



## SECOND ITEM ON THE AGENDA

**Growth, investment and employment:  
An update on policy coherence  
research and meetings**

1. As requested at the November 2006 Working Party, this paper provides a brief update on meetings of the Policy Coherence Initiative (PCI) and an outline of research in preparation, in particular for a forthcoming meeting of the PCI in South Asia in April 2007. It will be recalled that the PCI on growth, investment and employment is an effort by the ILO with other agencies of the multilateral system, including the Bretton Woods institutions, to understand better the relationship between some of the key factors in economic and social development. Stronger mutual understanding and a convergence in different agencies' analyses of these relationships would be an important underpinning to increased policy coherence in the advice offered by the multilateral system to countries.
2. An earlier paper before the Working Party reported on the origin and focus of the meetings under the auspices of the PCI on the theme of growth, investment and jobs.<sup>1</sup> As well as the Office and experts from the Employers' and Workers' groups, high-level staff from the following organizations participate in the meetings: World Bank, International Monetary Fund (IMF), World Trade Organization (WTO), United Nations Department for Economic and Social Affairs (UNDESA), United Nations Development Programme (UNDP), United Nations Industrial Development Organization (UNIDO), United Nations Conference on Trade and Development (UNCTAD), Food and Agriculture Organization (FAO) and the International Fund for Agricultural Development (IFAD). It should be noted that the level of the PCI meetings is senior, with those attending "participants", rather than formal representatives, thus facilitating a candid exchange of views.
3. In the course of 2006, two meetings of the PCI were held, one in Washington, hosted by the World Bank in April, the other hosted by the ILO in November. A seventh meeting is envisaged for the first half of 2007 at the IMF's Regional Office for Europe in Paris.

<sup>1</sup> GB.295/WP/SDG/3, Mar. 2006.

## Labour market analysis in low-income countries (PCI 5, Washington, April 2006)

4. The fifth meeting of the PCI was held at the World Bank in Washington, DC, on 20 April 2006. The main purpose of this meeting was to discuss the limitations of methods of labour market analysis currently used in low-income countries (LICs) and the data available, and propose innovative solutions to address these limitations. Two presentations by the World Bank and one by the ILO and the discussion that followed emphasized the importance of re-evaluating standard labour market indicators in order to better capture labour market conditions of LICs.
5. The first paper presented by the World Bank focused on Africa and assessed the availability of data for deriving standard labour market indicators; reviewed the indicators currently used and the frequency with which they are monitored; and questioned the relevance of these indicators for economic diagnostics and policy. It highlighted:
  - the serious data limitations faced by some countries, especially in East Africa, but also the heavy underutilization of the available data across the region;
  - the heavy reliance on simulations or estimations, rather than on original data; and
  - the poor comparability of data and indicators across countries and within a given country over time.
6. It was suggested that priority should be placed on a small number of indicators to be monitored on a regular basis over time and across countries. These should include: labour supply; activity; earnings; other job attributes; household expenditures; individual characteristics; multiple activities; income of the self-employed; income of unpaid workers; and in-kind income.
7. The ILO presentation discussed the need to go beyond standard employment and unemployment indicators and proposed a broader methodology that emphasized the quality of jobs as well as the availability of employment opportunities to:
  - capture various aspects of labour market outcomes and characteristics – i.e. income and employment security but also conformity to labour standards and other dimensions of welfare associated with work; and
  - reflect the multi-faced aspect of employment and unemployment in LICs by explicitly incorporating the concepts of discouraged workers, time-related underemployment, informal and multiple employment, and the working poor.
8. An alternative approach to allow for the quality of jobs in labour market diagnostics was also proposed in a second World Bank presentation on recent findings from research on Brazil, Ghana, Hungary, Indonesia, Mexico and the Russian Federation. It discussed the quality of employment as a multidimensional concept that encompasses a number of employment characteristics such as earnings, work conditions, affiliation to social security schemes and job stability. However, the preliminary results presented focused exclusively on the income dimension with “good jobs” defined as those paying higher than a consumption-based poverty line.
9. In discussion, participants shared the general view that the lack of reliable data and of operationally meaningful indicators may be responsible for the limited attention paid to labour market issues in poverty and growth analysis and for the limited use of evidence-based policy-making in this area. However, issues of analytical and technical

capacities were also mentioned as possible reasons why prescriptions on labour market policies in LICs tend to be reached without adequate diagnosis and data is largely underused even where it is available.

