



Swiss Working Paper on Growth and Employment in the Post-2015

Agenda

01.10.2013

1. Context and challenges to be tackled for global sustainable development

Over the past twenty years, growth has been quite uneven in various regions of the world. Moreover, the financial and economic crisis that started in 2008 has left no region unaffected. The recession was deepest in the advanced economies, whereas developing countries in Asia and Africa were generally less affected or recovered more rapidly. According to the World Development Report 2013 and the ILO's Global Employment Trends 2013, almost 200 million people around the world are unemployed, especially the youth, and more than 50% of women worldwide do not have a job. This is not only a source of concern for developing countries: 18.8 million people were unemployed in the Euro area at the end of 2012 (11.8% of the population, highest in Spain 26.2 % and Greece 27%). Moreover, especially in developing countries, informality and underemployment are key issues in the jobs discussion, and future demographic developments may worsen the situation.

Against this background, since the end of the 2000's, the need for a more sustainable growth has been evidenced in many ways:

- 1) The financial and economic crisis has shown the **high interdependency** between countries of the world. It has left no region unaffected, and has shown the importance of economic stability, resilience to external shocks and sound public finances in all countries in order not to reverse development achievements and avoid negative externalities on other countries.

This highlights the importance of **economic sustainability for development** and calls essentially for measures ensuring **macro-economic stability**: sound public finances and responsible debt management, a stable financial sector, a stable monetary policy. Moreover, this macro-economic framework needs to be complemented by measures at the meso- and micro-economic level: The regulatory framework ought to be predictable, equitable and encourage entrepreneurship, limiting the administrative burden for enterprises and ensuring the enforcement of property rights for all, incl. women and ethnic minorities. Only then will investors and trading partners consider opportunities in the respective countries at a larger scale, thereby leveraging resources for the development of the private sector.

- 2) Recent decades have witnessed a huge pressure on the world's natural resources, leading to threats of resource scarcity and degraded ecosystems. The current patterns of resource use and greenhouse gas emissions are not sustainable. Global issues such as climate change, increasing pollution of the environment and depletion of finite natural resources demonstrate the negative consequences and potential limitations of the current growth model. They also exacerbate the vulnerability of the poorest segments of the population. Increasing calls for **green growth, resp. a transition to a greener economy** in both industrialized and developing countries have been voiced, based notably on a stronger awareness of planetary boundaries.

These elements highlight the importance of the **environmental sustainability** of growth and economic activities. There is a need to change **consumption and production patterns** in order to make them more sustainable. The policy framework should aim to set the right prices for natural resources (prices should reflect the scarcity of (natural) resources and internalize external costs). This can be achieved i.e. by implementing regu-

latory measures and/or market-based measures (e.g. CO₂ tax). Using policies and markets to internalize externalities can set the right incentives for broadly based actions that can effectively and efficiently reduce environmental damage, while also **promoting innovation, which is a key factor of success for a transition to a more sustainable economy**. Environmental aspects also need to be considered when addressing the issue of decent working conditions (e.g. in industrial production processes). Finally, the poverty dimension of access to natural resources for all needs also to be taken into consideration.

- 3) Unequal patterns of growth have resulted in **higher income inequality** and increased tensions within countries. In many emerging and developing countries, growth first only benefitted a small part of the population, creating a gap with large parts of the population still living in poverty and often unemployed or employed in dire conditions, and without access to social protection. In North-Africa for example such inequalities lead to social unrest and upheavals against the government ("Arab spring"). On the other hand, some countries in Asia and Latin America have seen middle classes emerge, although fragile and close to poverty. In industrialized countries, the situation of the middle classes has become more precarious as economic growth lags behind and unemployment remains high. In general, the overall increase in inequalities is worrying for the perspective of poverty reduction in the future. Moreover, working conditions in developing countries do not always respect international labor standards, sometimes even leading to violations of human rights. Women are particularly affected, since they often hold precarious jobs and their work is sometimes not even noticed (agriculture, unpaid care work, etc).

It is commonly acknowledged that economic growth is a key factor in the development of a country and that a flourishing private sector is the main engine of job creation. But for growth to reduce poverty and increase well-being sustainably, it must be **inclusive** and translate into **higher living standards** for the population at large so that prosperity is shared. Therefore, the economy must provide enough "good" jobs¹ that enable women and men to earn their living in decent working conditions. But jobs are not only a source of income; they can also empower people (especially women). Hence, employment and decent work are instrumental in achieving sustainable development.

