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Regional Office  
for Latin America  
and the Caribbean

# Promoting growth with decent work: More and better jobs



Points for discussion

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First published 2002

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ILO  
*Promoting growth with decent work: More and better jobs*  
Lima, Regional Office for Latin America and the Caribbean, 2002

**ISBN 92-2-113542-X**

Also available in Spanish: *Estimular el crecimiento con trabajo decente: Más y mejores empleos* (ISBN 92-2-313542-7), Lima, 2002

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Printed in Peru

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# Introduction

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The positive effects that globalization should have had on the labour scene have not materialized. Moreover, social conditions have continued to deteriorate in recent years throughout Latin America and the Caribbean, largely as a result of the economic crisis and uncertainty prevailing in international markets. In fact, as pointed out in the *2002 Labour Overview*, urban unemployment has risen sharply in most of the region's countries this year<sup>1</sup>, while employment in the informal sector increased only slightly. This makes creating decent jobs, which never stopped being a priority, more urgent than ever today. This brief document deals with this matter by re-examining the importance my report placed on employment and income, and by making several specific proposals for recovering economic growth, and with it more and better jobs for the region's working men and women.

Today, the average unemployment rate, 9.3% of the workforce, is the highest in the region since trustworthy labour statistics have been available, and is even higher than during the so-called lost decade of the 1980s. Currently, somewhat more than 18 million people of working age, who live in Latin America and the Caribbean's urban areas, are out of work and actively searching for jobs. Paradoxically, and unfairly, a similar number of children in the region, between 10 and 14 years of age, work, and all too often do not go to school. Meanwhile, 50% of the urban, working population in many of these countries is underemployed or working informally, the number of families living in poverty has increased, and income distribution remains extremely unequal.

Meeting this challenge requires, first and foremost, turning around the economic crisis affecting many of the region's countries and, secondly, achieving steady, sustainable, sizeable growth. However, the crisis itself provides us with the opportunity, based on a good diagnosis of the structural and situational

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<sup>1</sup> Not enough information is available for rural areas, where the problem of employment is apparent in low rates of wage-earners, seasonal unemployment and under-employment due to low productivity.

causes of the same, to correct economic policy (at macro- and micro-economic levels), as applied in the past two decades, to channel the current economic globalization process more toward achieving equitable, fair, sustained growth for all people and countries.

While economic growth is necessary for creating decent jobs, experience teaches that this is not enough. Many population groups, particularly those living in extreme poverty, cannot afford to wait for the benefits of a return to economic growth, which may reach them too late. They require active intervention from the private sector, in a favourable macroeconomic environment created by appropriate public policies, to generate urgently needed jobs, improve the quality of the poor jobs that many of them depend on for their daily sustenance, and to protect the income of those who have unfortunately lost their jobs and been unable to find others. In other words, efforts focusing on economic growth must be associated with active and passive programmes and policies for generating emergency employment and protecting the income of the most disadvantaged.

Because of this, in the pages to come I will examine some alternatives for reorienting macroeconomic policy towards recovering economic growth, with more and better jobs. I will also present the criteria that I consider essential to any policy for recovering economic growth and creating jobs and income for men and women workers needing immediate attention .



**I. Macro- and micro-economic  
and sector policies: An integrated  
approach to promote decent work**

Active employment policies form part of the role that economic policy plays in job creation and income. In fact, it accounts for most of the employment generated (or destroyed) during a given period. Therefore, it is not possible to speak of employment without speaking of economic policy and its larger or smaller contribution to high, sustained growth over a period of time.

Nevertheless, when one speaks of economic policy one tends to reduce it to macroeconomic policy, forgetting about its meso and micro dimensions. Will refer to all of these dimensions, identifying their main characteristics at present and suggesting some alternatives for promoting growth with employment.

