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## **Growth, employment and poverty reduction: The ILO contribution to alternative development thinking**

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## Introduction

The history of the ILO is characterized by a long fight to put employment at the heart of development strategies. Cautious about the limits of the growth trickle down effect, the ILO always emphasized that the economic growth objective should be reincorporated into an integrated development strategy, in which growth is an important aspect but should be given no more importance than the creation of productive jobs, the improvement of working and living conditions, the development of workers rights, the fairer distribution of income and the meeting of basic human needs.

In the present debate on globalization, it is important to analyse the ILO contributions to alternative thinking about development theory and practices. Indeed, one can see since the late 1990s, a large-scale intellectual counter-offensive from mainstream thinking designed to reinforce the neo-liberal integration project on the basis of the hypothetical virtuous relationship between liberalisation, growth and poverty reduction which would justify the prescriptive side of the dominant discourse and notably the priority accorded to growth in development policies

At the opposite, the ILO approach is marked from the beginning by a multidimensional policy framework, in which economic issues are not isolated from the social sphere, but are part of an integrated strategy to improve the living and working conditions of the population. The Preamble to the ILO's 1919 Constitution is clear about the philosophy of the ILO, "Whereas universal and lasting peace can be established only if it is based on social justice." Within ILO paradigm, poverty is not just a problem of the poor. It is a challenge for all defenders of social justice and all seekers of sustainable growth. Indeed, in awarding the Nobel Peace Prize to the International Labour Organization (ILO) in 1969, the Nobel Committee referred to the motto enshrined in the foundations of the ILO's original building in Geneva, "Si vis pacem, cole justitiam" - "If you desire peace, cultivate justice." From this perspective, it is remarkable that the ILO is one of the few international institutions concerned with the fight against injustice, hardship and privation to large numbers of people and about the inability to close the widening gap between the rich and the poor.

The fact that the ILO mandate includes social justice opened the way to some innovative approaches on growth patterns, putting employment and redistribution first and not growth *per se* as always did the mainstream doctrine. High growth is not considered by the ILO as a sufficient condition for poverty reduction; the pattern and sources of growth as well as the manner in which its benefits are distributed are equally important from the point of view of achieving the goal of poverty reduction and social justice. And employment plays a key role in that context. Indeed, countries which attained high rates of employment growth alongside high rates of economic growth are also the ones who succeeded in reducing poverty significantly.

The ILO raised the problem of the place and nature of growth in development policies. Its voice has been more or less powerful according to the periods and the regions. The 1970s can be seen as the "Golden Age" of the ILO where it played a key role in redefining development priorities and strategies as, in many cases in the past, growth had produced increased unemployment, widespread underemployment, considerable inflation of prices and a fall in real

wages.<sup>1</sup> During the 1970s, a gradual shift in development thinking took place from an almost exclusive preoccupation with growth rates to concern also with equity, poverty and employment<sup>2</sup>. This shift originated in a perception that despite the relatively favourable growth rate being achieved, there often appeared to be inadequate progress in overcoming hunger, malnutrition, and illiteracy. In particular, there was growing concern with the employment problem and worsening income distribution. Experience had shown, in particular, that the growth of productive employment tended to fall far short of the growth of output.

The ILO was concerned with the fact economic development has neither progressed as rapidly as it was hoped, nor has it fulfilled the promises and expectations that were placed in it in terms of better living standards for the masses. This socially unacceptable and politically dangerous situation was, moreover, unlikely to improve in the near future according to the ILO at that time.<sup>3</sup> In that context, the ILO launched the World Employment Programme in 1969 as a result of the awareness of the need for a massive attack on world poverty through an appropriate strategy for development sensitive to both employment and income distribution issues and not only growth.

The ILO activities are marked by the awareness that economic development will not of itself necessarily bring about a substantial increase in levels of employment nor tackle poverty. A high rate of economic growth is necessary for poverty reduction; but that is not sufficient. Thus, employment is a major route out of poverty as for economic growth to be effective in reducing poverty, policies relating to employment and labour market, including human resource development, play an important role.<sup>4</sup> The importance of employment in the context of poverty stems from the fact that poor people rely mainly on the use of their labour power – whether as wage- labour or in self-employment –for earning their livelihood. But there are groups of poor who are at a serious disadvantage to compete for employment in the market place and who are excluded from access to decent work. Thus, employment creation policies are the essential instrument for raising living standards and widening access to incomes. This growing realization have led large numbers of developing countries in recent years to devote greater attention to the need to make a conscious effort to utilise more fully their human resources for development and ask the ILO technical assistance to define national employment strategies.

## **The ILO and development issues: First steps**

The **ILO** was created in 1919 as part of the Treaty of Versailles that ended World War I. It grew out of nineteenth-century labor and social movements which culminated in widespread demands for social justice and higher living standards for the world's working people. The ILO tripartite structure is unique among world organizations in that the representatives of the workers and of the employers have an equal voice with those of governments in formulating its policies. Another key characteristic of the ILO is that it is anchored in social justice as stated in the

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<sup>1</sup> ILO, 1968, “Fifty years of social history: a statistical outline” in Year Book of Labour Review (Geneva: ILO), p.31.