Linking growth and employment is not an easy task, and education has a key role to play (see thematic discussion on education in a post-2015 framework). There are many uncertainties regarding possible strategies and public policies to promote growth and employment, while respecting the principles of sustainable development. Solutions have to be specific to the context and the comparative advantages of the countries and may entail difficult policy choices when balancing considerations of labor absorption and productivity-growth contributions of various sectors. **In the years to come, innovation will play a critical role in the growth prospects of all economies, as well as the integration into global value chains and the ability to improve the productivity of the economy.** Moreover, the future supply (global supply chains) and costs of production factors, especially of natural resources, will influence growth prospects.

2. Analysis at Swiss level

The overarching goal of Switzerland's international cooperation is to promote global sustainable development to reduce poverty and global risks. To this end, Switzerland supports, among others, sound public finances and good governance as well as the promotion of trade and investment in developing countries in order for them to successfully integrate into the

¹ World Development Report 2013: "Good jobs for development are those that make the greatest contribution to society, taking into account the value they have to the people who hold them, but also their potential spillovers on others— positive or negative. [...] The value of a job for the person who holds it is a primary indication of its development payoff. But assessing the broader value the job has to society also requires information on the spillovers the job may have on the living standards of others, on aggregate productivity, or on social cohesion."

world economy and increase their competitiveness. This approach builds on Switzerland's own experience of evolving from one of the poorest West-European countries in the 19th century to a successful export-oriented advanced economy today. It became an attractive hub for foreign investors and managed to position its domestic companies into the global value chains, building on a sound economic environment and investment in education to foster innovation and competitiveness. Compared to its neighbors, Switzerland has a low level of public debt and a low unemployment rate. It benefits from a flexible labor market with a conducive social dialogue mechanism and an inclusive social security system. Moreover, its dual education system (vocational training) provides an early integration of young people in the job market, allowing a good matching between skills demanded by the enterprises and actual training. In 2010 and 2013, the Federal Council mandated the Swiss administration to identify ways of building a greener Swiss economy and improving the conditions for managing natural resources in the interest of both the environment and the economy. The goal is to lower resource consumption while increasing Swiss competitiveness and welfare in the long term. On 26 June 2013 the Federal Council submitted a proposed legislative amendment for consultation which aims to conserve natural resources, promote more ecologically sound consumption patterns and strengthen the circular economy, while also taking into account environmental degradation generated abroad.

Switzerland tries to replicate this positive experience in its development cooperation activities. Priority should be given to create **good framework conditions at national** (rule of law, appropriate public policies and regulations, macroeconomic stability, basic infrastructure...) **and international levels** (open markets, international standards...), so that the local private sector can develop and become more competitive.² Switzerland helps developing countries in improving their business environment, facilitating access to financial services for enterprises and individuals, both men and women (including the improvement of their financial literacy), but also in fostering sound economic and financial policies, including public finance management and debt management. Furthermore Switzerland supports the strengthening of local and international value chains, thus allowing enterprises and smallholder farmers to integrate in the globalized economic system. Switzerland has also supported many projects aimed at making production processes in developing countries more sustainable and resource efficient (ex. cleaner production centers), and advocating for sustainable natural resource management. In relation to jobs, Switzerland promotes measures that create jobs and improve labor productivity in developing countries, **building on private sector development**. It also promotes measures to improve working conditions and respect for international labor standards, since good working conditions and their link to enterprise performance and productivity are key for employment growth (ex. the ILO Programme SCORE: Sustaining competitive and responsible enterprises). This includes capacity building activities and promoting targeted labor market studies³ to gather the data needed for informed economic/ labor policy making⁴, making the country's institutional framework more efficient regarding labor policies, supporting programs that teach basic business skills, promoting gender equality and social inclusion in employment, and facilitating access to external financing. ILO conventions on governance, such as Convention No. 122 on Employment Policy, provide a useful framework for an exchange of experiences and best practices with partner countries on labour market governance and employment policies. Switzerland also supports countries in building or improving vocational and technical education systems, building on its longstanding experience in vocational skills development. In doing this, it stresses the importance of private sector involvement in the definition and delivery of technical education, thus improving the relevance of training and the integration of trainees into the labor market.

² For the framework conditions applying to human rights and planetary boundaries, see corresponding thematic papers.

³ Switzerland also contributed to the IFC Job Study and the World Development Report 2013 on jobs. Switzerland strongly supports the jobs agenda in the multilateral development banks (ex. IDA 17: inclusive growth, jobs, women economic empowerment).

