International
Labour
Office
Geneva

5

National employment policies: A guide for workers' organisations

How do macroeconomic and sectoral policies affect employment?

5

How do macroeconomic and sectoral policies affect employment?

First published 2015

NATIONAL EMPLOYMENT POLICIES - A guide for workers' organisations
International Labour Office. – Geneva: ILO, 2015

ISBN: 978-92-2-129343-9 (print)

ISBN: 978-92-2-129344-6 web pdf

International Labour Office

employment policy / trade union role / promotion of employment / plan of action / data collecting / labour force / informal economy / labour market

13.01.3

ILO Cataloguing in Publication Data

This publication was produced by the Document and Publications Production,

Printing and Distribution Branch (PRODOC) of the ILO.

Graphic and typographic design, manuscript preparation, copy editing, layout

and composition, proofreading, printing, electronic publishing and distribution.

PRODOC endeavours to use paper sourced from forests managed

in an environmentally sustainable and socially responsible manner.

Code: CMD - STA

Photos: UN Photo; The World Bank; UNDP; CMD;ILO; Zabara.org; Vyacheslav Oseledko; Dmitry Ryzhkov; IMB Photo; Nick Story; CIMMYT;

Quick overview

In the realm of economics, the goal of public policy is to grease the wheel of economic activity, while at the same time making sure that the activity leads to both improved productivity and job quality. The choice of public policies is influenced by theory and analysis. In this part of the guide, we look at macroeconomics, the study of the economy as a whole, and how policies at this level can influence the creation of decent jobs. We first look at the impact of monetary policy, exchange rate policy, and fiscal policy and we discuss why and how it is important for trade unions to be involved in influencing these macroeconomic policies.

Then we look at the role of national policy in influencing the development of various industries and sectors within the economy (industrial and sectoral policy). This is of special interest to trade unionists in developing countries, where economic growth in recent decades has often been concentrated within enclaves, such as natural resource extraction or special economic zones producing goods for export. The goal here is to diversify economic activities and steer them towards higher value-added sectors, or sectors seen as job-rich or strategic. (An example of a strategic sector might be one that builds a country's food security.) We examine the thinking that goes into setting policy priorities for developing sectors in an economy. We introduce some analytical tools for figuring out just how much employment will be generated by government investment and productive growth in a particular sector.

Finally, we look at trade policy and in particular the trend to trade liberalization, and we discuss why it is especially important for trade unionists in developing economies to monitor and be a part of any such policy developments.

There is also a role for trade unions in monitoring and advocating that employment be at the core of the whole array of macroeconomic, sectoral and trade policies, and that those policies should be coherent and complementary in expressing and working toward that goal. This ensures the success of each policy and helps to make one policy benefit or enhance others. Targeted interventions at the sector level should be coupled with pro-employment macroeconomic policies, within a clear strategy for productive structural change.

Contents

How do macroeconomic and sectoral policies affect employment?

5.1. What is macroeconomics?

The goal of economic policy is to grease the wheel of economic activity, making sure that it leads to improved productivity and job quality, while maintaining financial stability.

The choice of public policies is influenced by theory and analysis. That is why it is important to know which theory informs policy-makers. It inevitably has effects on the policy proposals they make or are likely to accept.

Macroeconomic theory is the study of a country's general economic activities and the policy factors that impact them. It came about as a response to classical economists, who assumed that markets naturally tended toward satisfying demand, eventually resolving problems like product surpluses and unemployment. According to the classical economists, there was no point for governments to intervene in the economy. Any attempt to do so would make the situation worse.

In the aftermath of the Great Depression, economists such as John Maynard Keynes challenged such beliefs. He suggested that the economy was not self-balancing and that government intervention could be used successfully to counteract disruptive economic fluctuations.

Keynesian macroeconomics

Keynes found that classical economics failed to explain prolonged unemployment and recessions. He proposed that the answer did not lie in waiting for the labour market to balance itself back to full employment through wage cuts. He believed what was happening in the labour market was a consequence of broader developments in the rest of the economy.

Keynes said that economic cycles were driven by investment booms and busts. Workers' consumption went up and down along with the investment booms and busts. The goal was therefore to use government policy levers to soften the ups and downs of the economy. Once it admits that full employment does not come "naturally", the government can use policy levers to ensure that the economy is not operating below its potential.

Each government has an array of tools it can use for these purposes. It has the power to tax and spend (**fiscal policy**). It has authority over the central bank, which sets the interest rates that influence credit (**monetary policy**). The use of those tools constitute what is called today **macroeconomic policy.**