<sup>2</sup> Jolly, R., L. Emmerij, D. Ghai and F. Lapeyre, 2004, UN contributions to development thinking and practice (Bloomington: Indiana University Press), p. 111.

<sup>3</sup> ILO, 1969, The world employment programme – Report of the Director-General to the international labour conference (Geneva: ILO), p.5.

<sup>4</sup> Islam R., 2003, Labour Market Policies, Economic Growth and Poverty Reduction: Lessons and Non-Lessons from the Comparative Experience of East, South-East and South Asia, Issues in Employment and Poverty, Discussion Paper 8 (Geneva: ILO)

opening phrase of the Constitution of the ILO, drafted in 1919. Moreover, the Declaration of Philadelphia, adopted by the ILO in 1944 and annexed to its Constitution, makes it clear that poverty constitutes a crucial problem to tackle as it is one of the biggest obstacles to peace and social justice. As the Declaration stated, “poverty anywhere constitutes a danger to prosperity everywhere” while it firmly established the notion that economic and social policies were interdependent by stressing that “All human beings, irrespective of race, creed or sex, have the right to pursue both their material well-being and their spiritual development in conditions of freedom and dignity, of economic security and equal opportunity.....It is the responsibility of the International Labour Organization to examine and consider all international and financial policies and measures in the light of this fundamental objective.”

The ILO has witnessed widespread human suffering related to the 1930s world economic crisis and it was the only part of the League of Nations system which survived the Second World War that has devastated the world. The Great Depression with its resulting massive unemployment soon confronted the ILO with major challenges. During the first half of the 1930s, the world economic crisis has run out without bringing the hope of general recovery to fruition. Unemployment had stood at a height never recorded in the past, world trade had crashed and world prices had fallen to incredibly low levels so as wages. The ILO was clearly on the heterodox side in the 1930s sharing Keynes’ scepticism about the faith in the benevolent operation of economic law and markets self-regulating mechanisms and supported the demand for systematic collective action: (a) planning and deliberate interference by government with the economic structure in order to achieve certain social objectives, (b) unemployment insurance and other social insurances providing against sickness and old age, (c) provision of public work through large scale public investment and (d) the reduction of hours of work.<sup>5</sup> In the interwar period, the ILO has promoted full-employment oriented policies to secure peace and exit the great depression. It has promoted new approaches to economic policies based on Keynesian ideas such as large scale programs of public works. Even if the world economic context in the 1930s was against League of Nations and ILO’s proposals for coordinated worldwide economic policies to combat the world economic depression, the World Economic Conference of 1933 illustrated the original approach of the ILO.

The ILO analysis of the crisis and recovery policies was directly linked to the fact that full employment was made a concern of the ILO by its founding fathers; and this objective was reinforced twenty-five years later by the Declaration of Philadelphia which recognised “the solemn obligation” of the ILO to further among the Nations of the world programmes to achieve, amongst other things, “full employment and the raising of standard of living”. The Declaration of Philadelphia and ILO work in the late 1940s and 1950s reflected the Contribution of the ILO to the UN work to build a new prosper and peaceful world after the Second World War. ILO labour standards were an important contribution to the human rights approach of the UN.

The ILO attempt to put employment and social protection at the heart of the international development agenda was unsuccessful as in the same time the Bretton Woods institutions became hegemonic and set the rules of the emerging new world in a context of decolonisation. Nevertheless, at national level, ILO has implemented technical assistance programs to develop vocational training and productive jobs in the industrial sector, emphasizing before other UN agencies the importance of human capital for growth. ILO contributions were also important in ECOSOC to promote the principle of full employment,

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<sup>5</sup> ILO, 1935, Report of the Director (Geneva: ILO), p.7.

leading to the ECOSOC, Resolution on full employment of 1950s and the following Schultz/Lewis group of expert report: *Measures for the economic development of underdeveloped countries* were it was stated that the main remedy to unemployment and underemployment was to create new employment opportunities both in agriculture and new industries.

The ILO in the late 1960s was aware about two major challenges: the painfully slow progress of the developing countries towards economic development; and the second was the rapid growth of their population, which, in many of these countries, was largely cancelling out the benefits that could derive from such economic progress as has been achieved. It was clear that the result achieved, in terms of rates of economic growth and of higher standards of living had been on the whole disappointing while the economic progress that had been achieved had benefited only a small section of the population. But for the ILO, this trend, if continued, could have explosive social and political consequences in the future<sup>6</sup>. Facing this major challenge, the ILO Director General, David Morse, stated in 1969, the year in which the ILO won the Nobel Peace Prize: “Let us make it possible for future generations to look back on this great 50th anniversary Conference as marking the beginning of an era – an era when the instincts of solidarity among the peoples of the world were effectively mobilized in a concerted, worldwide attack on poverty.”

## **The World Employment Programme**

In the 1970s, the perception by a whole category of development specialists that growth had been uneven and had had no effect from the point of view of improving the lot of the most deprived, translated into the development of a new school of thought putting forward the idea of *mal-development*. This was defined as the outcome of growth by inequality which had been pursued by most of the countries in the third world by adopting a copycat path of development compared to the one in the countries which are now developed. Rapid growth had led to the emergence of modern production enclaves delivering a westernised lifestyle and consumption pattern to an elite, with the rest of the population being pushed to the margins. The consequence was perverse growth based on the production of luxury goods for the domestic market, while the majority of the population had no access to essential goods, that sector being under-developed for want of solvent demand.

