DISCUSSION DOCUMENT: OVERVIEW

The Challenges of Growth, Employment and Social Cohesion

Joint ILO-IMF conference in cooperation with
the office of the Prime Minister of Norway

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Overview: Challenges of growth, employment and social cohesion

"We were formed from the ashes of a ruined world, imbued with the determination of our founders to never again make the mistakes of the past -- mistakes that led to economic nationalism and war. Our overarching goal is fostering better relations between countries, and avoiding the economic roots of instability and conflict. Our role begins with economic stability, but it ends with the goal of all multilateral institutions -- a stable and peaceful world."[1]

"The crisis has again put before our eyes something that we all know: good jobs, quality jobs, decent work are, everywhere, central to the lives of women and men. Decent work is a source of personal dignity. Stability of family and households. Peace in the community. Trust in government and business and overall credibility of the institutions that govern our societies. Labour is much more than just a cost of production. This simple aspiration to have a fair chance at a decent job is at the top of the political agenda, on top of opinion surveys; yet, policies are not delivering."[2]

[1] D. Strauss-Kahn (Managing Director, IMF): "Crisis and beyond – The next phase of IMF reform", Presentation at the Peterson Institute for International Economics, Washington, DC, 29 June 2010.

[2] J. Somavia (Director-General, ILO): "Achieving and sustaining an employment-based recovery: United States and global strategies for governments, businesses, workers and families", Address for a panel discussion at the Brookings Institution, Washington, DC, 26 Feb. 2010.

1. Introduction

The world faces major challenges in creating enough quality jobs to sustain growth and development. The financial crisis of 2007–09 led to a sharp increase in layoffs and a slowdown in hiring, and thus to rising unemployment, underemployment and informal work. Now, nearly two years on, unemployment remains at very high levels in many advanced economies, with little sign of an early fall.

In emerging and developing countries, the economic shock hit jobs in export sectors hard, but these are now recovering, in part as exporters have diversified their markets to rely less on those of the advanced economies. But the slowdown also hit the large informal economies of the developing world. Informal employment has increased, and the numbers of working women and men who cannot earn enough to keep themselves and their families out of poverty have risen.

The scars of this distress in labour markets could last for a very long time – in the case of young workers unable to get their first job, a lifetime. Political, community, business and labour leaders all over the world are asking for answers to the threat of a slow jobless recovery. And they want to know that recovery can transition into strong, sustainable and balanced growth.

This is the challenge that has brought the IMF and the ILO together to stimulate an active discussion of how international cooperation and policy innovation can address the urgent need to improve the capacity of economies to generate enough good jobs – decent work – to meet societies' needs.

This discussion paper is intended to launch debate at our joint Conference on the Challenges of Growth, Employment and Social Cohesion in Oslo on 13 September 2010. And we hope that the Oslo Conference, made possible by our host, Prime Minister Jens Stoltenberg of Norway, will in turn focus thinking and action on how to ensure that policies have the same priorities as people – more and better jobs.

Our objective at the Oslo Conference is to improve the integration of employment and social policies with international and national macroeconomic policy strategies. This requires a better understanding of the forces at work in the global economy, and the contributing factors, both globally and nationally to these, and how a wider array of policy tools can contribute to better outcomes for people, communities and global sustainable development.

The ILO and the IMF have different mandates and different constituencies, albeit in more or less the same member States. Not surprisingly, our approaches and analyses are also different. This joint publication has two contributions: on the human cost of recessions, assessing it and reducing it, prepared by the staff of the IMF, and on building an employment-oriented framework for strong, sustainable and balanced growth, prepared by the staff of the ILO. In the process, the authors consulted extensively and rewardingly with each other. The exercise has highlighted many important and urgent issues for discussion at the Oslo Conference and more generally amongst researchers, analysts and policy-makers. These include:

1. What was the impact of the Great Recession of 2007–09 on labour markets? What are the prospects for employment in 2011? How do the prospects differ between advanced countries and others?
2. Which policies proved most effective in reducing the human costs to labour markets of the recession – fiscal and monetary stimulus, short-time work programmes, provision of unemployment insurance benefits, job subsidies, others?
3. Can fiscal and monetary policy continue to support aggregate demand, and thus employment, in the short term, i.e. 2010–12? Is coordination of fiscal and monetary policies across countries needed to enhance their effectiveness?
4. Can the policies adopted to ease the pain of the crisis on labour markets, e.g. short-time work programmes; provision of unemployment insurance, continue in the short term or do they need to be modified or phased out?
5. Which policies, e.g. job subsidies, can accelerate recovery in jobs in the short term?
6. What policy mix is needed to transition from recovery to strong, sustainable and balanced global growth? Which policy tools could help ensure the balanced development of wages and productivity to support sustainable growth?
7. What training and small enterprise development policies work best to augment aggregate productivity growth and overall economic performance?
8. Which policies for social protection and inclusive labour markets are needed for a more balanced global development?
9. How can the roles of collective bargaining, tripartite consultation and social dialogue be reinforced?
10. How can policy coherence for a fairer globalization be improved, including between macroeconomic and employment and social market policies?

