

A FRAMEWORK FOR AN  
**EMPLOYMENT POLICY**

EMPLOYERS' PERSPECTIVES

INTERNATIONAL ORGANISATION OF EMPLOYERS

***Adopted by the Management Board  
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# **A FRAMEWORK FOR AN EMPLOYMENT POLICY AS A CENTRAL ELEMENT OF SUSTAINABLE DEVELOPMENT**

## **Employers' Perspectives**

### **LINK BETWEEN SUSTAINABLE DEVELOPMENT AND EMPLOYMENT**

Sustainable development is development that responds to the needs of today without impinging on the needs of future generations. It requires the integration of the three pillars of development – namely, economic growth, social progress and environmental policies. A central element of the social pillar of sustainable development is the generation of employment opportunities, which requires an integrated employment policy. Employment is an objective and a consequence of socio-economic development. It is also vital for political and social stability. It is a key political, social and economic issue in all countries today, and is uppermost in the minds of people, whether young or old. Employment creation is also critical to poverty reduction. High and persistent unemployment is an important element in social and political instability, and in creating adverse psychological impacts on people.

### **OBJECTIVES OF AN EMPLOYMENT POLICY**

The objectives of an Employment Policy should be to:

- generate productive, sustainable employment. The *type* of employment a policy should aim at depends on national conditions. For example, whether in the short term the type of jobs needed are skilled or unskilled depends on national conditions such as the level of economic development; the level of education and skills and, therefore, the proportion of unskilled to skilled persons; the type of comparative advantages the country has and could develop. Ultimately, more skills and knowledge-intensive jobs which help to create competitive domestic industries as well as attract value-adding foreign direct investment need to be promoted through other relevant policies such as human resources development.
- match the skills of people to current and emerging job requirements;
- raise standards of living through policies which lead to more productive and better jobs as well as improved income distribution in the economy;
- move the unemployed into employment through appropriate incentives;
- focus public and private investments, as well as international assistance, in the most productive areas.

## **THE PROCESS**

Governments are primarily responsible for creating macroeconomic conditions on the basis of which employment growth is possible. Governments should engage in a process of tripartite consultation and involvement as part of the policy process, as employers provide jobs and workers are direct beneficiaries of job creation. Other potential contributors to policy development with relevant knowledge and skills such as economists, academics and policy institutes, should be involved in the process. However, since it is employers who ultimately provide the jobs, their views on the policies needed to promote job creation are indispensable and should be given the appropriate weight.

The formulation of an Employment Policy should be preceded by a diagnosis of the barriers to job creation in the country concerned, which would help identify the deficiencies and shortfalls in:

- Economic and social policies;
- Physical infrastructure;
- Health, education and skills of people;
- The business environment which has an impact on enterprise creation and development;
- Good governance;
- Property rights, contract enforcement and an independent judicial system;
- Trade and investment policies, including the development of comparative advantages;
- The capacity to benefit from technological developments;
- Labour market policies;
- Competitiveness on the various competitiveness indices, many of which are directly relevant to employment generation.
- International policies that hamper job growth.

## **THE COMPONENTS AND CONTENT**

An essential requirement for the success of an Employment Policy is the need to:

- Identify its different components which are relevant to employment growth within each national context; and
- Include them in an integrated and interdependent policy framework, which contains economic, social and political elements.

## ***The Macroeconomic Environment***

Macroeconomic policy is a key element in determining levels of employment and unemployment. By macroeconomic policy is meant the policy formulated by governments (and central banks) with a view to maximizing growth while, at the same time, controlling inflation and reducing unemployment. The main instruments of macroeconomic policy are changes in the rate of interest and money supply (monetary policy) and changes in taxation and public spending (fiscal policy). Fiscal restraint and restrictive monetary policies adopted in response to rising inflation can lead to falling growth rates and higher unemployment. This can be seen as a failure of macroeconomic policies, but this may not always be the case as business cycles are often difficult to control through macro-economic policy. Similarly, the more integrated an economy is with the global economy, the more difficult it is to overcome the effects of external factors

There are several areas of macroeconomic policy which policy makers need to get right to exert a positive impact on employment generation. These include controlling inflation, promoting domestic savings for investment, and devising a tax structure adequate for raising funds for productive public expenditure, but which, at the same time, encourages savings and investment and does not lead to capital flight.

