



Global Employment Policy Review 2023

Macroeconomic policies
for recovery and structural
transformation

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for recovery and structural
transformation

International Labour Office, Geneva



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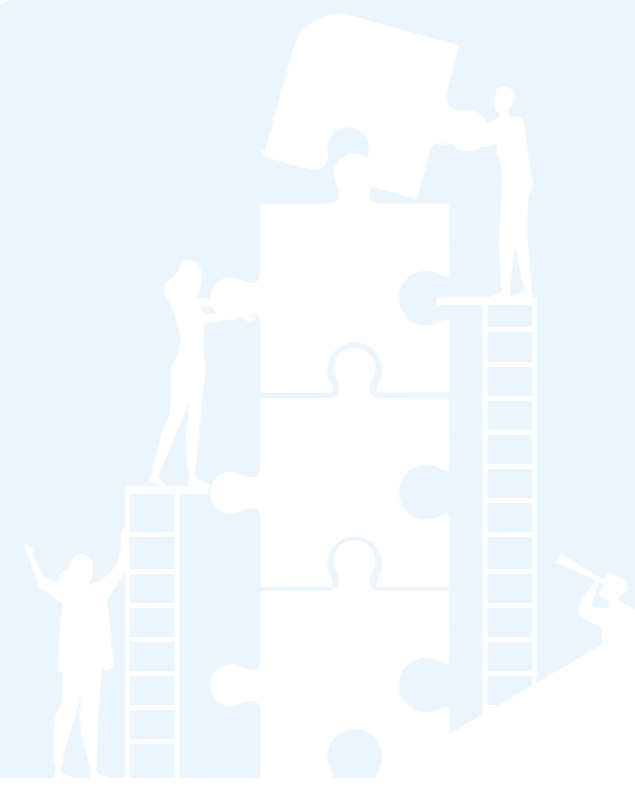
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► Preface

The *Global Employment Policy Review* (GEPR) is a biennial publication prepared by the Employment Policy Department of the International Labour Organization (ILO). The purpose of the GEPR is to advance the ILO's contribution to global employment policy debates by giving greater visibility to current policy-oriented research, as well as to spur new policy-oriented research. The GEPR brings together contributions from the ILO's wider global employment policy team, including ILO colleagues both at headquarters and in field offices, with the latter providing a strong regional perspective on economic policy debates, as well as affiliated researchers.

The GEPR was conceived as a "review" rather than a "report" because it is not a report in the usual sense of the word. At the core of the GEPR are a set of thematic chapters that address both persistent and emerging policy challenges and do not shy away from challenges that are difficult or indeed contentious. Each chapter is meant to be self-contained and to represent the viewpoints of the respective authors, while endeavouring to present clear policy messages. At the same time, the chapters have been selected to best demonstrate the ILO's current thinking on global employment policy challenges. The GEPR places a special emphasis on policy design and implementation so that its chapters will have as much relevance as possible to countries that are in the process of developing and implementing employment policies.

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Chris Edgar helped throughout the production process. The Publications Production Unit provided production project management, graphic design, including cover design, typesetting, copy-editing and proofreading. Frances Papazafropoulos copy-edited the report. Jeannette Sanchez led the communication and promotion activities linked to the publication. Members of the publishing committee provided useful comments during the design phase of the publication.

A final thanks to colleagues from the ILO Bureau for Workers' Activities and the Bureau for Employers' Activities, who also provided valuable comments on the report.

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Introduction

Overview and key findings

Given the renewed interest in macroeconomic policies and their impact on employment, this second edition of the *Global Employment Policy Review* (GEPR) analyses the importance of macroeconomic policies as an integrated part of comprehensive employment policy frameworks as well as their role in furthering structural transformation and social justice. It complements the analysis of the first edition of the GEPR, which focused on sectoral policies for structural transformation.

Macroeconomic policies have risen in importance in recent years, not only as a crisis response tool but also as a key policy area that will determine structural transformation paths and the impact that these have on employment creation and social inclusion.

Their importance as a crisis response instrument became obvious once again when the unprecedented challenges that emerged during the COVID-19 crisis resulted in unprecedented policy responses, including macroeconomic responses. These comprised monetary, exchange rate, fiscal and financial policy interventions, all of which were key in mitigating the impact of the crisis by calming markets and financing flows, while supporting aggregate demand. The COVID-19 crisis impacted the world as an exogenous shock and led to rapid lockdowns of economies around the globe, bringing about massive reductions in economic activity and working hours. Governments around the world acted, including those in developing countries – which represented a noteworthy policy shift for these economies. Many developing countries used fiscal stimulus and expansionary monetary policy, including in the form of quantitative easing (asset purchases) in some cases. Although these developments occurred at significantly lower levels than in advanced economies, it showed that the developing world grasped the importance of such policies for mitigating job losses and protecting the most vulnerable.

Today's policymakers – including in low- and middle-income countries – not only have to cope with multiple crises (such as the impact of the global price and trade shocks that have arisen from the Ukraine conflict and general global imbalances), but have to tackle a complex set of labour market issues and uneven recovery paths. They are also confronted with, on the one hand, increasing inequality trends resulting from challenges linked to future-of-work issues – which include the green

transition, digitalization, globalization and demographic challenges – and, on the other hand, demanding structural transformation processes that must take into account the need to help those who risk being left behind in this upheaval. Without the right macroeconomic policies in place, there is a substantial risk that labour market recovery, particularly in developing economies, might be delayed – or even reversed, in some cases – in the near future, and that structural transformation processes will not take place.

Pro-employment macroeconomic policies have a key role to play in addressing this challenging situation. A comprehensive approach must be adopted, which integrates macroeconomic, sectoral, and labour market policies that are mutually reinforcing, in order to foster structural transformation and overcome the associated employment challenges. Resolving macroeconomic imbalances, such as excessive imports or inflation, is important for job growth, but it is insufficient as a stand-alone policy measure. Rather, pro-employment macroeconomic and sectoral policies must be actively mobilized to advance structural transformation and employment creation, while labour market policies are vital to ensuring that the resulting transitions are indeed inclusive and benefit everybody, including the most vulnerable. Effective policies should also target both external and internal balances, that is price stability, full employment and sustainable current account balances.

In this wider context, the Employment Policy Convention, 1964 (No. 122), provides for the promotion of “full, productive and freely chosen employment” via the implementation and development of national employment policies and programmes, which are coordinated with other national development policies. Over the years and as a result of a number of discussions at the International Labour Conference between workers, employers and governments, macroeconomic policies have become one of the main areas that are considered to be essential components of the set of employment policies within a comprehensive and inclusive approach.

It is in this context that this second edition of the GEPR provides important insights. While it does not represent an all-encompassing report on the topic of macroeconomic policies for recovery and structural transformation, its five chapters cover many pertinent issues. In particular, it examines:

1. How macroeconomic dimensions have been reflected in current policy trends and ongoing employment policy debates;
2. The question of how macroeconomic policies might be more gender-responsive from the employment perspective;
3. The issue of which macro-level policy measures are needed to address the pressing needs of young people who are not in employment, education or training (NEET);
4. The way in which the employment impacts of the COVID-19 trade collapse and recovery have differed by gender; and
5. An examination of which pro-employment macroeconomic policy framework could address Africa's most pressing development issues.

A summary of each of these five chapters is set out below.

Chapter summaries and key messages

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

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

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

Analysis clearly shows that national employment policies made significant advances in their response to the pandemic and in addressing longer-term challenges. However, the overall lesson learned is that dialogue is essential for achieving consensus and ownership and hence preparing the ground for successful implementation of national employment policies. This is the case



despite tensions between “political time” (short-term) and long-term commitments.

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

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

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

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

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

Author: Valeria Esquivel

The COVID-19 crisis has laid bare the entrenched gender inequalities that, compounded with other inequalities, plague labour markets. Women were more heavily impacted by employment losses than men during the crisis, and there is a risk that the recovery might leave them behind. Patterns of growth – that is the sectors behind GDP contraction and recovery – are particularly salient in explaining these trends, as women are over-represented in hard-hit and less dynamic sectors. The crisis also showed that broadly defined employment policies (including macroeconomic, sectoral and active labour market policies) play an important role in cushioning these impacts, as women’s job losses were relatively lower in countries where such policies were implemented.

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

The chapter has three key findings. The first is that *labour markets are bearers of gender*, since labour markets produce and reproduce gender inequalities, which intersect with other dimensions of inequalities. This is particularly evident in two dimensions of labour markets’ structure: the sectors women work in, which to a great extent determine women’s working conditions; and the unpaid care work provided mostly by women, which limits their

access to employment opportunities and the quality of jobs to which they have access. The second key finding is that *economic structure shapes how macroeconomic shocks impact women’s and men’s employment outcomes*, as made evident by the impact of COVID-19 crisis and the current cost-of-living crisis, and the macroeconomic policies put in place to respond to them. While many governments rushed to put in place policies to keep economies working and to safeguard incomes and jobs during the COVID-19 crisis, fiscal responses were uneven and most gender-responsive measures were phased out by the end of 2021. The recessionary costs of current “stabilization” policies might, as in the past, be suffered most by women. The third key finding is that *macroeconomic policies can explicitly promote gender equality concerns. These objectives need to be embedded in fiscal, monetary, exchange rate and debt-management policies*. This goes beyond gender-responsive budgeting, although it certainly includes these efforts. A starting point is to broaden the debate about fiscal space, moving from a static to a dynamic approach. Finding gender-responsive financing options – including through aid and debt relief – becomes as crucial to gender equality outcomes as the expenditure side. The channelling of resources through the banking system has proved effective in supporting female-dominated sectors and could become a permanent feature of credit policies. In short, gender-responsive macroeconomic policies are part and parcel of coherent, comprehensive and integrated employment policy frameworks and need to work in tandem with sectoral, industrial, skills and active labour market policies to produce gender-egalitarian outcomes – with a view to creating more and better jobs for women, thus ensuring that they are neither left behind in the recovery process nor once again the hardest-hit during crises.

Chapter 3 – How NEET are developing and emerging economies? What do we know and what can be done about it?

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

In 2015, reducing the proportion of the young people who were not in employment, education or training – the NEET rate – was adopted as SDG target 8.6 (and accompanying indicator 8.6.1). The NEET rate has some advantages over the youth unemployment rate as a measure of the state of youth labour markets, but also raises some issues, not least because young NEETs are not necessarily participants in the labour market as traditionally understood. Young NEETs are indeed a highly heterogeneous group and being a member of that group indicates the absence of a characteristic – specifically, the lack of a job or an educational/training opportunity – rather than the possession of one. The variety of circumstances underlying NEET status has important policy consequences, and differences among young NEETs will affect the appropriate policy response. The obstacles facing young NEETs in accessing decent work are also many and varied. The COVID-19 pandemic has led to further increases in NEET rates across the globe, exacerbating the challenges faced by the young in accessing decent work and adding urgency to the vital task of developing and refining effective ways of reducing NEET rates, above all in low- and middle-income countries.

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

While young NEETs are an extremely heterogeneous group, there are some regularities in trends and characteristics that are useful in orienting the policy response. For example, in most countries NEET rates are significantly higher among young women than among young men; worldwide, two out of every three young NEETs are women. NEET rates tend to fall with country income as well as with higher individual educational attainment; and NEET rates are typically higher, and the gender gap larger, in rural compared to urban areas. There is also strong evidence of scarring – being NEET today means one is more likely to be NEET tomorrow – and this is especially true for young women. This suggests the need to intervene early and emphasizes the substantial costs of inaction. In addition, broadening the focus of policies occasioned by the adoption of

the NEET rate as the SDG indicator for measuring progress in youth labour markets serves to emphasize the need to appropriately tailor interventions so as to remove the obstacles faced by specific types of young NEET in accessing decent work. Last but not least, reducing NEET rates requires a comprehensive approach with, as its cornerstone, economic and sectoral development policies to support job creation, encompassing an array of country-specific policies and programmes that are designed either to promote access to quality education – and thence quality employment – or to directly promote access to good jobs.

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

Authors: Xiao Jiang, David Kucera and Loritta Chan

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

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

had measures unfavourable to women. During the period of global trade recovery, in contrast, the number of countries with measures of gender bias unfavourable to women workers was 29 and 33 for exports to the United States and the EU, respectively. In short, more countries had measures of gender bias that were unfavourable to women workers during the period of global trade *recovery* than the period of global trade *collapse*, a reflection of women workers benefiting less than men workers from job gains as a result of changes in these exports.

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

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

Authors: Gilad Isaacs, Ilan Strauss and Bernd Mueller

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

Macroeconomic policies should incorporate employment targets and a macroeconomic orientation that facilitate structural transformation. Macroeconomic tools and outcomes should be evaluated according to their ability to achieve export diversification and employment upgrading – and not just stabilization objectives.

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

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



Chapter 1

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

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

Main findings

When built on robust dialogue and empirical evidence, national employment policies are effective approaches for achieving consensus and ownership of comprehensive frameworks and hence preparing the ground for successful policy implementation. National employment policies have increasingly addressed priorities linked to macroeconomic and sectoral policies, with an emphasis on creating jobs.

Significant fiscal stimulus and monetary policy easing were employed during the COVID-19 crisis to support economies and labour markets, most notably in high-income countries. However, in response to high and persistent inflation, the stance on monetary policy shifted over 2022 from accommodation to tightening. Along with the pressures on servicing higher debt levels, the overall macroeconomic environment has become less supportive and fiscal space is now constrained in many developing countries, which will make it harder to promote an inclusive and job-rich recovery in the world's poorest countries.

Job retention schemes implemented during the pandemic were characterized by innovation and expansion in coverage, with regional differences. Job retention schemes offer considerable advantages for countries, in particularly when combined with the administrative capacity to scale them up, when responding to economic shocks in the future.

Sectoral policies play an important role in the context of national employment promotion. A focus on the green, digital and care economies offers huge potential for decent job creation. Sectoral policies have significant potential to advance inclusive structural transformation, which is why countries at all stages of development have tried to reshape their respective economies with varying success. Key success factors for such policies include an in-depth self-discovery process, the allocation of sufficient time for design and implementation, as well as the involvement of a broad range of stakeholders along the entire process.

Key policy priorities when responding to multiple crises and moving towards a human-centred recovery need to include timely and effective support to maintain the purchasing power of labour income and adequate support for hard-hit groups and sectors.

► Introduction

Labour markets have been hit by multiple crises over recent years, which have come on top of longer-term deficits and inequalities, such as persistent informality, youth unemployment and underemployment, and gender disparities. Many of these crises occurred at a time when countries were still recovering from the COVID-19 pandemic. In contrast to the global financial crisis (GFC) of 2008–09, the COVID-19 crisis of 2020–22 represented a very different sort of shock in terms of its origin, transmission channels and impact. Starting as a global health emergency in early 2020, the pandemic evolved into a severe labour market downturn that affected developing and advanced economies as a result of lockdowns and other containment measures on economic activity (ILO 2021). Over 2021–22, thanks to the rollout of vaccinations and the subsequent lifting of lockdown measures, the strictest closures were lifted in the vast majority of countries, although this process was uneven and characterized by reversals as a result of new variants (ILO 2022a). The lifting of lockdown controls spurred a recovery in economies and the labour market, although in the third quarter of 2022 global hours worked were still 1.5 per cent below the level of the fourth quarter of 2019 (the pre-crisis benchmark), equivalent to a deficit of 40 million full-time jobs (ILO 2022e).

Beyond the aggregate trends, a key feature of the COVID-19 crisis and recovery trajectory is the divergence between advanced and developing economies. In many cases, the recovery in high-income countries has been strong, with economies and labour markets returning to their pre-crisis levels as a result of their strong fiscal stimulus and other policy measures. A number of these countries experienced significant labour market tightening throughout 2022, which helped bring unemployment rates down to low (even record) levels. Despite the rising number of vacancies, there has been little evidence that this has led to rapid wage inflation in these advanced economies (in fact, real wages have fallen globally) (ILO 2022a). In contrast, labour markets in many low- and middle-income countries have not yet fully recovered, most notably in the case of young people – as evident in their lagging employment-to-population ratios.

The COVID-19 crisis impact and recovery period have also been characterized by significant within-country differences. Overall, informal workers and businesses, women, youth and the low-skilled were more affected on account of their more vulnerable status in the labour market and over-representation in hard-hit sectors, such as accommodation and food services. In 2020, youth employment declined by 8.7 per cent compared with 3.7 per cent for adults aged 25 and above. Consequently, the global youth unemployment rate increased significantly, reaching 16.4 per cent in 2020. ILO estimates indicate that the youth unemployment rate will be just above 14 per cent in 2023, which is still much higher than the pre-COVID-19 crisis level (and the rate before the GFC). The COVID-19 lockdowns were more damaging for contact-intensive sectors, particularly accommodation and food services. Finally, employment decreased more for workers with low and medium levels of skills, which was due to the sectoral impact of the lockdown measures.

Following much heavier losses in 2020 than those recorded for formal employment, informal employment grew rapidly over 2021–22. New ILO global estimates reveal that the post-2020 trend resulted in a reversal of the pre-COVID-19 trajectory that was characterized by a gradual decline in the informal employment rate of 5 percentage points from 2005 to 2019 (ILO 2022e). Indeed, after informal employment had recovered from its 2020 losses, informal jobs are estimated to have grown at the same pace as those in formal employment, posing a major challenge in the quest to improve the quality of employment for all.

Since February 2022, the conflict in Ukraine has not only been devastating for the country itself but has also created a new shock to the global economy, which has come on top of the lingering effects of the COVID-19 crisis. Commodity prices increased rapidly over 2022, especially for food and fuel (though these are now down from their March 2022 peak), while supply chains experienced new disruptions. As highlighted in the ILO's *World Employment and Social Outlook: Trends* report released in January 2023 (ILO 2023a), this shock and the overall uncertain situation in 2022 led to an increase in global unemployment, which is predicted to rise in 2023

by around 3 million to 208 million (corresponding to a global unemployment rate of 5.8 per cent). Overall, the global jobs gap, a new ILO indicator, stood at 473 million in 2022, around 33 million above the level of 2019.

The most immediate effect of the Ukraine conflict has been on the country's domestic labour market. The ILO estimates that during 2022, employment in Ukraine was 15.5 per cent (or 2.4 million jobs) lower than in the previous year (ILO 2022b). The conflict has created a massive displacement of the population. Since the start of the aggression, more than 8 million refugees from Ukraine have been registered across Europe (as of 21 February 2023),¹ while around 7 million people had been internally displaced by August 2022.²

Moving to the broader labour market impact on developing countries, rising inflation has had a direct effect on the purchasing power of workers and their families around the world. Inflation in 2022 reached almost 8.8 per cent, and is expected to persist at around 6.5 per cent in 2023 (IMF 2022). The ILO's *Global Wage Report 2022–23* estimates that global real wages declined by 0.9 per cent in 2022, with higher prices hurting the purchasing power of the poorest households the most (ILO 2022f). Rising inflation and falling real wages are likely to exacerbate the increase in poverty resulting from the COVID-19 crisis: some estimates point to a rise in global poverty of 40 million because of the price spike induced by the Ukraine crisis (CGD 2022).

The latest IMF GDP growth estimates indicate that emerging market and developing economies grew by just 3.7 per cent in 2022, down from 6.6 per cent in the previous year (IMF 2022). Tighter monetary and fiscal policies will further depress aggregate demand and hence negatively affect labour markets. However, the recovery in low- and middle-income countries over 2023 will be uneven, depending on whether countries are commodity exporters or importers. At the same time, heightened uncertainty and monetary policy tightening in advanced economies have led to currency depreciations and threaten financial flows to developing countries, which are already reeling from high levels of debt (in particular when it is denominated in foreign currencies, such as the US dollar) and limited fiscal space.

Against this backdrop of multiple and complex crises, the remainder of this chapter reviews the role of comprehensive gender-responsive national employment policies (NEPs) covering various policy dimensions in an integrated manner, before turning to macroeconomic policies, namely monetary and fiscal measures, which have been used at an unprecedented level in recent years to keep economies and labour markets afloat. At the same time, the chapter highlights the dangers of rapid monetary and fiscal adjustment, while pointing out that countries have yet to fully embrace a pro-employment macroeconomic approach. It then explores the specific intervention of job retention schemes, given their significant stake in fiscal stimulus measures over 2020–21 and their critical role in keeping millions of workers in employment. In addition, the chapter looks into the significance of sectoral policies not only assisting the hardest-hit sectors during a crisis but also fostering structural transformation. Finally, it identifies the policy lessons that may be drawn from the analysis.

National employment policies as an overarching response

Over the past few decades, policymakers around the world have increasingly recognized employment as being a critical economic and social public policy objective. The GFC in 2008–09, and the subsequent jobs crisis, brought the challenges of unemployment and underemployment to the front and centre of governments' priorities.

To support such efforts, the ILO has been mandated to promote “full, productive, and freely chosen employment” based on a number of principles enshrined in the Employment Policy Convention, 1964 (No. 122), which calls upon Member States to declare and pursue an active policy designed to promote full and productive employment as a major goal, while taking into account the stage and level of economic development and the mutual relationships between employment objectives and other economic and social objectives, as well as national circumstances.

In practice, NEPs cover a range of policy areas from monetary and fiscal policies, sectoral and industrial

strategies (including trade and investment policies), skills development, to employment services and active labour market programmes (D'Achon 2021). Linkages with social protection, occupational safety and health, labour institutions, rights at work and other policy areas are also addressed in many cases. Reflecting a growing prioritization of employment objectives, the number of countries that have adopted such policies (or are in the process of doing so) has more than tripled over the last 20 years (D'Achon 2021). Considering the large number of countries that are showing an interest in following suit in the near future – including as part of the COVID-19 response – this upward trend is likely to continue. Indeed, NEPs have been adopted – or existing NEPs adapted – to focus on COVID-19 responses in several countries (such as Armenia, El Salvador, Ethiopia, Iraq, Lebanon, Paraguay, the Philippines, South Africa and Tunisia). Around half of the 69 countries reviewed have formulated a second or higher generation of NEP, showing that NEPs are not just an “emergency” and isolated exercise carried out by governments at a given point in time, but are becoming a continuous/institutionalized process at country level (D'Achon 2021).

The scope of employment policies has increased over the past two decades (D'Achon 2021). Supply-side and labour market governance measures continue to be a significant component of NEPs, but recent policies provide more interventions to improve the employment content of growth. Demand-side propositions have been added, which include, for example, the widening of traditional trade policies to include consideration of employment issues. An increasing number of NEPs also have a stronger focus on structural transformation, which facilitates the movement of capital and labour to higher productivity sectors, and pro-employment macroeconomic frameworks. For example, the latest NEPs rely on a broader macroeconomic policy mix for employment, in particular by placing greater emphasis on fiscal policies. The lower the income level, the more emphasis is given to different demand-side policy areas. This reflects the reality of these countries, whereby the labour supply is more educated than before – but there are simply not enough jobs for these better-educated and skilled young people.

NEPs increasingly focus on quality of employment and inclusion. Whereas the targets and goals in the first generation of NEPs typically referred to unemployment rates or the number of jobs created,

¹ Migration Data Portal: [Crisis Movements](#) | [Migration data portal](#).

² International Organization for Migration: [Ukraine — Internal Displacement Report — General Population Survey Round 8 \(17 – 23 August 2022\)](#) | [Displacement Tracking Matrix](#).



the current generation of NEPs sets targets with respect to the quality dimension of employment, which include – inter alia – earnings, productive work and a safe work environment. This generation of policies also focuses more often on vulnerable groups, including, for example, young people not in employment, education or training.

NEP formulation has often moved beyond policymaking as a process conducted by some government officials to more open processes, often taking the form of national dialogues and lasting for several months. The methods of participation have also varied over the years. Some countries have used information and communication technologies to open the debates and extend consultations to wider groups, hence reinforcing the legitimacy and ownership of NEPs.

For example, in response to the massive disruption to the economy and labour market in the Philippines due to the COVID-19 crisis, the Government of the Philippines adopted a whole-of-society approach to development of the National Employment Recovery Strategy (NERS) under the updated Philippine Development Plan 2017–2022 and ReCharge PH (ILO 2023b). The strategic framework of the NERS 2021–2022 was anchored in the ILO's four-pillar policy framework for responding to the socio-economic impact of the COVID-19 crisis, while the four outcomes of the NERS operational framework focus on: (1) restarting the economy, (2) restoring consumer and business confidence, (3) upgrading and retooling the workforce, and (4) facilitating labour market access.

To be able to involve more partners in employment policy processes, new platforms have been created in recent years, such as inter-ministerial coordination committees, including during the COVID-19 crisis – as indicated above in the case of the Philippines. In an increasing number of countries, these policy spaces are chaired by the highest level of government (for example the President in the Republic of Korea or the Prime Minister in Morocco), ensuring a stronger political backing of NEPs, which is key to promoting multi-sectoral action on employment, fostering commitment to employment by decision-makers, and strengthening policy coherence. These platforms have also played an important role as entry points to discuss COVID-19 responses and provided a useful institutional footing for quickly designing and implementing COVID-19 response policies. For example, in Ethiopia, the

Job Creation Commission was already in place, operational, equipped and bringing together the key employment stakeholders when the crisis hit. Thus, the country was ready to quickly undertake an assessment of the employment impact of the pandemic and develop and implement a response plan.

Lessons learned from years of employment policy-making show that dialogue is essential for achieving consensus and ownership and hence preparing the ground for successful implementation (D'Achon 2021). This is the case even if there are tensions between “political time” (short-term) and long-term commitments. As clearly shown during the COVID-19 crisis, policymakers' timelines have become much shorter, requiring much faster labour market assessments and more frequent monitoring of policy implementation to ensure that policies are on track. The challenge for the ongoing recovery processes, especially in developing countries, will be to meet short-term needs without ignoring the inherent structural and longer-term issues. Various trade-offs will need to be considered, such as finding the right balance between providing information very quickly for policy advice, while not compromising the quality and accuracy of such data. It is also vital to maintain a balance between the need to deliver quickly and the goal of inclusive participation of multiple stakeholders, including via social dialogue.

In addition to reviewing NEPs, it is important to examine the various components of comprehensive employment policy frameworks, including macroeconomic policies, active labour market policies (ALMPs), job retention schemes and sectoral policies.

Macroeconomic policy: implications for labour market adjustment

Macroeconomic policy, which includes monetary, fiscal, exchange rate and financial policy interventions, plays a critical role in mitigating the impact of a crisis by stabilizing markets and financing flows, while keeping aggregate demand afloat. Active macroeconomic management, which involved targeting both full employment and price stability, was a main underpinning of the success of advanced economies in sustaining growth and attaining full employment up until the 1970s. However, after the oil crises of the 1970s and stagflationary conditions, macroeconomic policies shifted towards

maintaining macroeconomic stability by targeting low inflation and prudent debt-to-GDP ratios, alongside supply-side reforms, in the belief that stability and market forces would lead to full employment (Islam 2021). This orthodox approach to macroeconomic policy was nonetheless challenged by both the GFC of 2008–09 and the COVID-19 crisis, which both confirmed the importance of countercyclical macroeconomic policy to support economies and labour markets. The premature return to austerity following the GFC, most notably in Europe, showed the dangers inherent in rapid fiscal adjustment, which resulted in the depression of economic growth and labour market recovery. Although the COVID-19 crisis witnessed an increasingly enthusiastic shift to countercyclical measures, including in developing countries (often for the first time), the shift to a more comprehensive pro-employment macroeconomic policy framework remains incomplete (see Chapter 5).

During the GFC, macroeconomic policies were widely utilized, as reflected by the cuts in central bank policy rates, the large-scale purchases of assets by central banks (quantitative easing), and the implementation of fiscal stimulus packages. The Organisation for Economic Co-operation and Development (OECD) estimates that the fiscal support announced during 2008–10 accounted for around 3.5 per cent of 2008 GDP in advanced economies with available data (OECD 2009), while other figures suggest that stimulus in the G20 group of countries amounted to around US\$692 billion in 2009 – or approximately 1.4 per cent of their combined GDP (Prasad and Sorkin 2009; Verick, Schmidt-Klau and Lee 2022). Some developing countries engaged in expansionary fiscal and monetary policies during the GFC but to a much lesser extent, which also reflects that these countries were less affected by that crisis (Verick, Schmidt-Klau and Lee 2022; Verick and Islam 2010). The newly found consensus on expansionary macroeconomic policies during the GFC turned out to be short-lived, with a subsequent return to austerity and focus on nominal targets as key policy objectives (Islam 2021). This return to macroeconomic orthodoxy and the push for fiscal austerity after 2011, most notably in the EU (including the United Kingdom,

which was a Member State at the time), resulted in lower growth rates and stagnating labour markets.

Monetary policy rates remained low in the post-GFC period, which meant that many countries were already facing the zero lower bound on interest rates when the COVID-19 pandemic crippled economies and labour markets. The evidence also suggests that the large-scale asset purchases undertaken by central banks did not translate into strong growth in investment, which was held back by stock buy-backs, insufficient lending to the real economy, and other factors that constrained businesses (UN DESA 2022).

Following the shock of the GFC, the global economy returned to low levels of inflation and macroeconomic stability despite the continuing levels of stimulus, which led commentators right up to the COVID-19 crisis to claim that the Phillips Curve had “flattened”, suggesting that the relationship between the unemployment rate and inflation had weakened (Engemann 2020). This reasoning was based on the trends witnessed in many advanced economies during this pre-pandemic period: the unemployment rate continued to fall without leading to a rise in inflation. For example, from 2010–14 (5-year average) to 2015–19, the unemployment rate in the United States dropped from 8.0 to 4.4³ per cent. At the same time, the inflation rate (5-year average) actually fell from 2.0 to 1.6 per cent (IMF 2022). As highlighted by Blanchard (2019), advanced economies have generally kept interest rates lower than growth rates, which meant that debt levels remained manageable despite persistent fiscal deficits.

In response to the COVID-19 crisis and the necessary lockdown measures, governments around the world, including most developing countries, had to act – which represented a strong policy shift for these economies; they employed fiscal stimulus and expansionary monetary policies, including quantitative easing (asset purchases) in some cases, albeit at much lower levels of support than advanced economies. Nonetheless, this substantial macroeconomic policy response around the world seemed to confirm the role of fiscal policy and macroeconomic interventions more generally (at least temporarily).

