, not only for its welfare implications but also for its macroeconomic impact. Government spending on social services, in particular in care activities that are typically underprovided by the State in most countries, generates much higher multiplier effects on employment: on average it generates three

[6] HP Minsky, 2013, *Ending Poverty: Jobs, Not Welfare* (Levy Economics Institute of Bard College, Annandale-on-Hudson, New York, United States).

[7] D Blanchflower, 2015, Britain’s hidden army of underemployed, *The Independent*, 29 April; International Labour Organization, 2017, *World Employment and Social Outlook: Trends for Women 2017* (International Labour Office, Geneva).

[8] A Mineshima, M Poplawski-Ribeiro and A Weber, 2014, Size of fiscal multipliers, in C Cottarelli, P Gerson and A Senhadji, eds., *Post-crisis Fiscal Policy*, Massachusetts Institute of Technology and the International Monetary Fund, Cambridge, Massachusetts: 315–372.

times the number of jobs than investment in construction in developed countries[9] and nearly twice as many in developing countries[10] for the same amount of investment. It also has the important effect of improving the quality of life of citizens, especially when the goals are the universal provision of good-quality public services and the creation of both social cohesion and buy-in of the population whose tax payments would help fund such expenditure. It can also be crucial in reducing inequalities, not just across income groups, but also across gender and other social categories.

37. In addition to a general increase in government spending on physical and social infrastructure, specific public employment schemes can be very effective, especially in low-income countries, where much of the workforce is engaged in informal and self-employed activities. In recent years, some countries, such as Argentina, India, Sierra Leone and South Africa, have introduced public employment schemes based on the concept of the employer of last resort. Although limited in scope, these have served as important countercyclical buffers and macroeconomic stabilizers, in addition to their obvious anti-poverty effects. The multiplier effects of such spending are also generally high, since the wage earnings from such work are typically spent on consumption, so that they generate even more indirect employment.

38. To maximize the incremental benefits of such spending and boost aggregate demand relatively quickly, public expenditure on job creation is best directed to the regions, places and activities where unemployed persons and poor households can best benefit.[11] This would suggest taking workers as they are and providing jobs tailored to their current skills and abilities, while including training and retraining as part of the programmes, instead of only providing training for jobs that might subsequently become available.[12] This may be particularly well suited to some work programmes where training can be provided relatively fast, for example, pollution clean-up, infrastructure repair, reforestation and care-related activities.

39. The added advantage is that such an approach is likely to benefit from popular support. Meanwhile, multilateral initiatives should at the least ensure that there are no impediments to national Governments expanding public employment or procurement. This is particularly important in the context of the explicit or implicit constraints on such employment promotion in international trade and investment agreements.

An incomes policy for wage-led growth

40. The task of monetary, financial and fiscal policies to support employment growth can be greatly facilitated by the additional use of an incomes policy that builds on certain rules for determining mass incomes in a growing economy. A well-designed incomes policy can make a major contribution to employment growth by paving the way for a steady expansion of domestic demand.

41. When unemployment rises and many workers that lose their jobs in the formal labour market shift to the shadow or informal labour market, the power of employers tends to strengthen, forcing the laid-off workers to accept much lower wages than they would have if unemployment had not risen. This would be acceptable if the fall in wages was the right remedy for redressing the labour market disequilibrium. However, the downward flexibility of wages causes a fall in demand, leading to even further wage cuts without stimulating employment creation through investment. Thus, unlike price flexibility in goods markets that causes demand to match supply for individual goods, wage flexibility does not stop the rise in unemployment. Indeed, the outcome is just the opposite: the fall in wages increases the number of unemployed and underemployed, reduces the incentives to invest

[9] International Trade Union Confederation and Women's Budget Group, 2016, Investing in the care economy: A gender analysis of employment stimulus in seven OECD countries.

[10] International Trade Union Confederation, United Nations Entity for Gender Equality and the Empowerment of Women and Women's Budget Group, 2017, Investing in the care economy: Simulating employment effects by gender in countries in emerging economies.

[11] HP Minsky, 1965, The role of employment policy, Hyman P Minsky Archive Paper No. 270, Levy Economics Institute of Bard College; Minsky, 2013.

[12] Minsky, 1965.

in productive capacity and results in a downward spiral in the overall standard of living of the society, as experienced by many developing countries during the era of the Washington Consensus.

42. In this context, it is important to realize that if labour income does not rise in line with productivity growth, it does not mean that profits will automatically rise more. Profits are residual incomes, and will rise only when demand expands sufficiently, which is unlikely to happen when mass incomes do not rise in line with production. Moreover, increases in profit incomes tend to contribute less to employment growth than increases in labour incomes, because profit earners, on average, have a higher propensity to save than wage earners, and they tend to consume more imported luxury goods. Therefore, development strategies based on wage-led growth have a potential to maximize increases in output, productivity and employment.

43. To attain a sustainable trajectory, productivity gains need to be distributed in a way that allows labour income to grow at the same pace as productivity. In a market economy, the implementation of such an incomes policy requires an institutional framework adapted to the stage of development, economic structure and cultural and historical specificities of each country. Such an institutional framework is all the more important, as an incomes policy can serve not only as an instrument for employment generation, but also as a means to control inflation.