Some of these issues have also been part of the deliberations of the Group of Twenty (G-20) to which both the IMF and the ILO have contributed.

The IMF and the ILO: recalling the origins

One of the purposes of the IMF, decided at the Bretton Woods Conference in July 1944, is "to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy" (Article I(ii)).

The Declaration of Philadelphia, which relaunched the ILO in May 1944 and became part of its Constitution, affirms 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" and that "it is a responsibility of the International Labour Organization to examine and consider all international economic and financial policies and measures in the light of this fundamental objective"(Article II). The Declaration also "recognizes the solemn obligation of the International Labour Organization to further among the nations of the world programmes which will achieve …full employment and the raising of standards of living" (Article III).

These two conferences, taking place one after the other in 1944, were driven by the conviction that the mass unemployment of the 1920s and 1930s which was widely seen as both a cause and a consequence of the breakdown of international cooperation that led to war, must never be repeated.

Now 66 years later, the world is grappling with the aftermath of the most serious economic and financial crisis since the 1930s that threatens to leave a legacy of prolonged large-scale unemployment, underemployment and increased job insecurity and informality.

As the creators of the post-1945 architecture for global governance envisaged, achieving full employment and poverty-eradicating development requires policy coherence across the responsibilities of different ministries and international organizations. Yet the history of much of the period since then is one of increasing policy specialization and even contradiction. Taking off these blinkers is likely to play a big part in finding a better way to shape a fairer globalization.

2. The human cost of recessions: Assessing it and reducing it

Unemployment in the Great Recession of 2007–09

Dire state of labour markets: Over 210 million people across the globe are estimated to be unemployed at the moment, an increase of more than 30 million since 2007. Three-quarters of the increase in the number of unemployed people has occurred in the “advanced” economies and the remainder among emerging market economies. Within the advanced countries, the problem is particularly severe in the United States – the epicentre of the Great Recession and the country with the highest increase in the number of unemployed: an increase of 7.5 million unemployed people since 2007.

Unemployment rates in advanced economies: The unemployment rate has increased by 3 percentage points in advanced countries since 2007 and by a ¼ percentage point in emerging markets. Within the advanced economies, some of the largest increases in the unemployment rate have occurred in Spain – where the rate increased by nearly 10 percentage points – the United States, New Zealand and Taiwan (China). In contrast, in Germany and Norway, the unemployment rate barely budged. Three sets of factors appear to account for these cross-country differences. The first is the extent of the fall in aggregate demand. The second is the co-incidence of the aggregate demand decline with acute stresses in other sectors, such as the financial and housing sectors. The third is the extent to which countries used active labour market policies, such as short-time work schemes, to shield employment and the labour market institutions in place, such as the prevalence of temporary employment contracts.

Youth unemployment: Historically, the unemployment rate for youth (15–24 age group) has been two-and-a-half times higher than for older age groups. Youth unemployment increased substantially in most OECD countries during the Great Recession, and more so than in past recessions. The largest increase was in Spain, where youth unemployment doubled from under 20 percent to almost 40 percent.

Long-term unemployment: The share of long-term unemployed has increased in most OECD countries since 2007. In the few cases where it did not – such as Germany, France, Italy and Japan – the share had been persistently very high even before the crisis. In the United States, the share of workers who have been unemployed for 27 weeks or more (as a share of the total number of unemployed) has been rising with every recession, but the increase during the Great Recession is alarming: nearly one in every two unemployed people has been out of work for 27 weeks or more.

The human cost of unemployment

If the effects of past recessions are any guide, the cost to those who become unemployed could be a persistent loss in earnings, reduced life expectancy, and lower academic achievement and earnings for their children. And unemployment is likely to affect attitudes in a manner that reduces social cohesion, a cost that all will bear.