3 Source: ilostat.ilo.org.

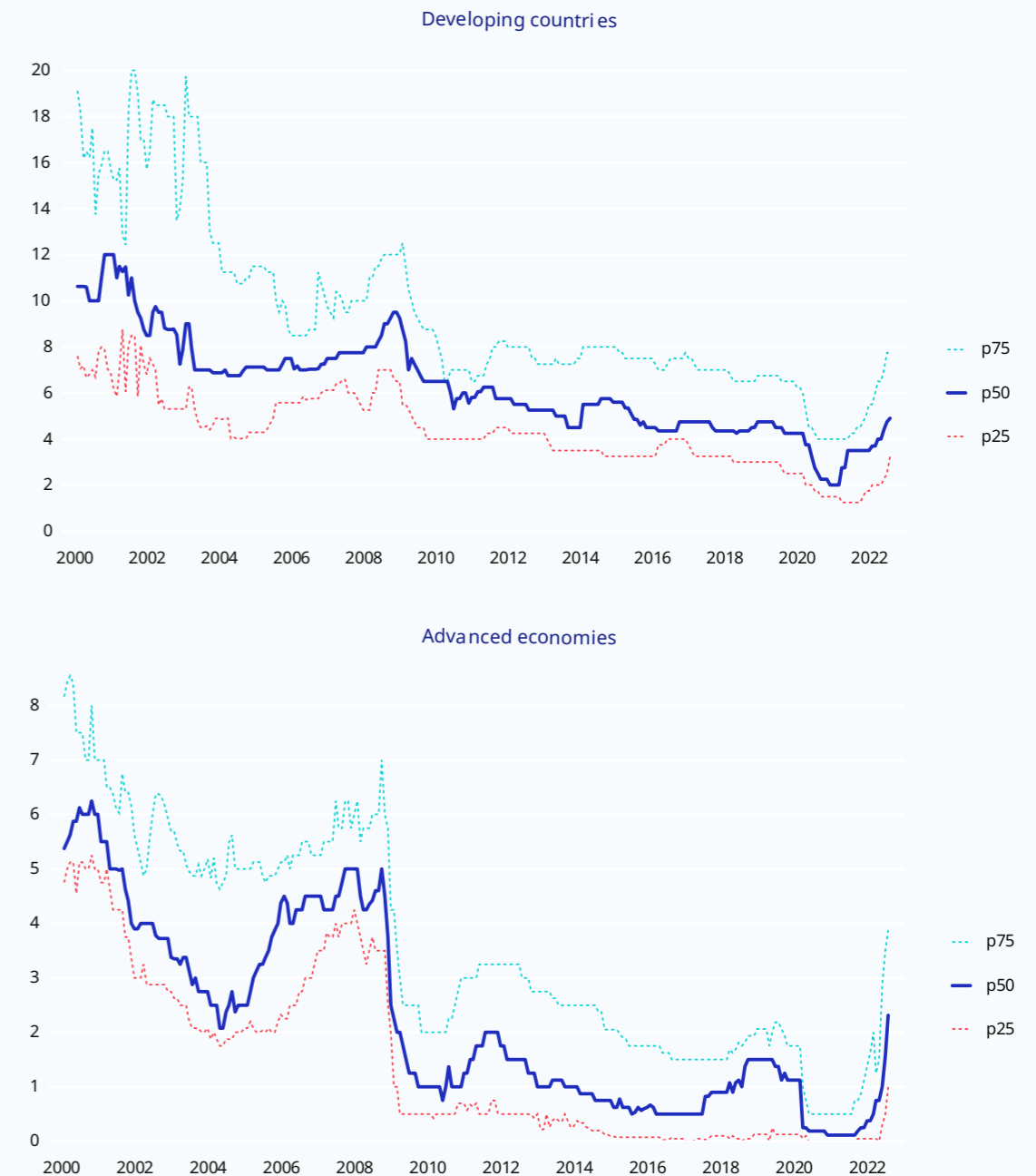
From accommodation to tightening of monetary policy: implications for labour markets

Central banks are responsible for setting monetary policy, which aims to adjust the supply and cost of money in an economy through various tools (namely, adjustment of central bank policy rates, changing reserve requirements and open market operations). During crises, as witnessed during the GFC and the COVID-19 pandemic, central banks turn to quantitative easing to engage in large-scale purchases of government and corporate bonds. Through their effect on aggregate demand, such policy interventions can, in turn, impact labour markets (for example, a reduction in interest rates can spur investment, which subsequently leads to the creation of new jobs, though this will depend on the sectors that benefit from such measures). However, this does not mean that most central banks set monetary policy in line with employment objectives. While the United States Federal Reserve System has a dual mandate to promote both price stability and full employment⁴ (joined more recently by the Reserve Bank of New Zealand⁵), the majority of central banks do not have an explicit employment goal that determines monetary policy setting (although there are references more generally to such issues in their broader strategies). Hence, the main impact of monetary policy is through its direct transmission to inflation and output, and subsequently the labour market.

A key feature of the COVID-19 crisis was that central banks in developing countries engaged in substantial loosening of monetary policy, which was not evident in previous crises and economic shocks (Islam 2021). These central banks cut policy rates and, in many cases, maintained them – at least until the end of 2021 when inflation started rising in response to rising demand (as lockdown measures were further lifted), which was confronted by fragile supply chains.

Based on data from the Bank for International Settlements, covering 37 central banks in advanced and developing economies (key middle-income countries for the latter), the distribution of central bank policy rates shows a clear fall during the COVID-19 crisis of 2020–21 (figure 1.1). In the case of advanced economies, the long period of very loose monetary policy left central banks in these countries little room to cut rates; by mid-2020, the median policy rate was at the zero lower bound. Central bank policy rates in developing countries have been on a downtrend since the time of the GFC, but these economies had more policy space to cut rates at the start of the COVID-19 crisis. The median policy rate in developing countries in the sample reached a low of 2 per cent by November 2022, which is considerably lower than the post-GFC median rate, which persisted above 5 per cent until around 2015.

► Figure 1.1. Central bank policy rates in advanced economies and developing countries, 25th percentile, median and 75th percentile over 2000m1–2022m7 (percentage)



Notes: p25 = 25th percentile, p50 = median, p75 = 75th percentile. Developing countries: Argentina, Brazil, China, Colombia, India, Indonesia, Malaysia, Mexico, North Macedonia, Peru, Philippines, Romania, Russian Federation, Serbia, South Africa, Thailand and Türkiye. Advanced economies: Australia, Canada, Chile, Croatia, Czechia, Denmark, euro area, Hong Kong (China), Hungary, Iceland, Israel, Japan, Republic of Korea, New Zealand, Norway, Poland, Saudi Arabia, Sweden, Switzerland, United Kingdom and United States.

Source: Authors' calculations; Bank for International Settlements, statistical database.

⁴ The Fed and the Dual Mandate | In Plain English | St Louis Fed

⁵ History of the remit and policy targets agreement - Reserve Bank of New Zealand - Te Pūtea Matua

There are some cases of negative rates in advanced economies (Denmark, Japan and Switzerland), but there are also central banks in the emerging market and developing economies which have maintained very low rates (such as Albania, Fiji and Thailand) that are effectively close to zero (Islam 2021). Overall, the dispersion of central bank policy rates in both developing and advanced economies has fallen considerably over the last 20 years.

Given that interest rates were already low prior to the COVID-19 crisis (reflecting the overall low inflationary environment), there was less room for manoeuvre than in 2008. For this reason, monetary authorities have had to rely on unconventional monetary policy tools, which were also used in the GFC, but have now been employed at an unprecedented level. In particular, large-scale purchases of longer-term financial assets (for example, government/corporate bonds), known as quantitative easing (QE), have injected massive amounts of funds, which have helped stabilize financial markets, keep

economies afloat and help with recovery over 2021 (UN DESA 2022). From 2020 to the end of 2021, the central banks of the eurozone, the United States, the United Kingdom and Japan purchased approximately US\$10.2 trillion, resulting in an increase in their total assets of over US\$25.9 trillion (UN DESA 2022). QE has not only been used in advanced economies. A number of central banks in emerging market economies also purchased assets to support markets and the economy (for example India, Indonesia, South Africa and Türkiye) (table 1.1).

While there is some evidence that QE has a positive impact on economic recovery (see, for example, Bernanke 2020), it has been argued that it was less effective during the COVID-19 crisis, particularly in terms of translating lower interest rates into higher investment rates (UN DESA 2022). At the same time, there is a debate as to the extent that QE has contributed to asset bubbles and exacerbated inequality through the asset price channel (Brunnermeier 2023).

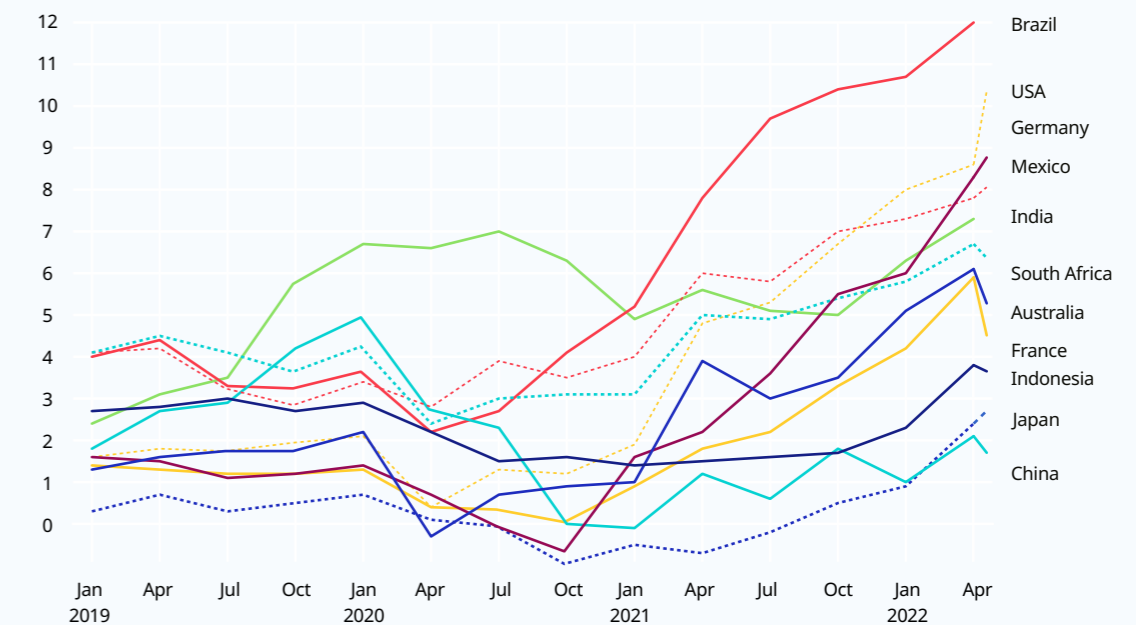
► **Table 1.1. Use of unconventional monetary policy tools during the COVID-19 crisis, selected emerging market economies**

Country	Rate cut	Forward guidance	Asset purchase	Expanded liquidity provisions	Programmes to encourage bank lending	Regulatory easing
Brazil	Y	Y			Y	Y
Chile	Y				Y	Y
China	Y				Y	
India	Y	Y	Y		Y	
Indonesia	Y		Y	Y	Y	
Russian Federation						
South Africa	Y		Y			Y
Türkiye	Y		Y	Y	Y	

Notes: Y = yes, otherwise blank.

Source: Islam (2021).

► **Figure 1.2. Average quarterly change in consumer prices in selected countries, 2019Q1 to 2022Q2 (percentage)**



Source: Economist Intelligence Unit.

After the lifting of COVID-19 lockdown measures, inflation rates picked up pace at the end of 2021, before accelerating throughout 2022, as a result of disruptions to supply and higher levels of demand. The situation was exacerbated by the shock generated by the aggression in Ukraine. Due to the support provided by governments during the pandemic and the restrictions on accessing services (such as travel and hospitality), consumers, especially in advanced economies, increased spending on goods, which led to inflationary pressures as early as in 2021. This put pressure on supply chains, which were disrupted during the pandemic and then by the Ukraine conflict. While inflation rates have increased significantly since the end of 2021, some countries (for example, in East and South-East Asia) have experienced more gradual trajectories (figure 1.2). Consequently, the dispersion in inflation rates across countries has increased considerably.

As highlighted above, higher inflation rates erode workers' purchasing power, leading to a reduction in consumption and higher poverty rates if these losses are not compensated. The challenge for monetary authorities is that inflation persisted throughout 2022, and that further increases in interest rates might push economies into recession – which would have further negative effects on the labour market.

Following generous fiscal stimulus packages during the COVID-19 crisis, what are the risks of consolidation for employment?

Given the constraints to monetary policy (zero lower bound) and the unique aspects of the COVID-19 pandemic (that is, lockdown measures that brought economic activity to a halt), fiscal policy played an essential role during the 2020–21 period. Not only did it support the health response (hospital care, vaccination, testing and tracing) but it also helped enterprises remain in business and kept workers and their families out of poverty. Such countercyclical fiscal policy measures helped countries protect economies and labour markets during the pandemic, especially in advanced economies. However, policymakers need to be careful how they make fiscal adjustments during recoveries; as witnessed in the EU following the GFC, premature fiscal austerity (consolidation) prolongs recoveries and hurts labour markets (see, for example, House, Proebsting and Tesar 2020).

While the macroeconomic response to the COVID-19 crisis has been built on the experiences of the GFC, the approach to stimulus has been less constrained by concerns that were evident after 2008 (Verick,

Schmidt-Klau and Lee 2022). This time around, there was less apprehension about debt levels, at least in advanced economies where borrowing was supported by historically low interest rates that were expected to continue for some time to come (policymakers did not, of course, foresee the Ukraine conflict and the pressures on inflation that emerged in 2021/22). Significant resources were allocated to job retention schemes in 2020, exceeding the allocations in 2009, which have kept millions of workers in jobs, including through new and innovative schemes outside advanced economies. Social protection schemes have been extended in duration and coverage to include, in some cases, the self-employed, platform workers and others not typically covered by existing measures.

Fiscal policy measures amounted to US\$16 trillion (as of 17 March 2021), accounting for around 18 per cent of 2019 GDP, which has been distributed across additional spending and foregone revenue (US\$10 trillion), as well as government loans, guarantees and capital injections (US\$6 trillion) (Verick, Schmidt-Klau and Lee 2022). However, this spending has not been evenly distributed. The bulk of it has benefited advanced economies,

which account for more than US\$9.02 trillion of the additional spending and foregone revenue, along with almost all the government loans, guarantees and capital injections.

Additional spending from January 2020 to October 2021 accounted for 15.3 per cent of GDP in the median G20 advanced country (IMF 2021), which was mostly earmarked for non-health spending (including the various subsidies, such as job retention schemes discussed below) (figure 1.3). The median additional spending in other advanced economies was lower – but still at an unprecedented level of 9.3 per cent of GDP. In comparison, the median additional spending reached 4.9 and 3.5 per cent in G20 emerging markets and other selected emerging markets, respectively. Unsurprisingly, the lowest level of spending was witnessed in low-income developing countries (2.7 per cent), which included just 1.8 per cent of non-health additional spending. This disparity in policy support not only impacted the ability of countries to respond to the health dimensions and immediate economic concerns in 2020, it also limited their capacity to vaccinate their populations and steer themselves towards recovery over the 2021–22 period.

► **Figure 1.3. Fiscal stimulus during the COVID-19 crisis: additional spending and foregone revenue, January 2020 to October 2021 (percentage of GDP)**



Note: Median values are presented by country category.

Source: See IMF (2021) for details on countries covered by these categories.

Fiscal deficits and debts have increased sharply in both advanced and emerging economies as a result of the policy responses to COVID-19, which included both the necessary spending on healthcare and vaccinations and the support to businesses and households needed to mitigate the effects of the lockdown measures. In addition, revenues fell during 2020–21 due to the recession.

As countries embarked upon recovery over 2021 and into 2022 (before the shock of the Ukraine war), the fiscal balance started to improve, reflecting improving revenue flows and cutbacks in pandemic spending. IMF estimates indicate that the fiscal balance (government net lending/borrowing) in advanced economies recovered from –10.4 per cent of GDP in 2020 to –7.2 per cent in 2021 and –3.6 per cent in 2022 (IMF 2022). Emerging market/middle-income economies and low-income countries experienced some reduction in the deficit in 2021 (less so for low-income economies), but it is estimated that the situation worsened in 2022 as a consequence of the Ukraine crisis (IMF 2022).

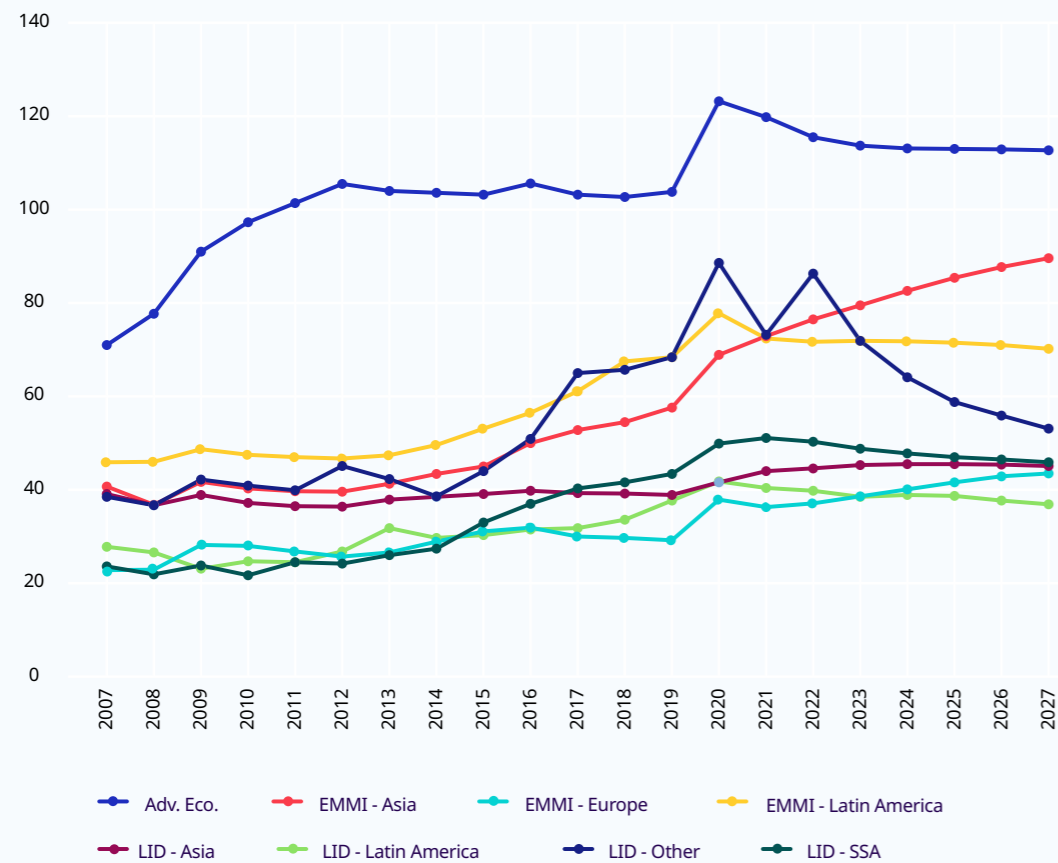
On account of the fiscal spending during the pandemic, along with lower revenues, debt levels have soared, pushing some developing countries into an unsustainable situation. The gross public debt-to-GDP ratio increased significantly from 2019 to 2020 in both advanced economies and middle-income countries (Latin America and Asia), along with some low-income developing countries (outside Asia, Latin America and sub-Saharan Africa) (figure 1.4). The increase in advanced economies reached almost 20 percentage points, rising from 103.8 per cent of GDP in 2019 to 123.2 per cent in 2020. While the overall level of public debt is lower in developing

countries, reflecting the bigger constraints they face in financing public expenditure, debt ratios are expected to remain elevated or even increase as forecast for emerging markets and middle-income countries in Asia.

On top of the higher debt ratios stemming from increased (health and non-health) spending on the pandemic, the Ukraine war has unleashed a major shock that has pushed up prices of food, fuel and finances – as mentioned earlier in the text. Due to the effects of these multiple crises, an increasing number of low- and middle-income economies experienced significant debt distress in 2022, which has caused a food crisis in some cases (in low-income countries that depend on food imports) and will constrain spending in most developing countries over 2022–23. According to IMF data, the proportion of low-income countries in debt distress or at high risk of debt distress has increased twofold since 2015 – up to 60 per cent (Chabert, Cerisola and Hakura 2022). At the extreme end of the scale, a number of countries have defaulted on their debt in 2022, most notably Sri Lanka, Lebanon, Zambia and Suriname. Overall, developing countries are now facing much reduced fiscal space, which constrains their response to the ongoing cost-of-living crisis (and future shocks) and their ability to promote full, decent and productive employment.

The key challenge during this period of crisis, uneven recovery and volatility will be to find sustainable sources of financing for developing countries so that they can address the longer-term challenges and new forms of inequalities. This will require greater global coordination and support for low- and middle-income countries.

► Figure 1.4. Trends in gross public debt by country grouping, 2007–27 (percentage of GDP)



Note: EMMI = emerging market and middle-income economies; LID = low-income developing economies. For a definition, refer to the IMF website.

Source: IMF, Fiscal Monitor Database, accessed 6 September 2022; Fiscal Monitor by Indicator - Gross debt - < Data.

Job retention schemes: a key pillar of fiscal stimulus and automatic stabilization frameworks

One of the main pillars of the fiscal response to the COVID-19 crisis was job retention schemes, which played a central role in keeping workers in jobs (and keeping unemployment rates relatively stable in countries that made extensive use of these interventions, for instance the EU). Job retention schemes include both short-time work arrangements and wage subsidies, which are financed through various sources depending on the country, including unemployment insurance and direct budget allocations (Eichhorst et al. 2022). A key lesson drawn from the experiences of both the GFC and the COVID-19 crisis

is that such schemes represent a pillar of pro-employment macroeconomic frameworks; properly designed, they can act as an automatic stabilizer during crises to keep workers in jobs and facilitate a more rapid and inclusive recovery.

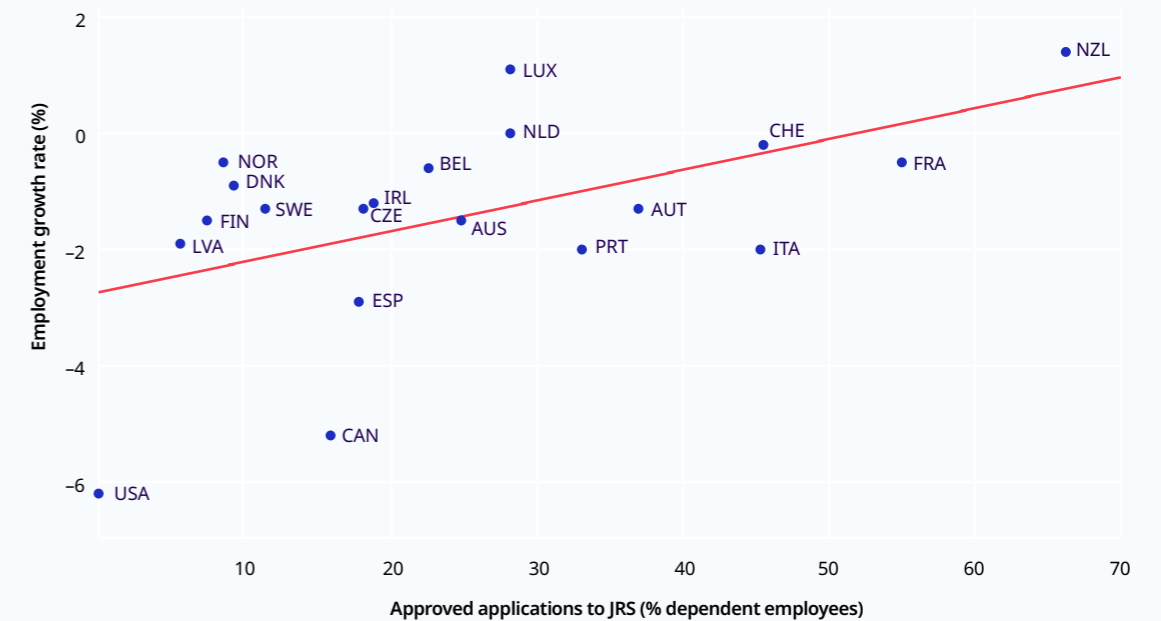
At the peak of the lockdowns in May 2020, job retention schemes supported 50 million workers in OECD countries, which is ten times the number at the time of the GFC (OECD 2020). The best-known programme is the German *Kurzarbeit*, which successfully helped the manufacturing sector in Germany cope with the GFC. This scheme was simplified and extended (in duration – to 24 months – and in coverage – to temporary agency workers) during the COVID-19 crisis. Consequently, the number of workers covered by the programme reached around 6 million in April 2020, up from under 45,000 the preceding year (and a peak of 1.4 million in 2009 during the GFC).

Due to the relatively robust recovery in Germany, the number of workers covered by *Kurzarbeit* fell over 2022, amounting to 259,000 in June 2022 (BFA 2023). However, in the second quarter of 2022, the Ukraine war had already begun to impact the EU labour markets. In the case of Germany, the seasonally adjusted unemployment rate increased in August to 5.6 per cent, of which 0.4 percentage points may be attributed to the flow of Ukrainian migrants (BFA 2022). Higher energy prices and other disruptions have not yet resulted in a deterioration of EU labour markets.

and significant relationship between approved applications to job retention schemes as a share of dependent employees and the employment growth rate in 2020 (figure 1.5).⁶ The positive relationship is evident for countries such as New Zealand, which did not have a scheme prior to the crisis. The United States is positioned at the other end of the spectrum, but workers who are temporarily laid off (in other words, furloughed) are counted as unemployed (on temporary layoff). In May 2020, there were 15.3 million United States workers in this category, falling to 1.8 million in May 2021.

Turning to a sample of 20 OECD countries with data on these measures, there is evidence of a positive

► Figure 1.5. The relationship between job retention schemes (JRS) and employment growth rate in 2020 (percentage)



Source: Verick, Schmidt-Klau and Lee (2022); Approved applications to job retention schemes as a share of dependent employees – OECD (2020); Employment growth rate – authors’ calculations, labour force surveys, ILOSTAT (accessed 17 June 2021).

⁶ This correlation uses the growth rate of employment, which is a stock variable and hence does not show the relationship with flows (that is, hiring and firing).



During the pandemic, significant extensions and innovations to job retention schemes were introduced. Based on a sample of advanced and developing countries, three types of responses can be identified (Eichhorst et al. 2022):

1. Existing regulatory systems of short-time work were adapted and expanded.
2. Existing regulatory systems were replaced by specific crisis-related regimes.
3. New job retention schemes were introduced in the absence of existing systems for short-time work, typically for a limited period of time.

While the first two groups are dominated by countries with developed social protection and welfare systems, established short-time work models and comparatively strong employment protection, the third group consists of more liberal policy regimes. However, even in these economies, efforts were made to protect jobs during the COVID-19 pandemic, typically through wage subsidy schemes as an ad hoc intervention rather than short-time work schemes (Eichhorst et al. 2022). Wage subsidy schemes with different targeting were also the most prominent support scheme adopted in low- and middle-income countries included in a sample covered by Eichhorst et al. (2022), which also reflects the absence of substantial unemployment insurance coverage in these labour markets (table 1.2).

Evidence from the COVID-19 crisis shows that job retention schemes tended to be effective in mitigating the direct impact of an external shock on jobs, avoiding or delaying dismissals, in particular where there was strong employment protection and a workforce with specific skills and longer tenure (Eichhorst et al. 2022). This is also very clear from past and current experiences with short-time work schemes. It is beneficial when actors, at the outset of a crisis, can rely on an established regular standard short-time work scheme that also exists in normal times but can be adapted swiftly to better cope with the economic shock. This requires, of course, an administrative capacity that can be expanded quickly in times of crisis.

► Table 1.2. Adaptation and adoption of job retention schemes, 20 selected countries

	Pre-existing short-time work scheme	Increased access and coverage	Increased benefit generosity	Increased access for workers in non-standard jobs	New short-time work scheme	New/adapted wage subsidy scheme
Austria	✓	✓	✓			
Canada	✓					✓
Denmark	✓	✓			✓	
Egypt						✓
France	✓	✓	✓	✓		
Germany	✓	✓	✓	✓		
Hungary					✓	
Mexico						
Netherlands*	✓					✓
New Zealand						✓
Peru						✓
Philippines						✓
Republic of Korea	✓	✓	✓			
Serbia						✓
South Africa						✓
Spain	✓	✓	✓	✓		
Sweden	✓	✓	✓			
United Kingdom					✓	
United States	✓	✓	✓			
Viet Nam						✓

Notes: Netherlands: the existing short-time work scheme was replaced by a temporary wage subsidy scheme.

Source: Eichhorst et al. (2022).

The role of industrial policies during recovery and structural transformation

The work of the ILO in the domain of employment policy is directed by the Employment Policy Convention, 1964 (No. 122), which outlines two

broader categories of employment policy as major policy goals: (a) economic and social policies, and (b) labour market policies. The first category comprises sectoral and industrial policies. As discussed in detail in the first *Global Employment Policy Review* (GEPR) (ILO 2020c) and summarized below, industrial policies are back on the development agenda and have been an important part of policy reforms

across the globe.⁷ In addition, they were part of the crisis response package of many countries. We shall briefly summarize the findings from the last GEPR, before analysing a number of sectors in more detail.

Sectoral policies were widespread in development policy practice and discourse in the two decades following the Second World War, which witnessed exceptionally high economic growth rates (UNCTAD 2016; Aiginger and Rodrik 2020). In the 1980s, sectoral policies were challenged by the rise of the so-called Washington Consensus, which focused on macroeconomic aggregates such as government debt and deficit targeting, while placing considerable emphasis on policies to attract foreign direct investment. Nevertheless, even at the apex of the Washington Consensus, the fastest-growing developing countries extensively used sectoral policies, with the East Asian Tiger countries and China providing famous examples. In the wake of the GFC, many mainstream economists started to question the core doctrines of the Washington Consensus. This led to a renewed appreciation of and interest in the positive role that sectoral policies have played and can continue to play in the pursuit of economic development. In today's debate there is agreement that considerable scope remains for developing countries to harness such policies (Aggarwal and Evenett 2014; UNCTAD 2016).

As a result of this renewed interest, approaches to sectoral targeting have evolved, moving away from top-down planning methods supporting particular infant firms towards more decentralized approaches. These approaches employ a larger range of support instruments, which aim to build linkages and clusters (Salazar-Xirinachs, Nübler and Kozul-Wright 2014). There is also widespread recognition that sectoral policies must be accompanied by supporting labour market, macroeconomic, skills, enterprise and trade policies in an integrated policy package. In addition, social protection policies have a clear role to play in enabling the structural transformation of the economy, by allowing workers to make the transitions and reducing potential social and political tensions

The discussion around sectoral policies also keeps widening in scope to consider learning and knowledge accumulation as central objectives (Stiglitz, Lin and Monga 2013; Salazar-Xirinachs, Nübler and Kozul-Wright 2014). In the past, an industrial policy was often understood as being merely a development plan for a certain industry sector or a set of sectors that had been determined by governments. However, as defined by Dani Rodrik, the development of a sectoral policy should be a process of "self-discovery", "one where firms and the government learn about underlying costs and opportunities and engage in strategic coordination" (Rodrik 2004). In this context, learning always involves a certain degree of risk and uncertainty. Therefore, a key preoccupation of sectoral policies needs to be when and how to shift away from policies that have not achieved their desired objectives – not least those policies that have failed to promote the expansion of their sectoral targets.

Sectoral policies have significant potential to advance inclusive structural transformation. Countries at all stages of development have therefore tried to reshape their respective economies to improve productivity and living standards. Nevertheless, the impact of such structural transformation processes has not been even across regions and countries, with some economies, particularly in the most underdeveloped regions, suffering productivity declines as a result of the sectoral reallocation of labour from higher to lower productivity sectors. Consequently, a strong recovery from the crisis can only become a reality with inclusive and sustainable structural transformation processes, which ultimately lead to the creation of decent work for all.

