



International
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Global Employment Policy Review 2023

Macroeconomic policies
for recovery and structural
transformation

Executive summary

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About the Global Employment Policy Review

The Global Employment Policy Review (GEPR) was introduced in 2020 as a biennial publication initiated by the Employment Policy, Job Creation and Livelihoods Department (formerly the Employment Policy Department) of the International Labour Organization (ILO). Its purpose is to further the ILO's contribution to global employment policy debates by giving greater visibility to ongoing policy-oriented research as well as to spur new policy-oriented research.

At the core of the GEPR are thematic chapters that address both persistent and emerging policy challenges. Each chapter is meant to be self-contained and to represent the viewpoints of the authors of the respective chapters, while endeavouring to present clear policy messages. At the same time, the chapters have been selected to best demonstrate the ILO's current thinking on global employment policy challenges. The GEPR puts particular emphasis on challenges of policy design and implementation, so that the chapters have as much relevance as possible to countries in the process of developing and introducing new employment policies, as well as reforming existing ones.

Reorientating macroeconomic policies towards full employment and decent jobs

This second edition of the GEPR focuses on macroeconomic policies and decent job creation, building on the extensive analysis of structural transformation in the first edition. From the ILO perspective, structural transformation is concerned with facilitating compositional shifts in employment and output towards higher-productivity sectors of the economy and translating productivity gains into more and better jobs with equitable distribution (ILO 2020, 17). Pro-employment macroeconomic policies are a prerequisite for such a structural transformation, and should include a significant set of elements which are currently absent in mainstream macroeconomic policies.

It is vital to reorient macroeconomic policies towards full employment and decent jobs, as the world – on top of the COVID-19 pandemic and recent multiple crises – is facing constant challenges caused by the drivers of change in the world of work, including globalization, climate change, demographic shifts and digitalization. Such an approach needs to integrate mutually reinforcing macroeconomic, sectoral and labour market policies to advance structural

transformation and overcome the associated employment challenges. Integration is key: resolving macroeconomic imbalances is insufficient on its own as a stand-alone policy measure. Employment policy frameworks that bring about inclusive structural transformation through comprehensive linkages to all economic and social policy areas, including macroeconomic and sectoral policies, are crucial to ensure that the resulting transitions are inclusive and benefit the most vulnerable.