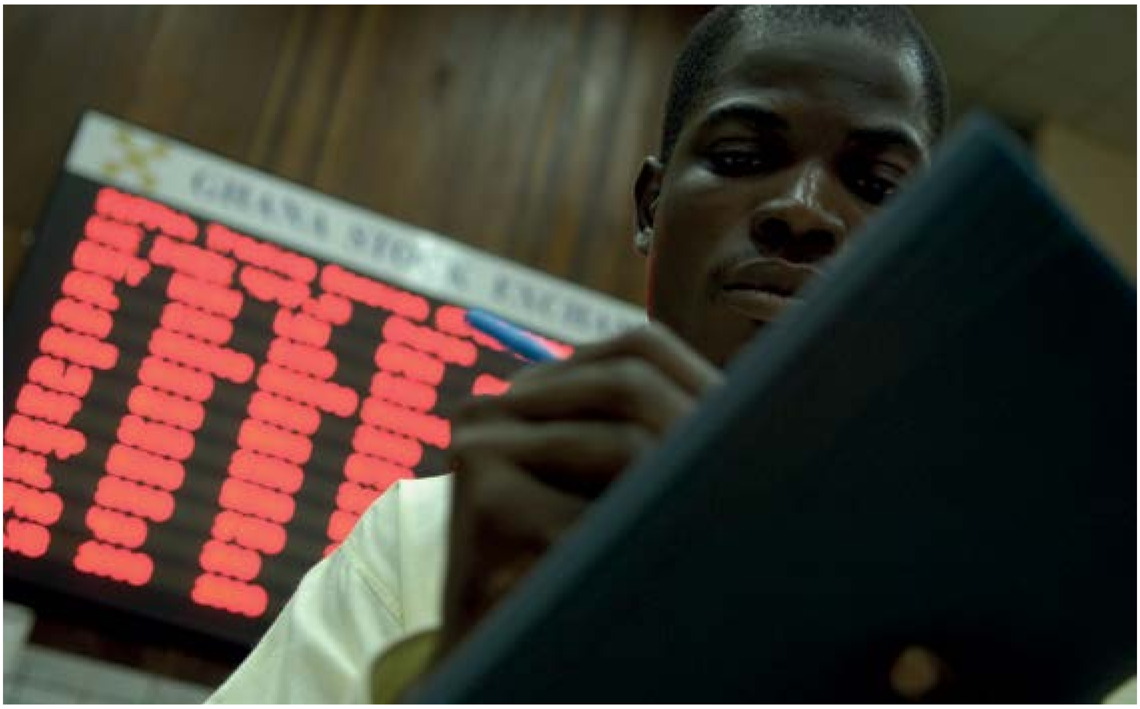
Keynesian **macroeconomics** rose to become the dominant economic theory among capitalist nations for nearly 40 years. It was most famously used during World War II to keep unemployment at historically low levels. Macroeconomics also led to the creation of the International Monetary Fund (IMF) and the World Bank in the 1940s.

The Chicago School and supply-side economics

In 1956, Milton Friedman of the University of Chicago modified macroeconomic theory, citing Keynes's disregard for **inflation** –an increase in prices across the entire economy– caused by artificially stimulating the economy. He rejected the Keynesian notion that governments can "manage" demand. He argued that attempts to do so are destabilizing and likely to lead to inflation. Economists from the Chicago school believed that the role of government is to control inflation.

This school of thought, which is also called "neo-classical" economic theory, sees a limited role for public policy, and therefore government, in economic affairs. Its premise is that minimal government intervention in the marketplace will produce the best economic outcomes. **Supply-side economics** draws on the thinking of this school. It argues that bolstering an economy's ability to supply more goods is the most effective way to stimulate economic growth. It therefore seeks to augment demand by cutting taxes, reducing regulations on businesses and lowering prices through increased production. Supply-side economics rose to prominence in the 1970s, at a time when it did indeed seem that governments were no longer able to influence either inflation nor unemployment.

During the 1980s, supply-side economics inspired a great deal of the thinking at the IMF, World Bank and the Organization for Economic Development and Co-operation. It favours the free movement of goods and capital, in the belief that such freedom will bring investment where it is most needed and will bring the highest returns, thus generating more productive jobs. This viewpoint holds that government action cannot improve on the action of market. It was often imposed on governments in developing countries as part of structural adjustment policy packages.



The dominant macroeconomic policy framework since the 1980s: The Washington Consensus

This new "consensus" came to be known as the Washington Consensus. It is embodied by the following policy packages. The "augmented" Washington Consensus of 2003 came about as a result of the failure of the first wave of Washington Consensus policies. It was a belated realization that institutions matter when it comes to economic performance.

Original Washington Consensus	"Augmented" Washington Consensus
1990	2003
	the previous 10 items, plus:
1. Fiscal discipline	11. Corporate governance
2. Reorientation of public expenditure	12. Anti-corruption
3. Tax reform	13. Flexible labour markets
4. Financial liberalisation	14. World Trade Organization agreements
5. Unified and competitive exchange rates	15. Financial codes and standards
6. Trade liberalisation	16. "Prudent" capital account opening
7. Openness to Direct Foreign Investment	17. Non-intermediate exchange rate regimes
8. Privatisation	18. Independent central banks/ **inflation targeting**
9. Deregulation	19. Social Safety Nets
10. Secure property rights	20. Targeted poverty reduction

This framework's monetary policy exclusively targets the attainment of low, single-digit inflation. Its fiscal policy is limited to maintaining prudent debt levels and ensuring that deficits meet a specific target.

The International Monetary Fund devised economic stabilization programmes, whose objective was to lower inflation and restore a country's internal equilibrium (employment and price stability) and external equilibrium (balance of payments). These policies were to be complemented by structural adjustment packages, conceived by the World Bank. The packages aimed to curtail the role of the state in the economy so that the prices of goods and services would float and adjust to free market levels.

By the early 2000s, many countries that adhered to this agenda had succeeded in achieving price stability and had curtailed their external and internal imbalances. However, they were plagued with poor growth and little private investment, high unemployment and rising poverty.

Why should trade unionists support a role for government in the economy?

The failures in the credit and capital markets of 2008 caused governments to take another look at their role in the economy and to reapply some of Keynes's approaches in order to get through the crisis.

Trade unionists are well aware of another kind of failure that occurs in an insufficiently regulated market: wage-setting in economies with a surplus of labour. In principle, wages should reflect the productivity of the work done. However, when there are many more workers willing to supply their labour than there are jobs available, employers have the bargaining power to set wages too low. This failure can be addressed by policies, laws and regulations on **collective bargaining** and minimum wages.

Moreover, governments are often the only economic actors capable of providing goods that are useful for all, but that no investor would take on because it is either too risky or the returns are too low. This too is a market failure.