In this context, sectoral policies must contribute towards achieving the dual objective of full employment and higher productivity by enabling shifts in output and employment towards more productive sectors. It should be borne in mind that negatively affected sectors must be supported in their (potential) transitions and that those workers who are not able to make a transition to a higher quality, higher productivity job need to be covered through social protection systems in order not to be left behind. Recent research shows that structural

transformation policies which are inclusive must account for differences in the extent to which economic growth leads to higher productivity and/or incomes across sectors and over time (Lee et al. 2020). A key factor to consider is the development stage of the respective country – particularly whether the country can be described as being predominantly agrarian; whether it is currently at an early or middle industrialized stage; whether it is experiencing premature deindustrialization; or whether it has arrived at a mature post-industrial stage.

In various low-income countries, however, labour has shifted from low-productivity agriculture to low-productivity services, often within the informal sector – and with little or no industrial activity. A vital task would therefore be to identify opportunities in manufacturing and in the modern services sectors with a view to raising productivity and absorbing workers who have quit agriculture and other resource-intensive sectors. Doing so would also guarantee that appropriate investments are made in the advancement of promising sectors such as the green economy, which is discussed in greater detail later in the text.

Sectoral and industrial policies remain crucial components of recovery efforts from the COVID-19 pandemic (Stoica and Radu 2021). Nevertheless, recent experiences (such as in Costa Rica, Ghana, South Africa, Spain and Viet Nam) clearly show that merely adopting an industrial policy is not sufficient to guarantee successful structural transformation. Not only is there a need for detailed diagnostics in the design phase, which accurately assess the potential of different promising sectors (involving social dialogue), but it is also vital that sectoral policies are part of a coherent policy package that includes, inter alia, policies that ensure sustainable enterprise development and strive for the same developmental and economic goals as a country's overall strategy (Kucera, Schmidt-Klau and Weiss 2020).

More specifically, these recent experiences suggest the following six recommendations for policymakers:

1. *Proper design matters:* Sectoral policies need to be designed carefully and be well embedded into the wider policy context. Those designing the policies need to have an excellent technical knowledge about the economic context of the country, the

institutional setting as well as the political economy.

2. *The self-discovery process is crucial:* When the design phase was effectively used to explore the nature of the economy and the potential of its sectors, there was a higher potential for success during implementation. Nevertheless, this self-discovery process should not end when sectors have been identified and policies put in place. There needs to be repeated action during implementation to be able to identify new challenges and adapt accordingly.
3. *Design and implementation require time:* The analysis also revealed that sectoral policies require time to be designed and implemented, and that they need to be adjusted regularly to changing circumstances. The first generation of sectoral policies is often only a starting point, but later generations often gain in quality via appropriate monitoring and evaluation.
4. *Adequate resources and institutions need to be put in place:* The availability of sufficient (public and private) funds and the establishment of functioning institutions appear to be major success factors. In particular, institutions have to be capacitated to play their respective roles in the implementation process – and a clear structure of roles and responsibilities must be established to prevent duplication of work.
5. *Integrated approaches are vital:* Isolated sectoral policies, dissociated from other policies, are ineffective. It is a challenging task to align sectoral policies with a country's overall economic and development policies but it ensures that the respective sectoral policy obtains the recognition and support it requires to be successful. This is not the case when the process of sectoral policy creation is driven entirely by the private sector.⁸ However, given the vital role of the private sector, policies to create a sustainable business environment also need to be in place.

7 In this chapter (and as also discussed in the first edition of the GEPR), we prefer using the term sectoral policies as opposed to industrial policies to emphasize that we allude not merely to industry in its narrow sense, but also to the services and agriculture sectors. In so doing we agree with Dani Rodrik's broader approach. He defined sectoral or industrial policy as follows: "... restructuring policies in favor of more dynamic activities generally, regardless of whether those are located within industry or manufacturing per se." For further details, see Rodrik (2004).

8 For further information on the particular importance of policy coherence, see, for example, Aiginger (2014).

6. *Involving all stakeholders throughout the entire process of design and implementation is crucial.* The policy design, the identification of sectors and the actual implementation (including regular monitoring and evaluation) will only be successful when as many stakeholders as possible are involved. If the policy design process is not sufficiently participatory, there is a substantial risk that the policy will be left to gather dust on a shelf.

While the analysis found little involvement of workers organizations in many of the processes, it is likely that their involvement would further augment the effectiveness of the processes. Or, put in other words: “The participation of workers, farmers, and citizens in decision making is important, both in emerging and industrialized countries, even if there are large differences across societies and stages of development. Social partnerships, through which trade unions and other representatives of employees can participate in upgrading products and skills, should be ventured, maintained, or adapted to changing societal needs” (Aiginger and Rodrik 2020, 201).

Based on the above summary, the following sections will analyse recent policy trends in specific sectors. The focus on the *green, digital, and care sectors* as they are frequently identified as sectors that have significant potential for decent job creation, while simultaneously rendering economies more equal and inclusive.

The green sector

As regards the green sector, NEPs represent a viable entry point to reconcile employment and environmental goals, notably through the promotion of “green jobs”. NEPs have recently become more amenable to environmental objectives, covering different approaches to decent work creation within the green economy. On the demand side, such measures have included: introducing tax reform to encourage the greening of the economy (such as the carbon tax established in the Canadian Province of British Columbia); providing adequate financial resources to reinforce enabling investments for green enterprises and sectors (such as the Green Fund in South Africa); or creating green job opportunities (such as Indonesia’s Strategic Plan for Sustainable Tourism and Green Jobs, and Zambia’s Sustainable

Housing). On the supply side, the emphasis has been predominantly on training and skills development (“greening of skills”), including reskilling efforts as part of ALMPs.

Nevertheless, there is scope to improve further the design of such policy measures and to make their implementation more effective through an integrated approach. Green jobs issues are often included in broader national frameworks instead of being a component within a dedicated green employment policy. Consequently, successful examples are characterized by a coherent and well-coordinated set of policies – especially in the areas of education, employment/labour market, and skills development – advocating for a greener economy and green jobs (Nebuloni, Ernst and Epifanio 2020). Other relevant examples include various efforts to “green” existing industrial/sectoral policies (Aiginger 2013), new forms of sectoral policies driven by employment-related concerns (Rodrik 2019), and the “green new deal” – which has adherents on both sides of the Atlantic Ocean, notably the European Commission (European Commission 2019).

According to ILO research (ILO 2018b), 24 million new jobs could be created globally by 2030 if appropriate policies to promote a greener economy were to be implemented. Taking action to limit global warming to 2°C would create a sufficient number of new jobs to more than offset job losses of 6 million elsewhere. At the regional level, there would be net job creation in the Americas, Asia and the Pacific, as well as Europe, constituting approximately 3 million, 14 million and 2 million jobs, respectively, as a result of measures taken in the use and production of energy. On the other hand, there might be net job losses in the Middle East (–0.48 per cent) and Africa (–0.04 per cent) due to the regional dependence on fossil fuel and mining, respectively.

At country level, there are many recent examples of such green sectoral policies. In Morocco, renewable energy has been used as a trigger for industrial development (Auktor 2017). A green sectoral policy has been established in the country – although it has not been officially labelled as such by the government. Market creation incentives have led to the formation of a new market for renewable energy technologies and managed to attract much needed financial investment. Training programmes have enabled skilled and unskilled workers to take part in the first projects, while research and education programmes have improved the general public’s

awareness of this new sector and its future potential. Last but not least, a range of supporting programmes targeted at the private sector have created interest in discovering renewable energy investment opportunities.

In Germany, the Energy Transition (*Energiewende*) is a public policy focused on the transition towards renewable energies (Pegels 2017). Given that competitiveness is one of its explicit aims, the Energy Transition is not only an environmental policy, but should be considered a green sectoral policy. Globally, it is certainly one of the most ambitious energy transition ventures, seeking to direct the German energy sector towards sustainability by achieving a variety of quantitative targets for energy efficiency, renewable energy and greenhouse gas reduction. Germany has made considerable progress towards attaining the official Energy Transition objectives, especially with respect to deploying renewable energies for electricity generation. However, other fields – for example energy efficiency – are still short of their respective targets.

China has witnessed a recent shift towards electric mobility and a quest for automobile industry upgrading (Altenburg, Feng and Shen 2017). The country actively promotes an ambitious programme for electric mobility, which has two main objectives: (a) to increase the competitiveness of its national automotive industry; and (b) to reduce urban air pollution. The Chinese sectoral policy mix facilitates the development of plug-in hybrid and battery-electric passenger cars, trucks and buses by utilizing a variety of regulations and subsidies. It is motivated primarily by the need to decrease urban air pollution and the desire to advance into a new and promising domain of technological specialization. China’s programme is an exemplary case of green sectoral policy striving for greater competitiveness and technological upgrading, while simultaneously making environmental improvements. The sectoral policy package encompasses considerable R&D efforts, strategic public procurement, technology-sharing agreements with international investors, purchase subsidies and trials in selected cities. As a result, electric-powered buses, passenger cars, trucks

and two-wheelers are developing into a growing alternative to fuel-based mobility.

Brazil has spearheaded sectoral policies to increase the consumption of renewable energy sources, using incentives to produce ethanol and hydroelectricity (da Motta Veiga and Polónia 2017). These policies also encourage the creation and development of ethanol-powered vehicles and, at a later stage, flex-fuel cars. Related price controls and the use of specific taxes have made the relative price of ethanol sufficiently attractive to consumers. The introduction of flex-fuel cars, facilitated by credit and tax subsidies, has led to the creation of a large and growing ethanol market and helped to increase the price elasticity of demand for ethanol. More recently, Brazil has moved in a different sectoral policy direction, away from demand-focused measures towards supply-side interventions targeted at boosting ethanol productivity.

Other examples of green policy include the European Green Deal (2019), the Next Generation EU Fund (2020), the Korean New Deal (2020) and the American Rescue Plan Act (2021).

The digital sector

Sectoral policies focused on developing the digital economy are also rising in prominence. For example, in the United States, sectoral policies are carried out by a number of national agencies that provide funds for breakthrough early-stage innovation and play a key role in establishing networks of companies, engineers, scientists, universities and venture capitalists, which then facilitate the commercialization of new knowledge.⁹ The French and German Governments have set up the Joint European Disruptive Initiative in order to establish a European counterpart to the United States Defence Advanced Research Projects Agency (DARPA). Moreover, *Horizon 2020*, the EU’s largest R&D programme, is designed to help Europe produce world-class science and technology. There is also the European Innovation Council (EIC), which brings together those parts of *Horizon 2020* supporting breakthrough research and/or market-creating innovation technologies with high risks and high

⁹ A famous example is the Defence Advanced Research Projects Agency (DARPA). Major inventions, such as the internet and the Global Positioning System, as well as the emergence of Silicon Valley, have all indirectly or directly been attributed to DARPA. See European Commission (2022).

returns.¹⁰ Furthermore, the European Commission presented a “New Industrial Strategy for Europe” in March 2020 and updated it in the context of the COVID-19 pandemic in May 2021.¹¹

In China, the current sectoral policy, *Made in China 2025*, is broad in scope, but includes “new information technology” as one of its ten priority sectors. Initially inspired by the German *Industrie 4.0 initiative*, this ten-year plan seeks to modernize the national industrial capacity and move it further up the value chain through the use of digital technology. Different tools are used to reach the strategic goals – (a) direct subsidies, (b) state-backed enterprises, and (c) technology transfers – with the ultimate goal of decreasing the country’s reliance on foreign suppliers and supporting its development into a leading advanced manufacturing country by 2049.

Last but not least, other countries, for example Saudi Arabia and the United Arab Emirates, use their respective sovereign wealth funds to actively steer innovation in certain directions, such as digital industries (European Commission 2022).

While many developing countries have also tried to push digitalization policies in certain sectors, there are very few successful examples, and they are often limited to certain industries, such as car manufacturing or apparel.

The care economy

The care economy is growing in significance as the demand for long-term care for the elderly (Tessier, De Wolf and Momose 2022a and 2022b) and child-care is rising rapidly in many parts of the world. The diverse institutional arrangements for the provision of care (the “care diamond”) characterize this sector: involving State (as both regulator and/or service provider), market (both formal and informal units), and voluntary/not-for-profit sector, in addition to unpaid care provided by families/households. The potential for care jobs to be decent is contingent

to a great extent upon the institutional configurations and the regulatory role assumed by the State. Nonetheless, care work across the globe is characterized by insufficient benefits and protection for those working in this sector – a situation compounded by low wages and exposure to mental and physical harm. It goes without saying that there is an urgent need for solutions to the care economy. Indeed, targeted sectoral policies have a vital role to play in developing this crucial sector, which is going to be increasingly important in the future on account of ageing societies. As a traditional provider of care services for older persons, governments are becoming overwhelmed by the vast demand for these services. For example, the share of GDP spent on elderly care is predicted to more than double between 2000 and 2050 in the United Kingdom. A number of high-income countries such as Germany and the United States have introduced market force mechanisms by setting up elderly care service projects on the supply side of their respective health and welfare systems to provide professional and diversified care for the elderly, including a range of medical and non-medical services (Song, Ji and Sun 2022). From the point of view of working conditions, this needs to be evaluated carefully.¹²

There are many examples of significant shortages in the provision of care work. This became particularly obvious during the COVID-19 crisis, but it is a typical phenomenon in all economies. Despite that fact that the major challenges and shortfalls within the care economy are widely known, there is scarce evidence to date that these shortcomings have been addressed in the form of specific sectoral policies. The care sector appears to have tremendous potential for decent job creation, but suffers from a lack of sufficient funding and policy focus.

To address some of these shortcomings, care work was included as one of the focus areas of the UN’s Global Accelerator on Jobs and Social Protection for Just Transitions (ILO 2022c). The corresponding road map (ILO 2022d) stresses the current unparalleled

opportunity to transform entire economic systems, by placing the care economy at the centre of sectoral and economic policies to build forward better with more resilient and inclusive economies and societies. Investing in care can yield major economic and social returns for individuals, families and societies via the so-called “quadruple dividend” consisting of the following four elements: (1) investing in the care sector contributes to improving public health and well-being, capabilities and rights, especially for the most disadvantaged; (2) investing in the care economy increases female labour force participation and income, thus advancing women’s economic empowerment; (3) investing in health and social care service expansion has the potential to generate millions of decent jobs both in care sectors as well as in other sectors through backward linkages; and (4) ensuring direct, indirect and induced employment generation within the care economy creates jobs with a relatively low carbon footprint.

Moreover, there is the new “Investing in health and social protection systems” initiative launched by the *Finance in Common* initiative and its Coalition for Social Investments (Decide Health Decision

Hub 2021), a group of public development banks and other stakeholders working to increase the quality and the volume of social investment globally, including in the care economy. It finds that a large number of developing countries have not yet completely acknowledged the crucial importance of the care and health sectors as catalysts for economic and employment growth. Over the past 20 years, global spending on health has increased at a faster rate than GDP, with the IQVIA Institute for Human Data Science forecasting global spending on medicines to reach US\$1.6 trillion by 2025, a drastic increase from US\$1.25 trillion in 2019, constituting an approximate annual growth of 3–6 per cent. The health sector also accounts for about 10 per cent of global GDP and supplies vital economic value to the global economy, in terms of both industrial outputs and services. Nevertheless, the potential of the care and health sectors as vehicles for providing decent jobs and increasing the labour market participation of women and youth, in both urban and rural areas, remains untapped despite the substantial socio-economic dividend potential discussed above (Coalition for Social Investment 2022).

► Responding to multiple crises: moving towards a human-centred recovery

In the wake of multiple crises, policymakers, especially in low-income and middle-income countries, are facing a complex set of labour market issues, including not only longer-term trends and challenges but also the uneven recovery from the COVID-19 crisis. All of these factors are compounded by the impact of the global cost-of-living crisis emanating from the Ukraine conflict. There is a considerable risk that the labour market recovery, especially in developing economies, will remain incomplete and uneven, especially for certain groups such as informal workers and businesses, less-skilled workers and youth. More worrying is that policy responses are now severely constrained due to the persistence of inflation, much reduced fiscal space and higher debt burdens, all of which will have negative effects on labour markets unless employment policy frameworks – including macroeconomic, sectoral and labour market policies matched by financing

– can be steered towards addressing both short- and longer-term employment objectives.

As explored further in this report, achieving a pro-employment policy approach requires action across multiple dimensions. Moving from a pure stabilization focus of macroeconomic policies to a transformative pro-employment agenda (see Chapter 5) involves measures that: (a) promote job creation where policy space allows; (b) resolve macroeconomic imbalances that hinder employment generation; and (c) support structural transformation through coherence with complementary sectoral and labour market policies that increase aggregate demand and expand domestic supply in the economy. During periods of high inflation (such as those witnessed in 2022–23), fiscal policy also needs to focus on expenditures that alleviate cost pressures, while tackling employment challenges

¹⁰ Welcomed by many as another European equivalent to DARPA, a crucial difference to the US agency is that the EIC does not seek to steer innovation in a particular direction. See European Commission (2022).

¹¹ In previous years, the Commission Communication of September 2017 on a renewed EU Industrial Policy Strategy stated its goal as being “to make the EU the world leader in innovation, digitisation and decarbonisation”. That strategy aimed at “empowering industries to create jobs and growth, defending its regions and workers most affected by industrial change and reinforcing Europe’s leadership role, competitiveness and technological cutting-edge”. The previously mentioned 2020 strategy, and its 2021 update in the context of COVID-19, follow in the footsteps of that broad objective. See European Commission (2022).

¹² The recent ILO *World Employment and Social Outlook Report 2023: The value of essential work*, analyses in detail the opportunities and risks in this sector

head on, addressing the root causes of inflation and supporting poor households and small businesses hurt by higher prices. As highlighted in Chapter 2, gender-responsive employment policies are needed to tackle the ongoing gender deficits, as reflected by gaps in labour force participation rates, sectoral/occupational segregation, the low quality of women's employment, and well-recognized gender wage gaps.

Given the climate crisis, an urgent priority is to link the promotion of a job-rich and inclusive structural transformation process with environmental sustainability. Opportunities exist to incorporate employment objectives into climate mitigation and adaptation strategies, and to include environmental and climate goals in employment policies. Either way,

careful coordination is needed across relevant government ministries and agencies, working together with the social partners, to ensure that outcomes are inclusive.

Assembling these various components is crucial not only to bring about a job-rich, inclusive and sustainable recovery from these multiple crises and address longer-term deficits, but also to strengthen the resilience of businesses and workers and help prepare for the next crisis. This approach would ensure that policymakers and the social partners are better prepared to mitigate the impact of future shocks on labour markets, thereby reducing the likely scarring effects and negative implications for inequality that arise out of such crises.

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Chapter 2

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

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Main findings

Labour markets are bearers of gender, since labour markets produce and reproduce gender inequalities, which intersect with other dimensions of inequalities. This is particularly evident in two dimensions of labour markets' structure: the sectors women work in, which very much determine women's working conditions; and the unpaid care work provided mostly by women, which limits their access to employment opportunities and the quality of jobs available to them.

Economic structure shapes how macroeconomic shocks impact women's and men's employment outcomes, as made evident by the impact of the COVID-19 crisis and the current cost-of-living crisis, and the macroeconomic policies put in place to respond to them. While many governments rushed to put in place policies to keep economies working and to safeguard incomes and jobs during the COVID-19 crisis, fiscal responses were uneven and most gender-responsive measures were phased out by the end of 2021. The recessionary costs of current "stabilization" policies might be, as in the past, suffered most by women.

Macroeconomic policies can explicitly promote gender equality concerns. These objectives need to be embedded in fiscal, monetary, exchange rate and debt management policies. This goes beyond gender-responsive budgeting although it certainly includes these efforts. It requires broadening the debate about fiscal space, moving from a static to a dynamic approach thereto. Finding gender-responsive financing options – including through aid and debt relief – becomes as crucial to gender equality outcomes as is the expenditure side. The channelling of resources through the banking system has proved effective in supporting female-dominated sectors and could become a permanent feature of credit policies. More broadly, gender-responsive macroeconomic policies are part and parcel of "coherent, comprehensive and integrated employment policy frameworks" (ILO 2022b) and need to work in tandem with sectoral, industrial, skills and active labour market policies to produce gender-egalitarian outcomes – to create more and better jobs for women, ensuring they are neither left behind in the recovery process nor once again the hardest-hit during a crisis.

► Introduction

Not long ago, gender-responsive macroeconomic policies would not have been taken seriously. Well-meaning fellow economists and policymakers would have been open to considering gender inequalities as a microeconomic issue, as it is relatively easy to accept that gender norms, internalized by men and women, and/or discrimination, result in distinct behavioural patterns – and ultimately in differentiated outcomes for women and men. But this would not have applied to macroeconomics. Perhaps this is understandable, since aggregate demand, trade balances, inflation or GDP – the bread-and-butter of macroeconomics – cannot of course be disaggregated by sex (although consumption and saving patterns certainly can).¹

However, the consensus has shifted. Concepts central to feminist economics, which have been elaborated for decades – like the understanding that unpaid care work² is a vital (indispensable!) part of any economic system (Antonopoulos 2009; Esquivel 2020) – have become common parlance as a result of the pandemic. There is now ample recognition that gender inequalities, including in the distribution of unpaid care work, intersect with other inequalities such as class and race and shape macroeconomic outcomes. Yet, how to operationalize

gender-responsive macroeconomic policies, defined as those that *explicitly address gender inequalities* based on diagnostics on the ways in which policies affect women and men differently,³ is still an open question (see box 2.1 for definitions). A recent evaluation of two decades of national employment policies, for example, shows that no fiscal or monetary policies addressing gender inequalities could be identified (D'Achon 2023).

Hence, the objective of this chapter is to lay down the analytical frameworks and tools necessary to promote gender-responsive macroeconomic policies which, coherent with sectoral policies within a comprehensive employment policy framework, contribute towards creating decent employment opportunities for both women and men (ILO 2022b). Although the literature reviewed is extensive, the presentation is evidence-based, not theoretical, building on the analysis of how the COVID-19 crisis unfolded and a review of the macroeconomic, sectoral and labour market policies that governments put in place during the emergency and recovery phases. Debates around financing for gender equality are also critically reviewed from a macroeconomic perspective.

► Box 2.1. Gender-responsive employment policies defined

Gender-responsive employment policies explicitly pursue gender-equality objectives, through the creation of full, productive and freely chosen employment, guided by the normative framework provided by the ILO Employment Convention, 1964 (No. 122) and accompanying Recommendation (No. 169). These policies are based on diagnoses of how policy options affect women and men differently and have been developed through a process of consultation and social dialogue to ensure non-discrimination and the fulfilment of women's right to work for profit or pay.

The *main features* of gender-responsive employment policies are:

- 1 Disaggregating some of these variables by sex is the approach followed by Taylor (1995).
- 2 Unpaid care work comprises personal care and housework, performed in households and communities without remuneration (not for profit or pay). For definitions, see Esquivel (2013).
- 3 This is the wording used in the Outcome 3.1., indicator 3.1.1 in the Technical notes for planning, monitoring and reporting on results contained in the ILO Director-General's Programme and Budget Proposals for 2022–23, December 2021 (not publicly available).

► Box 2.1 (cont'd)

1. Gender-responsive job creation strategies that include:

- a. **Macroeconomic policies that explicitly promote gender equality concerns, which are embedded within fiscal and monetary policies.** Fiscal stimulus packages of the kind put in place as the crisis unfolded comprised specific measures to support women and girls in critical policy areas (livelihoods, social protection, health, food security, and public infrastructure and housing). Whether or not the packages provided new resources or only reallocated existing resources had an impact on the size of the fiscal stimulus, and therefore on the ensuing recovery. Monetary policies, in turn, can provide liquidity to governments, households and businesses that enables them to avoid bankruptcy and debt build-up, which slows the recovery (UN Women and ILO 2021c).
- b. **Sectoral employment policies that promote a just transition to a gender-equitable, job-rich and environmentally sustainable economy.** The policies that lead to a gender-equitable structural transformation vary from country to country, but what they have in common is a recognition of women as producers, wage earners and unpaid carers. They channel investment to support women in these roles, including via ensuring decent working conditions and access to social protection. Industrial policies should enable women and men alike to benefit equally from the creation of jobs, including in new green industries and in the fields of science, technology, engineering and mathematics (STEM) (UN Women and ILO 2021b).
- c. **Gender-responsive employment programmes** guarantee that women benefit from the assets created, improved or maintained, and from the services provided or the training received; maximize the potential of programmes to attract women and allow them to join; and make sites into gender-responsive workplaces, enabling women and men to work in a safe and healthy environment, accommodating women's and men's life cycle needs, and ensuring women and men are paid equally for work of equal value; preventing and addressing harassment and workplace violence; and providing inclusive but safe work facilities.

2. Gender-responsive transition strategies that include:

- a. **Active labour market policies that support women's attachment to the labour market and guarantee their access to productive employment.** These include, for example: employment retention measures to prevent women from losing their jobs; wage subsidies with specific gender balance requirements supportive of women's re-entry into employment; as well as policies that support women's employability and job-readiness, for example, through help in acquiring digital skills. Inclusive and gender-responsive approaches encourage women's broader labour force participation and can in themselves accelerate the recovery.
- b. **Gender-responsive skills learning strategies and policies** entail creating gender-sensitive training environments with zero tolerance for discrimination and harassment; fostering opportunities for women in technology-intensive skills and occupations, and for men in care work through gender-responsive career development services; and encouraging and enabling women to participate in continuous professional development opportunities that allow balancing work, training and care responsibilities.

Source: Adapted from ILO (2021a).

► Gender impacts of COVID-19

The COVID-19 crisis has differed from previous crises by its severity and extent, and the unprecedented job losses it brought in its wake hit women hardest in 2020.

Women lost more jobs than men in proportional terms, except in high-income countries, where job losses were similar (-3.1 percentage points, employment-to-population ratios). Women's greater declines in employment-to-population ratios were observed in lower-middle-income countries in 2020 (-6.3 percentage points), while in upper-middle-income and low-income countries losses were similar (-4.5 percentage points). Men's losses amounted to -5.5 percentage points in lower-middle-income countries, -3.2 percentage points in upper-middle-income countries, and -2.8 percentage points in low-income countries.

Employment for both women and men gradually increased during 2021, but at a slower pace for women: in absolute terms and at the global level, there were approximately 19 million fewer jobs for women in 2021 than in 2019, while the figure was 10.2 million for men. Employment-to-population ratios did not recover to their 2019 levels for any income-level country grouping, and women's employment-to-population ratios recovered proportionally faster than those of men only in high-income countries (to reach -1.6 percentage points of the 2019 level, compared to -2.3 percentage points for men). For all other income-level country groupings, women's employment recovery lagged behind that of men by the end of 2021 (ILO 2022c). Hours worked for pay or profit show a similar picture: in high-income countries they recovered faster for women than for men in 2021, but in low- and middle-income countries their lower pace for women resulted in a widening gender gap in hours worked, as compared to pre-pandemic levels (ILO 2022a). The recovery from COVID-19 has been both gender-unequal and uneven across regions. At the time of writing, given the global impacts of the energy and food crises, there is a strong indication that whatever gains have been made, they might turn out to be short-lived (ILO 2023). There are several underlying

causes behind these gender-differentiated employment outcomes. Unpacking them allows us to identify *economies as gendered structures* – a central tenet of feminist economics, and it is a practical, evidence-based way to start building the analytical framework that supports gender-responsive macroeconomic policies.⁴

*First, labour markets are bearers of gender.*⁵ The COVID-19 crisis laid bare and deepened entrenched gender inequalities in labour markets that predated the crisis. Prior to the onset of the crisis, large numbers of women continued to be excluded from the labour market. Women's global labour force participation rates declined over recent decades from 50.3 per cent in 2005 to an estimated 47.2 per cent in 2019, resulting in a gender gap in the participation rate of around 27 percentage points (ILO 2020c). The major reason for working-age women being outside the labour force was that they were engaged in unpaid care work, while those in employment worked longer hours than men when both paid and unpaid work were taken into account (ILO 2018a). Before the crisis, the labour-underutilization rate (being unemployed, time-related underemployed or in the potential labour force) for women was 15 per cent, compared with 11.9 per cent for men (ILO 2020c). These figures were much higher for young people: 27.5 per cent for young women and 25.2 per cent for young men. Prior to the crisis, around one third of all young women were neither in employment nor in education or training (NEET), compared to 13.9 per cent of young men (ILO 2020b). Against this background, the closure of schools and other care services, restrictions to mobility and, in many cases, caring for those infected by the virus but suffering only mild symptoms, created an unprecedented demand for care within the home that was shouldered mainly by women (Ilkkaracan and Memis 2021; Craig and Churchill 2021; Sevilla and Smith 2020; Seck et al. 2021). Greater care responsibilities and restrictions on job seeking explain why the massive contraction of employment did not translate into wholesale unemployment but mainly into inactivity, particularly among young women (ILO 2021b).

⁴ For more formal presentations, see for example Seguino (2020). A textbook presentation can be found in UN Women (2017).

⁵ This is an expression coined by Elson (1999).

Gender inequalities were also apparent in working conditions before the crisis, when 55 per cent of women in middle-income economies and 78 per cent of women in low-income economies were in informal employment (outside agriculture) in the developing world (ILO 2018c). Among wage workers, gender pay gaps persisted at around 20 per cent (ILO 2018b). Women found it difficult to progress in their careers, confronted with glass ceilings that delayed their promotions, resulting in fewer women than men in senior management (Das and Kotikula 2019). Patterns of sectoral segregation along gender lines persisted the world over. Sectors such as construction, transport, storage and communication were universally male-dominated, while health, education and other social and personal services were female-dominated. The manufacturing industry was (and still is) male-dominated and high-skill-intensive in high-income countries; however, it was female-dominated or reaching parity in some lower-middle-income countries, where it also tended to be low-skill-intensive (Esquivel 2019). Inherent in these patterns were processes of structural transformation during which women tended to lose their jobs in greater numbers than men whenever relatively low-productivity sectors (subsistence agriculture, traditional services) contracted without there being proportional job gains in high-productivity sectors (high-skilled manufacturing industry, modern services), even when the latter expanded (UNCTAD 2017).