Managing the exchange rate and capital flows

44. Strengthening domestic demand to drive employment creation and relying less on exports for growth than many countries have done in the past must not be equated with a retreat from integration into the global economy. Developing countries need to earn the foreign exchange necessary to finance required imports, especially of capital goods and their embedded advanced technologies. Moreover, international competition among firms can also spur innovation and investment in tradable goods industries.

45. However, in many countries, export-oriented strategies have made growth performance and employment creation overly dependent on global growth and on the ability to gain global market shares, while reducing policy options to boost domestic demand based on increases in productivity-related growth of labour compensation.

46. The above-mentioned systemic problem could be mitigated through a multilateral framework for exchange-rate management aimed at keeping the real exchange rate relatively stable. Under such a system, nominal exchange rates would be adjusted according to differentials in the changes in unit labour costs or inflation rates, so that there would be less incentives for firms to engage in international wage competition. The incentive for speculative capital flows would also be reduced, thereby alleviating pressures from capital markets on the exchange rate. Monetary policy can then focus primarily on domestic objectives, in particular that of achieving a high and stable level of investment in fixed capital.[13]

47. In the absence of effective multilateral arrangements for exchange-rate management, post-crisis policies in many developing countries whose growth and employment performance suffered in the past from currency overvaluation have shifted to an exchange-rate policy that aims to avoid a repetition of that experience. They are intervening in foreign exchange markets and seeking to accumulate foreign exchange reserves, not only as a means of maintaining or improving their international competitiveness, but also to keep domestic interest rates low in order to foster investment and employment creation.

48. In principle, policies in support of employment creation are possible under a regime of open capital markets as long as interest rates can be kept low so that there is no incentive for speculative capital inflows aimed at arbitrage profits. This is possible if inflation control is facilitated by appropriate incomes policies. But it is also true that a number of

[13] UNCTAD, 2011, *Trade and Development Report, 2011, Post-crisis Policy Challenges in the World Economy* (United Nations publication, Sales No. E. 11.II.D.3, New York and Geneva), chapter VI, provides further discussion on this issue.

emerging-market economies have been able to regain greater autonomy in macroeconomic policymaking through the use of capital controls. Moreover, since global finance favours a deflationary rather than an expansionary fiscal stance, retaining the policy space needed to adopt the latter stance requires reducing dependence on global finance. To this end, capital controls not only help better management of exchange rates and monetary policy, they also prevent excessive inflows of capital that erode policy space of the kind needed to improve labour market conditions.

A way forward: Towards a global new deal

49. At present, too many people in too many places are integrated into a world economy that delivers inequitable and unjust outcomes. Economic and financial crises, like that of 2008–2009, are only the more visible manifestations of a world economy that has become increasingly unbalanced in ways that are not only exclusionary, but also destabilizing and dangerous for the political, social and environmental health of the planet. Even when a country has been able to grow, whether through a domestic consumption binge, a housing boom or exports, the gains have disproportionately accrued to the privileged few. At the same time, a combination of too much debt and too little demand at the global level has hampered expansion. The subsequent turn to austerity in response to the bust has destroyed jobs and undercut wages, hitting some of the poorest communities hardest, leading to further polarization and heightening people's anxieties about what the future might hold. Meanwhile, political elites have been adamant that there is no alternative. All this has proved fertile economic ground for xenophobic rhetoric, inward-looking policies and a beggar-thy-neighbour stance.

50. The importance of an international perspective in assessing the potential success or failure of macroeconomic policy packages cannot be underrated. However, in addition to the underlying flaws noted above that ignore the macroeconomic importance of inclusiveness and an inconsistent global aggregation, there is a yet more important challenge to effective policymaking in support of the Sustainable Development Goals that arises from de facto and de jure restrictions on policy space. In part, these restrictions stem from pervasive ideological support for labour market flexibilization and austere macroeconomic policies that rely on unrealistic assumptions about how markets work and presume the existence of a level global playing field of free trade and capital flows. But these restrictions on policy also stem from the undue reach and influence of financial markets that have a deeply vested interest in the unregulated movement of capital and from a myriad rules and regulations embedded in free trade agreements, at various levels, that restrict the ability of policymakers to manage economic outcomes in the public interest.

51. Without significant, sustainable and coordinated efforts to revive global demand by increasing wages and government spending, the global economy will be doomed to continued sluggish growth, or worse. Now is the ideal time to crowd in private investment with the help of a concerted fiscal push to revive the growth engines of the economy, and at the same time help rebalance economies and societies that, after three decades of hyperglobalization, are seriously out of kilter. However, in today's world of mobile finance and liberalized economic borders, no country can do this on its own without risking capital flight, a currency collapse and the threat of a deflationary spiral. What is needed, therefore, is a globally coordinated strategy of expansion led by increased public expenditures and with improving employment conditions a central goal, offering the opportunity to all countries to benefit from a simultaneous boost to their domestic and external markets.