When trade unionists talk about economic and employment policy, the starting point should be very pragmatic. Neither free markets nor a benevolent government will solve problems magically. Each country faces a specific situation with its own constraints and opportunities. There are inevitably trade-offs between different goals. You need to be able to identify the problems and the opportunities, and then figure out the best ways to use limited means to achieve the objectives. The key here is to ensure that workers' interests are not sacrificed in the process.

Trade unions' role goes well beyond trade unions' traditional areas of concern. There is also a role for trade unions in monitoring and advocating that employment be at the core of the whole array of macroeconomic, sectoral and trade policies

5.2. How do macroeconomic policies help to create decent jobs?

Macroeconomic policy refers to how governments and other policy makers intervene to improve economic performance and well-being. It starts with setting policy objectives, such as achievement of sustainable economic growth and development, stable prices and full employment. Some of the objectives set are potentially in conflict with each other, which means that, in attempting to achieve one objective, another one is "sacrificed". For example, many central banks, such as the European Central Bank, have set inflation targets that often run counter to the goal of reaching full employment. This is because the tools used to reduce price inflation are usually increased interest rates or restricted credit. These slow down economic activity.

To achieve their policy objectives, policy makers set targets to aim for. In recent years, policy inspired by the Washington Consensus have typically had targets for inflation, budget deficits and public debt levels. Targets are often fixed and widely known, such as the European Union's inflation target of two per cent. Other targets may be more flexible or set within a range, such as the exchange rate for a nation's currency.

Once policy objectives and targets are established, policy makers need to choose between different policy tools, or instruments. These instruments are the levers of control of the macro-economy. They include monetary instruments, such as interest rates set by the central bank, and fiscal instruments, such as tax rates and government spending.

Macro-economic policy is often shaped by long-held beliefs. These influence the choice of objectives, targets and instruments. For example, some economists put the eradication of poverty above the maximisation of corporate profits. This will strongly influence their belief about how the tax system should be used. Also, different economists may use different economic models and forecasting techniques. This may lead them to disagree about the need, size or timing of policy changes.

What are the main policy levers of employment?

The policy levers of employment are mostly found outside the realm of labour market policies. That is because the demand for labour (that is, for workers) is for the most part the result of the overall demand for goods and services in the marketplace. While most of this demand will be influenced by what and how much people are consuming in their households and enterprises, government policy plays an important role. For example, government infrastructure programmes or a policy of low interest rates will induce employment growth through increased spending by government and private actors.

On the other hand, evidence shows that changes in employment policies and labour market regulations have at best a marginal impact on employment growth. They do, however, have a significant impact on the quality of employment.

This means that trade unions that want to discuss pro-employment policies should not confine themselves to dialogues with labour ministries. However crucial these dialogues may be, they are missing a lot of the action. You have to interact with areas of government concerned with finance and industry, as well as with the central bank, which controls interest rates and the supply of credit.

5.3. What does a pro-employment macroeconomic policy framework look like?

A pro-employment macroeconomic policy is one that sets full and productive employment as a policy objective. It sets a fixed and widely known **employment target**, such as the European Union's "75% of the 20-64 year-olds to be employed by 2020". It uses monetary and fiscal instruments in a way that will lead to the achievement of the employment objective and target.

The broad goal is continuously high levels of employment and output, with the highest sustainable rate of economic growth, relatively stable domestic price levels and a stable exchange rate for a nation's currency. A pro-employment macroeconomic framework requires that its policy tools work together. This ensures that there are sufficient domestic and external resources available to sustain the employment goals and provide the space for counter-cyclical policies. Altogether, they ensure that the economic environment is conducive to economic diversification, economic growth and sustainable creation of productive employment opportunities.

Monetary policy in a pro-employment macroeconomic framework

"Runaway" inflation hurts economic growth and development. However, a pro-employment monetary policy cannot focus exclusively on the target of single digit inflation. Monetary policymakers have to keep in mind other policy goals, such as ensuring that credit is available at reasonable terms to increase output and employment.

In pursuing stability, policy makers too often limit themselves to the goal of stable prices for goods and services, but not the stability of assets such as land, housing or stock prices. Recent crises have shown that central banks need to pay attention to "bubbles" and find the means to prevent exaggerated and speculative increases.

Monetary policy should also aim to increase the resilience of the domestic financial system to external shocks. For example, it should ensure that commercial banks have enough liquidities to keep lending to small and medium enterprises during a global financial crisis such as the one that occurred in 2008. This will increase the incentive for people to save and invest.

A worker inspects prints of R$ 20 Brazilian reais bills during the production process at the Casa da Moeda, the national mint, in the Santa Cruz suburb of Rio de Janeiro.

Exchange rate policy in a pro-employment macroeconomic framework

An **exchange-rate regime** is the way a government manages its currency in relation to other currencies and the foreign exchange market. It matters because it facilitates the purchase of needed goods from abroad, such as oil or production equipment. But it also matters because a rate that is set too high can be detrimental to small producers who can face an inflow of cheap foreign goods.

A country's exchange-rate regime is closely related to its monetary policy and the two are dependent on many of the same factors, such as the interest rate policy.

There are three approaches or regimes for managing the exchange rate. With a floating exchange rate, the market dictates movements in the exchange rate. With a pegged float, the central bank keeps the rate from deviating too far from a target band or value. A fixed exchange rate ties the currency to another currency –such as the U.S. dollar or the euro– or to a basket of currencies.