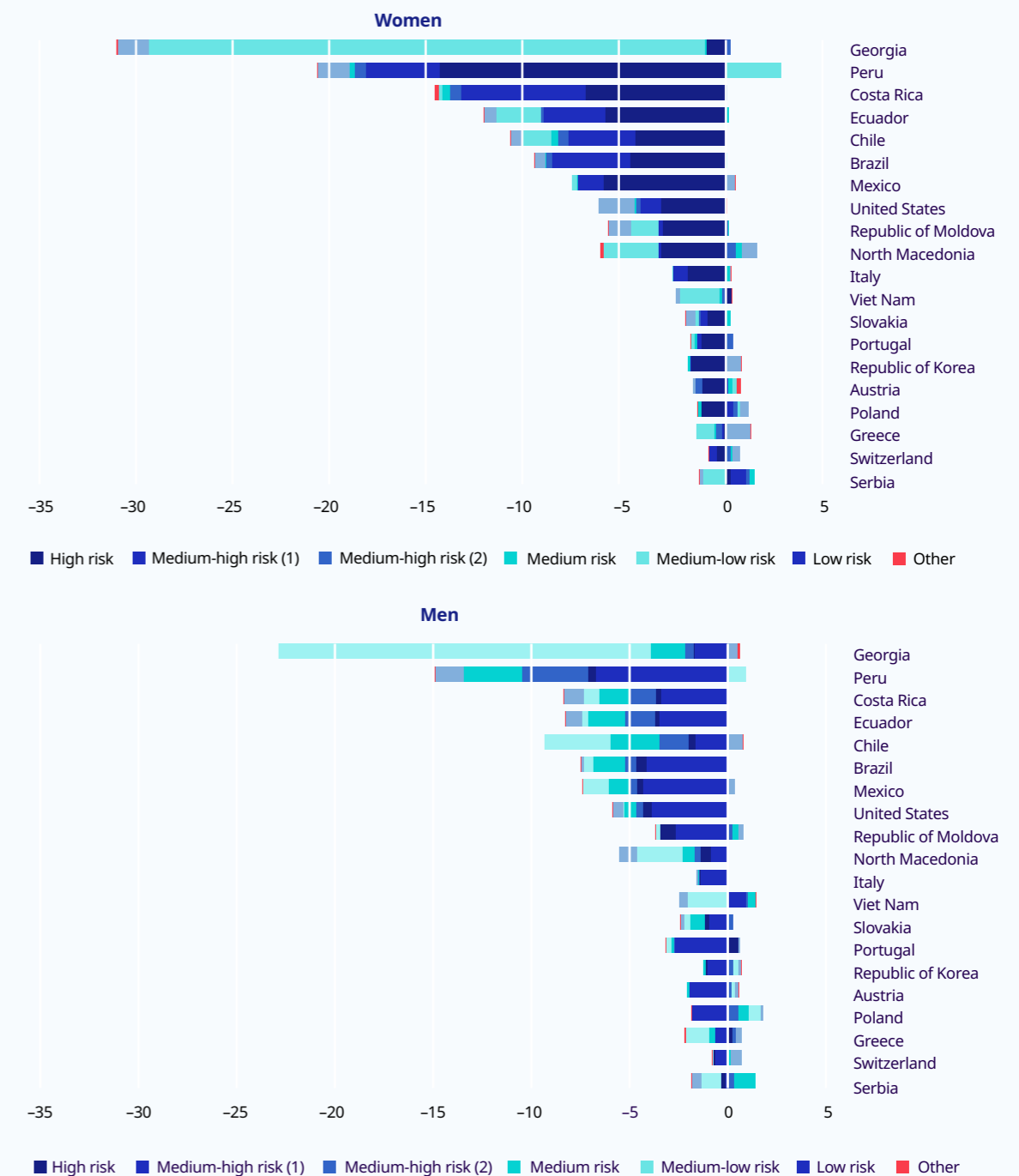
Second, economic structure shapes how macroeconomic shocks impact women's and men's employment outcomes. Women's greater employment losses may be attributed precisely to their over-representation in sectors severely impacted by the crisis, a situation compounded by the relatively higher incidence of informality across sectors. Paradoxically, sectoral segregation in previous crises shielded women from the worst of first-round employment

impacts, felt more forcefully in manufacturing and construction. But the sectors hardest hit during the COVID-19 crisis were the ones in which the majority of workers were women, such as accommodation and food services, the wholesale and retail sectors, and domestic work, as well as some labour-intensive segments of manufacturing, for instance the garment sector, where women were over-represented. At the beginning of 2020 it was estimated that around 40 per cent of all employed women worked in sectors facing the highest risk of job losses during the crisis. This figure increased to almost half of all women workers (49.1 per cent) once some medium-high-risk sectors were also included in the calculation. The comparative figures for men were 36.6 and 40.4 per cent, respectively – a gap of 3 to 9 percentage points. The gender gap in the proportion of informal workers within the hardest-hit sectors was even wider, with 40 per cent of women working informally in those sectors at the onset of the crisis compared with 32 per cent of men (ILO 2020a).

Figure 2.1 shows the impact of the crisis on employment by economic sector, grouped according to the risk of job losses brought about by the COVID-19 crisis and by gender for a selection of countries. It is no coincidence that in countries where the net loss of employment was the greatest⁶ (most of them in the Americas), the impact was far worse for women than it was for men. Among the countries selected, Peru, Costa Rica, Ecuador, Chile, Brazil, Mexico and the United States, and Georgia (outside the Americas), experienced dramatic declines in employment. In countries such as Viet Nam, Poland and Serbia, men gained in employment in some sectors, but not enough to compensate for the losses in others. Similarly, in Austria, Greece, Poland, the Republic of Korea and Serbia, women gained employment in some sectors but nevertheless experienced net losses.

⁶ In figure 2.1, employment losses are evident when a sector has lost employment (bars to the left of 0%), as is the case for all sectors in Costa Rica, and employment gains are evident when a sector has increased employment (bars to the right of 0 per cent) – for example, the medium-low-risk sector for women in Peru. There are no countries among those selected where either women or men made net gains in employment (bars to the right being greater in magnitude than bars to the left of 0 per cent).

► Figure 2.1. Share of employment losses and gains by sector grouped according to the risk of being impacted by the crisis, at the end of 2020, by sex (percentage)



Note: *High-risk* sectors are manufacturing; wholesale and retail trade; motor vehicle and motorcycle repair; accommodation and food services; real estate activities; professional, scientific and technical activities; and administrative and support services. *Medium-high-risk* sectors are divided into two categories: (1) the arts, entertainment and recreation; other service activities; domestic activities for household employers; undifferentiated goods and services activities undertaken by households for own use; (2) transportation and storage; and information and communication. *Medium-risk* sectors are construction; financial and insurance activities; and mining and quarrying. *Medium-low-risk* sectors are agriculture, forestry and fishing. *Low-risk* sectors are electricity; gas, steam and air-conditioning supply; water supply; sewerage, waste management and remediation activities; public administration and defence; compulsory social security; education; human health and social work activities.

Figure 2.1 shows that women lost most jobs in high-risk sectors, especially in accommodation and food, and retail. Their employment losses in high-risk sectors were proportionally greater than for men. In Italy, Mexico, Peru and Portugal, job losses in these sectors accounted for 80 per cent or more of women's employment losses overall, while in Brazil, Ecuador, the Republic of Moldova, North Macedonia and the United States, they accounted for one half or more. Medium-high-risk (1) sectors, namely, arts and entertainment, domestic work and other service workers, accounted for one third or more of the employment lost by women in Brazil, Chile and Costa Rica. Women also experienced significant employment losses in Ecuador, Chile, Georgia, North Macedonia and Viet Nam within agriculture – a medium-low-risk sector – as trade collapsed and produce was mainly for export. In contrast, in Peru, women's employment grew in agriculture, thereby providing a refuge when all other sectors were contracting. With regard to those few countries where women's employment showed some positive signs, this can be explained by its expansion in low-risk sectors, possibly due to a net recruitment of workers within the care economy (health and education).

The major job losses experienced by men were likewise concentrated in high-risk sectors, due to an over-representation in manufacturing industries; however, the losses in these sectors were proportionally lower than for women working in other high-risk sectors, the exceptions to this pattern being Poland, Portugal and the United States. There were also employment losses for men in medium-risk sectors, where they were over-represented in construction, and medium-high-risk (2) sectors, namely, transportation and information and communications, again sectors where men were over-represented.

The over-representation of women in informal employment in hard-hit sectors also contributed to these results, as they were the first to be fired if engaged in wage employment or to lose their means of subsistence if self-employed. The number of women in informal employment declined by almost a quarter by mid-2020, compared to 18 per cent for men; and men's informal employment recovered faster than women's in the following year. These gender differences were not so marked in formal employment, which contracted less drastically (10 per cent in the same period) and in a

similar way for both women and men (ILO 2022a). Juggling paid work and care was harder for women in informal employment, as working arrangements like telework or leave policies were not available to them.

The scope of employment policies has increased over the past two decades (D'Achon 2021). Supply-side and labour market governance measures continue to be a significant component of NEPs, but recent policies provide more interventions to improve the employment content of growth. Demand-side propositions have been added, which include, for example, the widening of traditional trade policies to include consideration of employment issues. An increasing number of NEPs also have a stronger focus on structural transformation, which facilitates the movement of capital and labour to higher productivity sectors, and pro-employment macroeconomic frameworks. For example, the latest NEPs rely on a broader macroeconomic policy mix for employment, in particular by placing greater emphasis on fiscal policies. The lower the income level, the more emphasis is given to different demand-side policy areas. This reflects the reality of these countries, whereby the labour supply is more educated than before – but there are simply not enough jobs for these better-educated and skilled young people.

Third, employment policies, including macroeconomic, sectoral and active labour market policies, are not gender-neutral. Figure 2.1 clearly shows that the array of policies put in place by certain countries, notably European countries, successfully mitigated negative net employment impacts, resulting in comparatively fewer jobs lost overall than in countries with no such policies – and this applied to both women and men. Previous crises have taught that when women lose their jobs, they tend to be left behind in the recovery phase – a pattern observed after the Great Recession (Ghosh 2014). It is therefore no coincidence that women's employment recovered much more rapidly in 2021 in high-income countries, most of which took action to safeguard employment and incomes during the crisis. Measures were also relatively more effective in these countries compared to those applied in places with a higher incidence of informality, as informal workers were harder to reach (ILO 2020d). Expansionary macroeconomic policies also ensured a rapid post-pandemic GDP recovery, but these were beyond the reach of debt-stricken developing countries (IATF 2022).

► Gender-responsive macroeconomics: competing analytical frameworks

Although there is ample recognition that gender inequalities shape macroeconomic outcomes, there is less consensus about the transmission mechanisms through which this occurs, and what to do about it. Approaches vary but fall under the long-standing separation of orthodox versus heterodox approaches.⁷

An extensive theoretical literature has focused on disentangling the impacts of gender inequalities on growth. It is a micro-founded orthodox approach, focused on the characteristics of the female labour force and the barriers women face when entering the labour market. In empirical terms, these contributions are typically based on cross-country comparisons – and methodological issues around how to measure and operationalize gender inequality are contentious.

The starting point is the evidence showing that greater gender equality in educational credentials and in labour force participation contributes to growth (strictly speaking, these factors are correlated with higher rates of GDP growth).⁸ These results are interpreted as stemming from increases in average productivity, thanks to women's greater human capital and a better use of the women's talent pool.⁹ From there, the complementary reasoning follows: greater educational credentials and increased women's labour force participation improve productivity and therefore impact positively on growth (Klugman and Tyson 2016). The obvious associated policy recommendations, improving women's educational credentials and removing the barriers they face to participating in the labour force via the provision of care services and the access to credit, would result in dazzling increases in global GDP (Elborgh-Woytek et al. 2013; Woetzel et al. 2015).

Along similar lines, the IMF has recently postulated that since “narrowing gender inequality can raise economic growth and enhance macro-financial

stability”, some gender disparities become “macro-critical” and therefore fall under the purview of its surveillance, lending and capacity development work (IMF 2022, 3). The underlying thinking is that the main drivers of gender inequalities (“unequal access to education and health services, unequal legal rights, violence against women, and cultural barriers”) are *outside* the realm of the economy but translate into lower women's labour force participation, gender wage gaps, women's lack of access to finance *and* their limited representation and leadership. Reducing these disparities, in turn, “contributes to economic growth and macroeconomic resilience”. This is the old “smart economics” argument (“gender equality is good for women and good for the economy”) (Chant and Sweetman 2012; Esquivel 2017) – with a slightly different (post-COVID-19) wording.

The concrete evidence on the relationship between policy interventions that close these gender gaps and growth is, however, modest and not generalizable. Robust findings are limited to closing gender gaps in education, but other interventions (such as improving financial access, promoting entrepreneurial activities or supporting women farmers) appear to be good for women's income security and well-being but not necessarily good for growth (Kan and Klasen 2018). Moreover, raising women's labour force participation without paying attention to employment generation can be counter-productive, as women are pushed into female-dominated jobs characterized by lower earnings and deficient working conditions, or into unemployment (Borrowman and Klasen 2017).

An alternative view focuses on the way in which macroeconomic outcomes reinforce gender inequalities, or the “reverse causality”. Its origins can be traced to the late 1980s, when feminist macroeconomists reported on the gendered impacts of “structural adjustment policies”, voicing a strong

7 For more formal presentations, see for example Seguino (2020). A textbook presentation can be found in UN Women (2017), and an extensive and non-technical explanation in Heintz (2018b).

8 For a critique of the literature studying the relationship between women's labour force participation and per capita GDP, see Gaddis and Klasen (2014).

9 For a critical take, see Kabeer and Natali (2013).

criticism to macroeconomic policies hitherto considered gender-“neutral” (Elson 1995). The deterioration of public care services (health, education) and of living standards affected women directly – but also indirectly through their increased unpaid care work, as they attempted to compensate for lesser service provision and lower earnings.¹⁰ As with COVID-19, crisis impacts differed depending on where men and women were in the productive structure. Typically, balance of payments crises hit industrial employment more than employment in services or in the public sector, where women are concentrated, relatively shielding them from the shocks. However, women’s labour force participation would increase to offset men’s unemployment (the so-called “added worker effect”), but in the absence of decent employment opportunities this ended up enlarging women’s informal employment. Research on the gendered impacts of the Great Recession in Latin America and in Europe, and the ensuing austerity measures, followed in the path of these initial analyses (Karamessini and Rubery 2013; Esquivel and Rodríguez Enríquez 2014).

The IMF new Proposed Strategy for Mainstreaming Gender at the IMF seems to subscribe to the acknowledgement that “macroeconomic and financial shocks and policies affect women differently” (than men), suggesting that the Fund could benefit from understanding “how policies can be designed to narrow macro-critical gender gaps, and thereby support growth and stability” (IMF 2022, 4). This is almost exactly the ILO’s wording for gender-responsive macroeconomic policies. The fact that this is to be effected by means of “program design and conditionality”, however, raises a number of issues, including whether the Fund will address how its own conventional policy advice exacerbates gender and income inequalities – typically via prescribing fiscal austerity, regressive tax reforms and financial liberalization; whether imposing conditionalities over the “main drivers of gender

inequalities” means overstepping its mandate; and whether the principle of “do no harm” enshrined in the Proposed Strategy (“At the very least, IMF policy advice should not exacerbate gender disparities”) (IMF 2022, 5) will take precedence over other considerations in policy advice (Bretton Woods Project 2022). The IMF’s past record does not offer much by way of reassurance in this regard (Bohoslavsky and Cantamutto 2020).

Sectoral gender segregation can also amplify gender inequality outcomes during expansionary periods. Women’s under-representation in industrial employment – in certain contexts, a result of defeminization processes associated with increases in capital intensity (Tejani and Milberg 2016; Tejani and Kucera 2021) and their over-representation in traditional services (Dasgupta, Kim and Pinedo Caro 2019; Esquivel, forthcoming) – means they have greater difficulty accessing decent jobs, even if they have the necessary educational credentials.¹¹ Not only does sectoral segregation underlie the way in which the benefits of growth are distributed along gender lines, but it can itself further shape the *patterns of growth*. There is evidence, for example, that in certain contexts gender segregation becomes a mechanism to depress wages and sustain female labour-intensive exports (Seguino 2020). More generally, the exclusion of women from good, high-productivity jobs and their crowding into lower-quality jobs results in workers’ weaker bargaining power as a whole, and a downward pressure in the labour share of income.¹² As Seguino and Braunstein (2019) put it, gender inequality breeds class inequalities. In both cases, what is bad for women is good for growth – at least in the short run – if growth is export-led or profit-led (or both). In this regard, feminist heterodox macroeconomics is not as optimistic as its orthodox counterpart (Seguino 2020) and calls for active policy intervention because, if left on its own, growth does not necessarily become inclusive.

► Care, the multiplier and the accelerator

Unpaid care work is a core concept in feminist economics. At the microeconomic level, it acts as a barrier to women’s labour force participation, while at the meso level it may be thought of as a contribution to well-being.¹³ But it is at the macro level that unpaid care work modifies the terms of the debate. Because it is work, unpaid care work generates value, although it is not exchanged in the market. In classical terms, it is part of the economy and therefore part of the subject matter of economics. Strictly speaking, it should also be part of GDP, but for now it is only incorporated in household sector satellite accounts (Stiglitz, Sen and Fitoussi 2009).¹⁴ If treated as an investment in the human capital of future generations, it is akin to the investment accelerator (Heintz 2019).

Macroeconomic models have included unpaid care work in the household production function, showing that women’s labour force participation can be a transfer of work between the household and market sectors (Fontana and Wood 2000). The transfer might be complete (a zero-sum game in terms of total work, which is detrimental to those who benefited from the care provided before the transfer); an expansion of total work if women increase their working hours (paid work plus unpaid care work); or lead to some substitution effects if unpaid care work is replaced in whole or in part by care services (with some economies of scale, although not vast). The macro impacts of these transfer scenarios differ, both in the short and long term.

Taking as our basis the latter scenario: using input-output models, the literature has shown the positive demand-side impacts of the expansion of care services (education, including early education; and health, including long-term care), arguing that the labour intensity of these services is greater than the equivalent investment in physical infrastructure and that, although women have more direct

employment opportunities than men, men benefit from the indirect employment effects (Antonopoulos and Kim 2011; Ilkkaracan, Kim and Kaya 2015; De Henau et al. 2016; De Henau, Himmelweit and Perrons 2017; Ilkkaracan and Kim 2018). There is evidence that the demand for care services will expand in the future, on account of population ageing, the expansion of early childhood education, and the need to achieve the Sustainable Development Goals (ILO 2018a). This demand can bring about more and decent employment, and also generate increased tax revenue in the short-term (UN Women and ILO 2021a). The main assumption of these modelling exercises is that the greater labour demand will be matched by workers willing to work, with the necessary qualifications – a plausible assumption given that the provision of care services contributes to the removal of the barriers to entry faced by women, and the expansion in education should provide the necessary credentials to all workers in the medium term if carefully planned.

In theoretical terms, a virtuous circle emerges when women’s increased employment is accompanied by salaries that dynamize domestic demand (in wage-led regimes), and care is provided through a combination of unpaid care work redistributed within households, as well as public care services. There is a possibility, however, that short-term wage-led dynamism jeopardizes the development of human capacities. This happens in the zero-sum scenario outlined above, when the care women used to provide is not replaced, or when it is only partially compensated (that is, when care deficits emerge). A vicious circle emerges when the zero-sum scenario is combined with profit-led growth, because women’s higher employment does not result in income sufficient either to dynamize the economy or to buy substitutes for their unpaid care work,¹⁵ and public investment in care service provision is insufficient. In

¹⁰ Time-use surveys showed that women, and in particular poor women, were the ones that did the majority of unpaid care work. More recently, the lack of time for providing unpaid care work has been conceptualized itself as a dimension of deprivation, alongside income. See Antonopoulos, Masterson and Zacharias (2012); Antonopoulos et al. (2016).

¹¹ See, for example, the case of Argentina: Esquivel (2007).

¹² The latest evidence shows that, globally, women earn approximately one third of the labour income share (35 per cent if countries are weighted by their GDP, 29 per cent if countries are weighted by their population). Women’s lower labour earnings relative to men’s, coupled with their lower labour force participation levels, are behind these results (Neef and Robilliard 2021). See also ILO (2018b) for reasons behind gender wage gaps.

¹³ This is captured, for example, through measures of “extended income” (Suh and Folbre 2017).

¹⁴ According to United Nations et al. (2009), “the reluctance of national accountants to impute values for the outputs, incomes and expenditures associated with the production and consumption of services within households is explained by a combination of factors, namely the relative isolation and independence of these activities from markets, the extreme difficulty of making economically meaningful estimates of their values, and the adverse effects it would have on the usefulness of the accounts for policy purposes and the analysis of markets and market disequilibria” (United Nations et al. 2009, 99). None of these statements resists evidence: the volume of unpaid care work is not independent of the rest of the economy, there are prices to value it, and its inclusion would make evident the gender impacts of economic policies.

¹⁵ Or pay very little for these substitutes, in the form of domestic workers who are poorly paid and unprotected.

this case, gender inequalities are sustained in time, with the persistence of low-wage and low-productivity regimes (Braunstein, van Staveren and Tavani 2011; Braunstein, Bouhia and Seguino 2020).

In the long term, unpaid care work can be theorized as an investment in human capacities that increases future productivity (Heintz 2019). The most recent empirical modelling exercises jointly model demand and supply by focusing also on the productivity-enhancing role of public care investment. A recent paper by Onaran, Oyvatt and Fotopoulou (2022) estimates that the United Kingdom is both wage-led and gender-equality-led (in terms of closing gender wage gaps), and that public investment in care has high positive effects on output and employment in the short term – and even in the medium term despite strong positive effects on productivity. Similarly, we expanded the modelling exercise presented in ILO (2022d) to model the benefits of the expansion of care services, including positive productivity effects – higher productivity because of fewer sick days, greater female labour force participation, a reduction in the mother wage penalty and an overall increase in productivity and wages on account of a more educated workforce. It resulted, as expected, in lower levels of employment compared to the investment scenario without these positive supply-side impacts. This may be attributed to the

► Gender-responsive macroeconomic policies to tackle the COVID-19 crisis: lessons learned

As described above, the COVID-19 crisis has been exceptional on many fronts, including with respect to its gender dynamics. While in previous crises it was men who were the first to be hard-hit in terms of their employment, this time it was women who were proportionally more affected in the early days of the pandemic. As in previous crises, second-round effects stemming from the contraction of aggregate demand were more forcefully felt by women, but the extent to which this occurred depended upon how early GDP growth re-started, and how many women remained in employment during the crisis. Employment deficits persisted at the end of 2021 in the majority of middle-income economies.

fact that increased productivity implies that fewer workers are needed to produce the same level of output (72.9 million more jobs as opposed to 79.6 million more jobs globally by 2030). However, the model estimates that global GDP will continue to increase substantially (2.4 per cent more than the baseline, compared to 1.9 per cent by 2030). Interestingly, while Africa and the Americas benefit more in terms of GDP from the initial investment and marginally from the positive productivity effects (differences from the baseline go from 4.4 to 4.8 per cent in the case of Africa and from 2.6 to 2.8 per cent in the case of the Americas by 2030), Europe and Central Asia appear to gain almost as much from the supply-side as from the demand-side effects of investments (differences from the baseline extend from an increase of 1.4 per cent compared with the baseline to an increase of 2.5 per cent by 2030, that is, an increase of 1.1 percentage points owing to a more accurate reflection of productivity gains) (Alexandri and Suta 2022). All in all, demand and supply effects have different strengths, depending upon the extent of the coverage of gaps in care services and the tightness of labour markets. It is worth noting that these results reflect well the different emphases that policy actors from various countries give to supply-side and demand-side dimensions when making the case for investments in care.

Irrespective of whether or not the “added” worker effect emerged in different contexts, the general picture is that in middle-income countries inactivity rates remained high (ILO 2022a). Previous crises also indicate that women were affected indirectly if expenditure cuts were imposed prematurely – that is to say, vis-à-vis recovery, losing jobs in public administration and in care sectors, being overburdened by the contraction in the coverage and quality of care services and losing income support. The attention given to male-dominated sectors such as construction and traditional manufacturing also meant that women were left behind in recovery policies (ILO 2020a).

Was the COVID-19 crisis different? The picture is mixed. It is clear that many governments rushed to put in place policies to keep their economies working and to safeguard incomes and jobs; fiscal policy was rediscovered, as fiscal responses were large, although uneven. By March 2021, direct budget support (expenditure and foregone revenue) amounted to 9.2 per cent of global 2020 GDP, although the figures ranged from 16.4 per cent of 2020 GDP for high-income economies to 4.2 per cent for middle-income economies and 1.7 per cent for low-income countries (IMF, UNDP and UN Women 2021).

According to the UNDP/UN-Women COVID-19 Global Gender Response Tracker,¹⁶ social protection measures were the most numerous (2,223 measures by November 2021), while there were relatively fewer fiscal and economic measures (1,016) and labour market measures (876). Social protection measures were classified as gender-responsive¹⁷ if they prioritized women’s income security, provided direct support for unpaid care or supported care service provision. Out of the 2,223 social policy measures put in place by countries around the world, only 448 (20 per cent) were gender-sensitive. Among these, 250 addressed women’s incomes (including informal workers) and 198 addressed unpaid care work – of these, 86 measures were related to the expansion of childcare or long-term care services (or to supporting care workers in these sectors), including childcare services for the children of healthcare and other frontline workers. Out of the 199 measures in support of investments in healthcare or health workers, only 64 were classified as gender-responsive (part of the above-mentioned 448 measures).

Labour market measures included activation measures and enterprise development; labour regulatory adjustments; reduced working time and teleworking; and wage subsidies and income replacement measures for the self-employed. Out of these, only 158 were classified as gender-responsive (18 per cent) if they prioritized women workers, targeted women or specific groups of women (for example, rural, indigenous, migrant, ethnic minority, pregnant/lactating) or specific occupations (in particular care workers), or if they included quotas for women

¹⁶ See UNDP (2021). The Gender Tracker also reports violence against women measures.

¹⁷ “Gender sensitive” according to the language used by the Tracker (Staab and Tabbush 2022).



(for example, in training programmes) (UN Women and UNDP 2021a).

There were even fewer gender-responsive macroeconomic measures, including an array of fiscal (tax cuts/exemptions/credits; tax deferrals; public sector subsidies to businesses; comprehensive fiscal stimulus packages) and monetary policies (loan guarantees, credit/loan deferrals, restructuring or renegotiation, and credit lines or additional liquidity by financial institutions). They totalled 146 (14 per cent). Notably, these measures were classified as gender-responsive if they channelled resources to female-dominated sectors (over 70 per cent of female employment) or female-owned businesses, following the assumption that they were likely to protect women's jobs and incomes (Staab and Tabbush 2022).

For example, public sector subsidies in Angola, Armenia, Fiji, South Africa and Uganda were channelled to agriculture, fisheries and forestry, where women dominate in employment. India expanded its public works programme (MGNREGA) to cushion rural women's job losses, although whether women benefited from these opportunities or not was contingent upon the proportion of returning migrant men who were also looking for jobs (Afridi, Mahajan and Sangwan 2022). In Bangladesh, Belgium, Greece, Jamaica and Lithuania, among other countries, subsidies were directed at supporting the tourism and hospitality sectors; in several other countries, including the Netherlands and New Zealand, they supported the health sector or, as in Uruguay, childcare providers. Other measures included support for female-owned enterprises, including in Canada, Paraguay, South Africa and the United States.

Tax policies, including cuts and deferrals, were used in sub-Saharan African countries, such as Burkina Faso and Togo, and in Latin American countries, such as Colombia, Costa Rica and El Salvador, to support the tourism sector. More generally, out of the 171 packages that deferred or reduced taxes, 40 were deemed gender-responsive as they tackled female-dominated sectors. In turn, credit policies were also channelled to female-dominated sectors, although they typically reached the formal sections of the economy and were dependent upon how well

credit institutions could reach the target populations. Their proportion was minimal, however: only 11 measures out of 246 surveyed by the COVID-19 Global Gender Response Tracker.

A number of lessons may be extracted from this succinct review of policies. Social protection policies, as well as wage subsidies and income replacement measures classified as labour market measures, were income injections that had clear macroeconomic dimensions beyond their distributive impacts. This is captured in the figures on fiscal expenditures as a proportion of GDP presented earlier in this chapter. As in the past, the more that countries were able to do to sustain aggregate demand and/or incomes, in particular those of informal workers, the less perilous was women's transit through the crisis. Although there is a dearth of data on the end date of these policy measures, at least a third of them had been phased out by the end of 2021. As already mentioned, the recovery in developing countries was far from complete at the beginning of 2022, at a time when governments were increasingly constrained by the lack of fiscal space and debt sustainability challenges (ILO 2022a). A slowdown in global growth further shrank fiscal space in 2022, leading to "premature" fiscal consolidation and, in some places, stagflation (ILO 2023).

The way gender-responsive fiscal and monetary measures supported hard-hit sectors dominated by women reflects the acknowledgement, at least from governments that had put these policies in place, that this time the crisis transmission mechanisms were different from those in the past. As a result, women had to be prioritized not only in social protection and labour market measures but also through sectoral policies that maintained jobs and incomes and allowed for a speedy recovery. If employment outcomes are to address gender inequalities, renewed attention must be paid to sectoral structure, including the dynamics of structural transformation and the processes by which women benefit from it. Otherwise, as in the past, gender will become a rationing mechanism for scarce high-productivity, decent jobs (UNCTAD 2017).

Two final points are worth noting. The first is that gender-responsive budgeting¹⁸ is not listed as a policy, which is correct, as it is a "means to an end"

of making fiscal policy gender-responsive. The long-standing experience with gender-responsive budgeting shows up in the analysis of the COVID-19 Global Gender Response Tracker and is a tool for continuous monitoring of policy implementation (UN Women and ILO 2021c). Second, and perhaps the reverse side of the coin, the Tracker's emphasis on the distributive effects of measures (as opposed

to their effects in sustaining aggregate demand) implies that very little is said about monetary, exchange rate or debt policies beyond their distributive role in domestic credit allocation.¹⁹ The interplay between monetary and fiscal policies, and their overall success (or failure) in cushioning the COVID-19 shock and supporting recovery, were not analysed from a gender perspective.

► Monetary policies and the challenges of financing for gender equality

There is much less experience in analysing monetary policies from a gender perspective, partly because the effects of monetary policy are more indirect, or mediated, than the ones of fiscal policies – and partly because there is less data to analyse their full effects (Heintz 2018). Monetary policies affect interest rates (to control money supply or aggregate credit), usually with the aim of maintaining a pre-defined inflation target. They are less commonly concerned with employment/developmental objectives. The fact that Central Banks can, to a certain extent, finance the treasury means that fiscal and monetary policies are not independent. Given that capital inflows (outflows) can be monetized (contract the money supply) or, without intervention, lead to exchange rate fluctuations, exchange rates are also the result of the interplay of monetary, trade and financing (debt) policies. As the COVID-19 crisis unfolded, it became evident that developed countries could borrow at very low interest rates to invest in their recovery, as they were able to issue debt in their currencies, benefiting from a "flight to quality". Poorer countries, on the contrary, experienced capital outflows, a weakening of their debt positions, insufficient access to new sources of finance and an increase in borrowing costs and debt servicing, all of which reduced their "monetary policy space" and further constrained their ability to respond to the crisis (IATF 2022).