### ***1. Six basic characteristics of the current economic model that should be reformulated***

During the 1990s, in a context of opening up economies and liberalizing markets, including the job market, the prevailing macroeconomic policy applied in Latin American countries established a series of objectives, which did not include employment. In short, within the framework of trade and financial liberalization, the model was supposed to ensure price stability and fiscal balance (obtained more from a formula of reducing expenses, especially those surrounding investment, associated with decreasing the size of the government and restructuring its functions, than from increasing tax pressure and, logically, tax revenues), which would in turn attract the capital necessary for financing economic growth from outside the region. With growth in output, benefits would reach the poorer sectors of the population through the creation of new jobs and the increase in incomes, thus helping to combat poverty. In practice, however, the model did not always work according to this logic and, in fact, some of its fundamental principles reinforced the crisis.

#### *Macroeconomic policy for permanent stabilization*

In the 1990s, this involved making payments on foreign debt punctually and guaranteeing appropriate conditions for capital flow, such as reducing the government deficit. The high interest rates attracted an excess supply of capital to the region from the northern hemisphere, which was avid for emerging markets. The price policy consisted of maintaining low exchange rates and wages to reduce or control inflation, while interest remained high and utility rates rose. The purpose of this was to attract both financial capital and foreign investment in privatized companies.

*The model's goal was to achieve fiscal equilibrium even at the cost of reinforcing the recessive cycle*

Although higher revenues during economic growth periods make it possible to increase expenditure, this focus insists on reducing expenditure during low growth periods, thus intensifying the crisis. Something similar occurs with monetary policy. In recessive situations, defaults on loans rise, bank portfolios weaken, and banks' credit policies toughen (in fact, central banks sometimes increase capital requirements) to improve their position. The fiscal and monetary policies described tend to reinforce the economic cycle rather than relieve it and establish the basis for recovery.

*Like fiscal policy, the liberalization of financial flows also operates in a pro-cyclic manner*

Whereas in the early 1990s, there was abundant capital available for use in developing countries, the opposite has generally been true for the last part of the decade. Significant increases in interest rates were often used to slow down the exodus of resources, compromising economic growth even more. This change in trend took many countries that were over-exposed in relatively short-term debts by surprise. In addition, capital outflows led to the devaluation of local currency in many of the countries in the region (just as the previous cycle had led to its appreciation) causing once reasonable levels of indebtedness to become critical.

*The more vulnerable a national economy is, the easier it is to internalize foreign crises*

It would seem that the policies applied have increased countries' foreign exposure, making them more vulnerable to international swings without giving them the tools necessary to reverse these trends at the national level. Moreover, the consequences of the crisis continue over time, because most of the region's countries do not have the protection networks to avoid that the affected people become part of the excluded.

*With this model, Latin American countries have little room to manoeuvre when it comes to applying expansive monetary and fiscal policies*

One of the present concerns is inflation. After living for many years with high levels of inflation, in the early 1990s most countries managed to control it through restrictive monetary policies and with the help of capital inflows that appreciated local currencies. During the period of price stability, the countries

that suffered the most from high inflation dismantled the mechanisms that perpetuated it (mainly laws linking wages to prices). The 1998 devaluation in Brazil and the current crisis in Argentina have shown that in a low demand context, price increases, while they are significant and affect workers' purchasing power, have not gone out of control. Therefore, contrary to the past, this has made it possible to limit recessive periods by rapidly adjusting prices.

*The relative lack of sector policies and the limitations of current micro-economic policies affect growth*

Some of the region's countries have applied aggressive pro-investment policies in specific economic sectors (agro-industry in Chile and Ecuador, tourism in Costa Rica and the Caribbean, transportation and communication in Brazil and Chile, industrial assembly in Mexico, etc.). However, these cases are the exception. In most countries, these policies have been few and far between due to, first, unjustified confidence that macroeconomic policy would be enough to attract investment to these sectors, including those requiring more workers, and secondly, to unjustified fears that these policies could be synonymous with the protectionism characteristic of the import substitution period, which is considered a thing of the past.