10. There was a general agreement that this called for methods of labour market analysis tailored to the complexity and the multi-faced aspects of the labour markets of LICs, and required going beyond standard indicators of unemployment and quantity of employment opportunities to consider the quality of the available jobs and their capacity to assure a given standard of living. However, there was a general uneasiness about using indices to arrive at multidimensional summary indicators with a preference for a combination of an income/consumption indicator and a separate measure of non-income characteristics of jobs. Identifying these “second generation” indicators required the development of a unified analytical framework with an adequate monitoring system. A further factor was the importance of a careful balance in the design of indicators so as to enable comparisons across countries while strengthening the information needed to understand particular country situations in their cultural specificity. The role of labour market institutions and regulations in promoting more and better jobs was also noted.
11. It was agreed that the next steps in the area of defining new indicators for monitoring labour market developments in LICs should include:
  - deepening the analysis and developing an analytical framework;
  - identifying data availability and requirements;
  - broadening the definition of the quality of jobs to include characteristics other than income; and
  - addressing issues of the political economy of labour market reforms.

## **Follow-up to the ECOSOC Declaration and research collaboration (PCI 6, Geneva, November 2006)**

12. The sixth meeting of the PCI was held at the ILO on 6 November 2006. On the agenda were three items: (i) the implications of the ECOSOC Ministerial Declaration of July 2006; (ii) the possibility of collaboration at the country level; and, in that connection, (iii) a discussion of a World Bank research project on “good jobs, bad jobs, no jobs”.
13. Regarding the implications of the ECOSOC Ministerial Declaration, the ILO described work under way on the “toolkit” to mainstream employment and decent work across the multilateral system referred to in the Declaration. It would take the form of a checklist for inter-agency dialogue and collaboration on the various component elements of the Decent Work Agenda. The ILO was also developing new approaches to the delivery of technical services to its constituents through its Decent Work Country Programmes (DWCPs). UNDESA noted that full and productive employment and decent work was now a target under Millennium Development Goal (MDG) 1. ECOSOC would continue to focus on employment in its 2007 meetings, and the topic would be covered in the next *World Social Situation Report*. Work on international migration, the Madrid Plan on ageing, and the participation of older workers in labour markets would continue. UNDESA endorsed the initiative of the “toolkit” being developed by the ILO in response to the request from the United Nations Secretary-General’s Chief Executives Board (CEB) as well as ECOSOC and said that its own work looking at modelling labour market behaviour in 19 countries was closely related to these concerns.