Macroeconomic policies in some countries often view employment as a residual issue. Consequently, employment policies do not occupy a significant place in such policies. Productive employment needs to be a central element in macroeconomic policy, and should be shifted from a secondary issue to a central one. This may involve some trade-offs between different elements of the policy, entailing some hard economic and political decisions conditioned by national circumstances.

With the development of global capital markets and the rapid movement of capital across borders, policies need to be developed to ensure effective participation in global financial systems.

## ***Business Environment***

The legal and policy environment should be conducive to business start-ups, enterprise development and growth, and the development of comparative advantages through competitive enterprises able to provide goods and services tradable in domestic and international markets.

A conducive environment which facilitates business expansion and, therefore, employment growth generally requires the following:

- Good governance, including a strong commitment to fight corruption, ensure honesty and transparency in government decisions; a system of laws and courts (rule of law) that functions in a clear and transparent manner, and a system of

formal property relations that protects property and ensures that domestic capital will be used for enterprise development, economic growth and job creation.

- Political, economic and institutional stability;
- Appropriate investments in infrastructure, health care, education and skills development - which should include developing and supporting education and training systems which promote entrepreneurship - and internal security;
- The promotion of an export growth strategy – in the case of developing countries, particularly in manufacturing and, in appropriate cases, moving to more high technology and knowledge based industries and services.
- The creation of a supporting environment for attracting FDI, generating and providing access to domestic capital for investment and promoting entrepreneurship.
- Support for SME development since, in most countries, over 70% of jobs are in small enterprises.
- Policies to promote productivity and competitiveness as they are important for creating jobs; upgrading jobs; creating surpluses for business expansion, and for both employers and workers to survive in a competitive environment.
- Labour market policies which are sufficiently flexible to enable employment growth, and a labour law and labour relations system which does not introduce rigidities that discourage enterprise growth and employment generation in the formal economy.

Countries with a substantial informal economy should examine and identify the reasons why many people conduct economic activities and work in diverse types of employment in the informal economy. Such an analysis would reveal the deficiencies in the legal, policy and business environments which deter such people from operating in the formal economy. Addressing these deficiencies would go a long way in developing and implementing an employment policy.

### ***Productive Public Expenditure***

A critical area is the nature of the public expenditure that can encourage employment growth and prepare people for the requirements of the labour market. Public expenditure should be guided by objectives such as productive expenditure of the type referred to in the next paragraph, and expenditure which is socially desirable and necessary (e.g. social security, or other special measures to protect weak and vulnerable groups).

Productive public expenditure is expenditure which contributes to socio-economic development and to the raising of the living standards of the population. Three significant areas in this connection are:

- Infrastructure development such as transport, electricity, water and communications which serve human needs, sustainable development and employment generation. A large part of the world's GDP is expended on infrastructure (including housing and buildings) and is essential for economic growth. Inadequate electricity supply deprives countries of the opportunity to benefit from information and communications technology. Deficient transport systems prevent people's mobility and the bringing of goods to markets, and add to costs for business and consumers.
- Human resources development through investment in education, skills training and health care. The nature and focus of the investment would vary depending on the country. In most cases, public investment in education may need to be largely in primary and secondary education. In some countries, investment in health care may need to concentrate on preventive health care. Investment in skills development may require a plan to prepare for current and emerging skills requirements; to share the responsibility between public authorities and employers, based on the type of training which should be supported through public funding and the training which should be undertaken by employers, and training for employability through appropriate education, life-long learning and retraining. The responsibility on workers and incentives to themselves enhance their employability should be a part of the strategy. National human resources development policies should be formulated in consultation with employers and workers.
- Entrepreneurship development programmes, as well as institutions to develop and deliver them, could be the subject of public-private partnerships.

### ***Market Supporting Institutions***

An employment policy also needs to focus on the creation and development of democratic market supporting and strengthening institutions required for a market economy to function. Such institutions should include a legal system which recognizes and actually applies the rule of law and to which people have access, and which effectively provides for the recognition of property rights and for the enforcement of contracts. An honest and efficient bureaucracy or public administration system is also essential. The absence of such institutions are central to the failure to generate business expansion and employment, and to the enlargement of the informal economy.

Market institutions should be compatible with local conditions; accessible to all; reduce excessive business transaction costs; promote and enable competition and reduce information asymmetries.