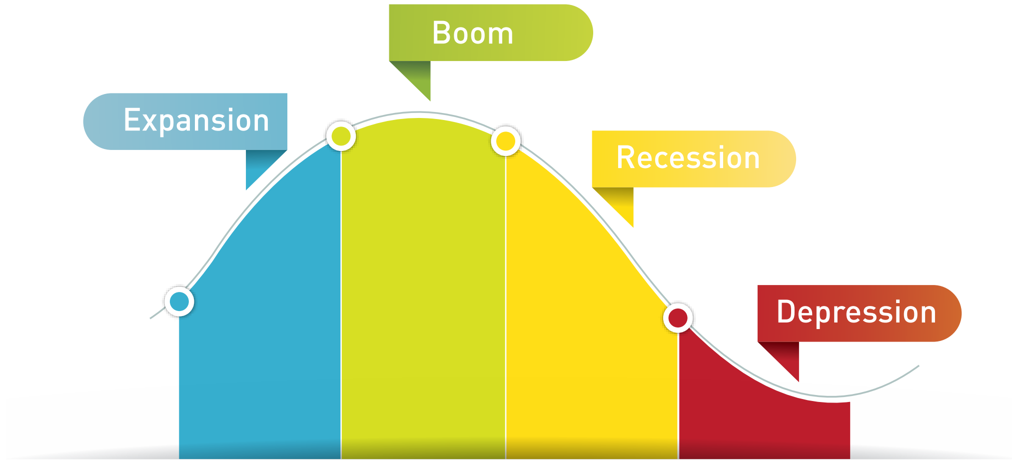
A pro-employment exchange rate policy should be geared towards stability. This reduces risk and enables economic actors to decide whether to invest in export-oriented sectors or in domestic-oriented sectors. A pro-employment exchange rate policy should also be geared towards competitiveness of the economy in terms of imports and exports. In addition, foreign exchange reserves should be built up to cope with economic volatility.

Both a fixed rate regime and a purely floating one expose a country's currency to overvaluation. When the exchange rate is overvalued, the cost of exports goes up and competitiveness on international markets declines. This may have important implications for employment levels. Some form of a pegged floating regime helps to keep a currency competitive. For example, adjusting the exchange rate within a band could help absorb unanticipated shocks and provide some degree of flexibility for domestic monetary policy. Maintaining the exchange rate within the band could also provide an anchor for price stability by demonstrating a degree of monetary discipline (Williamson, 2003).

Fiscal Policy in a pro-employment macroeconomic framework

Meeting full and productive employment goals requires rethinking the approach towards fiscal policy. It is a very powerful tool. Fiscal sustainability requires monitoring debts and deficits and setting in place explicit fiscal rules to keep them within a boundary. However, fiscal policy cannot and should not be limited to that. Attempts should be made to shift from a pro-cyclical to a counter-cyclical fiscal policy stance. Pro-cyclical fiscal policy means spending a lot when times are good. This can encourage boom-bust cycles, which diminish the efficiency of public spending. **Counter-cyclical policy** means building up fiscal space during booms and normal periods of economic growth. During a downturn, this will allow for fiscal stimulus through enhanced public investment and maintenance of social protection policies.

The economy has cycles, which usually look like this picture:

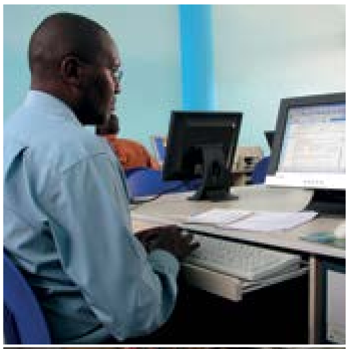


The counter-cyclical approach to fiscal policy is challenging to put into practice. In times of recession, everyone wants their governments to compensate for the contraction in the private sector. For that to be possible, it is necessary to build up fiscal space during times of economic growth. In developing countries that have high levels of unsatisfied basic needs, this is very difficult and requires strong fiscal discipline. All the actors must work towards an agreement that looks not only at short term effects, but at longer term ones as well.

Trade unions should be able to analyse government expenditures and budget reports and engage in a constructive, evidence-based dialogue with the government. You should be in a position to suggest alternatives if you feel the expenditure pattern will not lead to employment growth. You may want to partner with academics who can use analytical tools to measure the benefits of linking public spending with employment creation.

If your country has joined the International Monetary Fund (IMF), you should also ask to take part in consultations under its Article IV. Article IV consultations usually take place once a year. IMF economists visit the member country to gather information and hold discussions with government and central bank officials, and often private investors and labour representatives, members of parliament, and civil society organizations. Be ready to actively participate and come with solid arguments to defend you positions.

CASE STUDY



An opportunity to revisit fiscal policy in Uganda?

Uganda embarked on an Economic Recovery Program in 1987. The main macroeconomic policy concern has been price stability. This has translated into tight monetary and fiscal policies, a flexible exchange rate, and extensive privatisation and deregulation efforts. During the last decade, Uganda has brought its fiscal balance (excluding grants) down gradually from double-digit deficits in the early 2000s to deficits of below 6 per cent of **Gross Domestic Product** (GDP) since 2005/06.

The high rate of economic growth in Uganda in the century's first decade was accompanied by important reductions in poverty and structural change in the economy. But agriculture still employed a high and rising proportion of the labour force, despite its falling contribution to the GDP. The share of employment in the manufacturing sector actually declined between 2000 and 2005.

The government has not altered its spending patterns in response to the 2008 global economic crisis. Inflation concerns drove the government's fiscal response and its decision not to put in place a stimulus package. Authorities wanted to maintain their fiscal target of reducing the deficit to below 5 per cent of GDP. They were also concerned about discouraging private investment, "crowding it out" by directly stimulating the economy.

However, some recent studies have pointed out an alternative view on the relationship between fiscal deficits and inflation in countries with excess capacity like Uganda (Epstein, 2009; Weeks, 2009; Muqtada, 2010). In a country such as Uganda, where the economy is operating below its full potential, borrowing or printing money to finance the deficit need not result in inflation or crowding out private investment. If the increased expenditure is directed towards a sector like infrastructure, private investment will most likely follow.