In the case of microeconomic policies for promoting business productivity and competitiveness, the opposite is true, especially when it comes to informal sector productive units. In reality, there is almost no country without this type of policy. The problem in this sense is not so much a lack of policies, but rather the limited impact of many of them. To some degree, one could say that these policies always start as pilot projects and remain in a state of permanent adolescence.

***2. Nine economic policy redesign proposals for recovering growth with more and better jobs***

It is necessary to redesign macroeconomic policies while at the same time applying social protection policies in order to keep the current lack of job opportunities from becoming an obstacle to the well-being of millions of people. Although the briefness of this document does not allow for the presentation of an alternative model of sustainable macroeconomic policy, it is possible to reflect on some of the issues involved in economic growth and employment that are currently being debated, and which I believe could provide the foundation for building alternatives to current policies.

As I have stated before, it is necessary to overcome our old fears regarding sector policies and to design and apply micro policies that lead to sustained increases in the productivity and competitiveness of business activities.

Obviously, the proposals presented here, and others that could complement them, would be applied gradually due to restrictions arising from the current crisis and through the use of instruments that we all know are not always easy to design. Nonetheless, the restrictions and difficulties surrounding the proposed measures should not discourage us from applying them, if we want to recover sustained high growth, with more and better jobs for everyone.

*Investment incentives increase production, employment and productivity*

During the 1990s in Latin America there was an intense process of privatizing the ownership or management of government enterprises, as an instrument for restructuring production. Although there have been some positive results – and some not so positive ones – several aspects essential to promoting new investment in productive activities, a crucial source of employment growth, were neglected.

An appropriate legislative framework and fiscal incentives for accumulating domestic capital and ensuring foreign investment in the production of goods and services, and not only capital markets, can have a significant impact on economic recovery and job creation. In Europe, for example, Ireland has a corporate tax rate that is very low for foreign and national investors (10%). This, among other things, would seem to explain why it attracts so much investment in production. This led to a significant four percentage point decrease in unemployment there between 1985 and 1997. Something similar occurred in the Netherlands (Labour Overview for Latin America and the Caribbean, 2002, ILO).

Moreover, among other sectors, countries need to invest in social, financial and physical infrastructure, such as transportation, communication and health, which can attract private sector investment. They must invest in the work force and its knowledge and qualifications, in order to improve productivity, an important source of economic growth. One concrete example, among others, of this type of investment in infrastructure and knowledge is contained in ILO proposals to our constituents in Bolivia, Ecuador and Panama, and those being prepared for other countries in the region such as Honduras, Nicaragua, Paraguay and Peru.

*New and more aggressive public and private sector investment promotion policies are needed*

In the report presented to the Fifteenth American Regional Meeting of ILO member states in the Americas, I sustained that “we must actively stimulate

the adoption of sectoral policies which give incentives to invest in more labour-intensive sectors of the economy...”

“I know that sectoral policies in Latin America summon up bad memories because of their extremely protectionist character in the past, which ultimately helped to generate inefficiencies and spurious competitiveness which mainly harmed the consumer. Those policies are not what I am talking about; I am referring to those which take the form of investment incentives rather than protection from foreign competition. These incentives, tax incentives or other kinds, must be applied transparently to prevent them becoming mere instruments to privilege the interests of a minority, and they must also be fixed-term to avoid firms becoming accustomed to them.”

In terms of sector investment incentives, we know of examples that should be promoted and adapted to the characteristics of the region's different countries. These range from promoting Chilean agricultural industry to developing Costa Rican and Caribbean tourism, along with heavy private investment in developing and maintaining transportation and communication infrastructure in many of our countries. This last sector is crucial if we wish to have modern, competitive economies. In many of our countries, we must overcome physical communications problems across large territories, bad roads and poor communications systems, and the lack of different types of services. Without these external means it will be very difficult to achieve sustained, sustainable development.