When the first development decade drew to close, there was an emerging convergence of views on the need for development policies to focus more specifically on employment generation and reduction of poverty and inequalities. Thus the focus of attention shifted towards the working poor and equity issues – equity among different socioeconomic groups, between rural and urban areas, between North and South, between men and women. As Dudley Seers put it: “The questions to ask about a country’s development are: What has been happening to poverty? What has been happening to inequality? What has been happening to unemployment? If all three of these have become less severe, then beyond doubt this has been a period of development of the country concerned. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result development even if per capita income doubled”.<sup>7</sup>

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<sup>6</sup> ILO, 1969, The world employment programme – Report of the Director-General to the international labour conference (Geneva: ILO), p.4.

<sup>7</sup> Seers, D., 1969, « The meaning of development », International Development Review, 11, no. 4, p.3.

This new context led to a proliferation of works in order to define innovative development strategies designed to improve living and working conditions for the populations, and first and foremost the poorest. A major challenge facing the ILO was how to propose strategies and policies that would directly and quickly reduce poverty and raise the living standards of the poor people in developing countries. The 1969 report of the ILO director-general was devoted to a detailed analysis of the employment and poverty problems in developing countries which led to the ILO initiative in the form of the World Employment Program. The WEP established by the ILO provided interagency advisory employment missions, a global research program, regional employment teams and national projects. Its objective was to make productive employment for large numbers of people a major goal of national and international policies for development. During the 1970s, the ILO has promoted new development strategies that were described using the terms “employment oriented”, “basic human needs” and “redistribution with growth”.

The employment-oriented strategies emerged from a research network on the one hand and on the other from the reports of the comprehensive employment missions composed of academic researchers and officials from the ILO and other UN agencies. Between 1970 and 1976, the ILO organized comprehensive employment missions to Colombia, Sri Lanka, Kenya, Iran, Philippines, the Dominican Republic, and Sudan.

The redistribution with growth approach emerged from the ILO’s employment mission to Kenya, headed by Professors Hans Singer and Richard Jolly. Their report proposed a broad strategy of “redistribution with growth”. The general objectives of the proposed strategy were: “(a) continued expansion of the economy, (b) wider sharing of the benefits of expansion, (c) national integration of the economy; and (d) a reduction of extreme imbalances and disparities.”<sup>8</sup> The report argued that rapid progress in poverty reduction could be made by allocating an increasing share of the annual increment of a country’s growth to investment in the credits, assets and skills of the working poor. This would be redistribution with growth, a mean to accelerate the growth of income of the poorest without reducing the income of the better-off.

In the ILO, the basic need approach was developed as part of the preparatory work for the 1976 Tripartite World Conference on Employment, Income distribution and Social progress (WEC). It grew out of the ILO’s earlier work on employment-oriented strategies. The WEC endorsed this approach and adopted a wide-ranging program of action at national and international levels to achieve the objectives of remunerative and satisfying work and the meeting of essential human needs for all. The basic-needs approach foresaw the need to view development policies within a broader framework of participatory processes and human rights. According to the ILO approach to tackle poverty, a policy for overcoming poverty should be defined as a policy to ensure that everybody’s minimum needs could be satisfied. The ILO concept of minimum human needs included in the first place, physical needs (what is necessary to stay alive and maintain working capacity. But it includes also what are commonly called social needs which are related to human dignity.<sup>9</sup>

The cornerstone of the ILO basic need strategy was the idea that a greater increase in employment and a more equitable distribution of income should entail a greater increase in the demand for essential consumer goods as compared with non essential consumer goods and services while the former was much more labour intensive and so a mean to create both

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<sup>8</sup> ILO, 1973, *Activities of the ILO 1972 - Report of the Director-General (Part 2)* (Geneva: ILO), p. 5.

<sup>9</sup> ILO, 1970, *Poverty and minimum living standards – Report of the Director-General, part 1* (Geneva: ILO), p.7.

employment and income for the poorest. One essential aspect of the ILO approach was that it was a labour intensive or employment oriented approach to economic development. As a consequence, an important policy issue was to determine the degree to which a labour intensive approach could appropriately be applied to the definition of the growth strategy. The objective was helping countries to combine employment policies and development policies in such a way as to further simultaneously both the employment and growth objectives.