Public investment linked to employment generation and structural change requires fiscal policy to be adaptable and long-term in its objectives. This flexibility in the fiscal framework is also needed to allow Uganda, a low-income country, to adjust to unforeseen circumstances and external shocks.

5.4. Analysing industries and sectors in the light of pro-employment policy

For 30 years, mainstream economists frowned upon the idea of targeting sectors of an economy for policy intervention. The idea was that governments were not equipped to choose the “right” sectors, and that was best left to market forces. Today, such policies are seen as legitimate and necessary to accelerate growth with better labour market outcomes.

When national development frameworks target leading or emerging sectors of an economy for investment and development, they often miss the opportunity to prioritise or rank them on their ability to create more and better jobs. Trade unions can and should influence these policy choices.

To prioritise sectors on the basis of employment, you need a good understanding of sectors’ productivity and growth potential, their employment multipliers, and their **backward and forward linkages** with the rest of the economy. We discuss these concepts here.

Productive structural change in developing economies

In developing countries, economic growth in recent decades has often been concentrated within enclaves, such as natural resource extraction for export or special economic zones producing goods for export. These enclaves have few linkages with the rest of the economy. Such enclaves have very low **employment and income multipliers.** This means that these sectors only benefit those segments of the population that are somehow linked to export activities. The majority are excluded from the benefits of growth in the economy.

This concentration of growth in just a few industries means weaker development of other manufacturing and the services sub-sectors that go along with them. Much of the population may still be engaged in low-productivity agriculture. Investment has increased, but from a low base, perpetuating reliance on foreign aid.

Economic diversification that promotes productive employment can be achieved through well thought-out industrial and sectoral policies. These policies ultimately aim to structurally change developing economies into economies with higher value-added work and higher productivity.

Considering job quality

Creating *jobs* alone is not enough. A fundamental criterion for targeting priority sectors is the *quality* of the new jobs within priority growth sectors.

Wages

Balanced wage policies restore the link between wages and productivity. Achieving them requires strong social partnerships and effective collective bargaining. Unions need to use collective bargaining to engage governments and other employers to achieve decent, fair wages, keeping in mind that labour peace is a necessary condition for economic growth and job creation.

Working hours and balancing work and non-working life

Studies suggest that flexible working regimes and negotiated working arrangements are key factors for high productivity and job satisfaction. They provide a good balance between work and social and family life. Achieving such arrangements requires friendly, open employer-employee relations.

Occupational safety and health

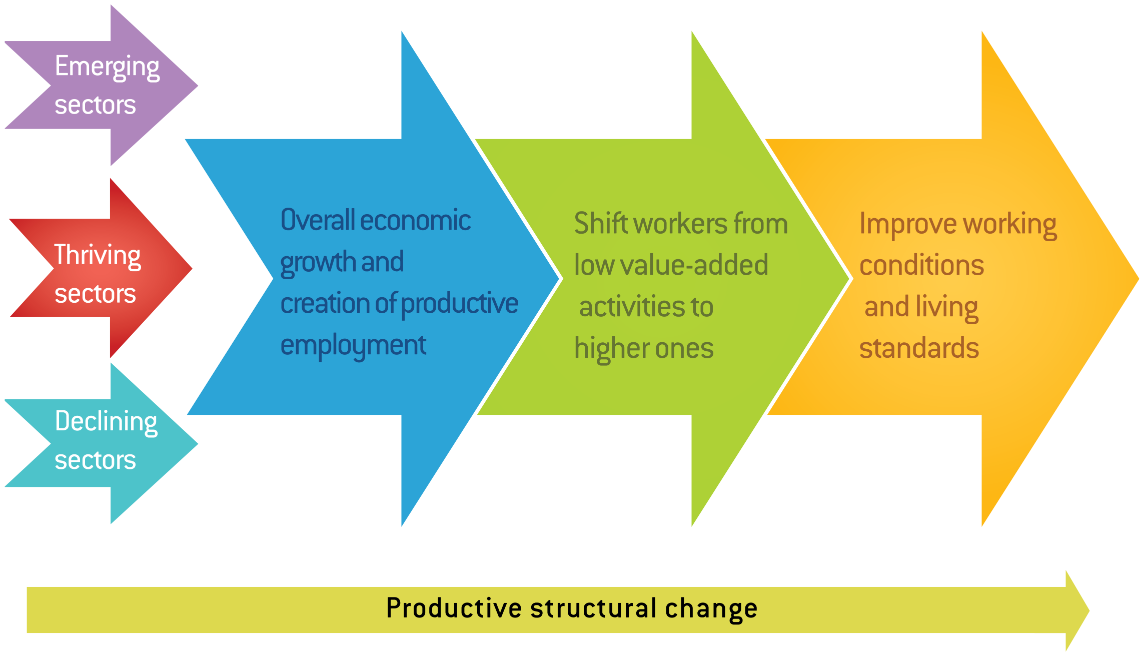
Job quality depends on the environment and working conditions in which economic activities take place. Working conditions that increase the risk of accidents and disease have very high economic costs for workers. Appropriate occupational safety and health standards, procedures and education in the workplace have a big impact on productivity.

Availability and sustainability of social protection systems

Benefits such as paid family leave, health insurance, and unemployment benefits are key indicators of a quality job. In precarious and vulnerable employment, the lack of these benefits affects the quality of work and productivity. Social protection and employment benefits systems are a pre-requisite for decent and productive employment and should be available for all.