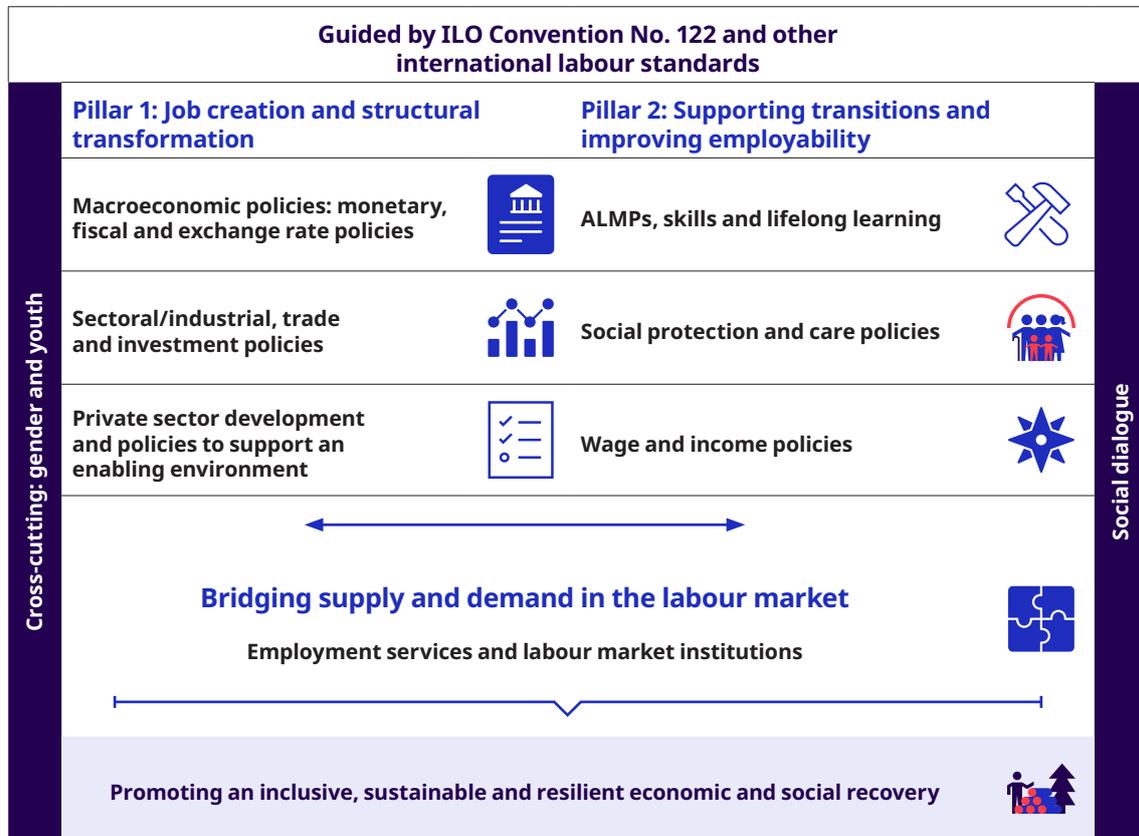
This edition of the GEPR recognizes that in recent years macroeconomic policies have not only played an important role as a crisis response tool, but have been a key policy area to determine structural transformation paths and their impact on employment and social justice. In the current context of multiple crises (including global price and trade shocks arising from the Ukraine conflict and broader global imbalances), policymakers are confronted with a complex set of labour market issues and uneven recovery paths within and between countries. As a crisis response tool, macroeconomic policy approaches comprise monetary, exchange rate, fiscal and financial policy interventions, all of which are key tools in mitigating the impact of a crisis by calming markets and financing flows, while supporting aggregate demand. In the medium to long run, macroeconomic policies need to help tackle increasing

inequalities resulting from short-term crises and long-term challenges caused by the drivers of change in the world of work by supporting structural transformation processes that leave no one behind. In that sense, employment-sensitive macroeconomic policies are a precondition for development.

The ILO's approaches to pro-employment macroeconomic policies

Structural transformation and social justice are inextricably linked – and are central to the ILO's mandate and work. The Employment Policy Convention, 1964 (No. 122), provides important guidance on these issues to the ILO and its constituents. It provides for the promotion of full, productive and freely chosen employment via the implementation and advancement of national employment policies and labour market programmes, in coordination with other national policies for development (see figure 1). As a result of a number of discussions at the International Labour Conference (ILC) between workers, employers and governments, macroeconomic policies have become one of the main areas that are considered to be essential parts of the set of employment policies within a comprehensive and inclusive approach. In 2022, the third recurrent discussion on employment at the ILC stressed the need once again to design macroeconomic policies that have an impact beyond inflationary objectives and include the explicit goal of creating decent jobs and ensuring social justice – while also being in line with Sustainable Development Goal (SDG) 8 to achieve full and productive employment. Macroeconomic policies must tackle structural barriers, shape economic growth, reduce poverty and inequality, and invest in a more inclusive and sustainable future, supported by industrial policies, skills development, enterprise policies and active labour market policies, as well as sustained investment in universal and adequate social protection systems – even where fiscal space is limited (ILO 2022).

► Figure 1. Macroeconomic policies in the context of ILO Convention No. 122



Note: ALMPs = active labour market policies.

Source: ILO (2022).

Chapter summaries and key messages

Chapter 1 – Employment-centred macroeconomic policies: A reality in recovery processes?

Authors: Sher Verick, Johannes Weiss and Dorothea Schmidt-Klau

This chapter examines policy trends and ongoing employment policy debates in the light of the recovery process, addressing the issue of whether macroeconomic policies have changed as a result of the COVID-19 crisis. Specifically, it analyses whether there has been a long-term shift in policies to focus more on employment and decent work. It also evaluates policies for sectors that have a

simultaneous potential for structural transformation and decent work creation.