Here are some of the main contributions of the ILO to development thinking in the 1970s:

1. The main problem of employment in poor countries was not seen as widespread unemployment but rather one of lack of remunerative work opportunities due to low productivity.
2. The focus of attention shifted toward the working poor and toward overworked women in both rural and urban areas.
3. The central objective of these policies was to raise the incomes, assets and productive potential of the vulnerable and poor groups
4. Employment strategy is tantamount to an integrated development strategy and employment generation can't be divorced from policies on industry, agriculture, services, credit, education, training, health, etc.
5. A basic-needs oriented policy implies the participation of the people in making the decisions that affect them
6. The WEC stressed the importance of measures to improve the status of women.
7. No universal strategy: the specifics of development strategy focused on generating employment opportunities and meeting basic needs would necessarily vary from one country to another depending on the social, economic and political situation.
8. New strategies different from earlier growth-centered strategies

## **The ILO, structural adjustment and globalization challenges**

In the 1980s, the ILO continued its work but it was voiceless to set up the global agenda which was centered on structural adjustment. Bretton Woods institutions were the main actors to define the priorities of structural adjustment programmes. Growth was back as the main policy objective while employment and social issues were not anymore at the heart of development strategies. In the early 1980s with the debt crisis in the South and the neo-liberal counter-revolution in the North, the social dimension and the critical reflection on growth once again virtually vanished from the formulation of development policies. The structural adjustment programmes were dominated by the objectives of macroeconomic rebalancing and microeconomic transformations in order to create an environment favourable to the market forces which were now seen as the drivers of growth and a 'rational' development path.

During the 1990s, the ideology of growth in the framework of globalisation crystallised into the hegemonic reading grid of the restructuring operations underway at the global level and the associated issues. These restructurings of the conditions for accumulation were facilitated by the dominant discourse which is marked by its very strong functionality vis-à-vis the new demands of the capitalist system. Yet the legitimacy of this discourse on globalisation and its prescriptive aspect – structural adjustment programmes seeking to meet the conditions for advantageous integration into the global economy – relies upon the dynamism of the global capitalist economy. The universal policy prescription from the Bretton Woods institutions was based on a revised version of the well-known theory of the “trickle-down” that would result from the activation of the following

virtuous circle: liberalization leads to integration, which leads to economic growth, which leads to poverty reduction. Given the strong correlation between growth and poverty reduction, structural policy reforms were presumably designed to achieve efficiency and growth objectives, and also promote poverty reduction<sup>10</sup>. The early 1990s was a period of global utopia. The trend towards more integrated world markets was perceived as offering a huge potential for greater growth and presenting unparalleled opportunity for developing and post-communist countries to raise their living standards<sup>11</sup>.

The hegemonic discourse on globalisation and liberalisation appears as a totalitarian project that closes the door to a critical thinking on pattern of growth and integration into the global economy. There is only one possible way of achieving growth and reducing poverty, which is to become integrated into the global economy. There are two levels of responsibility within the global economy: the responsibility of each country to adapt to the standards of globalisation and that of the new world order to guarantee better conditions for the accumulation of capital at global level by using the ability to intervene or impose sanctions in a bid to make those, who disrupt the world order on which the dynamic of globalisation is based, see sense.

Growth therefore should no longer pose a problem if all measures are taken to become integrated into the global economy and if all resources are focused on these core high-performance activities. The development opportunities, which are available to all, depend on how well the country is opened up and how well it meets with the internationalisation standards. Only those countries that will firstly ensure an environment conducive to the arrival of transnational companies and secondly be capable of taking part in the new division of labour within the global economy, will be able to advance their economy. The other countries will have to review their policies and strategies so that they can understand where and how they can form a link with the emergent international production system.

The neoliberal discourse on globalisation is one that heralds adaptation to globalisation and is based on the objectives of flexibility and competitiveness in relation to the standards of the globalised economy. The development strategy championed by the EU and by the Bretton Woods organisations is based on the hypothesis of the virtuous progression of liberalisation, growth and poverty reduction which would justify the prescriptive side of the dominant discourse and the priority accorded to liberalisation policies in structural adjustment policies. Growth helps the poor and liberalisation helps growth, this is the core of the new development strategies promoted by the IMF, the World Bank, the WTO and the European Commission.

It is very interesting in this connection to show the spectacular gulf between the vision of the world disseminated by the elites who favour the neoliberal globalisation project and the reality of the backward social phenomena at the global level:

- On the one hand we have the dominant discourse based upon the ideas of convergence, growth and improvement of the living conditions of the population via globalisation provided that effective and appropriate political orientations are adopted.
- On the other hand, we have the recognition – within the United Nations system itself and, especially the ILO – of the intensification of poverty, inequalities and exclusion at global level:

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<sup>10</sup> Dollar D. and A. Kray, DOLLAR D., 2000, Growth is good for the poor, *Policy Research Working Paper*, n° 2587 (Washington: World Bank).

<sup>11</sup> Lapeyre, F., 2004, Globalization and Structural Adjustment as a Development Tool, Working Paper 31 (Geneva : ILO), p. 8.

the increase in inequalities, the informalisation of economies, increasingly precarious conditions, the rise in poverty and the deterioration of the social bond.

The reality of the social problems in developing countries poses a profound challenge to the righteous sequence of liberalisation, growth and reduction of poverty, which forms the basis of the descriptive aspect of the dominant neo-liberal discourse, and in particular the central place that liberalisation policies hold in structural adjustment policies. In this context, caution is needed when it comes to development policies shifting to policies to fight poverty, where any discussion of redistribution and employment is put aside to focus and reaffirm growth as the key objective. Economic growth is one of many aspects of development which is a wider, more complex, and not solely economic process. The failure of structural adjustments show that it is not enough to liberalise in order to improve the living and working conditions – quite the contrary!