Skills development and training

When a workplace offers opportunities for improving skills, it creates an environment that inspires workers and provides incentives for higher quality work. Skills acquired on the job often help determine a worker's career path. Governments and employers should use human resource policies, workplace consultation and trade union negotiations as ways to take into account workers' interests and career development.



Setting priorities for employment growth in sectors

One way of thinking about increasing the level of employment is to increase the number of labour-intensive sectors in the economy. Another is to increase the degree of labour intensity within sectors. Ranking sectors according to their employment creation potential helps with setting priorities for achieving an employment target.

It would be short-sighted to only prioritize sectors according to their degree of labour-intensity.

Other criteria to look at include:

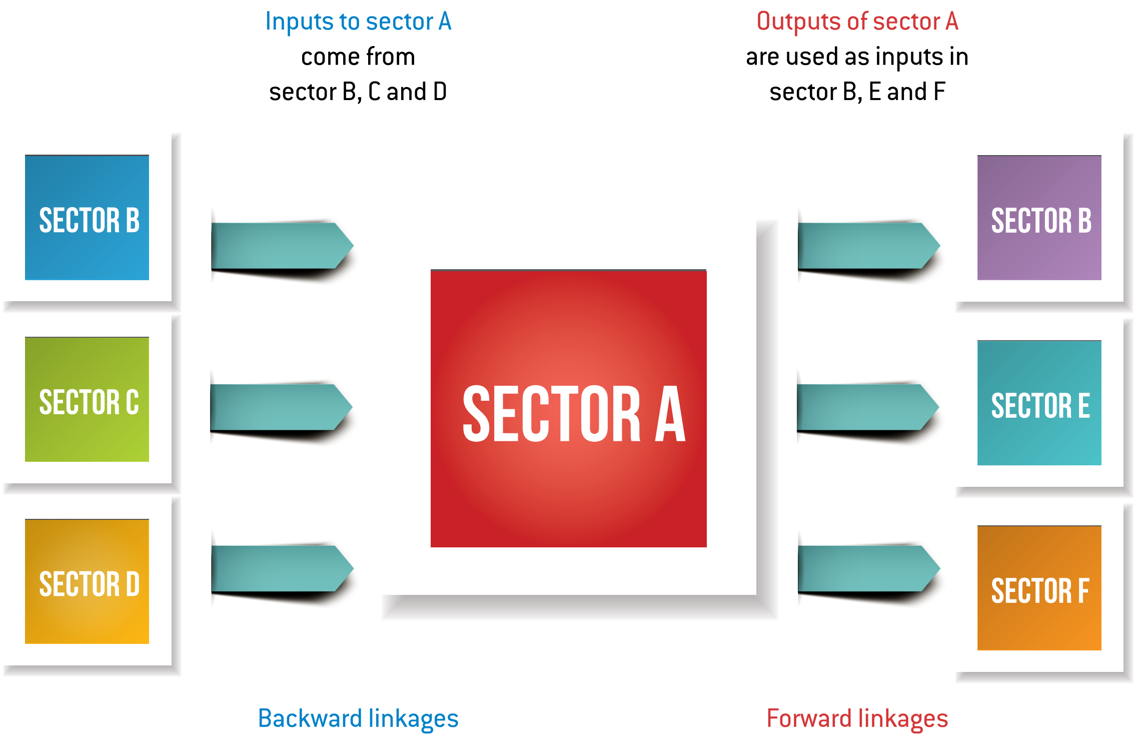
- the weight of the industry in total employment
- the relationship between labour-intensity and productivity in the sector
- technological change to come
- how the global market is evolving.

When making policy choices, it is important to look at the nature of the support to priority sectors. For example, public investment in rural roads to support agricultural development will have a higher labour intensity if the policy promotes labour-intensive technological choices to build and maintain those roads.

Analysing linkages between sectors

Sectors are linked in production processes through backward and forward linkages. Figure 1 shows how Sector A's production depends on inputs from sectors B, C and D. These are called backward linkages. Sector A's production will in turn be used as inputs by other sectors for their own production (Sectors B, E and F in the figure). These are forward linkages.

Figure 1. Inter-sectoral linkages



When we prioritise a sector, we should ask ourselves about the sector's linkages. To know the total employment creation potential of a given sector, we take into account the sector itself (direct employment creation) as well as the sectors linked through backward and forward linkages (indirect employment creation). Such an analysis is very useful to check the validity of policy choices from an employment creation perspective.

In Figure 2, we look at the example of the automobile sector and ask ourselves, "Which sectors produce parts of a car (backward linkages)? Which sectors use automobiles in their production (forward linkages)?"

Figure 2. Backward and forward linkages in the automobile sector

Employment elasticity and the multiplier effect

An **employment elasticity** is a numerical measure of how employment growth varies with growth in output. We use elasticity when we want to see how employment changes when we change output levels in a sector.

An employment elasticity is defined as the average percentage point change in employment for a given population group when there is a one per cent change in output over a selected period. Knowing the employment elasticity for a sector allows us to calculate how much employment can be created by developing this sector (ILO, 2009, Chapter 8).

Figure 3 shows the **multiplier effect**. Sector A has an employment elasticity of 0.4, this means that: For 100 units produced, 40 jobs will be directly created in sector A.