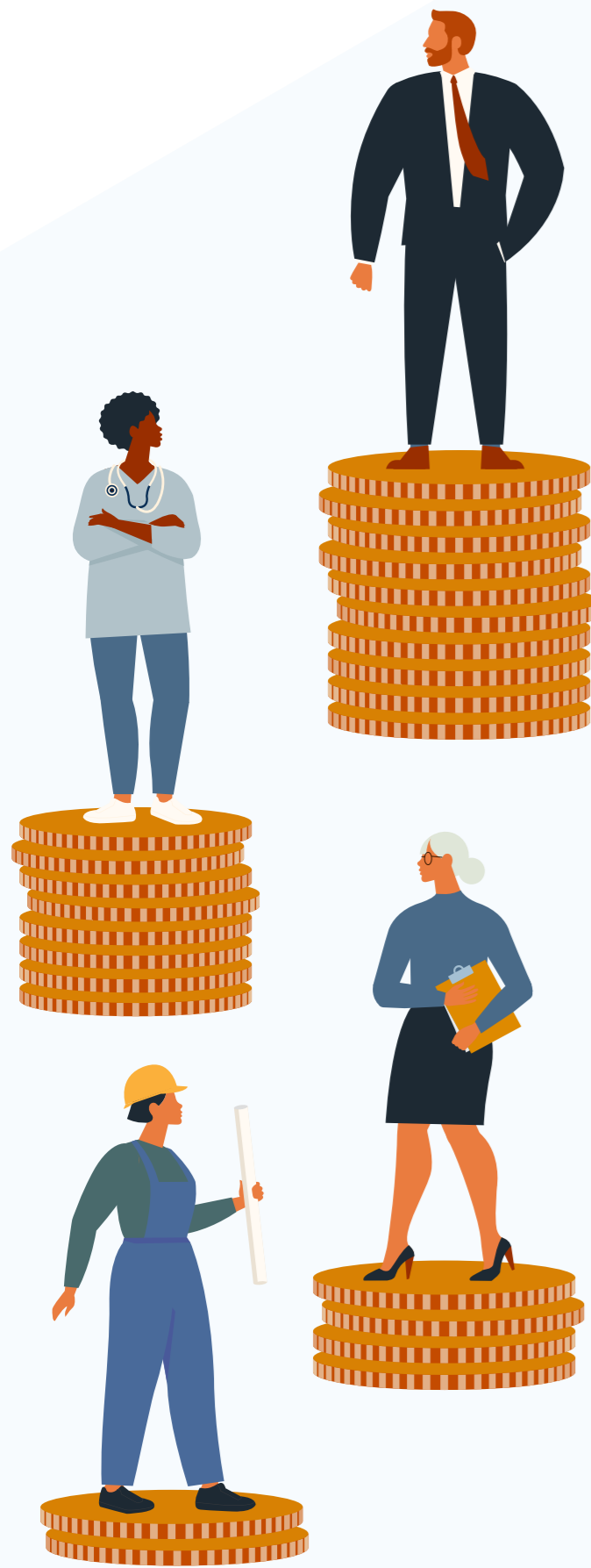
The consequences of these different growth dynamics have compounded class, race and gender

impacts that further exacerbate inequalities via the dynamics of employment generation, including the changes in the structure of sectoral employment – the above-mentioned *patterns of growth* – that alter jobs, income levels, and the functional distribution of income (capital and labour income shares). These impacts take place (conceptually) before fiscal and monetary policies redistribute incomes in the ways described in the previous section. It is as important to identify the (zero-sum and static) distributive effects of fiscal and credit policies as it is to understand their (short-term) dynamic impacts.

The risk of not recognizing these aggregate and structural dimensions of macroeconomic policies is to fall into the trap of believing that conducting gender-responsive macroeconomic policy simply implies using "budget resources to support the achievement of gender equality objectives" (IATF 2022, 40). This piecemeal approach is problematic because it pits gender equality objectives against other objectives which could also deserve funding – but also because it misses the broader macroeconomic policy framework, which too should be gender-responsive. For example, the recent report of the United Nations Inter-agency Task Force on Financing for Development (IATF) states that "gender equality can be advanced with both gender-responsive budgeting and gender-responsive tax policies" (IATF 2022, xv), mentioning gender-responsive budgeting, gender-responsive procurement and investments in the care economy (IATF 2022, 39–40) – and citing

¹⁸ Gender-responsive budgeting provides tools to assess the different needs and contributions of men and women, and boys and girls within the existing revenues, expenditures and allocations and calls for adjusting budget policies to benefit all groups. Its aim is to ensure that the collection and allocation of public resources is carried out in ways that are effective and contribute to advancing gender equality and women's empowerment (UN Women, n.d.).

¹⁹ In a way, this is a step forward towards the implementation of Heintz's (2018, 21) proposal: "to more fully understand the gender effects of monetary policy, an approach that parallels gender-responsive budgeting is needed. There is no reason why a gender responsive approach to monetary policy could not be adopted and the distinct effects of monetary policy on women and men taken into account".



almost solely World Bank and IMF references. There is not a word on gender inequalities in the otherwise very well-written Chapter II titled “Overcoming ‘the great financial divide’”, which traces global macroeconomic dynamics during and after the COVID-19 crisis (IATF 2022, 13 - 26). However, *how* the fiscal space is created in terms of the sources of funding also matters for gender equality: beyond gender-responsive tax policies and gender-responsive budgeting, it is crucial to know whether countries were able to resort to domestic and external borrowing, and the degree to which they were recipients of official development assistance, to explain the size of the fiscal stimulus packages put in place and their debt positions during and after the crisis – which will possibly shape their future trajectories.

As important as recognizing distributive effects might be, it is not enough. It leaves gender equality to be solved “as an afterthought to macroeconomic policies”, as Elson and Cagatay (2000, 1347) stated more than two decades ago. The static, piecemeal approach also paves the way for narrowing the focus of gender-responsive financing to the issuing of “catalytic” financial instruments that address gender inequalities, similar to ESG-related bonds,²⁰ under the assumption that private finance can close the financing gaps (UN Women and UNDP 2021b). In other words, it can lead to the privatization of development finance (Hopkins and Bürgisser 2020). A very recent example of this trend is the Memorandum of Understanding between UN Women and BlackRock “agreeing to cooperate in promoting the growth of gender lens investing (...) defined by UN Women as the intentional allocation of capital and alignment of investment strategies, processes and products, to achieve positive and tangible contributions against women’s empowerment objectives and that has the potential to generate a *financial return*” (emphasis added) (UN Women and BlackRock 2022). The Memorandum was denounced by feminist movements citing, amongst other things, the role of BlackRock as holder of sovereign debt (AWID 2022); it was cancelled in late August (De Wei and Konotey-Ahulu 2022). Another example is the private or blended finance directed to expand healthcare services (Durano 2022), even though private healthcare provision does not necessarily lead to desirable

²⁰ “ESG” stands for “environmental, social and governance” and refers to a set of criteria used by investors to assess company performance. Assessment criteria vary greatly. For an “insider” critique, see Tricks (2022).

health outcomes, has negative distributive effects, and typically offers worse working conditions for care workers (ILO 2018a).

Monetary policy can become gender-responsive by reclaiming its developmental role, that is, using the array of instruments that central banks have at hand (interest rates management, treasury funding, exchange rate policies, credit allocation, and so on) for promoting decent employment by shaping the allocation of investment towards productivity-enhancing activities (among them investments in the care economy), and addressing the challenges of climate change and supporting sectoral policies (UN Women and ILO 2021c). This was the case of many countries in Asia, where the size of monetary

stimulus was larger than the fiscal package (Seth 2022). As Seguino (2019) proposes, this is a partial “role-reversal” between fiscal and monetary policy, when monetary policy includes employment objectives and fiscal policy addresses inflationary pressures by financing subsidies that moderate price increases (in food or utilities, for example) and funding social and physical infrastructure that increases medium-term productivity. The ways in which the current bursts of cost-led inflation will be managed will be a test in this regard. As in the past, if narrow monetary policy is the solution used to quench inflationary pressures, the recessionary costs of stabilization will be excessive and suffered most by women.

► Gender-responsive macroeconomic policies beyond the COVID-19 crisis

This chapter has summarized an extensive feminist macroeconomics literature and policy practice, which demonstrates that gender-responsiveness in fiscal and monetary policy supports inclusive growth, creates jobs for women and men and contributes to gender and class equality (Elson and Seth 2019).

The COVID-19 crisis and the lessons learned in addressing it offer some guidance for gender-responsive, job-rich macroeconomic policies in the future. An important starting point is to broaden the debate about fiscal space, moving from a static to a dynamic approach thereto. Indeed, the issue is how to generate additional fiscal space and not only to identify ways to re-prioritize expenditures or increase their efficiency (Roy, Heuty and Letouzé 2009). The monetary and debt financing of fiscal deficits are central to this debate. Countries facing increasing borrowing costs during the crisis saw their “monetary space” drastically contract, and few dared to have recourse to monetary financing, preferring to maintain their pre-COVID-19 commitments on debt-to-GDP ratios at the expense of their growth prospects (Chakraborti, unpublished), while others

were able to finance massive stimulus packages at very low costs. Given that this “financing divide” is only deepening (IATF 2022), finding gender-responsive financing options – including through aid and debt relief – becomes as crucial to gender equality outcomes as the expenditure side.

It is also clear that the channelling of resources through the banking system has proved effective in supporting female-dominated sectors and could become a permanent feature of credit policies beyond the crisis context, in synergy with gender-responsive industrial policies (Seth 2022). In short, gender-responsive macroeconomic policies are part and parcel of “coherent, comprehensive and integrated employment policy frameworks” (ILO 2022b, 4, II) and need to work in tandem with sectoral, industrial, skills and active labour market policies to produce gender egalitarian outcomes – with a view to creating more and better jobs for women, thus ensuring that they are neither left behind in the recovery process nor once again the hardest-hit during a crisis. This would not be a minor achievement.

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Chapter 3

**How NEET are developing and emerging economies?
What do we know and what
can be done about it?**

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Luis Pinedo Caro and Kate Brockie



Main findings

The COVID-19 pandemic has had particularly severe and wide-ranging impacts on young people. In 2020, the share of young people not in employment education or training (NEET) globally increased to 24.9 per cent, its highest level since estimates began in 2005. Although NEET rates subsequently recovered gradually, at 23.5 per cent in 2022, they remain well above their pre-pandemic levels.

Young NEETs are an extremely heterogeneous group, but there are some regularities in trends and characteristics that are useful in orienting the policy response. For example, NEET rates are significantly higher among young women than young men in most countries; globally two out of every three young NEETs are women.

NEET rates tend to fall with country income as well as with higher individual educational attainment.

NEET rates are typically higher, and the gender gap larger, in rural compared to urban areas.

There is also strong evidence of scarring – being NEET today means one is more likely to be NEET tomorrow – especially among young women. This speaks to the need to intervene early and emphasizes the substantial costs of inaction. In addition, the broadening of the focus of policies occasioned by the adoption of the NEET rate as the SDG indicator for measuring progress in youth labour markets also serves to emphasize the need to appropriately tailor interventions to remove obstacles faced by specific types of young NEET in accessing decent work. Reducing NEET requires a comprehensive approach with, as its cornerstone, economic and sectoral development policies to support job creation, and encompassing an array of country-specific policies and programmes, either to promote access to quality education and thence quality employment or to directly promote access to good jobs.

► Introduction

The COVID-19 pandemic has had particularly severe and wide-ranging impacts on young people. In 2020, youth employment fell well over twice as much as adult employment.¹ Although there was a great deal of variation in the overall impact of the crisis, the collapse of the job market meant that job losses among young people initially translated primarily into a surge in inactivity, as opposed to increased youth unemployment (ILO 2021a). This impact differentiates the pandemic-related shock from previous economic crises, as the more typical response of (youth) labour markets to economic downturns is an increase in unemployment.

With the establishment in 2015 of the 2030 Sustainable Development Goals (SDGs), the NEET rate – the share of young people not in employment, education or training – became the target indicator (SDG 8.6.1) to measure progress in youth labour markets.² This NEET measure helpfully captures the wider impacts of the COVID-19 pandemic on young people, by taking into account inactivity more broadly – counting all young people not in education, employment or training. In fact, the policy focus has now shifted the key metrics for youth: from youth unemployment rates to NEET rates. This presents a broader view of the challenges facing young people, encouraging more systemic

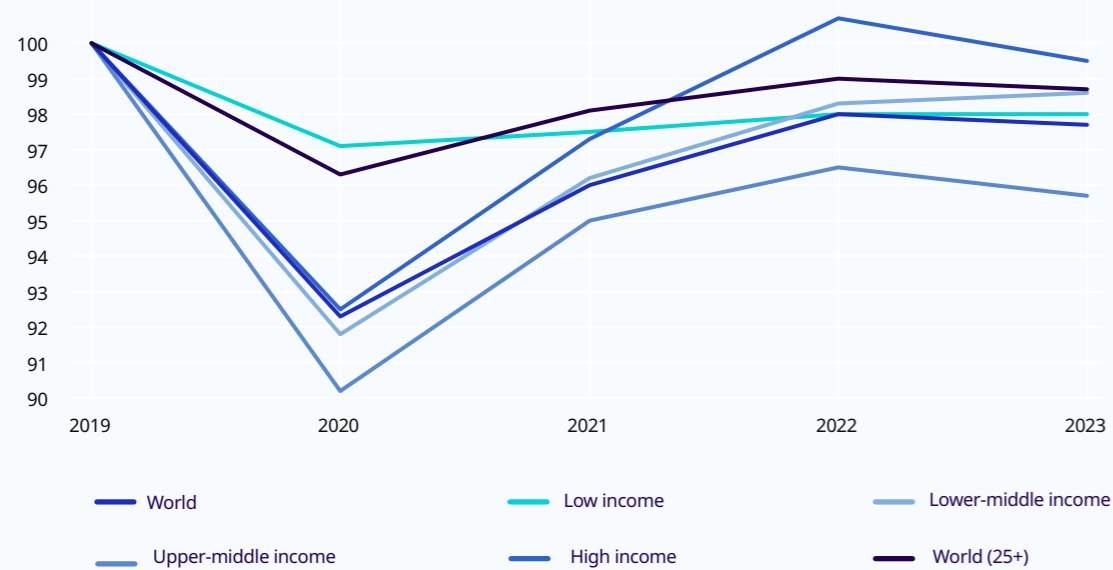
thinking of the causes, consequences and possible interventions.

Although recovery has occurred, it has been uneven. By 2022, youth employment-to-population ratios had almost recovered to their pre-COVID levels in high-income countries, but this was not the case everywhere, especially in lower-middle-income countries (figure 3.1). Globally, the shock to employment was greater, and the recovery weaker, among young people compared to those aged over 25 years. With the notable exception of high-income countries, youth employment-to-population ratios have not fully recovered to pre-pandemic levels. Moreover, the economic fallout of the conflict in Ukraine slowed down recovery in 2022, and is expected to have a significant negative impact on youth (and adult) labour markets in 2023. COVID-19 lockdowns also led to interruptions to education and training, with many young people not returning to their studies once lockdowns had lifted. Alongside COVID-19, climate change is impacting many places. For example, changes in the agro-ecological zone of the Sahel have led to a widespread decline in productive activities. The consequences of this include new levels of impoverishment, leaving families less able to pay for their children's education and training, affecting learning now and work in the future.

¹ Calculated from ILOSTAT, ILO modelled estimates, November 2022. The youth (aged 15–24) employment-to-population ratio fell by 7.7 per cent compared to 3.7 per cent for adults (aged 25 and over).

² Tracking Progress: Data Visualization for Community Indicators and the Sustainable Development Goals database, accessed 24 April 2023.

► **Figure 3.1. Employment-to-population ratios by country income group, young people aged 15–24 years, 2019–23; 2019 = 100 (percentage)**



Source: ILOSTAT, ILO modelled estimates, November 2022.

This chapter discusses issues in the development of policy approaches to the reduction of NEET in the wake of the COVID-19 pandemic, with a particular emphasis on developing and emerging economies. To date most analyses of the characteristics and determinants of young NEETs have focused on high-income countries. In fact, as we shall see, NEET rates in low- and middle-income countries are, on average, far higher than those in advanced economies, and their characteristics are different. While similar factors determine the size and nature of NEETs in countries at different levels of economic development the types of NEET which predominate in lower-income countries differ from their higher-income counterparts. Nevertheless, given the similarity in the fundamental drivers – for example, the underlying causes of higher NEET rates among young women – there is scope for cross-context learning.

► Young people not in employment, education or training: key trends and characteristics

As mentioned above, the NEET rate is SDG indicator 8.6.1 to measure progress in youth labour markets. In this section we outline some of the empirical

Section 2 identifies a number of key trends and characteristics of NEET globally, offering insight into some of the wide-ranging implications of the shift in focus from unemployment to NEET as the target of interventions intended to improve labour market outcomes for young people. Drawing upon this information, section 3 discusses the state of knowledge regarding the impact of relevant policies and programmes likely to affect NEET rates across the globe. Key to this discussion is the role of macroeconomic demand-side policies taking centre stage, which is accompanied by an analysis of the various types of initiatives appropriate to different types of young NEET. The section concludes by drawing together some of the key policy implications emerging from the previous analysis and discussion

regularities that may be observed in NEET rates across the world, and their implications for policy. Although NEETs also include (most of) the young

unemployed,³ the NEET rate is a broader concept than unemployment, encompassing all young people (typically aged 15–24)⁴ who are, for whatever reason, not studying or working for pay or profit.⁵ The many ramifications of this change in emphasis have to some extent been discussed in relation to high-income, and in particular, European Union (EU) countries; however, this is much less true for low- and middle-income countries. Most obviously, young NEETs are a larger and more heterogeneous group than the young unemployed. Some of the specific characteristics of NEET that are relevant for policy are outlined below.⁶

Youth labour markets and the economy: aggregate shocks and economic development

COVID-19 has hit labour markets around the world hard. As is well established, what happens to young people as they enter the labour market is very much contingent upon what is going on in the economy as a whole.⁷ If there is one universal finding in all the studies conducted on the effects of various factors affecting youth labour market outcomes, it is that aggregate demand plays a central role. Indeed, typically youth employment responds more than adult employment to variations in the business cycle (ILO 2020a and 2022a). To be sure, there is much variation in the relationship across countries at different

levels of economic development; nonetheless, a consistent finding is that Okun's law – concerning the relationship between economic growth and (un)employment – is stronger in times of recession than in times of growth for younger and older workers alike. Moreover, the relationship is also affected by the sectoral composition of growth and employment; and, in developing and emerging countries, extensive informality also plays an important role (Lee et al. 2020).

Youth employment is typically more strongly affected by negative aggregate economic shocks than adult employment. Young people are disproportionately represented among types of labour market participants who tend to be especially hard hit by such shocks, including those in temporary and informal employment, as well as jobseekers.⁸ On account of some of its specific features, the COVID-19 pandemic affected young people even more disproportionately than is usually the case in such circumstances. For example, the sectors affected by lockdown measures were sectors in which young workers were disproportionately represented; and young workers were also over-represented in temporary and other forms of precarious employment, and thus more likely to lose their jobs during the pandemic. Moreover, lockdown measures also affected education and training. In this context, it is not surprising that the economic shock associated with COVID-19 also had a significant impact on youth NEET rates (figure 3.2).

³ Excluding a relatively small but increasingly significant group of young people who are both unemployed and in education.

⁴ We shall not enter here into a discussion of what is the (most) appropriate age group to identify as youth. Suffice it to note that the standard international definition refers to young people aged 15–24, and is the basis for most ILO statistics on young people. However, these days it is often argued that it makes sense to broaden the age class up to (at least) 29 years. In this chapter we also regularly refer to this slightly broader category – in some cases necessarily, for example when examining NEET rates by educational attainment, discussed later in the text.

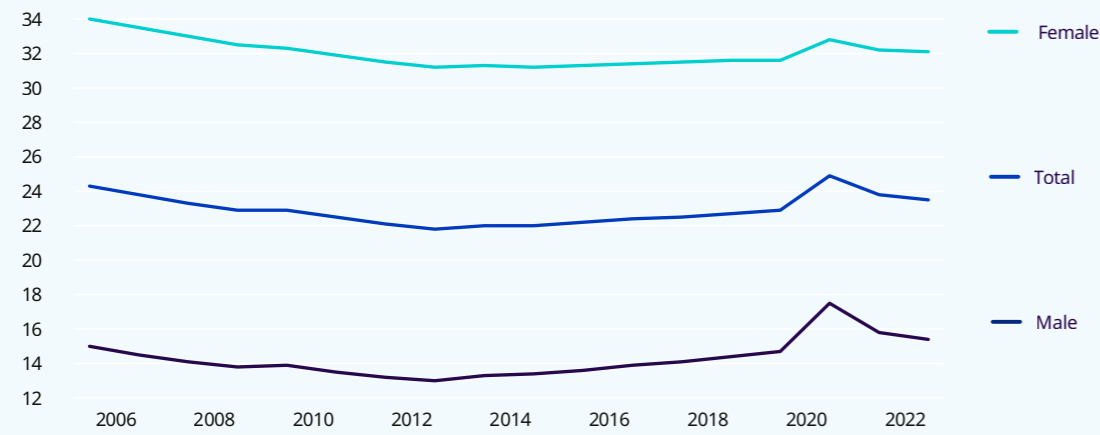
⁵ According to the most recent international definition of employment, established by the 19th International Conference of Labour Statisticians (ICLS) in 2013, which established that employment involved only work engaged in for pay or profit. This marked a major break with the past and excluded from employment, but not work, activities such as subsistence farming, which in turn had a major influence on the measurement of both employment and NEET in many – especially lower-income-countries. Implementation of this new approach is, however, patchy and many countries still apply the previous definition, including for now the ILO's own modelled estimates used in this section of the chapter. An important consequence of the changed definition was the distinction between work and employment which, inter alia, allowed the explicit recognition of some activities, such as unpaid care duties, as work (but not employment).

⁶ O'Higgins, Barford and Coutts (forthcoming) discuss in more details these "ramifications", in terms of how NEET rates differ from unemployment rates in terms of their characteristics and determinants. See also Elder (2015) for a relatively early, and informative, discussion in relation to low- and middle-income countries.

⁷ See, for example, among many others, World Bank (2006) or O'Higgins (2001; 2017).

⁸ See, for example, O'Higgins (2011) on the impact of the global financial and economic crisis on youth labour markets, and ILO (2020a).

► Figure 3.2. Share of young people (15–24) NEET, world, 2005–22 (percentage)



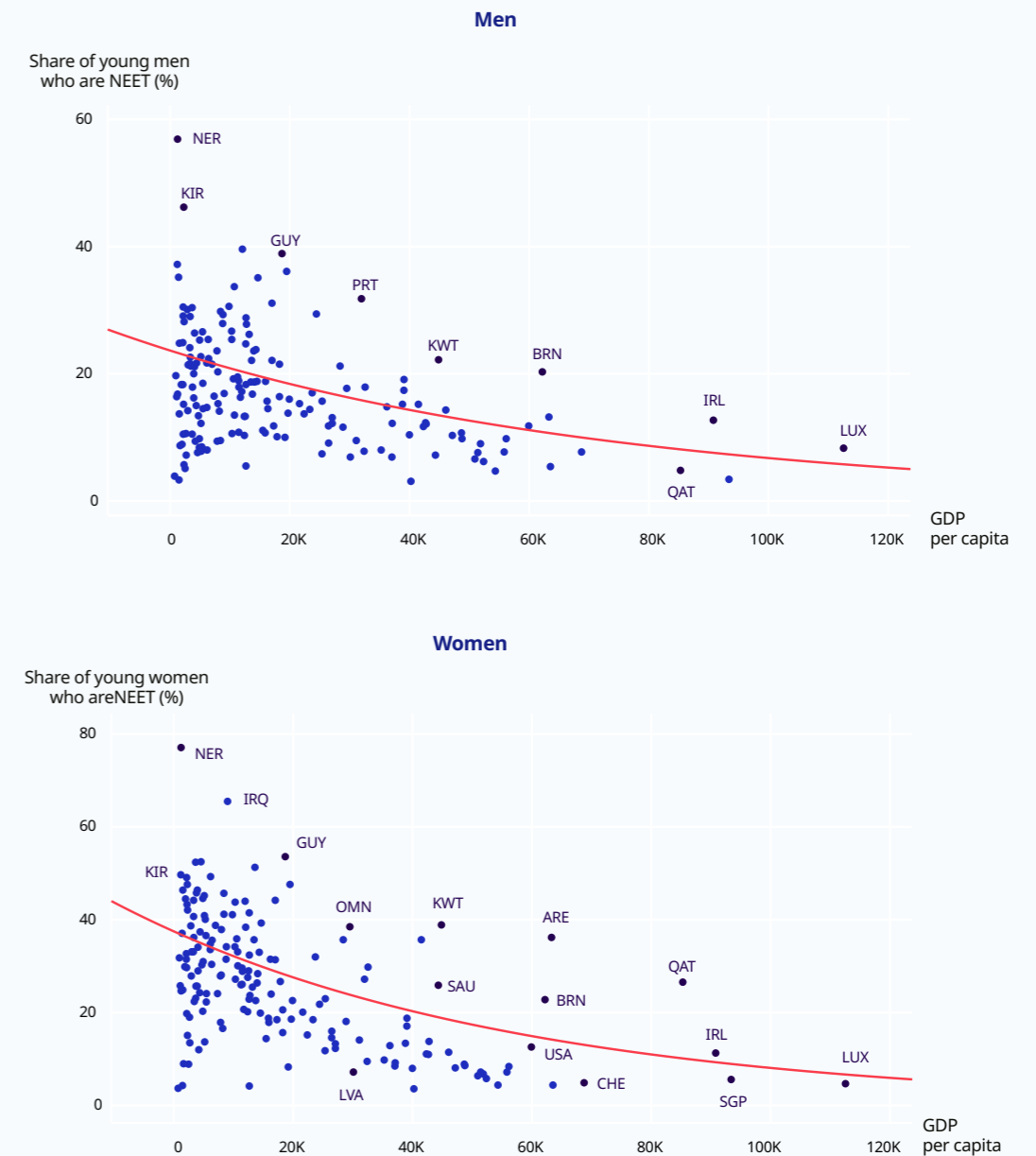
Source: ILOSTAT, ILO modelled estimates, November 2022.

Between 2005 and 2019, NEET rates – and especially those of young women – had gradually declined across the world. The onset of the COVID-19 pandemic in 2020 reversed all progress to date. In one year, the global NEET rate rose to its highest level since estimates began in 2005 – 24.9 per cent. This implied that one in every four young people – around one in three young women, one in six young men – were neither working nor studying.⁹ Globally, two out of every three NEETs are young women – and variations in the NEET rate of young women drive variations in the NEET rate as a whole. In 2005, the average global NEET rate of young men was 15.0 per cent – very slightly higher than it was

in 2019 before the onset of the pandemic (14.7 per cent). Over the same period, the average global NEET rate of young women fell from 34.0 per cent to 31.6 per cent – a modest (9 per cent) fall to be sure, which did however mean a reduction from 2.3 to 2.1 in the ratio of the young female NEET rate to the young male rate.¹⁰

The gradual decline in overall NEET rates – as well as in the NEET rate gender gap, prior to 2020 – reflects how NEET rates, especially for females, tend to decline as countries develop (figure 3.3). However, high NEET rates are not just about low levels of economic development, hence the broad spread of countries to the left of the figure.

► Figure 3.3. Youth NEET rates versus per capita GDP (PPP), men and women, latest year



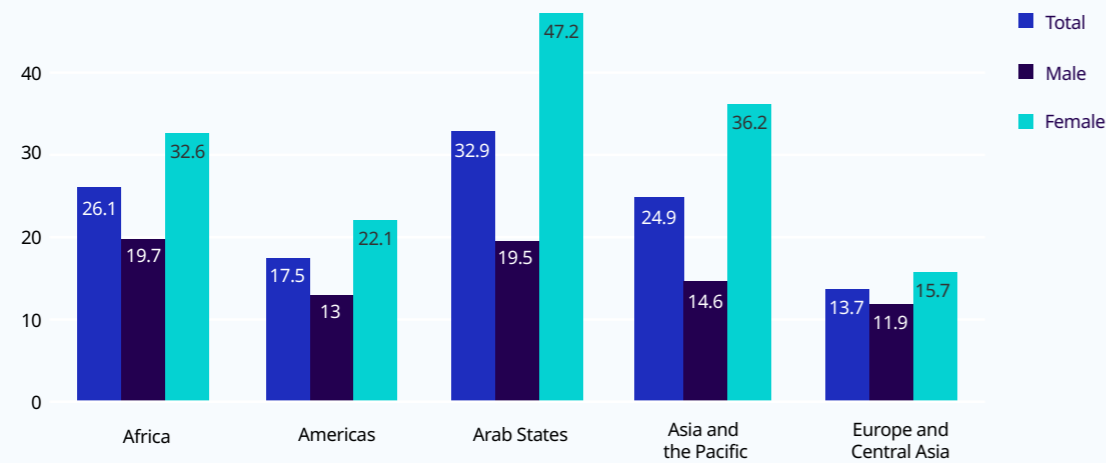
Notes: ARE = Armenia; BRN = Brunei Darussalam; CHE = Switzerland; GUY = Guyana; IRL = Ireland; IRQ = Iraq; KIR = Kiribati; KWT = Kuwait; LVA = Latvia; LUX = Luxembourg; OMN = Oman; PRT = Portugal; QAT = Qatar; SAU = Saudi Arabia; SGP = Singapore; USA = United States.

Source: Authors' calculation, based on ILOSTAT microdata from 152 low-, middle- and high-income countries.

9 ILOSTAT, ILO modelled estimates, November 2022.

10 It might also be observed that the COVID-19 pandemic further reduced this gap since it affected young male NEETs significantly more than young female NEETs; again, an issue to which we shall return.

► Figure 3.4. NEET rates by sex and region, 2022



Source: ILOSTAT, ILO modelled estimates, November 2022.