Lower lifetime earnings: Layoffs are associated not just with immediate loss of earnings, but also with future loss of earnings, and the losses are higher if the layoffs occur during a recession. Studies for the United States show that even 15–20 years after a job loss in a recession, the earnings loss amounts, on average, to 20 per cent. The adverse effects on lifetime earnings are most pronounced for unemployment spells experienced in youth, especially upon college graduation.

Cost to health: Layoffs are associated with a higher risk of heart attacks and other stress-related illnesses in the short term. In the long term, the mortality rate of laid-off workers is higher than that of comparable workers who kept their jobs. For the United States, one study estimates that the increased mortality rate as a result of unemployment persists for up to twenty years after the job loss and leads to an average loss of life expectancy from 1 to 1.5 years.

Cost to children: Job loss can reduce the schooling achievement of the children of the unemployed: one study finds that parental job loss increases the probability that a child repeats a grade in school by nearly 15 per cent. In the long term, a father's income loss also reduces the earnings prospects of his sons: in Canada, for example, children whose fathers had lost their jobs were estimated to have annual earnings nearly 10 per cent lower than similar children whose fathers did not lose their jobs.

Policy response during the crisis

A three part policy response: To their credit, most countries mounted a strong policy response to try to minimize these costs:

- To support aggregate demand through monetary and fiscal policy actions.
- To ease the pain in labour markets through short-term work programmes and provision of unemployment insurance benefits.
- To accelerate jobs recovery through the provision of subsidies of various kinds.

Supporting aggregate demand: Monetary policy moved quickly to stimulate aggregate demand through lowering policy interest rates, quantitative easing of monetary policy, and other interventions. In addition, many governments provided support to their financial sectors and a fiscal stimulus. These policy actions were notable also for their consistency and coherence across countries, an outcome achieved in part through the deliberations of the G-20 nations during the crisis.

Easing the pain: Governments have implemented policies that have allowed firms to retain workers, but to reduce their working hours and wages. Such short-time work programmes can spread the burden of the downturn more evenly across workers and employers, reduce future hiring costs, and protect workers' human capital until the labour market recovers. During the Great Recession, such programmes were extensively used in Germany, Italy and Japan.

While it is too early to undertake a full assessment, these programmes are credited with having played a crucial role in dampening the increase in unemployment in many countries. In some countries, New Zealand in particular, employers and workers came to agreements on short-time work without much government intervention. Another step governments took to ease the pain in labour markets was to allow the automatic stabilizer of unemployment insurance benefits to work. Many countries had already extended the periods of unemployment insurance benefits; others extended them as the recession dragged on – in the United States, for instance, the provision was extended from 26 to 99 weeks.

In contrast, one labour market policy that appears to have aggravated the pain during the recession is the dual labour market system, which was introduced to make labour markets more flexible. However the increased use of such contracts meant they became a primary channel of adjustment in the labour market during the Great Recession. This was particularly the case for Spain, where the temporary employment share and its fall have been by far the largest.

Accelerating jobs recovery: In 2009, in response to the crisis, mechanisms to stimulate labour demand were widely used in many advanced countries. In particular, subsidies (direct job subsidies, wage subsidies or reductions in payroll taxes) were targeted at specific groups in the labour force that are most vulnerable to joblessness: the long-term unemployed and/or youth (e.g. in Austria, Finland, Portugal, Sweden and Switzerland). Some countries also targeted job creation in certain hard-hit regions (e.g. Mexico, Republic of Korea,) or specific sectors (e.g. services in Japan).

Policy response during the recovery

An evolving three-part strategy: Over the remainder of 2010 and throughout 2011, the three-part strategy adopted during the crisis should remain in place, although the relative importance of the parts should shift over time as – and if – recovery takes hold. And the relative importance of the three parts should differ across countries, depending on their specific circumstances.

Maintaining support for aggregate demand: A recovery in aggregate demand is the single best cure for unemployment:

<u>Fiscal policy</u>: As a general strategy, most advanced economies should not tighten their fiscal policies before 2011, because tightening sooner could undermine recovery. The consolidation plans that these countries have for 2011 imply an average change in the structural balance of 1¼ percentage points of GDP. A more severe consolidation would stifle domestic demand that is still weak. Clearly, however, the fiscal situation varies across countries, requiring adaptation of this general strategy to the available fiscal space.