*Fiscal and tax policies could be the foundation for employment and economic recovery*

Fiscal policy options are limited by quite rigid commitments regarding current expenses and by the fact that new tax measures mean decreasing public revenues from taxes. This last, in the long run, would weaken the fiscal situation. However, an increase in employment and economic recovery would raise tax revenues and permit more public investment in social policies.

Along with higher tax revenues caused by economic growth, we should also work towards more decentralization in the programming and execution of national spending, and its progressive restructuring giving more weight to investment than to current expenses.

Taxation and fiscal policies with counter-cyclic elements, automatic or not, are key to sustaining demand, so that installed capacity is used continually. After a crisis, employment often takes longer than the general economy to recover. Therefore, temporary help for domestic demand can avoid social costs becoming permanent.

It is also possible to establish direct and indirect incentives for employment by promoting companies, investment and export sectors. The direct measure most commonly applied is to reduce the tax burden associated with labour. In 1996 in the Netherlands, for example, they reduced social security payments on unskilled labour to promote employment of this group. This was equivalent to subsidizing employers by reducing taxes on the labour costs of their low wage workers. Around 800,000 people were subsidized that year. Another possibility is to lower the marginal tax rate for low wage workers, as the Danish reform did in 1994, or to reduce corporate taxes, as they did in Austria. Despite low economic growth, Austria, Denmark and Holland managed to reduce or maintain low unemployment rates.

Other tax measures combined with government measures such as reducing VAT and better conditions for access to consumer credit seek to stimulate domestic demand and thus indirectly job creation. Another alternative is to provide direct subsidies through food, healthcare, education, micro-finance, etc. for people with low incomes or for sectors or regions with higher poverty levels.

*Foreign exchange policy can also have a significant impact on economic growth and the generation of employment*

When national currency is overvalued, this affects relative prices, reducing the cost of imports. This hurts domestic production, not only because it increases the presence of imported goods, but also because it favours the entrance of capital goods that replace labour. Although it benefits consumption and productivity, together these effects reduce employment. An over-valued currency can only last for a limited amount of time, while the productive apparatus cannot be quickly restructured after a significant change in the exchange rate. Consequently, the exchange-rate policy is very delicate and cannot be subjected to unlimited fluctuations in capital flows; it therefore requires some intervention.

*Export promotion, within the limits established by international agreements, makes it possible to stimulate employment and economic growth recovery*

This measure is very relevant in the context of devaluation such as that affecting Brazil in 1999, because it contributes to consolidating the response to new economic opportunities in export markets. In Chile, for example, after the Asian crisis, the government strove to respond to the challenge of diversifying products and export destinations chiefly through negotiating free trade agreements with major trading partners, such as the European Union and the United States. The healthy development of export potential in recent years in Chile,

Costa Rica and El Salvador, among other countries, provides grounds for a careful analysis of the effects of adapting and applying this experience in other countries requiring the stronger development of export capacity.

*Responsible wage policies help domestic demand and growth to recover*

In low growth conditions like those of today, this could be an effective job creation measure, especially when implemented through negotiations with the social actors involved, thus generating more confidence in their effectiveness. This has been demonstrated, for example, in some small European countries such as Austria, Denmark and the Netherlands, where it was possible to achieve national agreements.

*Higher productivity contributes to shared prosperity*

As pointed out at the Global Employment Forum<sup>2</sup>, productivity “is the basis for competitiveness and business success. It is the basis for real wages and improved working conditions, the necessary economic basis for decent work, and the way to fight poverty. Furthermore, improved productivity counteracts risks of inflationary pressure and gives more room for growth oriented macro-economic policies”.

“Productivity is created by change, by expanding trade, by new technology, by business and entrepreneurial initiatives. Thus, the promotion of change is a cornerstone of a successful employment policy. This side of employment policy, often neglected, has to be strengthened.”