The heterogeneity of NEETs: sex, education and location

Extremely high NEET rates, especially among young women, are found in the Arab States, and in Asia and the Pacific (figure 3.4). These two regions have the highest average NEET rates as a whole, driven by the very high NEET rates among young women. In the Arab States, around one in every two young women are NEET, and in both regions young women are around two and a half times as likely as young men to be NEET.¹¹ In Asia and the Pacific, high NEET rates are driven by the very high (female) rates of South Asian countries. In both cases, several factors are at play, and the role of social norms in particular has been much discussed. These affect both the nature

of employment opportunities available to women as well as their pervasive engagement in care roles in these regions. Nonetheless, the difference between the Arab States and South Asia and other regions – important as they are – is arguably one of degree rather than of nature. Gender differences in employment-to-population ratios, as well as the predominant involvement of women in unpaid care work, are discernible across the globe (ILO 2018).¹²

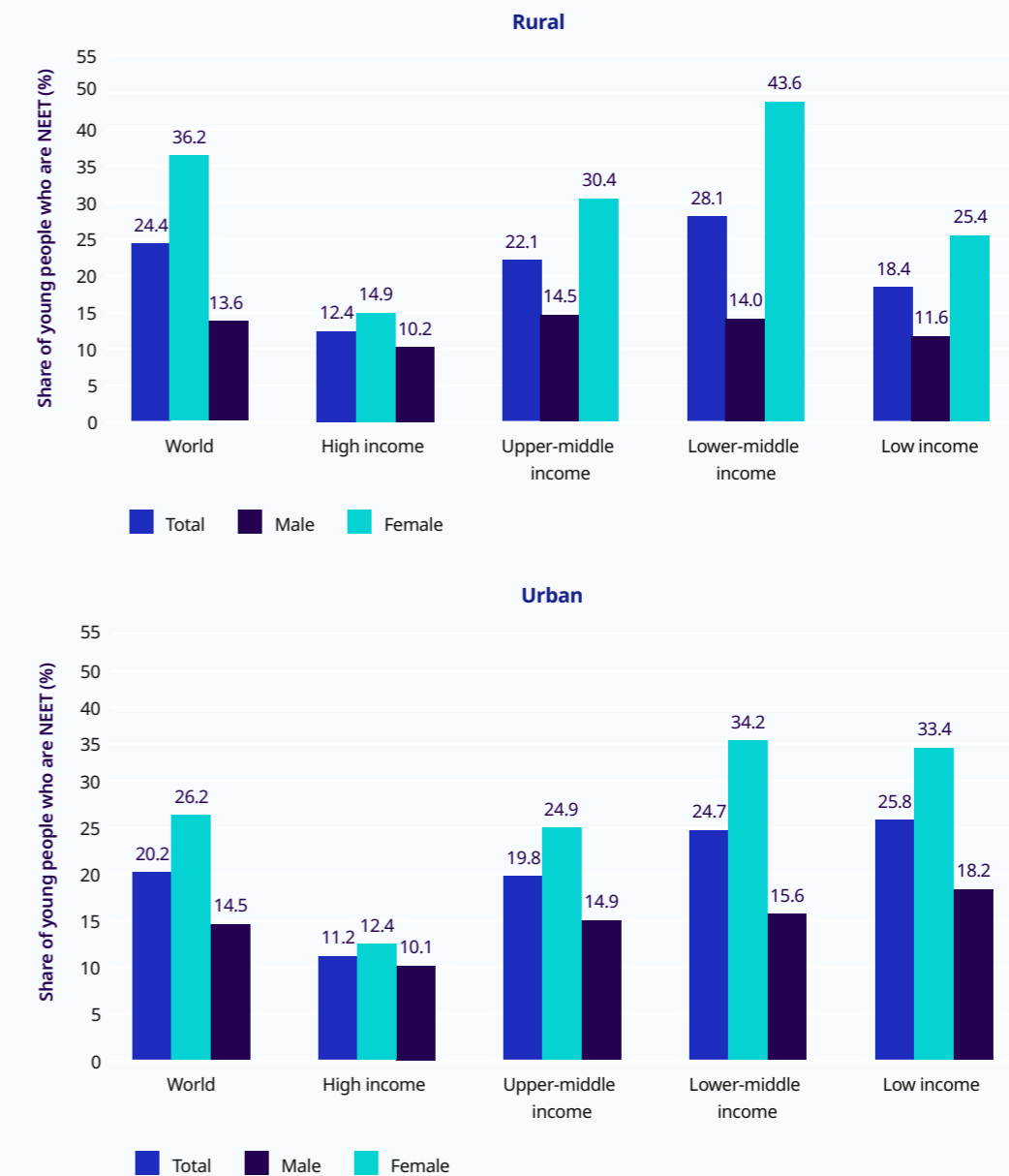
NEET rates are also much higher in rural compared to urban areas, as is the female/male disparity (figure 3.5), albeit not in low-income countries.¹³ This reinforces the notion of the importance of (local) economic development in driving down NEET rates as a whole along with the NEET gender gap.

¹¹ See, for example, the interesting analysis of Assaad et al. (2020) on the Arab States and North Africa, and of Neff, Sen and Kling (2012) on South Asia.

¹² This is not meant to imply that differences across countries and regions are not of major importance, but rather they emphasize that such obstacles to female participation in the labour market are a general feature of labour markets and not just an issue in the regions identified above.

¹³ This undoubtedly reflects the fact that, as discussed further below, the 19th ICLS has not yet been applied in ILO global labour force indicator estimates. As a result, the “relatively” low NEET rates, and the relatively small gender gap observable in low-income countries, reflects the inclusion of young people engaged in subsistence farm work. Applying the more up-to-date definition – which involves, inter alia, excluding all work which is not for pay or profit from employment – makes a substantial difference to such estimates. For example, the application of the 19th ICLS definition in Rwanda – a low-income country – has led to a reduction of 8 percentage points in employment-to-population ratios, with a greater reduction observable among young women than young men (ILO, forthcoming c). Moreover, by applying the 19th ICLS definition, which excludes subsistence workers from employment, NEET rates in Rwanda are much higher in rural than in urban areas, especially among young women. This is more in line with the pattern observed in middle-income countries.

► Figure 3.5. NEET rates by sex and country income grouping, rural and urban areas, 2019



Source: ILOSTAT, ILO modelled estimates, November 2020.

NEET rates fall in tandem with educational attainment (figure 3.6). Interesting here is the fact that differences in NEET rates by educational attainment increase with country income. Clearly this reflects a variety of factors, not least that in high-income countries very few young people have “less than

basic” education. However, it is remarkable, and an issue of some concern, that nearly 30 per cent of young adults (aged 25–29) – almost one in three – in both low- and lower-middle-income countries with advanced (that is, tertiary) level education are

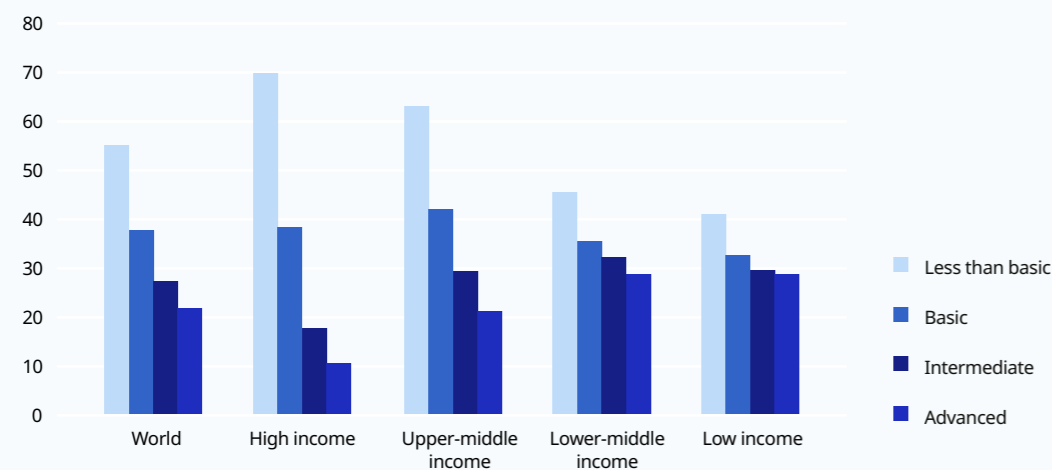
NEET.¹⁴ As it stands, educational attainment is clearly not an automatic panacea.

The persistence of NEET

Like its smaller sibling, youth unemployment, NEET status exhibits persistence for individuals. That is, if I am NEET today, I am more likely to be NEET in the future. A simple, albeit imperfect, way of showing this, is to plot country-specific NEET rates of 15- to 24-year-olds against the NEET rates of 25- to 34-year-olds ten years later (figure 3.7).

The relationship is closer and stronger for young women than for young men. Not only are NEET rates higher for young women than for young men – and, as we have seen, much higher in some countries and regions – but also NEET status is a *more permanent* situation for young women than for young men. Furthermore, the likelihood of an intergenerational reproduction of NEET status implies that not supporting NEETs effectively now might lead to greater costs in addressing a larger problem in the future.¹⁵

► **Figure 3.6. NEET rates by country income grouping and educational attainment, young people aged 25–29, 2021 or nearest year (percentage)**



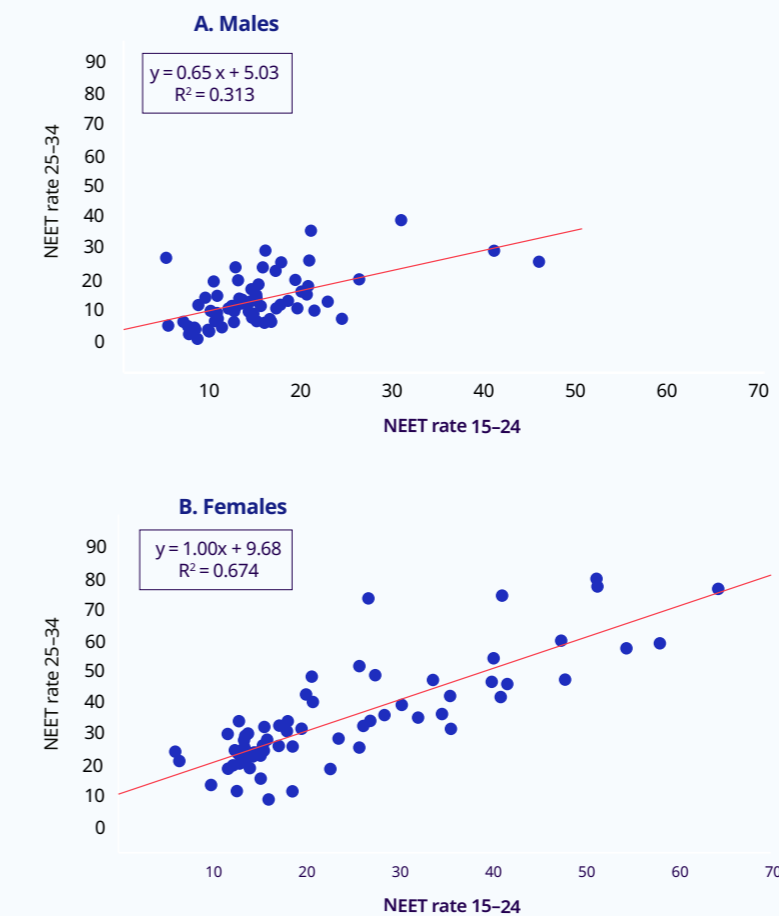
Note: Unweighted averages based on the countries for which data are available. The figure uses the 25–29-year-old age group to avoid giving a misleading impression, which would arise using age-groups where educational participation is (potentially) substantial.

Source: Authors' calculation, based on ILOSTAT microdata from 151 low-, middle- and high-income countries.

¹⁴ In comparing NEET rates at different levels of educational attainment, attention is focused on the slightly older 25- to 29-year-old age group. This serves to avoid the misleading picture that emerges from examining NEET (or unemployment) rates by educational attainment for 15- to 24-year-olds, as these are subject to systematic differences not due to educational attainment per se. For example, 15- to 24-year-olds with tertiary educational attainment will systematically be older, on average, than those with basic or secondary education. This type of issue, along with a non-random selection into higher levels of educational attainment, also contributes to the commonly held misconception which identifies educated youth unemployment as the major youth labour market problem in low- and middle-income countries. See, for example, O'Higgins (2001, 33–36) for an early discussion.

¹⁵ There is much evidence regarding the intergenerational transmission of unemployment (e.g. O'Neill and Sweetman 1998), and more generally its negative intergenerational impacts (e.g. Magruder 2010); such evidence as does exist also finds a broader intergenerational transmission of worklessness (e.g. Barnes et al. 2012).

► **Figure 3.7. NEET rates of 15- to 24-year-olds versus NEET rates of 25- to 34-year-olds ten years later, males and females (percentage)**



Note: The figure plots the NEET rates of young people aged 15 to 24 in 64 low-, middle- and high-income countries in the mid-2000s, against the NEET rates of 25- to 34-year-olds in the same countries ten years later (mid-2010s).

Source: O'Higgins (2019), authors' calculation, based on ILOSTAT microdata.

This finding is also backed up by more rigorous studies of individual longitudinal outcomes, albeit primarily in high-income countries. In 2015, the Government of Scotland, United Kingdom, found that young people experiencing a period of being NEET were 2.8 times more likely to be unemployed or economically inactive ten years later than non-NEETs (Scottish Government 2015). Even when they do find employment, NEETs are 2.5 times more likely than non-NEETs to be in a low-status occupation ten years later. Further, health risks for the NEET group were 1.6–2.5 times higher than that for the non-NEET group, varying with different health outcomes. Recent evidence from four Southern European countries provides somewhat similar results. Using a framework designed to distinguish between short- and long-term persistence, Malo et

al. (2021) estimate that being NEET increases the probability of being NEET four years later by between 10 and 25 percentage points in Italy, Portugal and Spain, and by between 22 and almost 40 percentage points in Greece. As the authors note – and we shall return to them – this speaks in favour of the early intervention models that the EU has sought to introduce with the Youth Guarantee. These observations also emphasize the long-term costs of inaction – something which was also evident from ILO analyses of the youth labour market impact of the COVID-19 pandemic (ILO 2021a).

Varieties of NEET

The characteristics of young NEETs are many and various. The importance of specific sub-categories

of NEET varies widely across country and individual characteristics such as gender, country income and education – factors which themselves play an important role in determining NEET rates in a country. Policy responses need to take into account the complex patterns of interaction that underlie “NEETness”, and adopt a nuanced design to address the multifaceted situations in which young people find themselves. Understanding NEET, and what to do about reducing it, obviously requires some understanding of its underlying causes.

A first distinction may be drawn between young unemployed NEETs (not in employment or education, hereafter “NEET-unemployed”) and young NEETs who are outside the labour market (hereafter “NEET-inactive”), young people who are neither employed nor in education, but who are not actively seeking work. In high-income countries, young NEETs are typically roughly evenly split between the NEET-unemployed and the NEET-inactive.¹⁶ In low- and middle-income countries, however, there are typically far more young NEETs recorded as “inactive” than “unemployed” – and, as we have seen, not coincidentally, that the overrepresentation of women among NEETs is more pronounced in these countries.

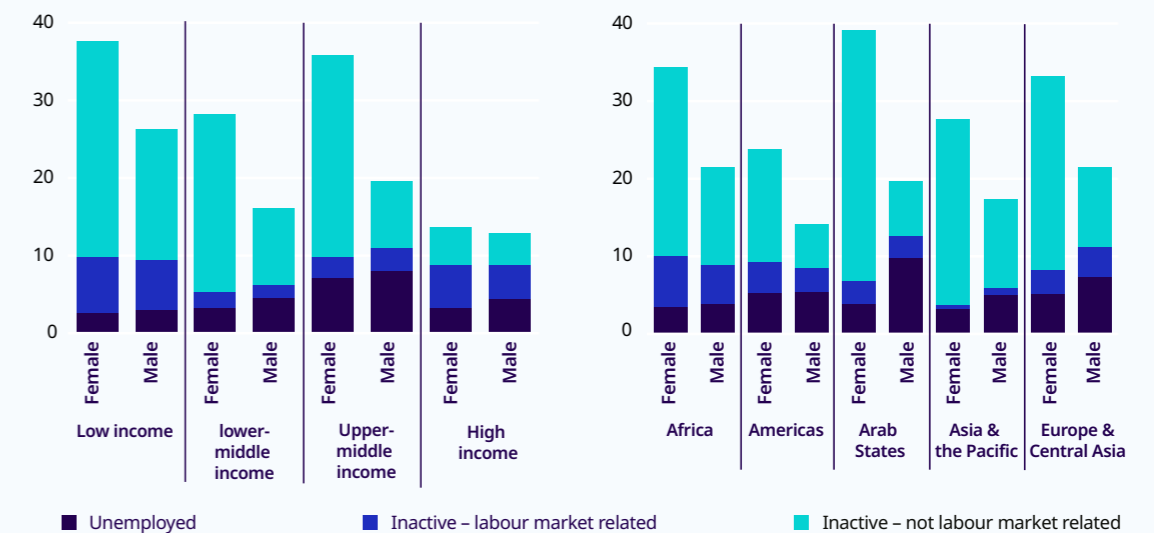
Eurofound (2016) proposes a sevenfold breakdown of NEETs including three “unemployed” categories,

which are essentially differentiated by the duration of unemployment. In low- and middle-income countries, the relevance of the duration of unemployment in determining outcomes is limited (O’Higgins 2019). Hence little is lost by merging unemployed NEETs into one category. For our current purposes, we also merge the NEET-inactive into just two groups, according to whether they are not actively looking for work:

- ▶ for labour market related reasons, primarily the “discouraged” who have given up searching because of the lack of available jobs;¹⁷ or
- ▶ for non-labour market related reasons, such as young people, primarily young women, with domestic and/or care responsibilities.

In other words, we distinguish between young NEETs who are constrained by the lack of available jobs, and those who face other constraints on account of personal circumstances. This broad three-way categorization is applied to 98 countries with recent (since 2018) data aggregated by country income and region, respectively (figure 3.8 panels A and B). Even at this level of geographical and NEET subgroup aggregation, clear patterns emerge which provide further elucidation of the previous observations.

▶ **Figure 3.8. Decomposition of NEET rates by broad reason for being NEET, by region and country income group, latest year (percentage)**



Notes: Population-weighted aggregates based on latest year for 98 countries for which microdata are available.

Source: Author calculations based on ILOSTAT microdata from 2022 (or closest year between 2018 and 2021).

The predominance of young women among NEETs is evident in figure 3.8 as it was in the preceding figures.¹⁸ It might also be observed that at this level of aggregation – whether by country income group or by region – unemployed NEETs are invariably more likely to be young men than young women, and vice versa for inactive NEETs. This gendered pattern is also typically replicated at the national level. In India, where the female NEET rate was four times the male rate in 2019, this gendered inactive/unemployed NEET distinction is especially pronounced. Moreover, the majority of NEETs in India are outside the labour force; this group, generally from poorer households, is dominated by young women. Conversely, the minority subgroup, unemployed NEETs who are typically from better off households, is dominated by young men who are increasingly highly educated (Majid 2021).

The numbers of young women who are NEET for reasons not related to the labour market are far larger than the corresponding numbers of young men. As already observed, this may be attributed to the wide disparity between young women and men in their involvement in unpaid family care duties. For instance, in Thailand, 74.0 per cent of young women classified as being inactive and out-of-education

are involved in household work; meanwhile, their male counterparts are more likely to be unavailable for work because they are living with an illness (22 per cent) or taking a break from work or education (32.1 per cent) (ILO 2022b). This is true in countries at all levels of economic development, although the difference is larger in low- and middle-income countries. It is also the case that – with the exception of the Asia and the Pacific region, and the upper-middle-income country group – young women also outnumber young men who are NEET for labour market related reasons, although in this case the gender difference is much more modest.

It is also important to recognize that other subgroups of the youth population are more likely to be categorized as NEET due to their specific characteristics. Young people living with disabilities are typically more likely to have NEET status, although the data are somewhat patchy on this. For instance, in Ethiopia, young women and men with disabilities have a similar NEET rate to one another, both roughly double the 27.8 per cent figure for young women without disabilities (ILO, forthcoming a). Similar trends of young people living with disabilities having a higher chance of being NEET have been observed in Senegal, where 84.1 per cent of young

¹⁶ Although in EU-27 countries, where the Youth Guarantee has been in operation since 2014, the share of NEETs who are unemployed has fallen quite markedly during the last decade or so, reflecting both the success of the Youth Guarantee in reducing youth unemployment rates and its lack of success in reducing inactivity (outside of education) among young people.

¹⁷ Where the 19th ICLS is applied – such as in Rwanda – this group also includes those in subsistence work.

¹⁸ However, note that the rates are not precisely the same as before because figure 3.8 is based on observed data for a more limited number of countries (and covering different years) whereas the preceding figures use ILO modelled data with complete country coverage for 2022.

women and 72.1 per cent of young men with disabilities are NEET (ILO, forthcoming b), compared to 48.1 and 21.3 per cent of young women and men without disabilities, respectively. This may be attributed to wider discrimination and non-accessibility, alongside longer-term educational disadvantage, played out in contexts of high competition and low labour market demand.

Key policy-relevant points

There are a great many factors contributing towards a situation in which young people are NEET – and these are relevant to the design of effective policy solutions. Moving away from an exclusive focus on unemployment towards the broader notion of NEET as the basis for policy interventions has a number of significant implications. In some ways this is clearly a positive development. Basing youth employment policy around the goal of reducing youth unemployment in countries which do not have well-developed social protection systems can lead to some perverse outcomes; for example, there is a danger that efforts will be focused on more advantaged young people from more prosperous backgrounds who can afford to remain unemployed while searching for reasonable work because they have sufficient family income to support them while doing so. Expanding the focus to encompass all young people who are NEET, not just those who are not working but are (and can afford to spend time) actively seeking work, however, also makes things more complicated due to heterogeneity in the reasons for being NEET.

► Policies to reduce NEET rates: what do we know?

The shift in policy focus from youth unemployment to NEET, with a view to promoting decent work among young people, broadens the scope of possible interventions. Reduced NEET rates may be achieved both by increasing entry into employment and increasing participation in education and

training. Moreover, there are many factors underlying NEET status. Most young NEETs are women, the majority of whom are constrained in their ability to participate in the labour market on account of their care and other family-related responsibilities (Majid 2021; ILO 2018; ILO 2022c). These obstacles

- ▶ NEET rates tend to fall as country income increases, broadly speaking, although the picture is a little more nuanced as NEET rates are on average higher in lower-income countries than in low-income ones.
- ▶ NEET rates are almost universally higher among young women; the gender gap is most pronounced in lower-income countries, and smallest in high-income ones.
- ▶ NEET rates are higher – and the gender gap larger – in rural compared to urban areas.¹⁹
- ▶ NEET rates are substantially higher for young people living with disabilities, compared to their non-disabled peers.
- ▶ NEET rates tend to fall with rising educational attainment; although, as with other features, there is a great deal of regional and country variation.
- ▶ There is strong evidence of scarring – being NEET today means one is more likely to be NEET tomorrow – especially among young women. This speaks to the need to intervene early, and serves to emphasize the substantial costs of inaction when calculating the costs of action.

¹⁹ As noted, this is not strictly true in low-income countries. However, this may clearly be attributed to the inclusion of subsistence farmers in global and regional estimates of NEET rates. With the exclusion of subsistence workers from employment and the inclusion of many of these in the NEET category, this will predictably change, as illustrated by the example of Rwanda outlined earlier in the text.

to labour market participation, depend, in turn, on a complex interaction between economic factors, social norms and care services. Consequently, policy interventions should include action geared towards removing economic and social obstacles to female labour market participation. Similarly, NEET rates are higher among groups facing additional obstacles to accessing the labour market, such as people living with disabilities. Policies therefore need to address issues of labour market failure, alongside the social and structural arrangements that effectively exclude significant segments of the population from participating in the labour force.

Many questions remain. The adoption of NEET as the yardstick by which to measure progress towards decent work in youth labour markets has major implications, not all of which have yet been widely understood. The shift is positive in many respects. It is not hard to argue that the youth unemployment concept is an insufficient tool with limited relevance to low- and middle-income countries. However, the concept is undeniably useful alongside other measures including NEET, disaggregated NEET, quality of work, and underemployment.

Overall, the trends and characteristics of the NEET phenomenon require that policies to reduce NEETs should be part of an integrated multipronged strategy with coordinated action on many fronts. The wide variety of types and determinants of NEET necessitates strategies adapted to individual country circumstances. We shall therefore summarize key findings from the literature to identify potential areas for action, as well as programmes and/or policies that may be effective in specific circumstances. We shall also indicate where further knowledge-building might usefully focus.

The role of demand-side policies in expanding employment opportunities for young people

As already noted, NEET rates – along with other youth labour market indicators – are highly responsive to the business cycle and more generally to

economic development. A NEET reduction strategy must be based around a sound demand management and economic development strategy, alongside other policies. Given that NEET rates, as well as the gap between female and male NEET rates, tend to fall with rising economic development, a sound economic development strategy must form the backbone of a comprehensive approach to the reduction of these rates. The composition of growth is clearly important – but the specifics of such a strategy will naturally depend in part on the specific country context. Going beyond traditional sectoral breakdowns of economic activity, recent estimates by the ILO point to an emphasis on specific strategies based on investments in green/blue, digital, creative and care “economies”, as these can make a significant contribution to the promotion of youth employment and a reduction in NEET rates (ILO 2022a). A further advantage is that these strategies incorporate other useful goals – for example, reducing carbon emissions – while promoting employment generation among young people.

The literature on the impact of fiscal policy on employment has flourished in recent years, with experiences surrounding the COVID-19 pandemic reaffirming the positive role of countercyclical economic policy in mitigating the impact of shortfalls in aggregate demand. Regarding specifically youth labour market outcomes, Ebell and O’Higgins (2016) have shown, in their study of high-income countries, that countercyclical fiscal policy: (a) is slightly more effective in promoting youth employment than adult employment; and (b) has more significant countercyclical impacts during recessions than during periods of expansion.²⁰ More specifically, the effects of expansionary fiscal policy vary with economic cycles and the state of public finances. The best time to adopt an expansionary stance is when the budget balance is above trend and the economy is in recession. Under these circumstances, an expansionary fiscal stance is associated with a substantial fall in youth unemployment and a corresponding increase in youth employment; importantly, it is also associated with a fall in long-term unemployment among young people (O’Higgins, Ebell and Junankar 2017).

²⁰ To be sure, most of the evidence on this matter comes from high-income countries; however, some papers have looked explicitly at differences arising in the low- and middle-income context, especially as regards the economic impacts of the COVID-19 pandemic and response measures. For example, see O’Higgins, Elsheikhi and Verick (2021) on the determinants of the impact of COVID-19 on youth compared to adult employment in high- versus non-high-income countries.

There is extensive evidence concerning fiscal multipliers (Blanchard and Leigh 2013; Auerbach and Gorodnichenko 2012). The COVID-19 pandemic and the response measures subsequently adopted have emphasized the importance of rapid and substantial fiscal expansionary measures – in this case largely through the introduction of employment and income-support measures, particularly in high-income countries (ILO 2021b). The relatively rapid recovery in these countries demonstrates the value of such expansionary measures. Furthermore, the composition of expenditure also matters. Measures focused on the job and wage maintenance of existing workers tended to be less supportive of young labour market participants. Young workers were also less likely to qualify for support due to a lack of sufficient time on the job – or not having a job at all. Moreover, young people account for a disproportionate share of new jobseekers and were thus heavily affected by the lack of new job opportunities, compounded by the focus on established workers (ILO 2021a; ILO 2022a; Barford, Coutts and Sahai 2022). They also faced interruptions to education and training.

Supporting the return to education and reducing school dropout

As a matter of simple arithmetic, reducing NEET rates can be achieved by increasing youth employment or increasing educational participation – preferably both. Simply stated, increasing educational participation among young people will directly reduce NEET rates. Perhaps more importantly, increased educational participation also brings broader benefits including facilitating the longer-term integration of young people into decent work through the acquisition of work-related skills. As

we have seen, NEET rates fall with educational attainment.

Above all, preventive interventions to reduce early school leaving can play a fundamental role in lowering NEET rates. Indeed, one approach of high-income countries is to prevent school dropouts. There are numerous examples of such policies, such as the continued (and/or return to) education offers under the Youth Guarantee. Low- and middle-income countries often focus on basic educational participation and attainment, especially through policies which enable parents to continue sending their children to school. For example, the conditional cash transfer programmes implemented first in Latin America in the 1990s, and subsequently emulated elsewhere, have proved successful in boosting educational participation and attainment, especially in the short term (Parker and Todd 2017; Molina Millán et al. 2019). In any event, the key point is that reducing NEET is not just about increasing the direct entry of young people into employment.

Active labour market policies: comprehensive labour market interventions

It has long been known that comprehensive interventions, which provide a variety of tailored services to young people seeking work, are both the most expensive and most effective types of intervention (O'Higgins 2001; O'Higgins 2017). Recent experience in the European Union has served to emphasize this point with the 2014 introduction of the Youth Guarantee in the EU countries in the wake of the 2008–09 global financial and economic crisis. Fortunately, the programme was revamped and relaunched in July 2020 at the height of the pandemic-induced economic crisis (box 3.1).

► Box 3.1. The Youth Guarantee

Implemented in 2014 across EU Member States, the Youth Guarantee programme committed the Member States to ensuring that “all young people under the age of 25 years receive a good-quality offer of employment, continued education, an apprenticeship or a traineeship within a period of four months of becoming unemployed or leaving formal education” (Council of the European Union 2013). The Youth Guarantee is intended to provide a policy framework to address challenges which young people face in entering the workforce. As part of the EU response to COVID-19, the scheme was reinforced and extended up to the age of 29 years (Council of the European Union 2020). The scheme aims to ensure that NEETs receive assistance before an extended period outside the labour market impairs their chances of finding work. The emphasis of the Youth Guarantee programme on NEETs extends policy to reach the most disadvantaged and discouraged. It also provides more options than traditional active labour market policies, such as subsidized employment, training, education and apprenticeships.

Under the Youth Guarantee, EU Member States undertake to provide young people (initially 15- to 24-year-olds, then extended to 15- to 29-year-olds) with a good quality offer of (return to) education, training, work-based learning or a job within four months of leaving education or employment. The Youth Guarantee is expensive, and has often proved challenging to implement. Moreover, given its scale and scope, assessing its impact using standard evaluation techniques is not at all straightforward. Nevertheless, the evidence to date does strongly suggest that the Youth Guarantee was effective in reducing NEET rates in many European countries. Following its introduction, the NEET rate of 15- to 24-year-olds in EU countries as a whole fell from 13.3 per cent in 2013 to 10.5 per cent in 2019. It is also plausible that the Youth Guarantee contributed to the relatively rapid recovery of youth NEET rates observed in the EU following the onset of the COVID-19 pandemic. NEET rates in the EU-27 countries increased to 11.3 per cent in 2020, then fell slightly to 11.1 per cent in 2021. By 2022 they are estimated to have dropped below their pre-pandemic levels.²¹

This result was achieved however by reducing the numbers of NEET-unemployed young people, and there was little change in the figures for the NEET-inactive group. This mirrors a similar trend after the introduction of the Youth Guarantee, when the drop

in NEET rates from 2013 to 2019 could be attributed to the fact that the NEET-unemployed group declined from 6.9 per cent of the population aged 15- to 24 to 4.8 per cent, while the figures for the NEET-inactive group remained almost unchanged.²² With the pandemic and subsequent recovery, the situation has further deteriorated for young inactive NEETs in the EU. Young inactive NEETs comprised 6.0 per cent of the youth population in 2019, increased to 6.8 per cent in 2020, and then fell very slightly to 6.7 per cent in 2021. This is in contrast to NEET-unemployed youth who saw their population share increase very slightly – from 4.1 per cent to 4.3 per cent – between 2019 and 2020 and then fall back to the pre-pandemic rate of 4.1 per cent by 2021. This reflects a more general tendency visible in many countries globally of young people entering inactivity rather than unemployment in response to the economic shock associated with COVID-19 (ILO 2021a); but it also highlights the difficulties that countries in the EU have faced in reducing the share of inactive NEETs. This being said, it is important to recall that outside the relatively fortunate set of high-income countries, inactive young people – and, above all young women – comprise the vast bulk of young people who are neither in employment, education or training, and that the share of young people who are NEET in non-high-income countries is roughly twice as large as it is high-income ones. It is plausible that in low- and

²¹ ILOSTAT, ILO modelled estimates, November 2022; indeed, according to these latest estimates, the NEET rate for 15- to 24-year-olds in the EU fell to 9.7 per cent in 2022, almost 1 percentage point below the 2019 rate.

²² Specifically, decreasing by 0.1 percentage point according to the Eurostat database. The overall NEET rates reported by Eurostat differ slightly from those reported by the ILO due to some minor definitional differences.

middle-income countries much progress can also be made in reducing this group.

Comprehensive programmes with multiple tailored interventions are not new. They have long been implemented in OECD countries. In the United States, the Job Corps programme offers multiple interventions for disadvantaged young people, proving so successful that it has remained in operation since 1964. The Vision Plan Programme in the Republic of Korea offers an example of a more recently introduced multi-level programme explicitly targeted at reducing NEET rates among disadvantaged young people living in low-income households. This pilot project, which engaged 1,780 young people over three years, had age-specific goals. The first was to prevent 14- to 19-year-olds from becoming NEET, and the second was to improve the labour market outcomes for 20- to 24-year-olds (ILO 2022d). The programme was rolled out at three levels, with the aim of offering the type of integrated and multifaceted support that, ideally, can address the diverse and intersecting simultaneous challenges faced by the target groups. At the individual level, vocational and education training was dispensed, alongside the provision of emotional and psychological interventions. At the family level, parenting courses, financial support and social engagement were provided. And lastly, at the community level, institutional coordination between the State, schools and colleges, NGOs and youth groups led to stronger partnerships and joined-up activities. Impacts included an 8.3 per cent increase in intention to find a job, and a 6.6 per cent reduction in the likelihood of becoming NEET (ILO 2022d, 23).