Analysis clearly shows that national employment policies made significant advances in their response to the pandemic and in addressing longer-term challenges. However, the overall lesson learned is that dialogue is essential for achieving consensus and ownership and hence preparing the ground for successful implementation of national employment policies. This is the case despite tensions between “political time” (short-term) and long-term commitments.

Macroeconomic policy has also evolved in response to recent economic shocks, especially with respect to shifts in monetary and fiscal policies during the COVID-19 crisis, which was subsequently followed by a cost-of-living crisis in 2022. The short- and longer-term impacts of such policies on inflation, debt levels and employment are varied.

Two areas of policy shifts are of particular importance from the perspective of employment policies. The first pertains to the use of job retention schemes and other labour market policy measures. During the pandemic, innovations were introduced to such schemes and their coverage was expanded significantly – with regional differences. They reduced the need for unemployment insurance in many advanced economies. In general, job retention schemes offer considerable potential for countries, if combined with the administrative capacity to scale them up in response to economic shocks in the future.

The second policy shift has to do with the role of sectoral policies in the context of national employment promotion, with a specific focus on the green, digital and care economies. The analysis shows that sectoral policies have significant potential to advance inclusive structural transformation, which is why countries at all stages of development have tried to reshape their respective economies, with varying success. Key success factors for such policies include an in-depth self-discovery process, the allocation of sufficient time for design and implementation, and the involvement of a broad range of stakeholders throughout the entire process.

Based on these findings, the chapter outlines key policy priorities when responding to multiple crises and ways to move towards a human-centred recovery – as requested in the Global Call to Action for a Human-Centred Recovery from the COVID-19 Crisis That Is Inclusive, Sustainable and Resilient (ILO 2021), such as timely and effective support to maintain the purchasing power of labour income, and adequate support for hard-hit groups and sectors.

Chapter 2 – Gender-responsive macroeconomic policies: Lessons learned from the COVID-19 crisis and beyond

Author: Valeria Esquivel

The COVID-19 crisis has laid bare the entrenched gender inequalities that, compounded with other inequalities, plague labour markets. Women were more heavily impacted by employment losses than men during the crisis, and there is a risk that the

recovery might leave them behind. Patterns of growth – that is the sectors behind GDP contraction and recovery – are particularly salient in explaining these trends, as women are over-represented in hard-hit and less dynamic sectors. The crisis also showed that broadly defined employment policies (including macroeconomic, sectoral and active labour market policies) play an important role in cushioning these impacts, as women's job losses were relatively lower in countries where such policies were implemented.

Gender-responsive employment policies are those that explicitly address the gender-specific effects of the COVID-19 crisis and support the creation of full and productive employment for women and men, including in the care sectors. Within this framework, the chapter focuses on the macroeconomic policies put in place to respond to the crisis and support recovery, and investigates whether and how they became gender-responsive (or failed to do so). It draws upon case studies developed within the framework of the UN Women–ILO Joint Programme: Promoting Decent Employment for Women Through Inclusive Growth Policies and Investments in Care, as well as upon other policy sources.

The chapter has three key findings. The first is that *labour markets are bearers of gender*, since labour markets produce and reproduce gender inequalities, which intersect with other dimensions of inequalities. This is particularly evident in two dimensions of labour markets' structure: the sectors women work in, which to a great extent determine women's working conditions; and the unpaid care work provided mostly by women, which limits their access to employment opportunities and the quality of jobs to which they have access. The second key finding is that *economic structure shapes how macroeconomic shocks impact women's and men's employment outcomes*, as made evident by the impact of COVID-19 crisis and the current cost-of-living crisis, and the macroeconomic policies put in place to respond to them. While many governments rushed to put in place policies to keep economies working and to safeguard incomes and jobs during the COVID-19 crisis, fiscal responses were uneven and most gender-responsive measures were phased out by the end of 2021. The recessionary costs of current "stabilization" policies might, as in the past, be suffered most by women. The third key finding is that *macroeconomic policies can explicitly*