<u>Monetary policy</u>: This remains an important policy lever to support aggregate demand. Inflation pressures are subdued – headline inflation is expected to remain around 1¼–1½ per cent in 2010 and 2011. In fact, in a number of advanced economies, the risks of deflation remain pertinent given the relatively weak outlook for growth and the persistence of considerable economic slack. Monetary conditions can thus remain accommodative for the foreseeable future in most advanced economies. Moreover, if downside risks to growth materialize, monetary policy should be the first line of defence in many advanced economies. In such a scenario, with policy interest rates already near zero in many economies, central banks may once again need to rely more strongly on using their balance sheets to ease monetary conditions further.

Easing the pain: Subsidies for short-time work put a strain on public finances. They can also create a deadweight loss by giving firms an incentive to free ride on the subsidy even when conditions improve. And, if the downturn has permanent adverse effects on the fortunes of certain firms and industries, these subsidies can also obstruct a necessary reallocation of resources to other industries. During a severe recession and in early stages of a recovery, these costs are usually of secondary importance; however, they are likely to become more salient in recovery periods, suggesting that the subsidies should start to be phased out in 2011. Further provision of unemployment insurance benefits should be tied to requiring job training and social work, so that the unemployed maintain some attachment to the labour force.

Jobs recovery: It is difficult to design hiring subsidies that are effective at the right margin: subsidies could be given to jobs that would have been created anyway (deadweight loss), or to jobs that should not be created or maintained in the future. However, in the immediate aftermath of deep recessions, the potential inefficiencies arising from hiring subsidies are arguably less severe than the costs of persistent unemployment. The specific targeting strategies that most countries have followed should serve to reduce potential misallocation of subsidies by spurring hiring for groups that are most adversely affected and least likely to be rehired in the absence of the subsidies.

3. Building an employment-oriented framework for strong, sustainable and balanced growth

The serious deterioration in employment since late-2008 has heightened international concern about the uneven pattern of globalization and the inability of the global economy to generate enough decent work opportunities in all countries, both developing and developed.

Over the past three decades, inequalities have widened in many countries, driven by various factors, including the diminishing share of wages in national income and increasing inequality within wage income, as well as technological change. This, in turn, has fed back into the globalization process and the structure of demand, contributing to the emergence of imbalances nationally and internationally and raising multiple issues of fairness. Achieving a job-rich recovery and broad based income gains is vital not only for equity and social cohesion but also to lay the foundations for sustained growth made possible by an expansion of potential output matched by adequate effective demand. .

Key global labour market evolutions

In the ten years to 2009, global employment grew from 2.74 billion to 3.21 billion, with well over half of the world's workers (56.3 per cent located in Asia. Global unemployment, which had been over 6 per cent for several years before decreasing between 2004 and 2007, increased dramatically in 2009. Now in 2010, around 210 million are unemployed – a rise of more than 30 million since 2007.

With annual labour force growth of 1.6 per cent adding more than 45 million job seekers per year to the global labour force, the challenges exacerbated by the crisis are unlikely to diminish. In the next ten years, more than 440 million new jobs will be needed to absorb new entrants into the labour force, and still more to reverse the unemployment caused by the crisis. In addition, developing countries need to grow rapidly to absorb their expanding labour force and to meet the demand for jobs from migrants leaving rural areas.

Youth currently represent one-fifth of the world's labour force, at 619 million. Despite a number of years of rapid economic growth, youth unemployment has remained stubbornly high, rising to 13.0 per cent in 2009, or 81 million.

Many advanced countries face the challenge of ageing populations and increased dependency ratios. Reducing unemployment and improving employment participation among the working-age population is vital.

Improving the quality of employment – more productive jobs offering better earnings – is also essential to sustain poverty reduction and development. The pressures of globalization have increased the vulnerability of workers through increased intensity of work, a shift towards more flexible contracts, diminishing social protections, and a decline in workers' bargaining power and voice.

Despite impressive gains in recent years, approximately 1.2 billion women and men, or 40 per cent of the world's labour force, still did not earn enough to keep themselves and their families above the $2-a-day poverty level in 2008. Both informal employment and working poverty levels had fallen, but these are estimated to have increased again since the crisis. Over the past twenty years, poverty (based on a 50-per-cent median income threshold) has also risen in two-thirds of industrialized countries.

At the same time as there have been changes in the structure of employment, inequality in the distribution of wages and incomes has widened in many countries. Wage and income inequality have increased in a majority of countries, driven largely by increased income for those at the very top of the income distribution. With real wages growing, on average, by only 0.75 per cent for every 1 per cent expansion of GDP, there has been a marked decline in wage shares in many developed and developing countries in recent years.