52. Moving away from hyperglobalization to inclusive economies is not a matter of simply making markets work better, whether by enhancing human capital, filling information gaps, smartening incentives, extending credit to poor people, or providing stronger protection to consumers. Rather, it requires a more exacting and encompassing agenda that addresses global and national asymmetries. The Sustainable Development Goals agreed to by all members of the United Nations provide the political impetus for such a change. The aim should now be to harness this moment of consensus to ensure an appropriate combination of resources, policies and reforms needed to galvanize the requisite investment push and promote inclusive outcomes at both the global and national levels.

53. Despite all the talk of its increasing irrelevance and imminent demise, the nation State still remains the basic unit of legitimacy and leadership in today's interdependent world, and to which citizens ultimately turn for economic security, social justice and political loyalty. But no less than in the past, achieving prosperity for all should involve paying close attention to the biases, asymmetries and deficits in global governance that can stymie inclusive and sustainable outcomes. Effective internationalism continues to rest on responsible nationalism, and finding the right balance remains at the heart of any meaningful multilateral agenda.

54. With this in mind, there needs to be widespread support for a global "new deal". President Roosevelt's New Deal, launched in the United States in the 1930s and replicated elsewhere in the industrialized world, particularly after the end of the Second World War, established a new development path that focused on three broad strategic components: recovery, regulation and redistribution. While these components involved specific policy goals tailored to particular economic and political circumstances, they made job creation, the expansion of fiscal space and the taming of finance a common route to success along this new path.

55. Building a new deal today could draw on those same components; and, as before, States require the space to tailor proactive fiscal and other public policies to boost investment and raise living standards, supported by regulatory and redistributive strategies that tackle the triple challenges of large inequalities, demographic pressures and environmental problems. However, the specific challenges of inequality and insecurity in the twenty-first century will not be tackled by countries trying to insulate themselves from global economic forces, but rather by elevating, where appropriate, some of the elements of Roosevelt's New Deal to a global level consistent with today's interdependent world.

56. Elements for consideration include the following:

(a) Ending austerity. This is a basic prerequisite for building sustainable and inclusive economies. It involves using fiscal policy to manage demand conditions and making full employment a central policy goal. Monetary expansion should also be used differently, so as to finance public investments that add to inclusive and sustainable outcomes. As part of a general expansion of government spending that covers physical and social infrastructure, the State can act as an employer of last resort; specific public employment schemes can be very effective in job creation, especially in low-income countries, where much of the workforce is in informal and self-employed activities. Both public infrastructure investments and employment schemes are important for reducing regional imbalances that have arisen in developed and developing countries;

(b) Labour market interventions. These policies, including minimum wage legislation, are crucial for achieving not only social policy goals (that is to say, reducing poverty and gender discrimination), but also macroeconomic goals, such as higher employment levels and reduced income inequality. This is not surprising, given the additional employment resulting from the income multiplier effects of the higher demand generated by such wage increase;

(c) Strengthening the voice of organized labour. Wages need to rise in line with productivity. This is best achieved by giving a strong voice to organized labour. At the same time, job insecurity also needs to be corrected through appropriate legislative action, including on informal work contracts, and active labour market measures. More innovative supplementary income support schemes could be considered for achieving a fairer income distribution, such as a social fund that could be capitalized through shares issued by the largest corporations and financial institutions;

(d) Enhancing public investment with a strong caring dimension. This would include major public works programmes for mitigating and adapting to climate change and promoting the technological opportunities offered by the Paris Agreement under the United Nations Framework Convention on Climate Change, as well as addressing problems of pollution and degradation of nature more generally. It also means dealing with demographic and social changes that erode local communities and extended families by making formal public provision of child care and elderly care a necessity. In both respects, public investments should be designed to enable and attract more private investment, including small and medium-sized enterprises, and in more participatory ownership forms such as cooperatives;

(e) Raising government revenue. A greater reliance on progressive taxes, including on property and other forms of rent income, could help address income inequalities. Reversing the decline in corporate tax rates should also be considered but this may be less important than tackling tax exemptions and loopholes and the corporate abuse of subsidies, including those used to attract or retain foreign investment;

(f) Taming financial capital. Crowding in private investment requires taming financial institutions to make them serve the broader social good. In addition to appropriate regulation of the financial sector, it is important to tackle private banking behemoths, including through international oversight and regulation, as well as to address the highly concentrated market for credit rating and the cosy relationship between rating agencies and the shadow banking institutions that have allowed toxic financial products to flourish.

IV. Issues for discussion

57. Experts may wish to consider the following issues for discussion:

(a) Why is it not possible for policy packages that aim at approaching full and decent employment to be circumscribed to changes in labour markets, such as labour market flexibilization, skills and training?

(b) What is the role of macroeconomic policies in ensuring a non-conflictual gender-equitable path to full employment?

(c) In considering macroeconomic policies together with labour market policies, what are desirable configurations of fiscal and monetary policies?

(d) What are the desirable characteristics of the global monetary system that are consistent with employment-friendly development strategies? In addition to desirable changes in the global monetary system, what regional monetary initiatives could contribute to such strategies?

(e) What is the role of international policy coordination in this context?