promote gender equality concerns. These objectives need to be embedded in fiscal, monetary, exchange rate and debt-management policies. This goes beyond gender-responsive budgeting, although it certainly includes these efforts. A starting point is to broaden the debate about fiscal space, moving from a static to a dynamic approach. Finding gender-responsive financing options – including through aid and debt relief – becomes as crucial to gender equality outcomes as the expenditure side. The channelling of resources through the banking system has proved effective in supporting female-dominated sectors and could become a permanent feature of credit policies. In short, gender-responsive macroeconomic policies are part and parcel of coherent, comprehensive and integrated employment policy frameworks and need to work in tandem with sectoral, industrial, skills and active labour market policies to produce gender-egalitarian outcomes – with a view to creating more and better jobs for women, thus ensuring that they are neither left behind in the recovery process nor once again the hardest-hit during crises.

Chapter 3 – How NEET are developing and emerging economies?

What do we know and what can be done about it?

Authors: Niall O’Higgins, Anna Barford, Adam Coutts, Adam Elsheikhi, Luis Pinedo Caro and Kate Brockie

In 2015, reducing the proportion of the young people who were not in employment, education or training – the NEET rate – was adopted as SDG target 8.6 (and accompanying indicator 8.6.1). The NEET rate has some advantages over the youth unemployment rate as a measure of the state of youth labour markets, but also raises some issues, not least because young NEETs are not necessarily participants in the labour market as traditionally understood. Young NEETs are indeed a highly heterogeneous group and being a member of that group indicates the absence of a characteristic – specifically, the lack of a job or an educational/training opportunity – rather than the possession of one. The variety of circumstances underlying

NEET status has important policy consequences, and differences among young NEETs will affect the appropriate policy response. The obstacles facing young NEETs in accessing decent work are also many and varied. The COVID-19 pandemic has led to further increases in NEET rates across the globe, exacerbating the challenges faced by the young in accessing decent work and adding urgency to the vital task of developing and refining effective ways of reducing NEET rates, above all in low- and middle-income countries.

The chapter finds that the COVID-19 pandemic has had particularly severe and wide-ranging impacts on young people. In 2020, the NEET rate among young people increased globally to 24.9 per cent, its highest level since estimates began in 2005. Although NEET rates subsequently recovered gradually, to 23.5 per cent in 2022, they remain well above their pre-pandemic levels.

While young NEETs are an extremely heterogeneous group, there are some regularities in trends and characteristics that are useful in orienting the policy response. For example, in most countries NEET rates are significantly higher among young women than among young men; worldwide, two out of every three young NEETs are women. NEET rates tend to fall with country income as well as with higher individual educational attainment; and NEET rates are typically higher, and the gender gap larger, in rural compared to urban areas. There is also strong evidence of scarring – being NEET today means one is more likely to be NEET tomorrow – and this is especially true for young women. This suggests the need to intervene early and emphasizes the substantial costs of inaction. In addition, broadening the focus of policies occasioned by the adoption of the NEET rate as the SDG indicator for measuring progress in youth labour markets serves to emphasize the need to appropriately tailor interventions so as to remove the obstacles faced by specific types of young NEET in accessing decent work. Last but not least, reducing NEET rates requires a comprehensive approach with, as its cornerstone, economic and sectoral development policies to support job creation, encompassing an array of country-specific policies and programmes that are designed either to promote access to quality education – and thence quality employment – or to directly promote access to good jobs.

Chapter 4 – The gendered employment impacts of the COVID-19 trade collapse and recovery

Authors: Xiao Jiang, David Kucera and Loritta Chan

This chapter uses input-output fixed multiplier analysis to estimate changes in the number of women's and men's jobs as a result of changes in exports to the United States and the European Union (EU) during the COVID-19 crisis for 44 regionally dispersed developing and emerging economies. We construct measures of "structural" gender bias by evaluating how the industries in which women and men workers were disproportionately represented were differently affected during this time, distinguishing between the period of overall global trade collapse from the onset of the crisis until mid-2020, and the period of relative recovery thereafter.