### ***Labour Market Regulation***

An overly regulated labour market is a constraint on employment creation, especially where such regulation entails excessive labour costs. The issue is not between regulation and no regulation. It is one of balancing different social objectives (such as social protection on the one hand and job creation on the other). This involves determining the optimum level of regulation, beyond which employment generation is likely to be adversely affected. Therefore in framing an employment policy, labour market regulation viewed from the perspective of its effects on employment generation should be addressed where relevant.

### ***Developing Comparative Advantages and Market Access***

In the current and future context of technology, global trading and investment, sustainable employment policies require the proactive identification and development of comparative advantages. Their absence leads to loss of jobs and an incapacity to create new jobs. Policies which help to develop new products or services in order to develop new comparative advantages needed to gain market access should be a continuous process as comparative advantages can be rapidly eroded. This also requires identification of what type of jobs would emerge and the required skills to match them. This must be followed by any necessary changes in education and training policies and systems. Countries with the highest proportion of labour-intensive products and the lowest proportion of skills and technology intensive products have experienced declining terms of trade in manufacturers. International policies have a significant impact on market access.

Increased trade and investment generates new jobs and helps to absorb the continuous inflow of people into the labour market. To maximize this job creation potential, it is necessary to develop the conditions needed to facilitate trade and investment. The most basic prerequisite is putting in place the political and economic conditions and institutions to create a market economy. These include access to and the respect for the rule of law, an impartial judiciary, recognition and enforcement of basic property and contractual rights, an efficient and well-regulated financial system, an effective and corruption-free democratic political system, sound macro-economic policies and industrial policy. These conditions and institutions should be developed by each country to fit its individual administrative and financial capacity. Attracting foreign direct investment and encouraging the growth of domestic investment require creating an attractive environment for investment, which includes government accountability and transparency, capital mobility, labour market flexibility, human resource development and infrastructure. Integration into the world economy, developing competitive enterprises, as well as comparative advantages in trade are key to reaping the employment benefits of international trade.

## ***Policies for Special Groups***

Sustainable development is not intended for the present generation alone, but also for the benefit of future generations. Youth employment requires specific policies and strategies. This involves adapting education, skills development and overall human resources development policies to ensure that future workforces will have the opportunities to match their profiles to labour market needs. Policies which help to create opportunities for workers to continuously upgrade their skills and employability as they grow older are also necessary.

With women playing an increasing role in the labour market, employment policies need to focus on how to encourage and facilitate their participation, including policies and programmes to enable work and family life to be balanced.

Many disabled people who are willing and able to work are unemployed, often because it is assumed that people with disabilities are unable to work. To overcome this, policies, infrastructure and programmes are needed to promote employment opportunities for job-seekers with disabilities and re-employment of workers who had to leave their jobs due to the disability.

Discriminatory policies and practices relative to all workers, including women, the handicapped and migrant workers, need to be eliminated, in order to encourage their productive participation in the labour market. This includes equal access to health care, education and training opportunities.

## **THE ROLE OF EMPLOYERS**

The key contributions that employers make consist of the following:

- Providing employment, when the business environment is conducive to enterprise creation, growth and development. It is not the objective of business to create jobs, per se, but rather to promote business development which should then lead to greater employment opportunities.
- Creating job opportunities and the workforce profile required to match them. Employers should exert a substantial influence on a country's directions in education and skills development.
- Creating wealth in society, which is reflected in indicators of economic development such as GDP and GNP and per capita incomes.
- Influencing government to develop policies which contribute to economic growth, leading to more employment and national wealth generation.
- Influencing a country's competitiveness, where the requisite policies and conditions needed to achieve competitiveness are present.

## **THE ROLE OF THE ILO**

The ILO, with its unique tripartite structure of governments (who have a major interest in employment and in developing and implementing appropriate policies), employers (who, given the right conditions, provide the jobs), and workers (who are direct beneficiaries of job growth) can play an important role in framing and adopting policies that promote job growth. Employment generation is one of the strategic objectives of the ILO. The tripartite character of the ILO should enable it to develop and promote policies which can be agreed among governments, employers and workers, and which are therefore easier to implement than policies developed by government alone, without participation by employers and workers.

The role of the ILO should include:

- Promoting an overall concept and the basic elements of an employment policy at the international level with other international organizations;
- Assisting governments and employers and workers groups, based on needs, to develop policies that promote employment and in implementing them in areas falling within the ILO's mandate, and collaborating with other organizations relative to their areas of responsibility.
- Promoting among member governments the involvement of the two social partners in policy formulation.

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