- 14.** The IMF underscored that promotion of full employment was an objective shared by the IMF and the ILO which the IMF pursued through its macroeconomic surveillance, its programme lending, and its technical assistance in such areas as monetary and fiscal policies geared toward low and stable inflation, a requisite for employment generation. While there had never been a formal decision on the part of the IMF to support the Decent Work Agenda, there was no disagreement with its aims or the conclusions of the ECOSOC meeting. The IMF's work on strengthening of institutions, such as ministries of finance, and the maintenance of sound public finances, including the soundness of pension and health-care systems also contributed to full employment. The IMF also engages in social dialogue with trade unions as, among other motivations, a contribution to transparency in policy-making. The IMF stressed the need to avoid duplication and overlap. Each agency had a distinctive role and comparative advantage, and an effort toward greater coherence might clarify more explicitly the division of labour. The outcome could be to redirect agencies to their core missions which, in turn, would advance the aims of the Decent Work Agenda. In that context, note was made of the renewed efforts to review the division of labour between the IMF and the World Bank.
- 15.** In an exchange of views on the unresolved issue of the employment content of growth, the IMF pointed out that an increase in capital intensity should have a beneficial effect on workers' pay. The World Bank drew attention to its expanding work on labour markets and employment, which was driven by demand for policy advice on employment generation within the context of growth and poverty reduction strategies (PRSs). The World Bank was focusing on developing methods of analysis of employment, ranging from more policy relevant labour market indicators for LICs to a deeper understanding of the links between growth, poverty reduction and productive employment. While the expression "jobless growth" was widely used the issue was not the quantity of people's market-related activities, but its quality.
- 16.** For the trade unions, the ECOSOC outcome was most helpful as was the basic thrust of the PCI. The international trade unions felt that their dialogue with the IMF was useful. In their view, however, the IMF was not always sufficiently supportive of rights at work, freedom of association in particular, and that an apparent bias in favour of decentralized collective bargaining was not consistent with the principles of basic ILO Conventions. In response, the IMF said that they did not have expertise in the area of collective bargaining and did not push the issue with members.
- 17.** On Poverty Reduction Strategy Papers (PRSPs), the IMF emphasized that PRSPs were a test of coherence at the national level – a level at which resources were often limited by hard budget constraints, where questions of intergenerational transfers had to be factored in and where, ultimately, policies needed to be seen in the context of trade-offs. UNDESA added that PRSPs were sometimes not embedded in a country's broader development framework which could lead to imperfect coherence. UNCTAD had looked at 27 PRSPs in sub-Saharan Africa, and they were all remarkably similar, suggesting that the process was not being endogenously driven. The trade unions felt they were sometimes not sufficiently consulted, despite the dialogue that existed between the International Trade Union Confederation (ITUC), the World Bank and the IMF at headquarters level. The UNDP felt that the significance of the ECOSOC Declaration was that the PRSP process called for an integrated package of services for implementation, and that to put jobs first required "pro-poor private sector development". The latter implied the relevance of focusing on sectors that were employment intensive. This could be a way in which to "guide globalization" toward the end of productive employment.
- 18.** On the trade aspects of the ECOSOC Declaration, UNCTAD acknowledged that there was a long-standing tension in the linkages between growth and employment. "Aid for trade" had become a hot policy debate, *inter alia*, because of the fact that trade liberalization quite

frequently led to job losses. The WTO recognized that the employment consequences of trade were a major issue underlying the Doha round. “Trade and employment” matters were specific and complicated and included – in the policy environment – trade-offs that existed in choices and sequencing; matters relating to structural adjustment for optimizing the gains from trade while minimizing its social costs; and the effect of trade (or “globalization”) on median incomes, the latter having emerged as an issue in many corners of the world (induced, some believed, by the dampening pressure on wages arising from import competition domestically or concern over market share in export markets abroad or both). There were other dimensions to the “trade and jobs” issue, including the widespread absence of safety nets, or sources of income replacement for those negatively affected by trade and sluggish supply responses – a critical factor as harvesting the gains from trade implies having the infrastructure in place to do so.

19. The WTO’s work with the ILO on putting together a comprehensive review of the literature on trade and employment had revealed just how much more could be usefully known. Trade liberalization could well lead to consideration of policies of redistribution – what requires further thought, however, are the possible trade-offs between redistribution and growth. UNCTAD added that the evidence of a poor employment response to growth – whether termed “jobless growth” or not – was quite evident in Africa. There was under-recognition of the de-industrializing effect of market liberalization; there was the equally erroneous assumption of the ability of the retrenched to be reabsorbed into the labour market. In particular, the plight of cotton farmers in Benin, in the absence of any meaningful progress of the Doha round, was a case in point.
20. Winding up the exchange provoked by the review of the ECOSOC Declaration, the ILO noted that the PCI, associating as it did a variety of macroeconomic perspectives with a focus on the prominence of social outcomes (rather than their residual status), represented a sort of “crumbling of the firewall” between the economic and social disciplines and thus in the perception of priorities.
21. The topic of “collaboration at country level” brought into focus the value of specific, time-bound work at the national level by groups of agencies. President Wolfowitz and Director-General Somavia had agreed in October that it would be worthwhile for the two agencies to do some joint analytical work in, perhaps, two countries with a view to reinforcing policy dialogue. Key issues were the need to ensure that the findings were relevant to LICs especially in sub-Saharan Africa and that experience with meaningful social dialogue could be assessed. The World Bank summarized its current activities and plans for studies in the employment sphere at the national level. The central thrust of the World Bank’s work was, in analytical terms, to understand how economic growth had translated into productivity and employment growth and the differential impact of these patterns on poverty reduction. The effort would be to understand the patterns of growth. The World Bank had sought broad regional representation in the designation of countries for focus with the criterion of LICs, positive growth rates and reasonable data. External funding was being sought. The work would look at governance issues, as well as the informal economy.
22. In discussion, the idea of joint work was welcomed and a number of issues of importance to such an effort at country-level studies around the policy coherence theme of growth, investment and employment were raised. Several speakers stressed the need to look at the informal economy even if data sources were weak. A foundation of quantitative studies would create a sound platform for looking at upstream policy trade-offs and decisions that might have played a role in the empirical outcomes. The joint design of a common framework of analysis was a key next step, and should not neglect an analysis of past interventions. Improved data collection was vital, in particular on job quality.