These interventions are not confined to high-income countries. In Latin America, the *Joven* model of policies and programmes aimed at disadvantaged young people was first introduced in Chile in 1991.²³ Such programmes have achieved substantial success in raising the post-programme probabilities of participants finding work, and even more so, the quality of work obtained (Ibarrarán and Rosas Shady 2009; González-Velosa, Ripan and Rosas Shady 2012). The *Joven* model was a relatively rare example from outside the United States and Europe,

where serious attempts at evaluation had already been made in the 1990s.

The Youth Guarantee, however, is even more comprehensive in scale and scope – it is aimed at all young NEETs, not just the unemployed, and it involves an all-encompassing range of options. Indeed, it has also served as a model for countries to follow outside the EU, above all in Central and Eastern Europe (ILO 2020c). Its positive side, as has been mentioned, is the reduction of youth NEET rates. As already observed, the less positive side of the coin is that even following its relaunch in 2020 with a specific emphasis on boosting the NEET-inactive group, the Youth Guarantee was successful in reducing unemployment, but not for those who were neither in the labour market nor in education or training. A corollary to this is that the NEET gender gap widened over the same period. Between 2013 and 2019, the average NEET rate for young men in the EU-27 – already significantly lower than that of young women in 2013 – fell by 3.7 percentage points compared to 3.1 percentage points among young women. During the COVID-19 pandemic, the male rate fell again, albeit very slightly, by 0.1 percentage point, while the female rate increased by 1 percentage point.

It is difficult to undertake the type of rigorous impact evaluation routinely applied to small-scale interventions, not least because the size and variety of intervention models do not easily lend themselves to methodologies which require the construction of a counterfactual scenario involving the situation which would have pertained in the absence of the intervention. For small-scale interventions, with careful application, this is relatively straightforward. When an intervention is substantial in size and might plausibly affect the labour market experiences of young – and not so young – people, it is not clear how to adequately identify a control group. There have been some exceptions. For example, O'Higgins and Pica (2020) use a difference-in-difference approach with an age-based regression discontinuity design to identify the effects on hiring of the Youth Guarantee in Italy.²⁴ Perhaps more to the point, such a large programme will inevitably also have feedback and other broader multiplier effects, which are not

²³ Of course, in the meantime, a number of Latin American countries – not least Chile itself – have joined the high-income country club; however, this was not the case when the Chile *Joven* programme was first introduced.

²⁴ The paper is not, however, primarily focused on the impact of the Youth Guarantee. Rather, it seeks to carefully examine theoretically and empirically the complementarities between labour market policies and institutions – in this case, the interactive effects of ALMP and employment protection legislation reforms in Italy.

usually considered by randomized control trials or quasi-experimental impact evaluation designs.²⁵ Indeed, it has been argued that for programmes such as the Youth Guarantee, it is also important to take into account the broader range of effects of such large-scale programmes, including effects at the macroeconomic level.²⁶

Attempts have sometimes been made to assess the impact of ALMPs using a more aggregated approach. Eurofound (2012), for example, uses cross-country data to analyse the impacts on NEET rates of several labour market institutions, including ALMPs. The analysis finds that countries' expenditure on ALMPs has a robust role in reducing NEET rates, as indeed was suggested by the descriptive discussion above.²⁷ Given the lack of impact evaluation in this area, it is not too surprising that, compared to single intervention type reviews, relatively few meta-analyses exist in this area. One exception is the systematic review of 18 studies by Mawn et al. (2017), which found that high-contact approaches involving both on- and off-the-job elements were most effective. This finding mirrors results from other impact evaluations and meta-analyses of interventions typically aimed at unemployed young people, which are discussed later in the text.

ALMPs: specific design features

One area which has received much attention since 2000, leading to notable improvements in understanding, is the effect of specific programme design features on individuals' post-programme employment and/or wage prospects. In recent years,

analysis of outcomes has also referred to young people's well-being. Applying impact evaluation methodologies to typically small-scale interventions in an increasingly broad selection of countries offers evidence as to which design features determine subsequent outcomes and for whom. What still remains less well understood is *why*.²⁸ The large number and variety of these intervention evaluations has also enabled meta-analyses of the findings, resulting in a number of policy-relevant conclusions:

- ▶ Training programmes are consistently found to be the most effective intervention type.
- ▶ Wage subsidies are also effective, especially when on-the-job experience is combined with off-the-job training – subsidized employment or training *in isolation* is less effective.
- ▶ Interventions with multiple interventions tailored to specific individual characteristics are most effective.
- ▶ In low- and middle-income countries, self-employment programmes have the largest, and most variable, impact on youth labour market outcomes (Kluve et al. 2019).

Another consistent finding is that the impacts of interventions vary significantly across countries and socio-economic contexts. Indeed, several meta-analyses have found that programmes for young people are more effective in low- and middle-income countries than in high-income ones (e.g. Betchermann et al. 2007; Kluve et al. 2019). Contextual factors can be as important as internal design features. Moreover, ALMPs – and training programmes in particular – tend to work better

²⁵ This is also a shortcoming of this type of impact evaluation when applied to public employment programmes – or public works programmes as they are sometimes called – even more so in this case, since these programmes often have among their primary aims income support and the construction of infrastructure to support development, rather than just promoting the post-programme employment prospects of participants.

²⁶ See, for example, the discussion in O'Higgins (2017, section 8.2). Large-scale programmes like the Youth Guarantee can, among other things, play a role as an automatic fiscal stabilizer, much in the way that social protection measures do. Under the EC-ILO partnership on the Youth Guarantee, the ILO developed approaches seeking to take better account of a broader set of costs and benefits associated with its implementation. This approach is necessarily contingent upon a number of assumptions, yet it does allow a more complete consideration of the various economic and social costs and benefits of comprehensive programmes like the European Youth Guarantee. See, for example, Green et al. (2017), and Destefanis (2017).

²⁷ The other significant and robust institutional determinant of NEET rates was the presence of dual vocational and education training systems. These have often been found to play a significant role in reducing youth unemployment (and NEET) in the literature (e.g. O'Higgins 2011; 2014).

²⁸ Numerous impact evaluations, using increasingly rigorous methods, have been implemented in recent years. This has allowed meta-analysis techniques to be employed, both regarding ALMPs as a whole, as well as more specifically for young people. Betchermann et al. (2007) is an early example, and in the last decade, these have proliferated. See, among others, Kluve et al. (2019) and ILO (forthcoming a, b and c) on youth interventions. There are also many more general meta-analyses of the impact of ALMPs.



during periods of growth than recession. During recessions, it is natural to place greater emphasis on demand-side measures to support employment through, for example, subsidized employment programmes for young people. Another important finding arising from studies of ALMPs in Latin America, is that ALMPs can play an important role in promoting the formalization of employment (ILO 2016; Escudero et al. 2019), and this is increasingly confirmed by the impact evaluation literature (O'Higgins 2017).

While these findings are useful for the design of interventions, narrowly focusing on the impacts on the employment prospects of individual participants can be misleading. Indeed, individual-level impact evaluations inform us about how to design better programmes, which specific design features can be relatively useful, which groups they are more likely to help, and so on. However, analyses of individual post-programme outcomes are not designed to evaluate any macroeconomic effects that may arise with large-scale programmes. Such analyses may be usefully complemented by aggregate-level studies of the context and complementarities between interventions and other labour market institutions.

It is perhaps more appropriate to think of a large-scale initiative involving systemic change like the Youth Guarantee as a youth employment framework rather than an ALMP, or even policy, per se. Moreover, the design of specific elements within such large-scale programmes could be more systematically integrated into broader macroeconomic and sectoral development strategies. This requires an expanded perspective on the role of youth employment policy, which also takes into account potential beneficial effects, both institutional and economic, on a wider scale. Such an undertaking is clearly challenging; but the broadening of the objectives of youth employment policies towards reducing NEET, as opposed to youth unemployment, clearly facilitates this change.

The point here is, which questions *should* we be looking to answer? Or rather, which questions do we need to answer to better integrate young people into long-term decent work? Or, using the current lexicon, how can we best promote a human-centred recovery? This requires looking a little more broadly at the evidence.

Removing barriers for specific groups

One of the most consistent characteristics of young NEETs and their prevalence – especially in low- and middle-income countries – is the numerical dominance of young women. This is also reflected in lower employment-to-population ratios and labour force participation rates observed across the globe (ILO 2022a). These phenomena reflect a variety of factors. Young women are more likely to be NEET for various reasons: family responsibilities unequally shared between women and men (ILO 2018); the influence of local social norms on the extent of young women's labour market participation; and constraining stereotypes concerning the types of employment deemed appropriate for women and men.

In any event, young women comprise the vast majority of young NEETs, and any fruitful approach to reduce NEET rates should take this into account. In essence, this means looking at the barriers to female participation in education and employment, and also the quantity and quality of the opportunities available to young women in these spheres. These of course vary across countries and regions. Actions to remove or reduce the barriers faced by young women can take many forms and occur at different levels. Other chapters in this report deal with some of these issues – particularly as regards the macroeconomic and sectoral transformation arenas, which have become even more important

as a direct consequence of the COVID-19 pandemic (ILO 2020b).

Education is a key area in which gender differences play out. Economically poor girls are much less likely than poor boys to acquire secondary education (ILO and UNICEF 2018). Perhaps of equal importance are the subjects studied. In particular, young men tend to be concentrated in STEM (science, technology, engineering and mathematics) subjects, while young women are heavily concentrated in non-STEM subjects. STEM-related careers are more remunerative and so, in addition to affecting the chances of finding employment, this divergence at an early age creates the basis for long-term segregation and inequality of opportunity and remuneration in the labour market. This may also influence the occupational and sectoral gender segregation observed in many countries (ILO 2020b).

Targeted interventions to promote the entry and re-entry of young women into employment are also likely to be effective. The specific nature of interventions will depend on local circumstances and, where present, public employment services can provide support by profiling young people and offering job opportunities outside their usual frame of reference (box 3.2). This might include encouraging young women to participate in training for typically male-dominated occupations.

Another widely used intervention across high-, middle- and low-income countries is the support and encouragement of young female entrepreneurs (box 3.3).

► Box 3.2. Recruitment services for women in rural India

In India, around half (50.6 per cent) of all young women in rural areas were out of school or training and with no work in 2019. In comparison, young women and young men in urban areas had a youth NEET rate of 39.1 per cent and 14.2 per cent, respectively. Among female youth NEET, almost all (96.4 per cent) were inactive or outside the labour force, which is primarily attributed to personal or family-related reasons, such as early pregnancy, marriage and care burdens. The rapid growth in the business process outsourcing industry – in the context of rapid technological changes and regulatory reforms in India – is providing labour market opportunities for rural women because it boosts demand for educated female workers.

Using a randomized field evaluation, Jensen (2012) selected 160 villages from a list of rural districts located 50–150 kilometres outside Delhi (in Haryana, Punjab, Rajasthan and Uttar Pradesh states), whose populations had relatively low awareness of and access to business process outsourcing jobs due to high recruitment costs. These villages were equally assigned to a treatment group or those with the presence of a recruiter (eight in total), and a control group without a recruiter. In each of the 160 villages in 2003 and 2006, 20 households were interviewed using a baseline survey and follow-up survey, respectively, for a total of 3,200 households. The analysis focused on women aged 15–21 at the baseline.

The study found that improved employment opportunities translated to better employment outcomes, increased enrolment in training courses and delays in marriage and pregnancy among young women. Young women (aged 18–24) from villages with a recruiter were more likely to work in a business process outsourcing job (4.6 percentage points higher) or outside the home (2.4 percentage points higher) than young women in villages without a recruiter present. Their willingness to work before marriage (13 percentage points higher) also increased. They also had a better likelihood of increasing their stock of human capital through enrolment in computer or English language courses or in formal school (5.5 percentage points higher) and access to better nutrition. In addition, they were less likely to marry or give birth at an early age than young women in the non-recruiter villages.

Source: ILO (2022d, 21).

► Box 3.3. Female entrepreneurship

A project from the Astrakhan Region of the Russian Federation, entitled “My mother is an entrepreneur”, was piloted in 2017. The programme targets women who have left the labour market following childbirth or because they are taking care of children. The project provides an intensive training programme in entrepreneurship, materials to start businesses, and mentoring support from professional entrepreneurs. It also offers financial support to the winners of an annual competition between projects.

Source: ILO (2020c).

Addressing young women's caring roles is another area for engagement. This could include some combination of subsidized care services or payments to young women with care responsibilities to help them participate in active labour market programmes and/or to return to the labour market. This is similar in intention, albeit more targeted, to free childcare services offered by the State or subsidized provision by private providers.²⁹ Education and childcare might also be integrated into these projects. In Armenia, mothers under 30 were offered scholarships to cover vocational training and simultaneous childcare costs to support labour market (re)entry (ILO 2020c). Globally childcare services remain scarce. At present, only 21 of 178 countries provide guarantee-free or universal access to childcare services for children aged 0–2 years. They are available to only 8.9 per cent of potential parents (ILO 2022c). The lack of childcare provision can form a substantial barrier to work, and this was heightened during the COVID-19 pandemic with school closures and social distancing preventing familial childcare support (ILO 2021c). Of course, the care work of young women is not restricted to children, and other forms of care support would complement additional childcare services.

A related issue, which has become even more relevant in the context of the COVID-19 pandemic, concerns questions of working time and location. For example, providing incentives for, and/or reducing disincentives to, part-time employment may encourage the integration of young women into the labour force. Recent research has also found that young women with care responsibilities find online crowdwork particularly attractive, precisely because of the flexibility of working time and location that

it offers (Pinedo Caro, O'Higgins and Berg 2021; O'Higgins and Pinedo Caro 2022).

Overall, it is crucial for the additional obstacles faced by young female NEETs – at all levels – to be addressed. Given the strong persistence of NEET status from a young age, it is also vital to address these barriers early.

A similar point may be made regarding young people with disabilities. Throughout the world, young people with disabilities are less likely to be in employment and more likely to be NEET than those without disabilities. Although somewhat patchy, the available data suggest that these disparities apply to countries at all income levels. In Rwanda in 2021, for example, the share of young people (aged 15–29) with disabilities who were NEET was 74.8 per cent, as against 34.8 per cent of young people without disabilities (ILO, forthcoming c). The corresponding employment-to-population ratios in the country were 19.5 and 38.0 per cent, respectively.³⁰ A similar picture may also be observed in Ethiopia, where youth (aged 15–29) NEET rates in 2021 were 51.7 for those with disabilities and 19.0 for those without (ILO, forthcoming a), and the corresponding employment-to-population ratios were 29.0 and 57.7 per cent, respectively.

Here too, the issues revolve around access to both education and employment – but also around the quality of the services available to young people with disabilities. As regards removing barriers to employment, quotas appear to be the most commonly used approach (ILO 2019a), but there is also the issue of job quality. As for young women, the flexibility of some forms of digitally enabled work may be a fruitful avenue to explore, but there are also challenges in this area (ILO 2019b).

► Implications for (the future of) youth employment policy

A shift in the focus of youth employment policy, which moves beyond youth unemployment to encompass all young people who are NEET as the

target for policy intervention, clearly also requires changing the mindset that identifies the “youth employment challenge” as one limited to reducing

²⁹ There is extensive evidence, going back many years, which demonstrates that subsidizing and/or expanding access to childcare provision can have a substantial impact on young mothers' participation in the labour market. For a recent review of findings in low- and middle-income countries see Halim, Perova and Reynolds (2023).

³⁰ ILO YouthSTATS database. Educational participation among young people aged 15–29 was under 6 per cent for those with disabilities and over 27 per cent for those without.

youth unemployment. The latter type of approach has long been questioned, especially in low- and middle-income countries (Manning and Junankar 1998; O'Higgins 2001). The adoption of the NEET rate as the SDG target indicator (8.6.1) to measure progress towards promoting decent work for young people marks a major step towards making this approach a reality. Yet interventions for the young in low- and middle-income countries often remain, for now, primarily aimed at the (typically educated and often male) unemployed.

Directing attention towards reducing the numbers of young people who are NEET leads naturally towards an approach which recognizes that, especially in low- and middle-income countries, young people who would like to work comprise a much larger group than just the young unemployed and possess rather different characteristics. Facing this novel challenge requires a broad-based approach, which encompasses a wide range of policies and programmes to better support the entry of young people into work, by facilitating young people's access to either high-quality education and thence high-quality employment, or else directly into good jobs. Other challenges, such as climate change, threaten further disruption to work (Barford and Coombe 2019; Barford, Coutts and Sahai 2022), thus making this broad-based approach all the more urgent.

Some of the key implications of the preceding discussion are as follows:

- ▶ The array of interventions needed to significantly reduce NEET rates must have, as its cornerstone, macroeconomic and sectoral development policies designed to promote structural transformation in order to create more and better jobs.
- ▶ The corollary to this is that the challenge of reducing NEET rates must be contextualized in terms of a widespread lack of labour market demand for young people. Many young people categorized as NEET are people who would work if they could but who have given up searching due to the lack of adequate opportunities.
- ▶ The European Youth Guarantee offers an example of the development of a comprehensive youth employment framework with a broad-based approach, which has proved to be effective in substantially reducing the numbers

of young NEET. To be sure, this type of approach is challenging both institutionally and financially, but this should be set against the costs of inaction – especially in view of the persistence of NEET highlighted in this chapter.

- ▶ At the same time, specific interventions need to be tailored to meet the characteristics and determinants of NEETs in specific contexts. Young women make up the vast majority of young NEETs worldwide and, if substantial progress is to be made in combating the NEET phenomenon, attention needs to be paid to the various obstacles to educational and labour force participation that they face in differing national contexts. Significant progress in combating NEET implies making significant progress in reducing female NEET rates.
- ▶ NEETs are a diverse, highly heterogeneous group, and young women are of course not the only group requiring specific tailored support. For example, NEET rates throughout the world are typically higher among those with low levels of educational attainment – and much higher among young people with disabilities. Interventions need to be specifically designed in accordance with the characteristics of locally identified NEET subgroup(s) and their precise needs.
- ▶ More generally, young NEETs often face multiple simultaneous barriers to employment, education and training, and the efficacy of interventions can be boosted by responding with a holistic approach. This might include a combination of educational grants, job search support, childcare availability, and re-entry programmes, and imply stimulating labour market demand.

Looking ahead, one ongoing development referred to in this chapter, which will condition some of these responses and will have major – albeit plausibly positive – implications for future policies to reduce NEET, concerns the redefinition of what constitutes employment. This will alter what constitutes NEET because those considered to be “not in employment” will also consequently change. In 2013, at the 19th ICLS, the ILO adopted a new definition of employment, and also distinguished between employment – an activity undertaken for pay or profit – and work, which is defined neither

in terms of pay nor profit (ILO 2013). Work includes employment, and also activities such as volunteer work, unpaid domestic work, subsistence farming, and contributing family work. Until 2013 people in these last two overlapping groups were defined as employed, and their subsequent exclusion has major implications for employment statistics in lower-income countries. It also means that large numbers of young people who had previously been classified as in employment would be included among young NEETs. To date, this new definition has not been incorporated into ILO global and regional estimates, although it is increasingly being adopted at country level. This change has major implications for the measurement, analysis, and thinking about NEET in the future.

The adoption of NEET as the yardstick by which to measure progress towards decent work in youth labour markets has major implications, not all of which have yet been widely understood. The shift is in many respects a positive one. It is not hard to argue that the youth unemployment concept is an insufficient tool with limited relevance to low- and middle-income countries, although of course youth unemployment is useful alongside other measures including NEET, disaggregated NEET, quality of work and underemployment. It is also reasonable

to suggest that the inclusion among young NEETs of subsistence workers adds to its policy relevance, inasmuch as it also starts to encompass the overriding issue present in lower-income countries – not the absence of work per se, but its inability to provide sufficient income.

Many questions remain. We need to build on the evidence presented here in order to better understand the nature and the implications of the various types of NEET in different country contexts and what determines them. We also need more evidence on the impact of interventions designed to combat NEET. Above all, the development and implementation of interventions modelled on the European Youth Guarantee are already being undertaken in a number of low- and middle-income countries. These need to be accompanied by robust evidence assessing their impact and effectiveness, alongside other measures aimed at reducing the NEET phenomenon, in terms of their impact on individual participants – but also, equally importantly – taking into account their broader sectoral and macroeconomic impacts. Knowledge-building in this area can, and it is hoped, will play a key part in improving the lot of young people who are not in employment, education or training the world over

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Chapter 4

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

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Main findings

During the period of the COVID-19 global trade collapse, there was a roughly equal number of countries in which measures of gender bias were unfavourable to women workers as to men workers as a result of changes in exports to the United States and the EU (21 and 19 out of a total of 44 countries for exports to the United States and the EU, respectively).

Conversely, during the subsequent period of global trade recovery, there was a sizeable majority of countries with measures of gender bias unfavourable to women workers (29 and 33 out of 44 for exports to the United States and the EU, respectively), a reflection of women workers benefiting less than men workers from job gains as a result of changes in these exports.

The finding for the period of global trade recovery is consistent with the rapid recovery of exports in such male-intensive industries as Oil; Gas; Machinery and equipment; Motor vehicles and parts; and Transport equipment. In contrast, there was no such consistent pattern for female-intensive industries.

In sum, there were more countries with measures of gender bias that were unfavourable to women workers during the period of global trade recovery than during the period of global trade collapse. At least with respect to COVID-19 trade shocks, gender-responsive policies were as important if not more important during the period of global trade recovery than during the period of global trade collapse.

► Introduction

In describing the impact of the 2008–09 global crisis, Richard Baldwin wrote, “[f]or most nations in the world.. this is not a financial crisis – it is a trade crisis” (Baldwin 2009, 12). Like the 2008–09 crisis, the COVID-19 crisis also witnessed a collapse in global trade. Yet whereas the 2008–09 trade collapse resulted primarily from a demand shock, the COVID-19 trade collapse had more complex underpinnings, resulting from both demand and supply shocks in the highly uncertain and rapidly evolving context of the global pandemic. Early in the COVID-19 crisis, factory shutdowns in countries with high infection rates created shortages of intermediate goods, setting off supply shocks that were rapidly transmitted down global supply chains (GSCs). As the virus spread around the world, lockdowns resulted in demand shocks that were transmitted up GSCs to far-flung factories, not least in countries that had been only minimally affected by the virus. The rapid transmission of supply and demand shocks along GSCs led to wide-ranging debates on whether countries were over-reliant not only on GSCs but also on export-led development more generally; the discussion also focused on ways in which GSCs could be made more robust and resilient (for example, Miroudot 2020). As with the 2008–09 crisis, the COVID-19 trade collapse also revealed the dependence of developing and emerging economies on the macroeconomic recovery policies in developed economies, notably the United States and the European Union (EU).

In keeping with the intent of the *Global Employment Policy Review* (GEPR), this chapter addresses the impacts of the COVID-19 crisis on employment through trade, distinguishing between the period of global trade collapse from the onset of the crisis up until mid-2020 and the period of relative recovery thereafter. It focuses on how these trade impacts on employment played out differently in the industries in which women and men were concentrated differently. The gendered employment impacts addressed here are thus premised on the markedly different patterns of women’s and men’s representation across industries. In the group of countries covered, for example, women tend to be strongly over-represented in the wearing apparel and textiles industries, while being strongly under-represented in the metals, metal products,

construction and transport industries – relative to their representation in the labour force (ILOSTAT). More specifically, this chapter uses input–output fixed multiplier analysis to estimate changes in the number of women’s and men’s jobs in 44 developing and emerging economies, on account of fluctuations in exports to the United States and EU during the COVID-19 crisis. These economies are regionally dispersed, including 12 in Asia, 4 in Eastern Europe and the Commonwealth of Independent States (EE-CIS), 13 in Latin America and the Caribbean (LAC), 11 in the Middle East and North Africa (MENA) and 4 in sub-Saharan Africa (SSA).

Rather than addressing the full range of causal channels through which changes in exports have affected employment, the study focuses on effects resulting from the input–output production linkages that mediate this relationship. Within these confines, it should be noted that our results do not account for the labour hoarding that commonly occurs during demand downturns, which may also be manifested in shifts between formal and informal and urban and rural employment – as well as in reduced working hours, rather than outright job losses.

In our view, input–output fixed multiplier analysis provides a useful means to investigate the employment effects of short-term trade shocks. In a comparative survey of methods for assessing the effects of trade on employment, Gibson ranks input–output analysis “high” in terms of policy relevance because of its transparency combined with the detailed results it provides (Gibson 2011, 118). For these reasons, such analysis is well-suited for informing policymakers and non-specialist audiences. Indeed, the approach may be as appropriate for analysing short-term trade shocks as more complex computable general equilibrium (CGE) models that are typically designed to simulate dynamic adjustment processes to longer-run changes in the structure of trade (for elaboration, see Kucera and Jiang 2018).

This chapter may inform policy discussions in different ways. It presents *ceteris paribus* results, for which the employment effects of fluctuating exports to the United States and EU through input – output production linkages are to a large extent isolated from the many other employment effects, both

positive and negative, which played out during the COVID-19 crisis. Moreover, various industries and workers have been differently affected by these export fluctuations, and such information can be useful in targeting governments' crisis responses, as well as providing a sense of which industries and workers might be more or less vulnerable to future crises involving trade collapses. As such, this chapter evaluates employment impacts at the aggregate level – but it also looks at industry-level drivers of gendered employment impacts in the face of differences in men's and women's representation across these industries.

The chapter is divided into two parts. Part I focuses on the broader policy context of the COVID-19 trade collapse and recovery and contains four sections.

► Part I: The policy context

Comparing the COVID-19 pandemic crisis with the 2008–09 trade collapse

When COVID-19 emerged in December 2019, it soon went beyond the confines of being a health crisis and led to a number of economic repercussions that were worse than those experienced in the 2008–09 financial crisis (Baldwin 2020). Unlike the financial crises of 1998 and 2008, the pandemic has led to both supply disruptions and demand contractions, sending ripple effects along global supply chains and impacting both labour and consumer markets. The pandemic was a pivotal moment that particularly shed light on the extent to which the global economy is interconnected and interdependent. A number of businesses relied on specialized suppliers in a few select locations or engaged in just-in-time (JIT) production to minimize inventories. Thus, when lockdowns and restrictions occurred in one location, the impacts travelled not only through supply chain networks across sectors, but also both upstream and downstream in terms of supply-side constraints, production disruptions, and demand contractions (ILO 2020a). When initial disruptions occurred in the GSCs with factory closures, lockdowns, and transportation halts in

These sections compare the COVID-19 crisis with the 2008–09 crisis; describe crisis policy responses in the United States, EU and developing and emerging economies; present the debates on COVID-19 implications for GSCs; and summarize previous work on wider COVID-19 impacts on women's and men's employment, much of it produced by the ILO. Part II contains three sections. These show global and country-level trade patterns during the COVID-19 trade collapse and recovery; describe the methodology and data used in this chapter; and present results on the estimated employment impacts of changing exports to the United States and EU during the COVID-19 crisis, as well as the measures of "structural" gender bias of these impacts. The chapter closes with brief concluding remarks.

China, this caused shortages in raw materials and intermediate inputs, which affected production in other stages along the supply chain. China was at the heart of many GSCs, with about 20 per cent of global trade in manufacturing intermediate parts originating from the country (ILO 2020a). The shortages of intermediate inputs and critical equipment had a substantial impact for businesses abroad, which was indicative of the extent to which these industries were reliant on the suppliers at a specific location. The countries and areas most exposed to Chinese supply disruptions were the EU, the United States, the Republic of Korea, Japan, and Viet Nam, mostly with respect to machinery and automotive, chemicals, and communication equipment (UNCTAD 2020). In 2020, the value of global trade in goods and services had fallen by 9.6 per cent in nominal dollars, and GDP by 3.3 per cent, which made this the most severe recession since the Second World War (WTO 2021).

Baldwin (2020) explains the key similarities – as well as the differences – between the Great Trade Collapse in 2008–09 and the pandemic crisis, which made the economic impacts of the latter more severe. A number of key causes had led to the 2008–09 crisis, which included: financial-related issues and banking mismanagement in the United States; the collapse of the subprime mortgage

market in that same country (Duca 2013); credit shortages and the drying up of trade finance (Amiti and Weinstein 2011); and inventory adjustments in response to shocks (Alessandria et al. 2010). All these factors had led to a drop in international demand and a contraction in world trade. The triggers were initially localized, striking mostly the financial sector and being geographically limited to the United States and G7 economies. However, through trade and financial flows, the crisis expanded to other sectors and countries, consequently provoking a demand-side shock. With trade as a transmission mechanism, the impacts of the 2008–09 crisis were significant and attributed to what Baldwin (2009) described as the "compositional" and "synchronicity" effects. The compositional effect refers to the demand-side shock that focused on postponable consumer durables and investment goods, such as electrical and non-electrical machinery, transport equipment and chemicals. Although postponables only account for a small part of world GDP, they take up a very large share of world trade, which is why the sudden fall in demand for postponables affected world trade so significantly. Meanwhile, the synchronicity effect describes how the internationalization of supply chains – characterized by the just-in-time (JIT) production of intermediate inputs – resulted in the rapid transmission of global export demand shocks. With both these effects, the demand shock was experienced as a trade shock by many countries.

Meanwhile, the COVID-19 crisis was not only a demand-side shock, but also a massive supply-side shock that spread very rapidly across a wider range of sectors and locations. While factories closed globally in a synchronized fashion during the 2008–09 financial crisis, this pandemic resulted in a staggered effect, which Baldwin and Freeman (2020) described as "supply chain contagion waves". When there were supply disruptions in China at the beginning of the pandemic, this disruption was then transmitted along the supply chain to other nations like the Republic of Korea and Mexico, which relied on China for manufacturing intermediate outputs as well as final goods. As a result, the manufacturing operations in other nations felt the "ripple effect" and were also affected by the supply disruptions. At the same time, demand-side shocks occurred in consumer markets as a result of lockdowns and containment policies, or when China for example relied on other countries for production inputs. The rapid spread of the demand-side and supply-side

shocks may therefore clearly be attributed to the interdependent relationships between industries and nations in the GCS.

In terms of gender impacts, the COVID-19 crisis affected women and men in different ways. According to Alon et al. (2021), the pandemic was, unlike previous crises, a "shecession" rather than a "mancesion", due to the greater unemployment impacts it had on women than men. Women were more likely than men to become economically inactive and drop out of the labour force, particularly those in informal and low-skilled occupations (ILO 2020e and 2021a). According to the ILO Monitor, women accounted for 38.9 per cent of total employment in 2019, before the pandemic, but made up 47.6 per cent of employment losses in 2020 (ILO 2021b). There were various reasons for these observations.