The ILO World Commission recognized in its 2004 report that globalization has opened the door to many benefits. It has promoted open societies and open economies and encouraged a freer exchange of goods, ideas and knowledge. In many parts of the world, innovation, creativity and entrepreneurship have flourished.<sup>12</sup> But in the same time, it stressed that while for some globalization has generated wealth and welfare, it is also a source of persistent inequality and social exclusion. Growing insecurity and a sense that the rules of the game are unfair have given rise to frustrations in the hearts of many individuals and their families. Questions of legitimacy and sustainability have led to increasingly acrimonious exchanges, most visible in the protests that regularly accompany major meetings of international financial and trade institutions. And what are people worried about? Jobs, to begin with.<sup>13</sup> There is growing concern about the direction globalization is currently taking. Its advantages are too distant for too many, while its risks are all too real. Its volatility threatens both rich and poor. Immense riches are being generated. But fundamental problems of poverty, exclusion and inequality persist. And those issues are at the heart of the ILO concerns.

In the 1990s and the 2000s, the issue of the social dimension of globalization became more and more important and the voice of the ILO became more powerful. In the series of World Conference which took place in the 1990s, the ILO emphasizes that growth can be an important means of human development, if associated with redistributive, labour-intensive, and basic needs oriented policies. But it can also be very disruptive when the process of accumulation escapes social regulation frameworks, and leads to social fragmentation, polarization, and exclusion. New economic and social policy to fight social exclusion must increase individuals' capabilities and empower them – rather than compensate the marginalized for the consequences of exclusion, and expect hypothetical “trickle-down” effects from growth to solve social problems. The main objective is to increase citizens' future prospects through a *capability-enhancing policy approach* that is intended to develop freedom of choice. This involves access to income generating activities, the fulfilment of basic needs and the core social rights of all as the best way for the eradication of poverty and social exclusion. It requires that new rules for global and national governance. Governments and International Agencies should promote active economic, social and environmental policies, and promote and protect human rights and fundamental freedoms on the basis of democratic and widely participatory institutions.

The recommendations of the ILO World Commission on the social dimension of globalization and the ILO decent work approach are key contributions in this direction. Globalization should be judged by what it delivers. Although many of the ills of the world today – poverty, the lack of

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<sup>12</sup> World Commission on the Social Dimension of Globalization, 2004, *A Fair Globalization – Creating Opportunities for All* (Geneva: ILO), p.3

<sup>13</sup> ILO, Report of the Secretary General, 2003, *Working out of Poverty* (Geneva: ILO), p.6.

decent work, the denial of human rights – existed long before the present phase of globalization, there has been growing exclusion and deprivation in certain regions of the world. For many, globalization has dislocated traditional livelihoods and local communities, and threatens environmental sustainability and cultural diversity. As the current process of cross border interaction and interconnectivity gathers speed, there is increasing debate not only about inequalities between countries but also about inequalities within countries, and its effects on people, families and communities. These concerns lie at the heart of politics. The debate on globalization is fast becoming a debate on democracy and social justice in a global economy and not only a debate on growth *per se*.

## **Pro-poor Growth: Towards new growth patterns**

There is a long history of ILO work on employment as a crucial instrument in the fight against poverty; and it has evolved over time. In the course of that evolution, the focus of work has also undergone a change. During the 1970s and the 1980s, a good deal of analytical and policy-oriented work was supported by the ILO on development strategies in general and on rural and urban informal sector employment in particular. This was complemented by technical cooperation work on promoting productive employment – especially focusing on rural non-farm employment, the urban informal sector, and labour-intensive infrastructure.

According to the ILO paradigm, effective pro-poor growth cannot be based on the “trickle-down” assumption – not even when associated with capacity-building and empowerment measures to strengthen the chances of the poor to participate in growth and its benefits. Several distinct scenarios, leads to a growth pattern with poor impact on employment creation and poverty reduction as can be documented from contemporary experience:

1. *Low output elasticity of demand for labour.* Economic growth may have low employment intensity due to inappropriate economic policies and institutions.
2. *Employment impact of high growth offset by the countervailing contraction of employment induced by economic reform under globalization, thereby resulting in a low observed output elasticity of employment.*
3. *Economic growth could lead to a high rate of growth in employment of a kind for which the poor do not possess necessary skills.* While this phenomenon may have been widely prevalent among developing countries
4. *Growth might also fail to reduce poverty if the distribution of scarce productive resources - land and physical capital - is highly concentrated.* The scarcity of productive assets in this case dictates a very high and increasing share of income for them.