However, in addition to new technology and business initiatives (especially those affecting the organization and management of production and labour), workers’ cooperation is essential to increase productivity. This is achieved in two ways. The first, which I will explore in more depth below, is investment in ongoing training. The second is a harmonious labour relationship based on respect for freedom of association and the exercise of the right to collective bargaining, both of which are the foundation for any policy for creating decent jobs. In the long term, it is not possible to increase productivity with discontented workers unsure of the future of their jobs. There is a complementary and synergistic relationship between productivity and decent jobs, to the point where it is impossible to sustain a large productivity increase without decent work, and vice versa.

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2 LARSSON, Alan: *Summary of the Global Employment Agenda. 2001 Global Employment Forum*. Geneva, November 2001.

### *Flexibility for companies and security for the workers*

As Professor Robert Reich<sup>3</sup> stated during the Global Employment Forum, "...There must also be some degree of labour market flexibility, although let us be very careful with that term "flexibility". If flexibility simply means that employers have the right to fire anybody at will and set whatever wage they wish, the result may be low unemployment but also very low wages and chronic job insecurity. The best kind of "flexibility" is that which allows workers to move easily to new and better jobs".

The Global Employment Agenda, presented by the ILO in March 2002, emphasizes that the purpose of labour policies is to seek a balance between flexibility-related issues and effectiveness from the perspective of company needs and private sector development on one hand, and workers' needs for job security and fair treatment in the labour market through compliance with labour laws, on the other.

### *Microeconomic policies to create more and better jobs*

Microeconomic policies are typically diverse, because they respond to the specific characteristics of each economic sector. Nonetheless, it is possible to identify certain guidelines for the general development of these policies.

The central policy objective should be to create more and better companies (with more and better jobs), as well as increasing their productivity, with special emphasis placed on productive units in the informal sector. Productivity increases should be a major strategic component in the present decade, with microeconomic policies focusing on promoting technological innovation, encouraging training within or outside of companies, new management systems and, above all, the development of harmonious labour relations that commit both management and workers to the company's success.

However, any effort to create more and better companies (with more and better jobs) and to increase employment will be wasted if we do not find a solution to the current problems related to the availability of and access to credit, the high cost of money, and the administrative complexity created by current laws in many of the countries in our region. Although progress has been made in these areas, much remains to be done. To some degree this region, with the exception of a few countries, needs a genuine microeconomic revolution.

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3 REICH, Robert: *Presentation to the 2001 Global Employment Forum*. Geneva, November 2001.





**II. Active and passive policies for job creation and improving income in Latin America and the Caribbean**

There is such a wide range of employment and income policies and programmes throughout the region that it would be impossible to describe them all in a brief article such as this one. Despite their diversity, however, many share common characteristics that we should examine as the basis for proposing some core criteria in terms of active and passive employment and income policies for the region.

*The main characteristics of employment policies in Latin America and the Caribbean*

The following table compares the main features of the three employment programmes most commonly applied in Latin America and the Caribbean. These involve unemployment subsidies, a policy requiring huge resources that attempts to cover the universe of unemployed workers. There are also direct employment programmes, which are costly and applied especially at times of economic crisis, and hiring incentives, which seek to stimulate private sector job creation.

**Characteristics of the employment programmes most used in the region**

Criteria for programme evaluation	Unemployment subsidy	Direct employment programmes	Hiring incentives
Macroeconomic conditions	countercyclic	countercyclic	pro-cyclic
Cost per job	high	high	minor
Productivity	zero	low	major
Delay in start-up	automatic	low	major
Long-term impact	zero	low	major
Possibilities for focusing	zero	high	low

Source: Marinakis (2002).

*The counter-cyclic function of active and passive employment policies*

From the macroeconomic point of view, an unemployment subsidy fulfils a countercyclic function by directing resources to people who would otherwise have done without, with spending rising as employment declines. Direct employment programmes have a similar effect with the difference that they

create some kind of work. Hiring incentives, on the other hand, are highly procyclical: this mechanism does not create jobs as employment declines, but rather as reactivation begins.