Results are situated within discussions on the way in which the causal channels of the COVID-19 trade collapse differed from those of the 2008–09 economic crisis, the impact of recovery policies in developing and emerging countries as well as in the United States and the EU, the possible implications for global trade patterns and the restructuring of global supply chains, the wider impacts of COVID-19 on employment, and gender differences in these impacts. A main finding is that during the period of global trade collapse, the number of countries with measures of gender bias unfavourable to women workers was 21 and 19 for exports to the United States and the EU, respectively. That is, of the 44 developing and emerging economies evaluated, a roughly equal number had measures of gender bias that were unfavourable to men as those which had measures unfavourable to women. During the period of global trade recovery, in contrast, the number of countries with measures of gender bias unfavourable to women workers was 29 and 33 for exports to the United States and the EU, respectively. In short, more countries had measures of gender bias that were unfavourable to women workers during the period of global trade *recovery* than the period of global trade *collapse*, a reflection of women workers benefiting less than men workers from job gains as a result of changes in these exports.

This finding is consistent with the rapid recovery of exports in such male-intensive industries as oil, gas, machinery and equipment, motor vehicles and parts, and transport equipment. In contrast, there was no such consistent pattern for female-intensive industries. For example, although there was strong recovery in the wearing apparel industry during the period of global trade recovery after mid-2020, this was offset by the large declines in textiles exports from the 44 economies to both the United States and the EU during this period. At least with respect to COVID-19 trade shocks, gender-responsive policies are as much if not more important during periods of global trade recovery than of collapse.

Chapter 5 – A pro-employment macroeconomic policy framework for Africa

Authors: Gilad Isaacs, Ilan Strauss and Bernd Mueller

African economies suffer from a lack of structural transformation towards higher value-added, productive and diversified production that can create decent and productive employment. While markets reinforce existing areas of comparative advantage in enclave commodity production, "stabilization-centred" macroeconomic policies have failed to sustain growth and employment generation in Africa, since they have not led to a diversification of most countries' productive capacities. This chapter advances a pro-employment macroeconomic framework which locates macroeconomic policy within an overarching framework focused on structural transformation and employment generation. This integrates macroeconomic, sectoral and labour market policies into a single mutually supportive policy framework. Macroeconomic policies should incorporate employment targets and a macroeconomic orientation that facilitate structural transformation. Macroeconomic tools and outcomes should be evaluated according to their ability to achieve export diversification and employment upgrading – and not just stabilization objectives.

The chapter draws the following conclusions: Africa's commodity-dependence and lack of structural transformation lie at the heart of its poor employment outcomes. The ILO's tripartite

constituents have consistently acknowledged this centrality of structural transformation and the need for comprehensive employment policy frameworks that include pro-employment macroeconomic, sectoral and labour market policies in order to address it. The achievement of decent and productive employment growth requires the coordination of, and integration across, macroeconomic, sectoral, and labour market policies under a comprehensive employment policy framework. In addition, employment goals should be targeted directly across government departments, rather than being treated as a mere residual outcome of GDP growth. It is vital for a macroeconomic framework to do more than stabilize the economy. Instead it should benefit from incorporating employment and sectoral objectives into a fiscal and monetary policy framework so as to stimulate employment through both short-run demand side measures and longer-run measures that expand and diversify supply. It is also clear that sectoral diversification policies in Africa cannot be separated from the achievement of macroeconomic sustainability in the balance of payments (external balance). The diversification of exports helps relax supply-side constraints: these are reflected in employment-inflation trade-offs, and balance of payments constraints. Diversified supply also helps make external financing more sustainable. Finally, labour market policies are vital to ensure that gains from productivity are evenly distributed, helping with terms of trade, the reduction of poverty and inequality, and economy-wide linkages with commodity production.

The chapter argues that only through such a transformative, pro-employment macroeconomic policy framework will African countries be able to achieve sustained structural transformation and productive and decent employment for African women and men, and youth in particular.



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Advancing social justice, promoting decent work

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