Alternative structural adjustment policies are necessary, with a more favourable distributive impact on the poorest. Poverty reduction and income distribution are not exclusive, but must go hand in hand to make globalization work for all. Politics and inequality do matter: this is one of the most important lessons to be learnt from the past 20 years of structural adjustment. The other major lesson is that there is not always a trade-off between economic efficiency and social equity, but that they coexist in an area – combining a logic of accumulation and one of social justice – where each of them is strengthening the other and contributes to the emergence of a virtuous circle. Thus, what is needed is a growth policy that incorporates equity as a forethought rather than an afterthought, by shifting the ideological debate, so that the cost and limits of growth are viewed as critically as the costs and limits of redistribution.<sup>30</sup>

The experience of countries, which succeeded in reducing poverty significantly, indicates the importance of sustained high growth in achieving this result. However, studies on poverty are replete with an equally important finding that high growth alone is not adequate; the pattern

and sources of growth as well as the manner in which its benefits are distributed are extremely important from the point of view of achieving the goal of poverty reduction. And in that regard, the importance of employment as the key link between growth and poverty alleviation is often pointed out.<sup>14</sup>

The ILO has emphasized in various studies over past decades the existing virtuous circle of economic growth and poverty reduction via growth of employment with rising productivity, and reduced poverty creating the possibility of further increases in productivity and higher rates of economic growth. While this proposition has strong intuitive appeal, there is some scattered empirical support for it too. For example, a comparison between the experience of pre-crisis East and South East Asia on the one hand and South Asia on the other clearly shows much higher employment elasticity of economic growth in the former where the record of poverty reduction was also much more impressive.

The ILO played a key role in supporting this kind of evidence that needed to be compiled and analysed more systematically in order to make a case for an employment-intensive growth strategy. In other words, the ILO has contributed in a large extent to strengthen the nexus between economic growth, employment and poverty alleviation which needed to be fully articulated and empirically substantiated. Conceptually, the linkage between output growth, employment and poverty can be analysed at both macro and micro levels. At the macro level, the linkage between poverty in its income dimension and output growth can be conceptualized in terms of the average productivity of the employed work force which in turn gets reflected in low levels of real wages and low levels of earnings in self-employment. At the micro level of a household, the same linkage between poverty and employment operates through the type and low productivity of economic activities in which the earning members of a household are engaged, the low level of human capital of the members of the workforce, the dependency burden that limits participation in the workforce, and the mere availability of remunerative employment.

The above ILO analysis has important implications for development strategies and policies for accelerating growth and poverty reduction. While employment and labour market variables emerge as significant in making growth pro-poor, it needs to be borne in mind that if treated separately from the overall development strategy, employment cannot serve as an effective route out of poverty. Employment outcomes of alternative strategies and policies must be considered as one of the major criteria in formulating them (i.e., the strategies and policies). This is particularly important when it comes to the formulation of macroeconomic policies and policies relating to specific sectors. It should be possible to integrate employment concerns into the process of formulating such policies. A pro-employment macro policy regime would take into account the possible effects of tariffs, exchange rate, and taxation policies on the growth of sectors and sub-sectors that are by nature more labour intensive than others. Integration of employment concerns should be associated with the adoption of measures to track the employment intensity of growth to see whether growth is taking a pro-poor character.

The importance of an employment focus is immediately obvious in the context of the goal of reducing income poverty, since the only way out of poverty for most poor people is to raise the quantity and quality of their employment – either in the wage sector or in self-employed

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<sup>14</sup> Islam, R., 2004, The Nexus of Economic Growth, Employment and Poverty Reduction: An Empirical Analysis, Issues in Employment and Poverty, Discussion Paper 14 (Geneva: ILO), P.1.

activities<sup>15</sup>. ILO work has argued that in order to achieve this goal it won't be enough to concentrate efforts on raising the rate of growth in per capita income. Growth rate will certainly have to be accelerated in most countries, but this will have to be accompanied by efforts to make the growth process more labour demanding (raising the 'elasticity factor') and to remove the impediments the poor people often face in taking advantage of employment opportunities (improving the 'integrability' factor). A growing body of empirical evidence testifies to the importance of an employment-oriented growth strategy for translating rapid growth into equally rapid poverty reduction. It is in this sense that employment is the basic route for escape from poverty. The linkage between employment expansion and poverty reduction, however, has many facets and appropriate employment-related interventions for the reduction of poverty could be classified under the following sets of policies:

1. *Rapid labour-absorbing growth providing the poor with productive and remunerative employment.*
2. *Conversion of the poor into productive entrepreneurs engaged in self employment.* Growth induced employment generation, as outlined above, is often perceived as a strategy exogenous to the process of poverty reduction. In contrast, the promotion of self employment among the poor, by converting them into micro entrepreneurs, could be an efficient growth strategy *endogenous* to the process of poverty reduction.
3. *Increasing the productivity of the poor workers both in wage employment and in self employment.* Increased productivity leads to an increased demand for wage labour which is translated into increased employment or wages or both. Increased productivity of the self employed workers directly raises their income.
4. *Improvement and adjustment in the skill composition of the poor members of the society so that they can compete for employment in a labour market in which the skill composition of demand for labour changes rapidly.* This is closely related to, yet distinct from, the preceding policy. Endowing the poor with skills is not an once-for-all process.
5. *Appropriate terms of exchange for the produce of the poor.* Given the employment productivity of the poor, the higher the terms of trade of their output the easier it is for them to escape from poverty. Ensuring appropriate terms of trade for the products of the micro entrepreneurs and the small farmers is an effective way of alleviating their poverty
7. *Specially designed employment opportunities for the labour-disadvantaged households.* Not all poor households have the ability to benefit from employment opportunities that economic growth offers in a market economy. Labour resources available in a female-headed and female-labour-intensive household would often be at a disadvantage if labour-intensive economic growth of the usual kind is the principal instrument for poverty reduction.
8. *Caution in the design of labour market interventions in protecting vulnerable workers by ensuring security of employment at living wage.* Concerned policy makers have often felt that in a market economy the workers are at a serious disadvantage relative to the employers in the bargain concerning employment and earning.