### *Costs and time spans for the application of active employment policies*

Compared by costs per job, these are higher for the unemployment subsidy and direct employment programmes and lower for hiring incentives. In terms of productivity, while unemployment subsidies have no impact on productivity, direct employment programmes offer low productivity increases, and hiring incentives lead to larger productivity increases.

How long does it take to get these programmes into place? Once the policy exists, unemployment subsidies activate automatically: workers who are terminated access unemployment insurance income immediately, according to the rules established by the system. Direct employment programmes also come into effect relatively quickly, if the resources are available. Hiring incentives take more time, since the private sector must be encouraged to use them and a control strategy must be prepared.

The long-term impact of these different programmes on employment is also different. For the unemployment subsidy, the long-term impact is virtually zero, because this income transfer gives rise to only a small increase in consumption. Direct employment programmes have little long-term impact, because of their limited duration. Because new jobs are expected to last over time, hiring incentives should have more impact.

### *Focusing policies and employment programmes*

Similarly, the ability to focus these instruments on those most in need also varies. In the case of unemployment subsidies, this possibility is non-existent since these are simply received according to the rules. Direct employment programmes, in contrast, can be focussed. In fact, in Chile in 2001, these focused on household heads, with this condition being required for access to the programme. There are fewer possibilities for focusing hiring incentives because this would limit the private sector's ability to choose. However, some degree of focus is possible, because this type of incentive tends to favour less skilled workers, which to some degree involves people on low incomes, with little education.

The table identifies the potential of each programme. Clearly no single approach is always positive; however, each matches specific circumstances better, depending on the objectives and the resources available.

### *The logical sequence for applying employment policies*

It can be argued that there is a certain logical sequence to the application of employment policies. On one hand, unemployment insurance provides basic coverage that should always exist. Furthermore, it makes a significant contribution to achieving a more flexible job market, because it provides a safety net for workers who become unemployed. Direct employment programmes are useful for intense application during a recession, when the unemployment rate is rising steeply. The moment economic reactivation appears, subsidies for new job contracts are appropriate for accelerating this process, anticipating it or multiplying its effects. Moreover, this instrument can be applied using a large initial subsidy that falls as employment rises. In this sequence, training programmes would be more important during periods of relatively low unemployment and business restructuring, whereas their contribution would be marginal during massive unemployment periods.



### **III. Recovering economic growth, with decent work: Some criteria**

The observations put forward so far suggest that there are some criteria that I consider crucial to designing and applying employment and income policies and programmes in conditions not only of economic crisis but also of economic growth.

*Economic policies that treat job creation as the central objective of growth*

It is difficult, if not impossible, to apply active employment and income policies within a framework of restrictive macroeconomic policies that do not include job creation among their main objectives. When this happens, it is common to see that while the government spends significant resources (0.5% to 2% of GDP) on job creation, restrictive macroeconomic policy may end up pushing unemployment higher, cancelling out the results of these active policies.

Therefore, it is essential to apply proactive macroeconomic policies regarding employment as I pointed out in the first part of this document. The macroeconomic policy instruments of this century are the management of the exchange rate, counter-cyclic fiscal policies, neutral taxation policies that are proportionate to income level, incentives to encourage growth in domestic demand, export promotion, measures to increase productivity and sector policies for stimulating private investment in those economic sectors with a lot of potential for creating employment. The promotion of productive investment will undoubtedly be enhanced by the lower country risk levels that arise from dialogue among the government and the social partners.

Similarly, we need to design and apply microeconomic policies that are both more daring and more aggressive to meet the objective of creating more and better companies with good jobs and to support and promote a robust, sustained rise in productivity. In this context, we must do much more to develop pro-investment policies in the economic sectors promising both the higher growth and employment creation.