Macroeconomic management, the recovery, inequality and growth

In the immediate future, with global private sector recovery still fragile, fiscal and monetary policies in many countries will continue to have to be supportive of effective demand. In this uncertain environment, households and businesses in a number of advanced countries, are increasing their savings to pay off their debts that ballooned in the run-up to the crisis. The deleveraging process inside the private sector will take some time. The increase in public debt has accompanied this process. While public spending increases have contributed to increased public deficits and the stock of debt, the sharp recession-induced fall in tax revenues is the main reason government borrowing requirements have grown.

Many countries, particularly among advanced economies, clearly face the need to stabilize or reduce levels of public indebtedness. However, a premature fiscal retrenchment could damage growth and lead to even larger deficits and debts. Abrupt shifts in fiscal policy stances, in many countries at the same time, could destabilize recovery and weaken future growth. A credible and gradual return to fiscal stability over several years is likely to be a more successful strategy, not only for recovery and growth, but also for deficit and debt reduction. A politically and socially viable process of fiscal consolidation needs to take place in the context of a stable recovery of global growth. Social dialogue is essential to avoiding an explosion of social unrest. It is vital to ensure that well-sequenced coordinated short-term exit strategies and deficit reduction policies are linked to a progressive recovery of the real economy and jobs and are fair in the sharing of the benefits and burdens of adjustment, especially in the protection of the most vulnerable.

Looking towards the longer term, sustainable growth requires a combination of structural change, and total factor productivity growth with the quantity and quality of employment increasing at the same time. Growing inequality and declining wage shares in many developed and developing countries show however that, in recent years, workers in many countries have not shared significantly in productivity gains. At the same time, the declining employment intensity of growth is a cause of growing concern. With a continued large increase in the labour force in the years ahead, and the need to reduce the existing stock of unemployed, this is troubling for many countries.

The world’s labour force represents a key supply-side component of growth. At the same time, its earnings drive consumption, which in turn is the main force on the demand side of growth. For growth to be strong, sustainable and balanced, employment and productivity growth and the shares of income going to capital and labour must also be well balanced.

In the wake of the current crisis there is an emerging view about the importance of growing inequality as one of the causes of global crises past and present. The rise in recent decades of inequality and its relationship to growth performance within countries has been widely remarked and studied. The internal imbalances due to inequality and extreme concentrations of income have had different consequences depending on the institutional and political circumstances of different countries. In some countries, and particularly in the United States, increasing inequality may have led to increased indebtedness of the household sector and thus an important factor in explaining the subprime mortgage crisis. Consumption was propped up by periodically very low interest rates, and financial products that encouraged high indebtedness. In other countries, most notably in China, lagging household income and large corporate profits have resulted in high national savings and a strong export orientation to compensate for relatively weak domestic demand.

A synthesis of the debate over the causes of widening inequality suggests that the pressures of intensified global competition and technological change are stretching the earnings distribution and hollowing its middle range, and that the ability of employment and social protection institutions to counteract these trends was weakened over the same period of accelerating globalization.

Whether an economy tends to generate close to full employment critically depends on whether effective demand expands at a rate close to the expansion of productive capacity, which is itself determined by the growth of the labour force and the increase in labour productivity. While for a single country net exports are an addition to effective demand, world imports and exports must sum to zero. In the context of the employment challenge, the much discussed "global imbalances" must therefore be analysed within a framework that links global and national effective demand and supply.

Long-term sustainable growth requires structural change away from low labour productivity sectors towards high productivity sectors such as industry and dynamic services, which have strong linkages throughout the economy. Analysis of successful growth strategies show that rapid labour productivity increases are consistent with rapid employment growth when these are made possible by rapid output growth. The combination of productivity and employment growth can also facilitate substantial real wage increases. The effectiveness of mechanisms to ensure that wages and household incomes keep pace with productivity is a critical component of a sustainable growth path.

Declining wage shares, rising inequality and weak growth in formal employment thus contribute to national and international imbalances. Both threaten to produce a period of weak world growth and continued high unemployment and reduce the effectiveness of traditional fiscal and monetary policy tools. It may be time to consider policies focused on labour markets and income distribution to supplement fiscal and monetary policies.

Rebalancing will require policy shifts in both surplus and deficit countries to support the growth of productive employment, together with a broad-based growth of wage and household incomes. This means developing mechanisms to ensure that the gains from rising productivity are widely distributed in the form of increasing wages and improved social protection systems. Greater regional integration, as well encouraging longer term capital flows to the developing countries may also be helpful in moderating the global imbalances problem. A strong mutual commitment to coordinated policies is needed by countries to manage and strengthen the recovery, as there are large spillover effects and policy externalities in the increasingly interdependent world economy. This need for cooperation was recognized by the G-20 summits and it is critically important that the process of mutual assessment and multilateral consultations launched in 2009 becomes a permanent feature of international cooperation.