23. The ILO and the World Bank will take the discussion into account in the design of the proposed joint work.
24. The final, and related item, concerned World Bank research work on the quality of jobs. The programme was part of the World Bank's "shared growth" agenda – understanding growth and distribution, with the insight that "quality" jobs are the main channel for transferring growth to the poor. The programme is intended to last for three years with the aim of tracing the links between gross domestic product (GDP) growth, household earnings and the quality of jobs. The basic research question is to ask whether jobless growth is a problem or not.
25. Considerable interest in the programme was expressed by other agencies and the trade unions, including on the scope for joint work. Points made in discussion included the need to explore not just the employment intensity of growth but whether indeed there had been a change in the employment content of growth. The importance of a jointly agreed broad research agenda for those agencies that might participate in such work – to be followed up by a policy agenda – was mentioned. Since part of the effort was to understand better government objectives, this implied a need for analysis of the effects of policy choices. The overall intent should be to empower policy-makers. There was a need to consider other policy spheres, such as trade, in the analysis of growth and distribution. Appropriate definition of labour market indicators could be guided by the ILO's concept of decent work, which would also include fundamental rights at work – as well as the positive distributional effects of collective bargaining. The global research project was very relevant to actual World Bank activities at the country level. The continuum between formality and informality was both fluid and complex and the assumption, moreover, of homogeneity in the informal economy could not be made. The potential trade-offs between employment and productivity warranted study in greater depth.

## Preparations for the South Asia PCI

26. An innovation in the next phase of the PCI is that, while the global-level meetings will continue, regional and national dialogues will also be organized. The ILO will host a South Asia PCI in Delhi on 3–4 April. The objective is to dig deeper into some of the basic underlying questions regarding growth, investment and employment.
27. ILO research has noted a general decline in the employment content of growth.<sup>2</sup> An examination of the six countries will endeavour to find whether this general finding applies to South Asia. This will also entail looking into the relationship between employment growth and labour supply. In countries with large rural and informal economies especially, and weak systems of social security, many women and men have no choice but to work to survive even if their activity is unproductive and non-remunerative. Investigating the employment content of growth in South Asia, where countries have similar economic structures, may thus lead to a reformulation of the initial question to focus on the causes of a weak relationship between formal employment growth and output expansion.
28. Further issues include whether there is a desirable split between the employment and productivity components in output growth that would yield a balanced advance in both the numbers of people with jobs and their working conditions. Different countries of the South Asian region display quite different recent trends in this regard.

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<sup>2</sup> S. Kapsos: "The employment intensity of growth", in J. Felipe and R. Hasan (eds), *Labour markets in Asia: Issues and perspectives* (London: Palgrave Macmillan, 2006), Ch. 4.

- 29.** An important related factor which study of South Asia may help to explain is the coexistence of skill shortages alongside large-scale underemployment. In this respect, a topic that is provoking much interest is whether the nature of growth in a globalizing world means that even countries that would appear to have a comparative advantage in the products of unskilled labour have to compete in relatively high-skilled segments of the market because the global technological frontier has moved upwards. The performance of the agricultural sector is likely to have a major impact on the relative demand for skilled and unskilled labour.
- 30.** Disaggregating trends in productivity may also shed light on two further features of current patterns of economic development – the concentration of real wage gains towards the higher end of the earnings distribution and the decline in the share of wages in national income.
- 31.** The aims of the South Asia PCI meeting are ambitious and are quite likely to generate further research amongst the participating national and international organizations. Nevertheless, the results could be of great value to the ILO's follow-up to the Asian Regional Meeting and the DWCPs of the six countries concerned, as well as enabling a deeper investigation of the fundamental issues with which the PCI is grappling.
- 32.** The Working Party is invited to review the recent work of the PCI and the plans for the future.

Geneva, 21 February 2007.

*Submitted for information.*