*Economic growth is necessary, but insufficient: Employment policies and programmes*

Based on the macro- and micro-economic and sector policies thus designed, governments must also develop and apply active policies to create jobs and protect the income of those sectors of the population that for one reason or another have more difficulty in finding jobs or in increasing their low income. This deals basically with male and female heads of poor homes, young people who

are unemployed or looking for work for the first time and who have little education, unemployed people over 50 years of age, independent workers, and workers hired by micro-companies with low productivity and income levels.

To help these specific groups, combining active and passive job market policies is the best approach, because this not generates jobs for those who do not have them, but also protects the income of unemployed workers while they are out of work and looking for new jobs.

### *Policies for managing growth of the supply of labour*

In terms of active policies, more attention should be paid to policies for reducing the supply of labour or improving the quality of the existing supply, especially in the case of unemployed young people or those seeking employment for the first time. It is true that policies for limiting the supply of labour are not without difficulties. Although policies and programmes for maintaining young people in the educational system (and reducing the number of school drop-outs) are difficult to apply, they have the virtue of simultaneously reducing demand for employment and improving the educational level of young people entering the market.

In recent decades, policies and programmes for training young people in order to improve the quality of the labour supply have performed well, enjoying great success. In this sense, bipartite programmes have proven especially important, among them those applied in Spain and those carried out by companies themselves. Similarly, programmes such as "Projovent" in Peru or its Chilean or Dominican counterparts, which are financed with government funds and implemented by specialized private bodies, have demonstrated their capacity for providing young people with appropriate qualifications, which help them to find jobs in companies.

### *Policies for increasing the demand for labour*

Policies and programmes dealing with the supply of labour must undoubtedly be complemented by others for improving the demand for labour on the part of companies, as well as generating temporary employment through the development of economic and social infrastructure.

However, in every case what is important is that first and foremost the employment thus generated must be really productive, and second that, even in the case of temporary employment programmes, the infrastructure thus developed contributes to strengthening local markets, especially in rural areas, to generate dynamics that favour productive employment in the areas with the most poverty.

In terms of productive employment programmes, we must further expand and develop current efforts to formalize micro-companies and raise their productivity and income levels. In this sense, experiences with the creation of business development service centres for small and micro-companies have shown enormous potential and have been highly successful in the case of both public and privately administered endeavours. Equally important are the programmes for promoting an entrepreneurial spirit among young people and helping them set up their own companies.

In the area of developing social and economic infrastructure in poor areas through temporary job creation programmes, the experience in many countries reflects the high potential of programmes for maintaining rural roads and secondary highways through the creation of small maintenance companies that are hired to look after different sections of the road network. In this matter, programmes developed with support from the Danish cooperation agency (DANIDA) have created methodologies that we can and should apply.

#### *Public sector employment and decentralization policies*

In this area, government decentralization offers advantages in terms of job creation. For years, we have insisted on central government's capacity and responsibility for designing and applying active job market policies, but we have often forgotten about the possibilities and functions that can be assumed by local or district governments. Improving their institutional capacity to cooperate in terms of employment represents yet another challenge that we must take up, where this has not already occurred.

#### *Special attention for the employment of women and young people*

In the design and application of employment policies and programmes, we must pay special attention not only to the young, who are unemployed or looking for work for the first time, but also to women, especially the unemployed or heads of poor households, since they are usually employed in the poorest quality jobs, with the lowest levels of productivity and income.

#### *A good basic education as the condition for a good job with an adequate wage*

It has been mentioned the importance of training programmes for the young and workers in general, whatever their age or gender. But, we must also remember that the long-run success of these programmes (a success that translates into more employability and higher levels of labour productivity) depends on the quality of formal education at both the primary and secondary levels. However, we often forget to establish some type of relationship between

the formal educational system and employment. It is a mistake. Job creation is undeniably influenced by productivity increases, and these in turn are affected by workers' educational levels. These skills are developed not only during adulthood, but particularly in childhood, when people acquire basic knowledge and skills. It would be very difficult for professional training to fill in the educational gaps left during the basic education phase. Therefore, if we want to generate sufficient employment in a sustained manner, we must start concerning ourselves with significantly improving the quality of education at this level and investing in it as well.