## **The ILO and National Employment Policy (NEP)**

The NEP is a key component of a strategy aiming at promoting sustainable economic growth, social development and poverty reduction. The mainstreaming of an employment approach through an integrated policy framework is presented by the ILO with a view to contribute

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<sup>15</sup> Osmani, S.R., 2005, The Role of Employment in Promoting the Millennium Goals, Issues in Employment and Poverty, Discussion Papers 18 (Geneva : ILO)

towards the achievement of the Millennium Development Goals which is at the top of governments and donors priorities.

The employment policies package presented in the NEP is based on the identification of main employment and decent work problems and challenges which was done during the previous phase dedicated to a participatory labour market situation analysis. The NEP need to be effective a large consensus on priority policies to tackle these problems at the country level, requiring a robust presentation of the rationale and justification for these priorities.

Moreover, the multidimensional policies contained in the NEP document require well-coordinated actions and commitments of all government ministries and agencies, in order for the employment objectives to be fully realised. In this context, its implementation entails that all Government agencies integrate in their policies and programmes, the elements of this policy that maximise productive employment, including improvements in working conditions. In view of the challenges of regional and global integration, the priority objectives of the NEP is to contribute to an enabling environment for sustained economic growth and poverty reduction by promoting the goal of full employment in national economic and social policy and securing of a sustainable livelihood through full productive and freely chosen employment and decent work.

Developing countries needs to improve their capacity to anticipate, trigger and absorb economic and social change. This requires an employment-friendly environment, an appropriate tax system and regulatory framework and well-functioning labour markets allowing more flexibility combined with employment security to meet the needs of enterprises and workers. This should also contribute to preventing the emergence of segmented labour markets and reducing informal economy.

The structural constraints in the economy must accordingly receive policy emphasis at all institutional levels to remove impediments to productivity, competitiveness, FDI attractiveness, full employment and decent work. The NEP is based on a clear understanding of the country macroeconomic, microeconomic, economic structure and labour market situation. In the case of low income developing countries, it will consider an integrated policy framework which will reflect the fact that, in most cases, the rural sector is the dominant sector and a majority of the population depend on agriculture for employment and livelihood. It will also recognise that micro and small enterprises from the informal economy are important sources of employment and incomes particularly in rural areas; indeed, the majority of the population relies on the informal sector for its subsistence. The road towards full employment and decent work is linked to structural transformation of this part of the economy and to a transformation of the economic structure to diversify the sources of earnings for poor people, and to take advantages of the new opportunities resulting from globalization.

To promote the success of the NEP, governments must maintain sustainable and favourable macroeconomic policies mainly through a pro-poor growth strategy, pursue vigorous human resource development, provide basic infrastructure, appropriate financial services and additional incentives to support private sector as the engine of economic growth and job creation, develop targeted policies for vulnerable groups and, finally, mainstream the employment dimension in the whole public policy making and budgeting process.

From this perspective, a new approach to the evaluation of public investment proposals and programmes is needed to provide a clear understanding of the implications and impact of public

investment and to give priority to those whose jobs multiplier effects are high. Moreover, national adherence to conducive labour standards including satisfactory working conditions including living income, health and safety, and adequate social protection which will greatly depend on effective and efficient factory and labour inspection and labour administration machinery.

National Employment Policy is to be developed, according to the ILO, as a key tool against poverty. Once employment is recognised as a national priority, the NEP should be consistent with the overall development strategy as outlined in the Poverty Reduction Strategy Paper (PRSP). However, further actions have to be undertaken to better anchor national employment actions into the overall development strategy. In this purpose, three main frameworks have been designated to strengthen integration of employment matters into the:

- **PRSP's plan:** through active participation in sectoral and thematic committees and cooperative dialogue with the executive secretariat in charge of the PRSP's monitoring.
- **Budgetary process:** through recognition of employment in resources allocations within Medium Term Expenditures Framework and Public Investment Programmes.
- **Budget support's framework:** This framework which puts together main donors involved in budget support to promote employment and decent work programs. General and specific objectives of the NEP should be communicate to the donors and discussed with them for funding and technical assistance

The objective of the NEP is therefore to promote a coherent method linking NEP goals to macro economic and sectoral policies as well as poverty reduction strategy. It is essential that all economic players strive for employment intensive programmes and policies to create an enabling environment for sustained economic and employment growth. The NEP requires the government to provide an enabling environment for private investment and job creation, while the private sector must invest in productive enterprises that will result in increased employment and generate incomes. The framework for such coordination is the Poverty Reduction Strategy Document (PRSP) which planning, review and implementation would be the field to concretise recognition of employment issues in other sectoral policies.