Employment and social policies in the framework for strong, sustainable and balanced growth

Sustainable growth, sustainable jobs and sustainable communities will only be generated through sound macroeconomic policies and sound employment and social policies working together. The promotion of job-rich growth strategies requires strengthening labour market institutions to address three interconnected priorities:

- Improving mechanisms for wage determination in order to ensure improved living standards and purchasing power for working families – that which the ILO Constitution calls "a just share of the fruits of progress to all, and a minimum living wage to all employed and in need of such protection" (Declaration of Philadelphia, Article III(d)).
- Promoting productivity growth through support to worker mobility and micro- and small-business development.
- Narrowing income inequalities through more inclusive labour markets and stronger social protection systems.

The effective functioning and adaptation of labour market institutions depend to a large extent on the support they attract from all actors in the world of work. Fairness matters a great deal, especially at a time when many feel that their lives have been damaged through no fault of their own.

Strong labour market institutions help ensure that trade-offs and trade-ins in employment and social policies are identified and addressed, and if mistakes are made, that they are quickly corrected. Active engagement of representative organizations of workers and employers through mechanisms of social dialogue, based on respect for fundamental principles and rights at work, can ensure that practical knowledge of the impact of policies is well appreciated and that the key actors in the labour market have a commitment to making policies work on the ground. Increasingly, national choices about labour market institutional arrangements are informed by experience from other countries and can draw on international labour standards for guidance.

A central issue is the construction of a framework of labour market institutions and regulations that will help produce wage and employment outcomes in the public and private sector that are conducive to sustainable growth and establish efficient and equitable pay relationships. Minimum-wage-setting mechanisms play an important role in this process, including by affecting the employment prospects for low-skilled workers, as do social dialogue and collective bargaining at various levels of the economy.

The policy challenge is to establish institutions which signal effectively to employers and workers the scope for sustainable wage improvements that the economy as a whole can support, and how that scope might evolve into the future.

As structural change shifts employment opportunities towards more productive sectors such as dynamic services and industries, workers must have both the skills and the mobility to fill these new jobs. Strategies to achieve this mobility and preparedness include boosting training and skills development, and supporting smaller businesses. Small start-ups are a vital element in structural change as they are where much economic experimentation occurs.

Well-functioning labour market institutions have multiple benefits, including a more efficient allocation of labour, balanced development of employment and productivity, and a level playing field between incumbent workers and other groups, particularly vulnerable groups such as the unemployed. Activation, or mutual obligation, strategies, which combine effective re-employment services with strong job-search incentives, have become increasingly widely used. Job subsidies paid to employers and income subsidies paid to low-wage workers have also been effective in retaining workers and encouraging the hiring of people in at-risk groups, such as youth, older workers and long-term or hard-to-place unemployed.

Public employment or public works programmes targeting depressed communities and vulnerable groups can be effective and socially and economically justified. These often combine elements of basic income support with infrastructure investment and, in some countries, they have been expanded to include work in the social sector, environmental services and multisectoral, community-driven programmes. These programmes are also helping to create employment opportunities for women.

Social protection policies, including unemployment benefits, health care, childcare and income security for the elderly and persons with disabilities, play a major role in cushioning populations from economic shocks and in improving social cohesion. They also serve as an important countercyclical policy response that can help maintain consumption, reduce precautionary savings and boost aggregate demand. In the long term, evidence shows that social protection helps to build human capital and labour productivity, contributing to the sustainability of economic growth. Unemployment benefits not only provide income security, they also enable unemployed workers to search for jobs that better match their abilities, thereby increasing the efficiency of the job-matching process.

With 80 per cent of people worldwide having no access to social protection, it is urgent for countries to develop and improve, according to their means, a basic floor of social protection for those living in poverty and vulnerable situations. International cooperation can play a key role in helping least developed countries implement this policy.

The strength and quality of labour market institutions can make a substantial contribution to international efforts to generate sustainable growth and development. Although each country's labour market institutions have a particular history and character, countries face many common challenges in shaping policies that create decent work opportunities for all. A consensus is building for the coordination of efforts to prioritize employment growth, because strong and steady growth in jobs and household incomes in many countries at the same time will buttress global demand, creating still more jobs.