### *Passive policies for protecting the income of the unemployed*

As for passive policies, we must make more of an effort than we do at the moment to develop plans for protecting worker's income, especially for those who are unemployed. It is true that systems exist in some countries in the form of either unemployment insurance or something similar, or as monetary recognition for the number of years worked. However, we must accept that these are just in the early stages and in many countries they remain non-existent.

### *Protection of fundamental rights at work: A minimum level*

As it has been mentioned in the Report to the Fifteenth American Regional Meeting of the ILO, the fundamental rights at work constitute the starting point to build the employment generation and decent work strategy. By definition, if any social or economic policy has to violate these rights to achieve its objectives, including the generation of employment, it is far away from the ILO and the international community's concept of possible means for the generation of decent work.

### *Social dialogue and employment*

In addition to agreements reached during the process, social dialogue helps to create a climate favourable to the democratic solution of conflicts, thus reducing country-risk and helping the country to become a powerful magnet for the investment in production that countries need to maintain healthy, sustainable economic growth and create more abundant and better jobs. There are multiple examples in our region of how social dialogue has contributed to economic growth and employment. The most well known are the social pacts for employment in European countries (the Netherlands, Denmark, Ireland and Spain, among others) and, in our region, the agreements for developing a new culture around labour relationships, as occurred in Mexico and Colombia during the past decade and, more recently, in Central America and the Dominican Republic, with the tripartite approval of the new labour agenda for the subregion.

### *The financing of employment and income policies and programmes*

In terms of financing active and passive labour market policies, the developed countries spend approximately 3% to 4% of their GDP on this. We lag far behind. In Latin America, we only invest from 0.5% to 2% of GDP on these policies. It does not therefore seem too ambitious or out of proportion to propose a regional goal of at least 2% of GDP for this purpose. This percentage should not, however, be taken as the introduction of a new factor making fiscal policy more inflexible. It should be used as a reference only. The important thing would be to establish as a criteria or standard, that given governments' commitments to generating a primary fiscal surplus (which usually ranges from 1.5% to 4% of GDP) to free up resources to pay off financial debt (foreign and internal), that a similar, proportionate effort be made for setting aside resources to pay off domestic social debt; this payment should take the form of active and passive employment and income policies, as one of its chief methods.

Nonetheless, the question remains of how to finance this expenditure. I have already pointed out the significant role played by counter-cyclic fiscal policies in this aspect since they make resources available during periods when the economy is contracting. However, in addition to government resources and others from external sources, it is important to keep in mind companies' social responsibility. This responsibility, which in its most basic form is expressed by opportune payment of the taxes established by law, has progressed in recent years towards greater commitments to providing direct assistance to and solidarity with the poor. We must continue along this path, setting ourselves goals that are much more ambitious than those achieved so far.

### *The generation of more and better jobs: Everyone's responsibility*

The responsibility for job creation does not fall solely on governments or companies. It is everyone's: governments, employers, workers and the ILO itself. It is also the responsibility of international financial institutions. It is no longer possible to continue considering employment as a mere residual result of macroeconomic policies and that only governments must find solutions to the problems of the unemployed, poverty-stricken population. If the world belongs to everyone, we are all responsible for the good and bad that happens in it, and therefore we all should participate collectively in the search for solutions and putting them into practice. For this reason, we must continue working to generate employment. The ILO and its constituents understood this clearly when they began the World Employment Agenda four decades ago, when the Global Employment Forum was convoked two years ago, and today, when employment is

the focus of debate at the Fifteenth American Regional Meeting. This document and the corresponding proposals are the evidence of ILO's commitment to achieving more and better jobs and decent work for everyone.

Lima, Perú, December 2002