Implementation of the NEP requires that all government agencies will consciously integrated in their policies and programmes the relevant policy initiatives and strategies that maximise productive employment and the improvement of the general working conditions of labour. The Ministry of Employment and Labour, which has the main responsibility of formulation of employment policies and programmes, has to be strengthened and be availed with the necessary requisite resources – namely, skilled labour and financial resources, needed to realise the envisaged implementation of the policy to play its role in the mainstreaming of the employment approach and the coordination of employment creation programs. National employment policy stakeholders are aware about efforts required to well coordinate multidimensional employment policies and strategies. Development of implementation action plan, capacity building for the Ministry of Labour and Employment, development of human resource management policy and development of monitoring and evaluation system have been identified as short-term priority actions to be taken to ensure successful implementation of the National Employment Policy.

Since employment is a crosscutting issue involving various government bodies, Local Authorities, Various Private Sector Agencies, Development and social partners, NGOs and

various CSOs, institutional coordination is of critical importance. An enabling environment, and mechanisms conducive to various interventions aimed at implementing the policy, as well as in facilitating its effective monitoring and evaluation through legal and institutional frameworks, is, to that aim, urgently needed. Effective implementation of any policy depends on clarity on assigning responsibilities and roles to different stakeholders. This facilitates smooth operationalisation of programmes and strategies with clear separation of levels of accountability.

To achieve that result it is crucial to:

- Formulate an action plan presenting employment promotion activities to be implemented according to a logical framework model. The objective is to format the document in a way to insure the visibility of the objectives, means, target groups, expected output, costs and monitoring and evaluation systems. By providing a clear costing and cost/benefits/beneficiaries of the NEP, the action plan will meet donors funding rules and facilitate the access to financial resources to support the implementation of the NEP.
- Define an appropriate institutional architecture to clearly define roles and responsibilities of all stakeholders.
- Establish some institutional bodies to facilitate coordination, synergies and exchange of information between all stakeholders (inter-ministerial bodies, civil society platforms, Social partners' dialogue bodies, etc.)
- Promote a participatory approach in implementing the NEP to strengthen ownership of NEP objectives among stakeholders and strengthen their capacities.

## Conclusion

The analysis of the relationship between economic growth and poverty reduction has gone through various phases in the debate on development. For example, an important premise of the pioneer of development studies was that the benefits of economic growth would trickle down to the poor. This vision is still at the heart of mainstream thinking on development and globalization. However, questions have been raised on the assumption of an automatic link between growth and poverty reduction, and attempts have been made to understand the mechanisms through which the benefits of growth may get transmitted to the poor.

Far before the invention of the concept, the ILO approach was *human development oriented, rather than growth-oriented* based on empowerment and the strengthening of the freedom to act of the workers and, especially, the poor. And one of the key contribution of the ILO in the 1970s was the idea of the need of a greater loosening of the ties between the sphere of accumulation and the sphere of development, because growth can be a development *mean* – depending of the pattern of growth – but can't be a development *end* which is associated with the satisfaction of mankind's basic needs – whether material or immaterial.

The ILO contributed to alternative development thinking by supporting and documenting the view that high economic growth may fail to bring about a commensurate rate of poverty reduction if it is not accompanied by a rapid growth of productive and remunerative employment. The ILO emphasized the idea that the most effective way to reduce poverty is to make growth-induced employment accessible to the poor. In other words, poverty is most effectively reduced by the greater utilization of labour, the resource that most poor households have more of than any other resource, in a way that it creates for them entitlement to income and welfare. Indeed, an analysis of the experience of the developing countries shows that

rapid expansion of productive and remunerative employment has always been associated with rapid poverty reduction.<sup>16</sup>

From the ILO perspective, a development strategy aimed at poverty reduction would need to have three basic pillars.

- First, an economy must attain high rates of growth on a sustained basis. This calls for comprehensive policies encompassing incentives for domestic capital accumulation and investment from abroad, policies for effective deployment of investment resources in productive sectors, and institutions conducive to the pursuit of efficiency.
- Second, growth must be employment intensive in the given context of resource endowment, without, of course, sacrificing productivity and efficiency considerations.
- Third, it is important for the poor to have the means (e.g. necessary education, skills, and access to productive assets and finance) to utilize the economic opportunities that may be available.

Fighting poverty requires integrated thinking to address the integrated problems of society and the economy. According to the ILO, it means guiding policy-making with a moral compass, ensuring that decisions are based on universally shared principles of equity and equality, without losing sight of the need for sustained economic growth. It is about linking justice and economic progress in practical ways and not disembedding economic growth from other dimensions of sustainable human development.

The ILO emphasis on human dignity and workers rights results from the acknowledgement that unemployment, underemployment and job precariousness are key factors explaining the process by which individuals or groups are wholly or partially trapped into poverty and excluded from full participation in society. Thus, the ILO emphasizes the strength of the links between the employment situation and other dimensions of economic and social life (income, living conditions, health, etc.). The ILO's Decent Work Agenda is a realistic means to combine social progress and economic efficiency and it can be seen as a new ILO contribution to alternative development thinking.

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<sup>16</sup> Khan, A. R., 2001, Employment Policies for Poverty Reduction, Issues in Employment and Poverty, Discussion Paper 1 (ILO: Geneva)