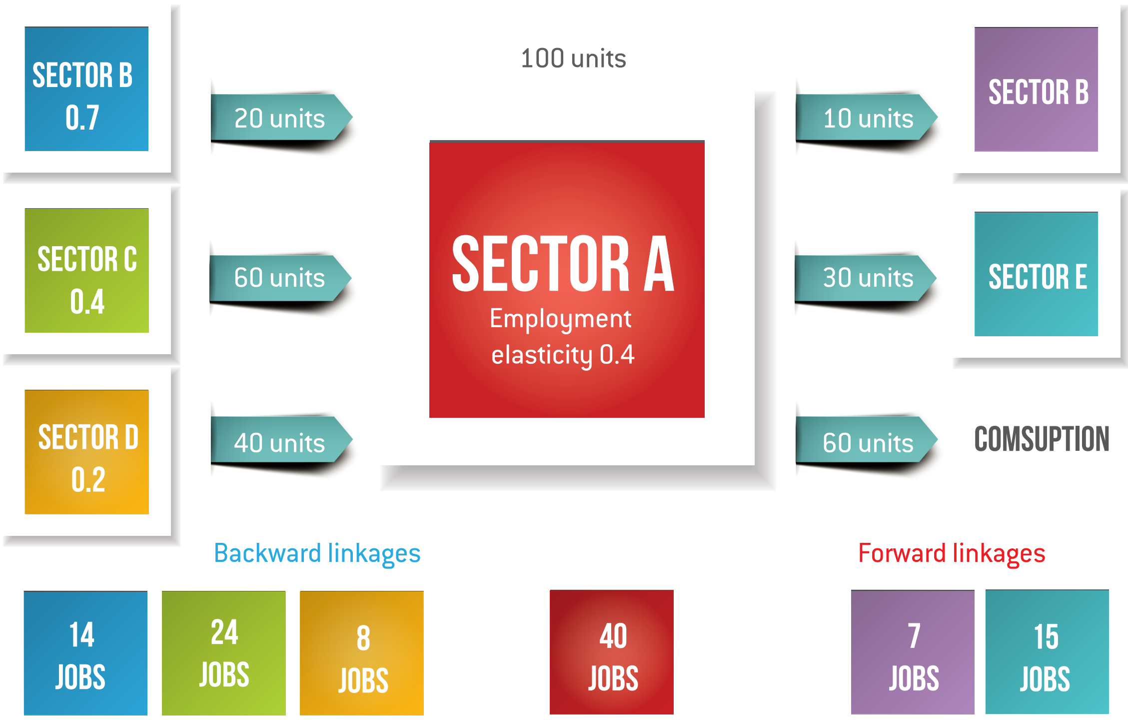
Taking into account the backward linkages, Sector A indirectly generates 46 additional jobs in related sectors:

- Sector B needs to produce 20 units for sector A to produce 100 units. With an employment elasticity of 0.7, Sector B generates 14 jobs (0.7 x 20) to produce the inputs needed for Sector A.
- Sector C needs to produce 60 units for Sector A to produce 100 units. With an employment elasticity of 0.4, Sector C generates 24 jobs (0.4 x 60) to produce the inputs needed for Sector A.

Similarly, forward linkages indirectly create another 22 jobs.

The increase in output in Sector A (100 units) thus generates 108 jobs in total.

Figure 3, The multiplier effect



The multiplier effect in an export sector

In export-oriented industries, weak local sourcing (importing the inputs needed for production) has led to concerns over the limited employment impact of these industries on the national economy. Figure 4 illustrates the possible shortcomings on the local economy.

In this example, the production of Sector X depends on imported inputs and inputs from sector D. So, when 100 additional units are produced in Sector X, only 30 units of inputs are produced nationally and 130 units of inputs are imported. These imported inputs do not create any jobs in the country. The only indirect job creation from backward linkages in this example will come from sector D, which has an employment elasticity of 0.2, or 6 new jobs created.

Sector X produces goods that are mostly exported (70 units), partially consumed at home (20 units), and partially used as inputs for sector B (10 units). Sector X thus indirectly creates 7 jobs in sector B. Exports and consumption do not create any jobs. Clearly, job creation opportunities are lost with increasing production in sector X.

Figure 4. Multiplier effect in an export sector

Sectorial strategies can help to maximize the benefits of export sectors by improving local conditions and supporting local suppliers. Enhancing backward linkages (local procurement) is an effective way to increase the labour intensity of growth of export sectors.

Trade unions may want to partner with academics who can use analytical tools such as Social Accounting Matrices. These analyses quantify the multipliers in the economy, so that policies can better link public expenditures with employment creation.

CASE STUDY

Trade unions play a part in upgrading the textile and clothing strategy in Morocco

Over the last decade, the textile and clothing sector in Morocco has been under pressure. The liberalization of trade lead to increasingly intense international competition.

Initially, the trade unions were left out of the sector's upgrading and restructuring efforts, but they gradually became key partners in formulating and implementing the strategy.

A tripartite national steering committee was set up, composed of:

- Employers in the textile and clothing sector
- General Confederation of Moroccan Enterprises
- The three most representative trade unions
- Ministry of Employment and Vocational Training
- Ministry of Industry, Commerce and Economic Upgrading
- National Agency for the Promotion of Small and Medium-sized Enterprises

These partners also decided to set up a committee to deal in a socially responsible way with the new challenges of globalization in the textile and clothing industry. Bipartite and tripartite discussions focused on undertaking a common diagnostic of the sector. The studies raised national partners' awareness and promoted a mutual understanding of the constraints and opportunities faced by each party.

Employers understood that the social dimension was a new component of international competitiveness and were more willing to listen to information about things like vulnerable work contracts, inadequate social protection, wages lower than the legal minimum wage, and women suffering from wage discrimination.

Trade unions came to understand that, because of globalization, employers were facing a context where fast fashion and reactivity is the rule. They were faced with constraints that can affect job security, such as seasonality of exports and conditions imposed by buyers.

The national partners recognized that the textile and clothing strategy would gain from an improved social dialogue and better integration of the economic and social determinants of competitiveness. These insights fed into tripartite discussions and the development of a National Tripartite Action Plan to promote the competitiveness of the textile and clothing industries through the promotion of decent work.

