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Stronger recovery, more jobs for all

GREATER international cooperation and coordination is urgently needed for a more robust and sustained recovery, with benefits far more widely shared. The United Nations (UN) has long argued that only a sustained commitment to prioritising economic recovery can overcome the short termism dictated by financial markets.

Recovery priorities should emphasise job creation as well as enhancing national productive capacities – through public investment in infrastructure, for example, which induces complementary private investments and creates the conditions for sustained growth over the longer term. This necessarily requires ensuring greater coherence of macroeconomic policies with structural transformation goals than seen thus far.

Unemployment unabated

Globally, a staggering 200 million people – almost half of them youth – are officially deemed unemployed. The number of jobless has increased by at least 27 million since the start of the crisis.

Thanks to rapid and co-ordinated responses by leaders of the major economies, including bold stimulus packages, the Great Recession seemed short-lived. An estimated 21 million jobs were created or saved by stimulus packages in the G20 countries alone in 2009 and 2010.

Unfortunately, however, the collective resolve of global leaders has waned since 2009 as they find themselves increasingly battered by financial markets. Premature withdrawal of the stimuli, ostensibly to consolidate fiscal positions, has stifled the nascent recovery. Growth is almost dead in many economies of the European Union, and several countries are already technically in recession.

The economic, social and political costs of the prolonged economic slowdown have been enormous and continue to mount. Except in Austria and Germany, unemployment rates in European countries and in the United States were higher at the end of 2011 than in 2007.

The share of the long-term unemployed continues to increase in many developed countries, reaching 40% of the unemployed in half these countries, notably in the United



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States, the United Kingdom, and debt-distressed countries of the euro area. Youth unemployment has also increased staggeringly. In Spain, more than half of young adults seeking jobs cannot find one.

More than 400 million additional jobs will be needed over the next decade to avoid a further increase in unemployment. With a backlog of 200 million jobless, the world must create 600 million productive jobs over the next decade to reach full employment.

Although most developing countries initially weathered the crisis better than most developed countries, they are now showing more signs of strain as the slowdown drags on, with no end in sight. For three decades prior to the crisis, developing countries were told to liberalise and to pursue export-oriented policies, and are now hit by the global slump.

Significant declines in commodity, especially mineral prices, which appear increasingly likely in the medium, if not the near term, will impose great costs on the many developing countries that still depend heavily on commodity export earnings to sustain national incomes, growth and imports. Meanwhile, many commodity prices have also become even more volatile in recent years, with devastating consequences for hunger and energy poverty.

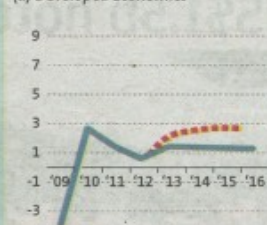
The rapid recovery and sustained expansion of world trade that followed the sharp decline at the onset of the crisis has since lost steam. It will not be easy for most developing countries to re-orient production to the domestic economy once again, especially as aid and investment flows fall.

International cooperation

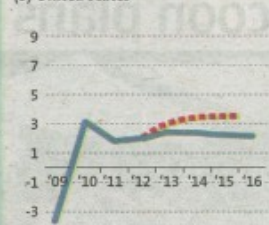
The slowdown is a global challenge which calls for a global solution – with governments, businesses and workers all contributing, and benefitting. The currently favoured approach – characterised by an obsessive focus on financial system

GDP growth rates (%)

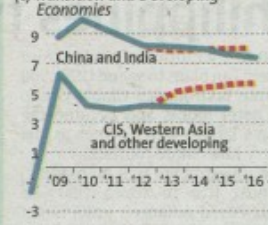
(a) Developed Economies



(b) United States

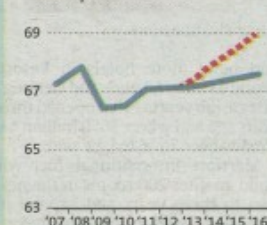


(c) Transition and Developing Economies

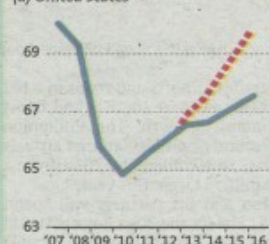


Employment ratios (% of working age population)

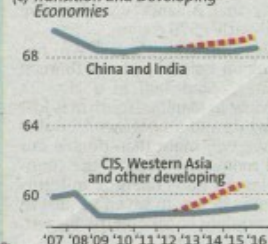
(a) Europe, and Japan and other developed economies



(a) United States



(c) Transition and Developing Economies



— Baseline
--- Coordinated policy scenario for growth and jobs

Source: UN Department of Economic and Social Affairs (DESA) Global Policy Model (<http://www.un.org/esa/policy/publications/ungpm.html>)

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stability, fiscal “discipline” and deteriorating working conditions in the name of labour market flexibility – has only made things worse.

These policies all presume that investment, growth, and job creation will inevitably follow. The problem is that this approach gets the causal chain backwards: restoring investment, growth and employment is necessary for financial institutions, fiscal accounts, and markets to heal.

Since national fiscal space is severely limited in many economies, and expansionary monetary policies have been exhausted with modest gains and costs to others, international cooperation provides the last major opportunity to enhance policy effectiveness. International policy coordination is crucial to tame volatile commodity prices and stabilise exchange rates.

The UN has been calling for a more pro-active role for the public sector aimed at sustaining aggregate demand through investment in

social and physical infrastructure. Appropriate policies would include incentives to induce private sector investment, especially in new, environmentally-friendly technologies and labour-intensive economic activities. Collaborative industrial – or investment and technology – policy should strengthen the economic diversification of developing countries and midwife the emergence of new industries in the advanced countries.

UN analysis of the likely impact of such policies finds that a globally coordinated economic recovery agenda is likely to result in global output growing at an average of 4% and the jobs deficit closing by 2016 – a very significant improvement over the business as usual scenario (see charts). Over the medium term, higher output and employment growth will also stabilise public debt-to-GDP ratios, which will start to fall from 2016.

To be sure, there is much else to be done, both in the short and medi-

um term. The design of policy measures has to take into account the full consequences of policy actions, including those unintended, but foreseeable. In addition, sovereign debt challenges have to be addressed, revenue collection enhanced, better social protection put in place, and financial regulation strengthened, among other things.

But the larger point is that national efforts, while crucial, need to be complemented by international action. Inclusive multilateral organisations, led by the UN, especially the International Monetary Fund and the International Labour Organisation, must lead, underscoring the gains for all from international cooperation, and offering needed technical support.

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