⁴ Switzerland supported the ILO/World Bank Inventory of Policy Responses to the Financial and Economic Crisis

3. Recommendations for a post-2015 goals framework

Although full and productive employment and decent work for all was already covered under the MDG of eradicating poverty (MDG 1, Target 1.B), sustainable economic growth and the importance of the private sector for poverty reduction and sustainable development were not prominently dealt with in the MDG-Framework. In the international discussions this year on the post-2015 agenda, the importance of "growth and employment" has received wide recognition. The Report of the High-Level Panel of Eminent Persons (31 May 2013) proposes 12 goals, among which to "*Create jobs, sustainable livelihoods, and equitable growth*". The Report of the UN Secretary General "A life of dignity for all" (26 July 2013) lists a number of transformative actions that should apply to all countries for a new sustainable development agenda, among others to "*Promote inclusive and sustainable growth and decent employment*". This can be achieved through: "*economic diversification, financial inclusion, efficient infrastructure, productivity gains, trade, sustainable energy, relevant education and skills training. Labour market policies should focus in particular on young people, women and people with disabilities.*" The Open Working Group on SDGs dealt with the topic of jobs and social protection in its 4th session, concluding that "*any goal or target related to jobs would need to address the situation of the working poor as well as the unemployed, and recognize that decent, productive jobs, complemented by social protection, are central to reaching the overarching goal of eradicating poverty*" and that "*conditions and policies to foster enterprise formation, growth and job creation are crucial to a successful jobs strategy*". Also, the UN Global Compact identifies growth/employment as an urgent sustainability challenge with a high potential positive impact by business, and proposed "*End poverty and increase prosperity via inclusive economic growth*" as an important element in its goals pyramid.

In our view, sustainable growth and employment should indeed figure among the post-2015 goals, since sustainable economic growth and employment play an essential role in the development of *all* countries. Promoting sustainable growth to foster sustainable development, while respecting human rights and planetary boundaries, is essential for developing, emerging and industrial countries. However, it remains a challenge to identify which policies and what kind of growth and jobs are best suited to achieve sustainable development goals. Due to the tremendous heterogeneity between countries, targets and strategies should be defined considering individual country needs and comparative advantages.

Switzerland therefore supports a single goal such as "Sustainable Growth, Employment and Decent Work for all", but we could also consider splitting the content and having a separate goal e.g. on sustainable consumption and production, according to international discussions (a separate thematic paper on sustainable consumption and production will be produced by end 2013).

In both cases, the Swiss position emphasizes the importance of **appropriate framework conditions** to ensure an enabling environment. This concerns on the one hand the framework conditions of the economy (e.g. financial, trade, investment and tax systems), but also the policies and regulations in place in the area of environmental protection, resource efficiency, gender equality and social inclusion, social protection and labor market policies. At the international level, effective implementation of corresponding conventions in these areas should be promoted. Moreover, it is important to promote a multilateral trade system to the benefit of all countries, including the least developed countries. It should also contribute to sustainable development, while ensuring that there is no hierarchy between the trade and environment system. Finally, political stability is a key characteristic of an enabling environment conducive to growth and shared prosperity.

Switzerland considers that the elements outlined below should be included in a post-2015 goals framework. As for measurement and indicators, we concur that the GDP is no longer sufficient to measure the well-being of societies and therefore needs to be complemented by

other indicators (e.g. on total environmental impact of consumption and production and well-being).



1) Sound and stable economic conditions

A stable economy, which functions with legitimacy, responsibility and transparency, is key to ensuring sustainable development for all countries. Economic governance is a key aspect in this context.

Sustainable macroeconomic framework conditions and a sound and sustainable fiscal policy are important to promote job creation and to support overall economic activity. Therefore, measures ensuring **macro-economic stability are to be promoted**, such as sound public finances managed in a responsible and transparent way, responsible debt management, efficient tax administration, as well as a stable monetary policy. Measures targeting the stability of the financial sector are important in order to sustain the economic growth of the countries.

Measures regarding the **business environment to support the development of the local private sector** are equally essential. This includes an efficient regulatory framework at the national level (e.g. legal framework for investments) that provides incentives for engaging in economic activities, removes red tape and fosters corporate governance. At the global level, the international trading system provides a framework with institutions and rules that should be applied in a correct and transparent manner, to ensure access to international markets for the poorest countries. The formalization of firms is important to foster growth and "good jobs" providing stable income, although the contribution of the informal sector to the economy is not to be underestimated. Finally, initiatives by private sector actors in the area of corporate social responsibility, sustainability reporting and corporate governance provide a necessary contribution and must be supported (e.g. EITI, voluntary standards).