The action plan, which reflects the needs of each party and the solutions they identified, will be implemented over several years. The upgrading and restructuring strategy has been redefined to include responding to training needs and ensuring decent working conditions and social protection to attract and keep young qualified workers.

The new plan also calls for sound labour-management relations within the firms to preserve social peace. Full respect of freedom of association and a constructive social dialogue at the sector level are central issues of the plan. It also takes gender into account, given that women are the vast majority of workers in the sector.

5.5. Why trade unions need to pay attention to trade policies

Trade liberalization is the reduction of tariffs and other measures that regulate commerce across borders. Too often, trade liberalization is uncritically presented as a positive for economic development and employment. The reality is far more complicated, and trade unions need to keep a sharp eye on trade policies in their sectors.

While trade opens export opportunities, it can harm domestic producers if they are not equipped to face external competition or to take advantage of the new export possibilities. Throughout history, governments have protected young and growing industries, to give them breathing space to develop before facing off with the rest of the world.

It is critical for developing countries to have the space to choose their level of engagement with the rest of the world, to choose which sectors to open or to protect, in view of their job and development potential. Governments also need the policy space to help and nurture sectors that have a strategic social and economic importance for their countries.

Why are tariffs an important tool for developing countries?

Ill-conceived liberalization can result in the breakdown of entire sectors, particularly in agriculture. For developing countries, it is far easier to protect a sector through a tariff than come up with a sophisticated array of supportive measures for the sector. Countries with limited fiscal space have little ability support those who are on the losing end of trade liberalization.

Moreover, in developing countries, import tariffs are far easier to collect than most forms of taxation. This is especially true in countries with large informal sectors, where taxes are hard to collect. In developed countries, tariffs on international trade represent only one per cent of total government revenues. For developing countries, this revenue is on average about 30 per cent.

Other trade-related issues

"Old style" trade agreements were almost entirely focused on tariff-related issues. "New style" trade liberalization concerns itself far more with issues such as the regulation of investment and services, intellectual property and government procurement. Trade unions should carefully monitor these issues, because they impact on a government's ability to regulate.

For example, governments have often used their buying power through procurement to favour domestic producers and local employment. In the resources sector, governments often make the granting of concessions (such as mining rights) contingent on some local employment, local purchasing, or re-investment conditions. These are tools that government can use to ensure that the producers (local or foreign) have the most linkages with the rest of the economy.

In the past 20 years, these forms of intervention have been dismantled in the name of removing state interference in the workings of the market. This has resulted in limiting government powers to protect through multilateral trade agreements. Governments that have limited levers to steer their economies need to preserve this policy space.

The role of trade unions

Trade unions should pay close attention to the implications of what is being negotiated under the umbrella of trade agreements. They should demand transparency in the negotiating process and get access to the texts. They should engage with governments and employers' organizations on the likely impact on employment of the proposed changes. Cross-border social dialogues and agreements can also have huge impacts on the employment situation and working conditions, especially when dealing with multinationals. Visit the ILO website for more information on cross-border social dialogue and agreements.

References

Epstein, G. 2009. *Rethinking monetary and financial policy: Practical suggestions for monitoring financial stability while generating employment and poverty reduction*. Employment sector working paper No. 37. (Geneva, International Labour Organization).

Kaltenbrunner, A. and Nissanke, M. (May 2009). "Why developing countries should adopt intermediate exchange rate regimes: Examining Brazil's experience", in *Development Viewpoint*, Number 29, Center for Development Policy and Research (London, School of Oriental and African Studies).

Keynes, J. M. 1936. *The General Theory of Employment, Interest and Money* (London, Palgrave Macmillan) Reprinted in Keynes, Collected writings, Vol. 7 (London, Palgrave Macmillan).

International Labour Organization. 2011. *Employment Sector Working Paper No. 91 (2011): Macroeconomic policy for "full and productive employment and decent work for all"*, Uganda country study (Geneva).

—. 2009. Key indicators of the labour market, 6th edition (Geneva).

Muqtada, M. 2010. "Rethinking macroeconomic policies for stability, growth and employment", *in Development, equity and poverty: Essays in honour of Azizur Rahman Khan. by* L. Banerjee, A. Dasgupta and R. Islam (New Delhi, Macmillan).

Weeks, J. 2009. *Enhancing the effectiveness of fiscal policy for achieving MDG targets* (Addis Ababa, Ethiopia United Nations Economic Commission for Africa).

Williamson, J. (2003). Exchange rate policy and development, Academic Commons working paper (New York, Columbia University).

Resources and tools

Epstein, G. 2007. Central Banks as Agents of Employment Creation. In J.A: Ocampo and K.S. Jomo (eds.) *Towards Full and Decent Employment.* London and New York: Zed Books, p. 92-122.

ILO, Voluntary cross-border social dialogue initiatives and agreements, such as International Framework Agreements .
http://www.ilo.org/ifpdial/information-resources/cross-border-social-dialogue-and-agreements/lang--en/index.htm

Skills for Trade and Economic Diversification (STED): This is an analytical tool to provide guidance for the design of education and training policies that contribute to trade development and economic diversification and foster the creation of decent employment.
http://www.ilo.org/employment/Whatwedo/Projects/WCMS_151399/lang--en/index.htm

Bureau for Workers' Activities (ACTRAV)

International Labour Office
Route des Morillons 4
CH-1211 Geneva 22
www.ilo.org/actrav
actrav@ilo.org

Employment Policy Department (EMPLOYMENT)

International Labour Office
Route des Morillons 4
CH-1211 Geneva 22
www.ilo.org/emppolicy
emp_cepol@ilo.org

ISBN 978-92-2-129343-9