Finally, **preventing corruption and illicit financial flows, and increasing transparency** are key elements of the economic governance agenda that should be promoted. This is important e.g. for the extractive industries in developing countries.

2) Green economy

The goal of a green economy is to use natural resources in an efficient and environmentally sound way in order to ensure the long term sustainability of economic activities as well as to achieve a positive development of welfare.

Taking into account planetary boundaries, policies should focus **on setting the right prices for natural resources**. Prices of goods and services should reflect the scarcity of natural resources and internalize external costs, e.g. with a CO₂ tax. In relation to this, it is important to increase the **information on environmental impacts of products and services over their whole life cycle** (e.g. voluntary product labeling). Decisions in favour of a green economy are possible only when resource-efficient products can be differentiated from those which are more resource-intensive. In this context, an international trade system that accounts for the different production methods of goods and services is essential for conserving our natural resource base. The importance of combining and balancing environmental protection with the safeguarding of market access has to be kept in mind.

Furthermore it is crucial to address **regulatory failures**, in particular fossil fuel subsidies. Production subsidies, such as for coal production, inhibit innovation and the development of cleaner technologies, and they reduce incentives to use fossil fuels more efficiently. Consumption subsidies which intend to lower the price of fossil fuels are no better. Therefore fossil fuel subsidies that encourage wasteful consumption and undermine sustainable development should be phased out, while mitigating adverse impacts on vulnerable groups (e.g. targeted cash transfers or redistribution of funding saved from subsidies). The elimination of harmful subsidies can also lead to a more efficient and sustainable use of public finances.

Key for the successful transition to a greener economy is **innovation and technological transfer**. Market-based instruments (e.g. taxes, tradable permits) as well as sound and well defined standards create incentives for firms to adopt technological or process innovations for pollution control. Sustainable consumption and production as promoted through the 10-year framework of programmes on sustainable consumption and production patterns (10YFP) accelerates the application of preventive environmental strategies to processes, products and services to increase efficiency and reduce risks to people and the environment. The dissemination of knowledge on how to increase resource efficiency and reduce waste in production and consumption processes over the whole life cycle of products is important.

3) Full and productive employment and decent work for all

The Decent Work Agenda – as developed in the ILO and supported throughout the UN system – contributes to promoting inclusive development and poverty-reducing growth. Effective implementation of international labor **standards** (ILO) should be promoted to ensure decent working conditions. In this regard, special attention needs to be paid to the fundamental principles and rights at work (freedom of association and the effective recognition of the right to collective bargaining, the elimination of all forms of forced or compulsory labor, the effective abolition of child labor, and the elimination of discrimination in respect of employment and occupation). In this context, supporting the transition from informal to formal economic activities is important, while not excluding measures to improve the situation of informal economic actors. In many developing countries, informal workers still represent a large share of the workforce.

More targeted initiatives need to be implemented to introduce mechanisms of **social protection** e.g. in developing countries, respectively to make these mechanisms economically and financially sustainable. The Social Protection Floor Initiative led by the ILO and the WHO as well as the ILO Social Protection Floors Recommendation (No. 202) provide useful guidance in this regard. More needs to be done to make social protection more accessible to all segments of society, particularly women and ethnic minorities. With social protection often being tied to formal employment in the majority of countries, and many women being active in the informal sector, the gender dimension should be duly considered in the formulation as well as in the implementation of respective norms, guidelines and policy measures.

Regarding **policies** to foster employment there is a clear link to a possible goal on education. The importance of inclusive and high-quality **education, skills development and training** that contribute to develop skills that match with the needs of the labor market must again be emphasized. This issue goes hand-in-hand with structural transformations out of but also within traditional sectors such as agriculture. It is also highly relevant for advanced economies and emerging economies because of the continuing shift towards knowledge- and skill-intensive jobs and the importance of innovation for stimulating sustainable growth.

The transformation towards a green economy will lead to a loss of jobs in some sectors, while creating jobs in others. Policies supporting workers to adapt to this structural transformation (i.a. by facilitating the development of relevant skills) will help harness the potential that green jobs provide for employment creation for women and men while contributing to sustainable economic development.

This working group included participants from DEZA, BAFU, ARE, EDA PD, BFM, Alliance Sud and SECO, under the Lead of SECO