First, faced with school closures and the increased care needs for children and the elderly, especially during lockdowns, women were more likely than men to lose their jobs – especially given social norms that encourage women to be the family's primary caregiver. Prior to the pandemic, women performed three times more unpaid work compared to men globally, and employment did not necessarily translate to a redistribution of care work within the household (Seck et al. 2021). In the same study, women in the Asia-Pacific region reported an increased intensity of unpaid care work during the pandemic, with limited support to assist them in these caring responsibilities. The increased demands on their time and energy placed women at a greater risk of leaving employment. Mothers who have to be at a specific workplace outside of their home are also more likely to give up their jobs (Cucagna and Romero 2021).

Second, there is an overrepresentation of women in sectors that were most severely impacted by the COVID-19 crisis. Globally, 40 per cent of total female workers are employed in these hard-hit sectors, which include accommodation and food services; real estate activities; administrative and support activities; professional, scientific, and technical activities; manufacturing; motor vehicle and motorcycle repair; and the wholesale and retail trade (ILO 2021c). In Latin America and the Caribbean, women tend to be employed in service sectors involving a considerable amount of face-to-face interaction, such as in personal services, education, hotels, and restaurants; this left them particularly susceptible to social distancing measures and lockdowns

during the pandemic (Cucagna and Romero 2021). These patterns reflect more broadly “economies as gendered structures”, which Esquivel discusses in Chapter 2 of this volume. Not only are gender inequalities in the labour market entrenched, with women being over-represented in severely impacted sectors, but unpaid care work is also mainly shouldered by women.

Policy responses in the EU, United States and developing and emerging countries

Faced with the economic impacts of the pandemic, the EU and the United States have adopted macro-recovery policies to retain jobs, address unemployment, aid economic recovery and protect supply chains. In June 2020, for example, Germany launched a stimulus package of €130 billion to boost domestic consumption by temporarily reducing value added tax, granting subsidies for families, providing liquidity to firms, expanding loan guarantees, and promoting future technologies and climate protection (Dorn, Fuest and Neumeier 2021). France dedicated €180 billion to its stimulus package, with fiscal support measures including guarantees for bank loans and credit reinsurance schemes, postponements of social security and tax payments for companies, support for workers under short-time work schemes, and measures to move towards a green economy (IMF 2022). In July 2020, the European Commission (EC) also agreed on the EU’s fiscal recovery package of €750 billion, NextGeneration EU, which prioritizes a “green” and “digital” transition as part of supporting EU’s potential growth and facilitating its resilience and recovery. This package is designed to strengthen relations and promote economic convergence across the region.

Meanwhile, the United States adopted a series of measures to support and boost its economy. A US\$2.2 trillion stimulus package was rolled out in March 2020 to provide one-time cash payments to individuals, increase unemployment benefits, and provide for medical supply chains and air cargo (IMF 2021). The Defense Production Act was also invoked, which gives the United States President the authority to control domestic industries, increase production, and limit exports of medical goods and critical supplies. Subsequently, in the second half of 2020, the United States began

supply chain partnerships with Japan, the Republic of Korea, and the EU to diversify supply sources and reduce reliance on China (Szczepański 2021). In 2021, President Biden also signed the American Rescue Plan Act, which was a stimulus package of US\$1.9 trillion. The bill was used to support the national vaccination programme, eliminate supply shortages of medical equipment, support businesses that were hard-hit by the pandemic, and provide immediate relief to qualifying households across the country. This included a US\$1,400 per person stimulus check, child tax credit, extended unemployment benefits, and housing assistance (The White House 2021).

As for developing and emerging countries, most of them responded to the pandemic by adopting both export controls and import liberalization policies, especially for medical supplies such as personal protective equipment, and agricultural and food products. Countries varied in their response: some imposed both restrictive and liberalizing policies, while others imposed either more import liberalization policies or more export restrictions (Evenett et al. 2020). Ethiopia, for example, removed taxes on the import of raw materials for the production of essential COVID-19 health products, but also raised the minimum prices for horticulture exports (IMF 2022). Zambia suspended import duties on mineral concentrates and export duties on precious metals to support the mining sector. Meanwhile, Egypt suspended the export of all types of legumes for at least six months to ensure there were sufficient food supplies to meet local demand (Mohamed 2020). In March 2020, the Government also temporarily halted the export of medical supplies.

For countries like Pakistan and Brazil that were more severely hit by COVID-19, import liberalization measures were implemented through tax and import duty exemptions, and the elimination of tariffs for medical and testing equipment (Espitia, Rocha and Ruta 2020). Many emerging economies relied heavily on imports of COVID-19-related medical supplies, which left them particularly vulnerable to policy shifts from leading export markets such as Europe, the United States and India.

Export earnings have significantly declined due to decreased demand in key markets for exported goods, as well as decreasing commodity prices and remittances. In response to this, countries have strengthened their healthcare systems and provided stimulus packages to key export sectors, as well as

social relief packages and financial support to small and medium-sized businesses (WTO 2021).

Bangladesh, for example, suffered severe economic impacts due to its heavy reliance on the production and export of garments. In response, the Government implemented a stimulus package of 50 billion Bangladeshi taka (approximately US\$595 million) in March 2020 to support export-oriented industries, which included subsidies towards salaries and two-year loans to factory owners at 2 per cent interest. Subsequently, it provided a series of stimulus packages to widen social safety net coverage and to provide health insurance and direct cash assistance programmes to informal workers, health workers and those who had lost their jobs during the pandemic (KPMG 2020; IMF 2022). In May 2020, the Government also began salary disbursements for garment workers and mandated garment and textile factory owners to pay their workers 50 to 70 per cent of their basic salaries as a bonus during the Eid festival. This was in response to labour protests after 2,500 factory owners had not paid salaries to their workers in the preceding months (TBS 2020). Like other countries, Bangladesh also suspended import tax and duties for COVID-related medical supplies to maximize local supplies and regulate prices.

There have also been cases where the pandemic has led to new opportunities in regional bilateral cooperation to mitigate the economic impacts of COVID-19 and to facilitate economic recovery. In December 2020, Bhutan and Bangladesh signed a Preferential Trade Agreement (PTA) with provisions for duty-free trade in select goods. This was the first bilateral agreement that Bangladesh had signed with any country since its independence in 1971 (Ahmed 2021). Under the PTA, 100 products from Bangladesh such as clothing, leather goods, fruit juices and condensed milk would be duty-free in Bhutan, while 34 Bhutanese products such as wooden furniture, natural honey, wheat flour, and milk would similarly receive free access in Bangladesh.

India and China, on the other hand, have gravitated towards a self-reliance model to reinvigorate the domestic economy (Singh 2020; Suzuki 2021). China has been reorienting its focus back to domestic production as a strategy to strengthen its economy, reduce dependency on foreign markets, and build resilience against external shocks. The “dual circulation development model”, which China officially

adopted in 2021, involves prioritizing “internal circulation” – in other words, domestic production, distribution and consumption – while continuing to develop the “external circulation” of imports and exports. This will complement the “Made in China 2025” industrial policy plan, which was introduced in 2015 to upgrade the country’s manufacturing industries through technological innovation. Under both models, technological innovation and infrastructure development will be crucial in achieving international competitiveness and self-reliance (Grieger 2020). In 2020, the Government rolled out a US\$1.4 trillion spending programme that focused on seven key areas of digital infrastructure: 5G networks, industrial internet, intercity transport and rail system, data centres, artificial intelligence, ultra-high voltage power transmission, and new-energy vehicle charging stations (Wong 2020). It is hoped that demand might be met by domestic production rather than imports, whereby intermediate inputs of key industries from semiconductors to electric vehicles could be sourced domestically (Grieger 2020). At present, one of China’s biggest imports is semiconductors, and the upgrading of the semiconductor industry is therefore a priority in the “Made in China 2025” plan (García-Herrero 2021).

Meanwhile, in May 2020 the Indian Government announced the “Self-Reliant India Mission” to expand its domestic manufacturing sector and reduce its dependence on imports. Under this plan, substantial efforts were to be made towards reducing the costs of factors of production, stimulating domestic demand, and developing critical infrastructure to improve connectivity within the country and across regions. The Indian government is considering potential trade policy measures for select import products that might be manufactured domestically. These include tariffs and the development of machinery and electrical safety standards to regulate the quality of imports. The possible implications of these measures would include higher prices on imported goods, which implies higher prices for consumers, additional costs for the domestic manufacturing industry as they need to adhere to these higher standards, and consequently higher prices of exported products through the global value chain (GVC) due to the increasing manufacturing costs (Singh 2020). Nevertheless, Singh argues that the country’s shift towards greater self-reliance in manufacturing can potentially create greater economic opportunities, more productive employment and reduce poverty.

COVID-19 impacts on global supply chains

Before the pandemic, a number of industries and countries were already considering ways to restructure their supply chains and production processes for various reasons, such as lowering production costs and responding to geopolitical tensions. However, with the economic disruptions from COVID-19, these processes were further accelerated, triggering a re-evaluation of GSC strategies (Suzuki 2021). These considerations include shortening GSCs, as well as automating certain production processes to offset higher labour costs, which can facilitate the reshoring and nearshoring of production. Other considerations include creating greater resilience and robustness in GSCs, diversifying sources and bringing about greater regionalization (Ayadi et al. 2021). In November 2020, for example, the European Parliament called for action to shorten and diversify supply chains by reshoring industries related to healthcare (in terms of medical supplies, pharmaceuticals, and research and development), and increasing domestic production to improve the EU's strategic autonomy (Kenner 2020). In 2020, over 40 per cent of Japanese technology firms diversified their supply chains away from China and towards Southeast Asian countries (*Kyodo News* 2020). This trend is not exclusive to technology firms, as the Japanese Government is planning to actively enhance domestic manufacturing and diversify supply chains in ASEAN countries, with a view to strengthening partnerships with them (Suzuki 2021).

While discussions tend to focus on “resilience”, it is important to note that this term differs from “robustness”, as they both call for different strategies for the restructuring of GSCs and production location decisions. Miroudot describes “robustness” as the “ability to maintain operations during a crisis”, while “resilience” is the “ability to return to normal operations” – and a combination of both strategies is arguably needed (Miroudot 2020, 122). The strategies to develop robustness and resilience may differ depending on objectives. Developing greater robustness would be essential in the distribution of key medical supplies and equipment, and can be strengthened by diversifying sources and closely monitoring inventories. Developing greater resilience, on the other hand, might involve focusing on domestic markets, or building stronger, long-term relationships with single suppliers through

bilateral or regional trade agreements. Taking the case of Euro-Mediterranean countries, Ayadi et al. (2021) argue that strengthening regional ties not only requires the coordination of industrial and trade policies at regional levels, but also specific, well-rounded legal frameworks to avoid value chain disruptions and facilitate stable regional integration. Alternatively, as argued by both Ayadi et al. (2021) and Baldwin and Freeman (2021), resilience can also be developed through the diversification of GSCs as it lessens concentration risks. This can involve diversifying suppliers, customers and delivery channels, and market sectors.

As complex GSCs have a higher level of fragmentation of production, it is often assumed that they incur additional risks and costs. However, taking computers and electronics as examples of complex GSCs, Miroudot (2020) argues that there is inconclusive evidence that complex supply chains have been more impacted by COVID-19. Rather than reducing complexity, he stresses the importance of making complexity productive by managing and reaping the benefits of it, and by recognizing that there are multiple paths to resilience. This may be achieved by focusing on domestic markets or diversifying sources, as already mentioned. Countries are beginning to adopt a “China+1” strategy to reduce supply chain vulnerabilities in Asia, whereby supply chains already established in China would be maintained but would include suppliers in other countries to avoid the risks of over-dependency on China (Suzuki 2021). To support diversification, however, improved information management and greater supply chain transparency would be required, which can add to input costs.

Apart from diversification, some businesses and countries have also considered relocating production through reshoring, nearshoring, or shifting production towards large consumer markets (Alicke, Barriball and Trautwein 2021; Nachum and Uramoto 2021; Suzuki 2021). Such patterns may already be observed within the garment industry, where there is an accelerated trend of relocation of textiles and apparel production away from China – as well as an increase in digital communication channels during production and at points of sale with consumers (Nachum and Uramoto 2021). Automation and the digitization of certain production processes can facilitate the localization of manufacturing.

Regionalization can facilitate communication due to reduced distances, foster relations between

countries via possible trade agreements, and mitigate risks of protectionist policies and trade wars. Nonetheless, reshoring or nearshoring only make sense if the costs saved from the relocation exceed those incurred by the extra coordination, communication, and trade costs involved in being located at a distance (Kucera and Leung 2020; Baldwin and Freeman 2021). Taking the case of Adidas, their Speedfactory initiative initially began in Germany and the United States with a view to being closer to consumer markets, facilitating faster delivery times, reducing transport costs, and addressing rising labour costs in Asia. However, Adidas eventually proposed plans to shut down these initiatives and relocate their manufacturing operations to Asia, as the closer proximity to suppliers and factories outweighed all other considerations (Kucera 2020).

The pandemic crisis, for example, has prompted many businesses and industries to switch to digitization and automation in their production processes, which may – as some studies have suggested – exacerbate job polarization and patterns of gender segmentation (Brussevich, Dabla-Norris and Khalid 2019; Tejani and Fukuda-Parr 2021). Tejani and Fukuda-Parr (2021) point out that in the garment industry, the use of semi-automation and robots might lead to both job displacement and job creation. For example, new higher-skilled jobs operating computer-controlled equipment would exist alongside deskilled jobs such as placing fabric into machines (Kucera and Bárcia de Mattos 2020). The transition to automation is therefore often associated with a defeminization of employment in manufacturing, particularly in the industries of food, beverages and tobacco products; textiles; apparel, leather products and footwear; and motor vehicles (Tejani and Kucera 2021).

Apart from the possible impact that reshoring might have on livelihoods and the widening of gender disparities, it has also been suggested that it can create hostile environments for international trade relations and exacerbate poverty. Baldwin and Evenett (2020) note the dangers of “turning inward” through localization as trade partners can retaliate against each other in export restrictions, leading to scarcity in world markets, higher consumer prices, and damage to emerging economies that cannot afford to compete. Brenton, Ferrantino and Maliszewska (2022) conducted simulations to estimate the impact of global reshoring or localization on countries across the income spectrum from 2020 to 2030. They estimated that in a scenario in which all countries

reshored, global income would decline by 2.2 per cent and global exports by 21.4 per cent by 2030 against the 2020 baseline. Furthermore, it would also drive an additional 51.8 million people into extreme poverty, especially in sub-Saharan Africa.

Rather than respond in kind to export restrictions, Brenton, Ferrantino and Maliszewska (2022) argue that globalization and trade-enhancing policies should be encouraged to strengthen recovery from COVID-19. If, for example, emerging economies could eliminate tariffs on all intermediate inputs, diversify sources of inputs, and implement trade facilitation measures, gains in global imports could potentially rise by US\$23 billion; furthermore, exports would expand in a number of sectors that are already deeply integrated. Their simulation results suggest that globalization and trade-enhancing policies can create opportunities and strengthen the integration of emerging countries into GSCs. While these results are driven, to a large extent, by the contestable assumptions (for example, “closure rules”) embedded in the authors’ (CGE) model, they nonetheless express a well-known argument about the adverse effects of trade barriers on economic growth and prosperity.

Wider COVID-19 impacts on employment and gender differences

Lockdowns and export restrictions not only caused disruptions in GSCs but resulted in workers at the bottom of supply chains being particularly adversely affected. Not only did global consumer demand collapse following lockdown measures such as shop closures and travel restrictions, but there was an overall lack of consumer confidence and a decrease in purchasing power resulting from job and income losses. This severely affected the livelihoods of workers in the retail and manufacturing sectors (ILO 2020b). Those in manufacturing supply chains located in Asia and the Pacific were most heavily impacted by the initial collapse in consumer demand, especially those in the textiles, garment and motor vehicles supply chains (ILO 2020b and 2020c). The city of Wuhan in China is known as the “motor city” because it is home to various automobile plants such as General Motors, Honda Motor, Nissan Motor, the Peugeot Group, Renault, and Toyota Motor. When the pandemic outbreak began in Wuhan, production at these plants stopped, leading to a supply chain

ripple effect across Asia, parts of Europe and the Americas, with production plants shut down and workers’ livelihoods put at risk (ILO 2020c).

On a global level, the labour force has still not fully recovered as of May 2022, since the recovery is compounded by shocks from additional crises such as the Ukraine conflict (ILO 2022). Gender gaps and divergences in employment and labour income still persist, with employment recovery being slower for women than men. The pandemic had disproportionate effects on smaller firms and lower-wage workers, which can have implications for recovery prospects (ILO 2021b). Extended periods of inactivity and unemployment may subsequently affect long-term productivity growth at the firm level and contribute to growing productivity gaps between low- and high-income economies.

As already noted, the garment industry is one of the sectors hardest hit by COVID-19 (ILO 2020d). According to this study, more than 31 million garment workers in 2020 lived in countries where governments had ordered mandatory closures of non-essential workplaces, which included garment factories. Lockdowns in buyer economies led to

shop outlet closures and plummeting demand for apparel, causing several brands to halt production. Many companies refused to pay suppliers for the clothing they had already produced, alongside order cancellations. As a result, supplier factories had to cancel or postpone production, leading to factory closures and rendering millions of garment workers jobless. According to a survey among 316 suppliers in Bangladesh, 72.1 per cent of buyers refused to pay for raw materials already purchased by suppliers, while 58 per cent of factories had to shut down all or most of their operations due to cancelled orders and the lack of payment from buyers (Anner 2020). As many as 72.4 per cent of factories were unable to pay their furloughed workers, and 80.4 per cent of them could not provide severance pay. In Cambodia, one in five households is engaged in income-earning work in the garment industry. Furthermore, this industry is the largest employer for women in the Asia and Pacific region (ILO 2019).

During the pandemic, garment workers were left in an even more precarious condition as they had little savings and faced additional health expenses (ILO 2020d).

► Box 4.1. Summary of prior studies on the impacts of the COVID-19 crisis on women’s and men’s employment

Women made up 38.9 per cent of total employment in 2019 but accounted for 47.6 per cent of employment losses in 2020 (ILO 2021b).

Employment for young women fell by 11.8 per cent in 2020 in high-income countries, compared to –5.8 per cent for young men, and by –15.8 per cent in middle-income countries, compared to –7 per cent for young men. The employment loss for young women in middle-income countries is over three times as high as for adult women (–4.7 per cent) and nearly six times as high as for adult men (–2.7 per cent) (ILO 2021c).

Sectors at high risk of a severe impact from job losses and reduced working hours are: accommodation and food services; real estate activities; administrative and support activities; professional, scientific, and technical activities; manufacturing; motor vehicle and motorcycle repair; and the wholesale and retail trade. Globally, 40 per cent of female workers are employed in these sectors (ILO 2021c).

Approximately 73 million jobs are at high risk within the textiles and garments supply chain, 46 per cent of which (nearly 34 million) are women’s jobs (ILO 2021c).

Women are experiencing a lower recovery in the labour market, especially in low- and middle-income countries (UN Women and ILO 2021).

In absolute terms and at the global level, there were approximately 19 million fewer jobs for women between 2019 and 2021 compared with 10.2 million fewer jobs for men (see Esquivel, Chapter 2 in this volume).

Source: SADC (2022).

While the pandemic affected men and women in different ways, these impacts also differed among occupations and industries. In the study by Desai, Deshmukh and Pramanik (2021) on gendered employment patterns during COVID-19 in the Delhi National Capital Region, men and women saw a decline in employment during lockdown; but the impact was greater for men compared to women in absolute terms (26 percentage points compared to 15 for women). This may be attributed to the fact that men are more likely to be engaged in wage work, particularly in industries such as construction, manufacturing, and transportation services, which were brought to a halt when the lockdown was announced in March 2020. Meanwhile, women were mainly concentrated in self-employment, such as agriculture, and were therefore less impacted by movement restrictions. When the analysis focused solely on wage work, such as domestic work, women wage workers had a greater likelihood of being unemployed compared to male wage workers (72 per cent for women compared to 40 per cent for men). Thus, in understanding differences in employment for men and women during the COVID-19 crisis, differential impacts across industries should also be considered.

Nevertheless, it remains clear from the surveyed studies in box 4.1 that the pandemic has generally had a disproportionate impact on women and deepened the vulnerabilities they face “from their role at the lowest wage end of GVCs, and also the social norms that define gender roles in the household and the market” (Tejani and Fukuda-Parr 2021, 663). Job losses not only widen the economic gender gaps, but also lessen women’s intrahousehold bargaining power, reduce their autonomy, exacerbate intrahousehold imbalances and, consequently, leave women more susceptible to intimate partner violence (Perova, Reynolds and Schmutte 2021).

Social protection policies and investments in the care sector remain inadequate, which also contributes to widening gender gaps (Ham 2021). Tejani and Fukuda-Parr (2021) argue that when examining the gendered impacts of COVID-19, a focus on employment outcomes is overly narrow. They believe

that other gendered institutions such as social reproduction and education, as well as asymmetries of power, should be considered to develop a thorough understanding of how women workers are positioned within GVCs. Such a framework would consider the interactions and intersectionalities between additional parameters such as ethnicity, age, migrant status, caste, nationality and sexuality. Consideration of these additional parameters can provide a more nuanced, complex understanding of the differential gendered impacts on employment and trade due to the COVID-19 pandemic.

Over the past two years, there have been a small but growing number of studies that assess the global impacts of COVID-19 on bilateral trade flows and the labour market (for instance, OECD 2021; Tejani and Fukuda-Parr 2021; Macdonald 2021; Alon et al. 2022). However, the literature fails to provide a combined analysis to assess, first, the employment impacts of COVID-19 in emerging countries at the macro level and, second, gender differences in depth. An OECD (2021) study focusing on the labour market impact of COVID-19 across sectors in the OECD countries and sectors revealed that many workers have withdrawn from the labour market, while others have seen their hours of work significantly reduced. The initial impact was felt most immediately by female workers, who saw their hours fall more than those of male workers. Accommodation and food service activities, entertainment, and transportation and storage sectors felt the largest impacts. As this study focused on OECD countries only, it remains unclear how the gendered impacts of employment compare in emerging countries, and across industries. Furthermore, the existing literature on gender differentials in employment in emerging countries only addresses a selected few countries and sectors rather than the macro level. Considering the varying policy responses and GSC restructuring that emerging countries have assessed and implemented, this chapter assesses which countries were hit hardest in terms of job loss, which recovered relatively well and, crucially, the gender differences in these changes.

► Part II: Trade patterns, method and data, and results

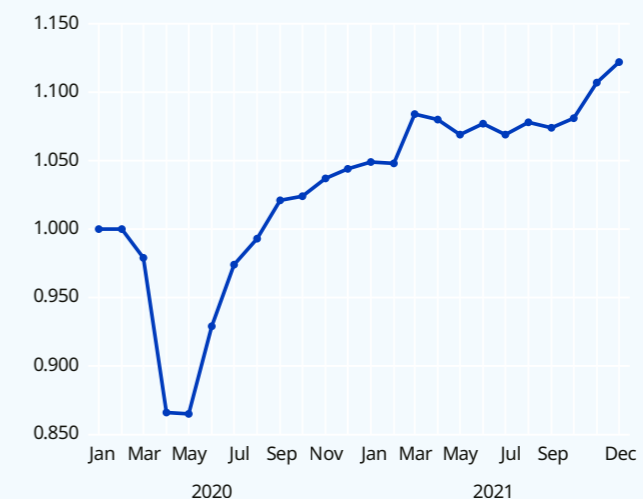
Trade patterns during the periods of COVID-19-related trade collapse and recovery

Figure 4.1 shows patterns of global monthly trade volumes from January 2020 to December 2021, indexed to January 2020. It reveals a rapid decline up to May 2020 and a fairly steady recovery thereafter. Expressing this in value terms, global trade dropped from US\$17.5 trillion to 15.1 trillion from January to May 2020, returned to nearly pre-crisis levels by August 2020, and subsequently increased to US\$ 19.6 trillion by December 2021 (in constant 2010 US\$) (CPB 2022). Because of the need for high-frequency bilateral trade data, our analysis relies on monthly import (mirror) data from each of our sample of countries to the United States and EU, which are among the world’s largest export markets.

The data on monthly total goods exports to the United States and EU are shown in figure 4.2 for

each of the 44 countries, in value terms (in millions of constant 2020 US\$). The sample comprises 40 countries classified as “emerging” economies, plus 4 developing countries of particular interest (CPB 2022).¹ The figure shows considerable variation in terms of reliance on United States versus EU trade, as well as in terms of changes in exports during the periods of global trade collapse and recovery.² Yet even when aggregate exports from any given country to the United States and EU have returned to pre-crisis levels, underlying this may be changes in both aggregate and industry-level employment, in that industries may have been asymmetrically affected during periods of trade collapse and recovery. Such industry-level differences can mean, in turn, that gender differences in employment effects during the period of trade collapse are not necessarily rebalanced even when aggregate exports have recovered. Assessing such possible asymmetries between the periods of trade collapse and recovery and how these vary among countries is one of the key objectives of this chapter.

► Figure 4.1. World trade volume, 2020–21

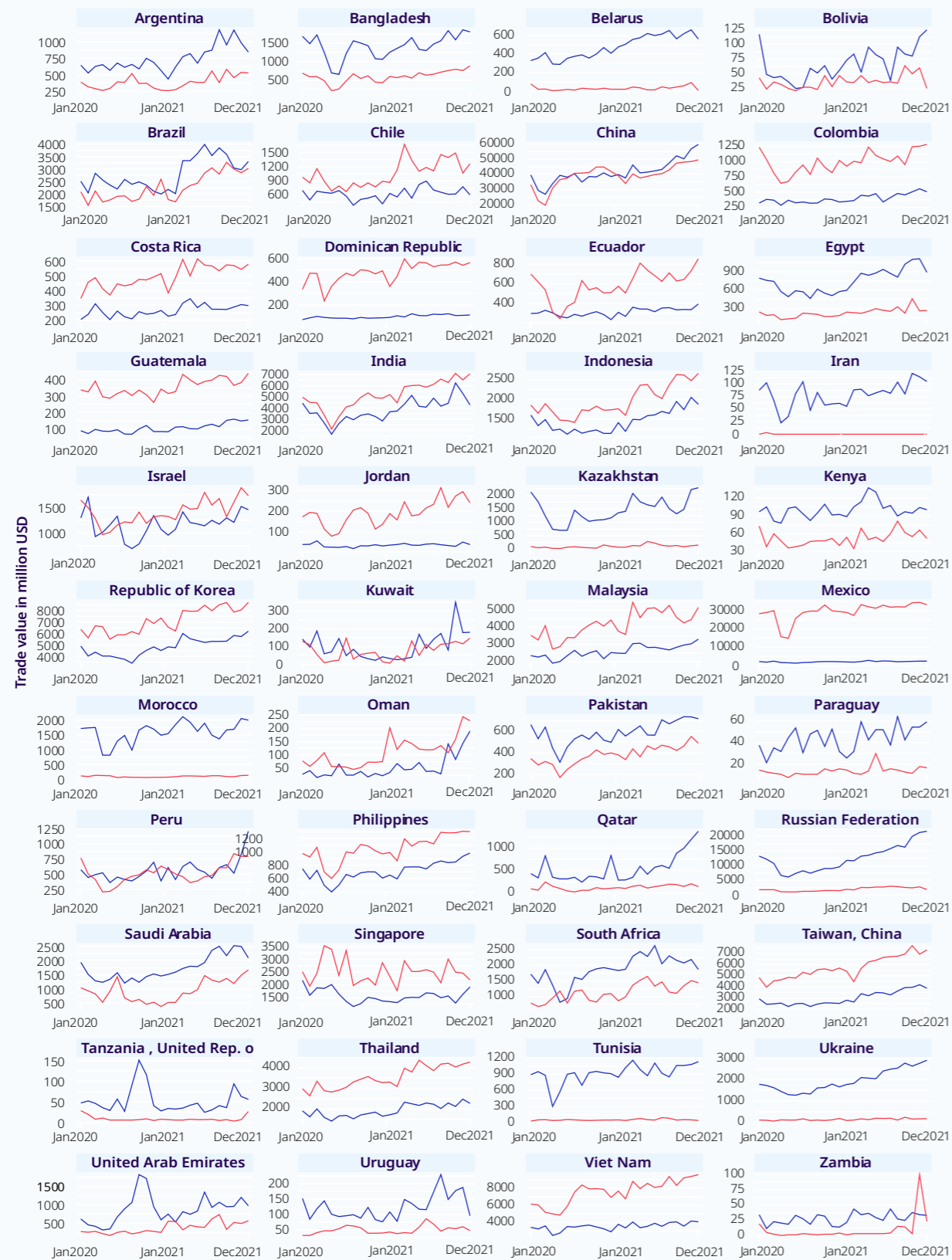


Note: January 2020 = 1.

Source: CPB (2022).

- 1 These four countries are Bangladesh, because of its high dependence on apparel exports, as well as Egypt, Jordan and Tunisia, because these – along with Morocco – are the four partner countries in the EC-funded ILO project on Mainstreaming Employment in Trade and Investment in the Southern Neighbourhood of the EU. See ILO (2023).
- 2 However, as described below, we do not consider all monthly changes over the period but rather endpoint differences between January and May 2020 and May 2020 to December 2021.

► Figure 4.2. Monthly total goods exports to the United States and EU, 2020–21



Sources: USTIC and Eurostat. See “Primary data sources”.

Method and data

Input-output tables produced by the Global Trade Analysis Project (GTAP) for 2014 (GTAP version 10) are used in a fixed multiplier analysis to estimate employment effects of falling exports to the United States and EU (Aguar et al. 2019). More specifically, the analysis is conducted using so-called ‘Type I’ multipliers (Miller and Blair 2009). Type I multipliers address the direct effects on employment as well as indirect effects through input-output production linkages. We leave aside Type II multipliers that address, in addition, income-induced effects resulting from associated changes in household income and expenditures, given their more speculative nature and our intention to focus on value chains through production linkages.

In this context, estimated employment effects are given by:

$$L = \hat{E} \cdot [I - A]^{-1} \cdot T$$

where,

L = the vector of changes in industry-level employment associated with changes in exports, expressed as jobs lasting one year,

\hat{E} = the diagonal matrix of industry-level labour coefficients (employment per unit of output),

I = the identity matrix,

A = the average propensity to spend matrix, and

T = the industry-level export demand vector

Based on figure 4.1, we define T_1 to represent the period of global trade collapse as the difference in exports to the United States and EU from January to May 2020, spanning five months; and T_2 correspondingly to represent the period of global trade recovery as the difference in exports to the United States and EU from May 2020 to December 2021, spanning 19 months. We define T_1 and T_2 the same for all 44 economies, enabling us to highlight the difference in their experiences in the context of global trade collapse and recovery. It is worth emphasizing that even when the sum of estimated job losses and job gains between the periods of

collapse and recovery is positive, this does not mean that the overall impact on jobs through changes in exports during the COVID-19 crisis was positive. Such an assessment would require looking at the difference between actual exports in the recovery period versus the counterfactual exports that would have occurred in the absence of the crisis.³

Studies estimating the ex post facto effects of trade on employment generally construct a trade demand vector based not on changes in exports but rather on changes in net exports (exports minus imports) relative to domestic production or domestic production for final demand plus imports (or plus net imports) (for example, Sachs et al. 1994; Kucera and Milberg 2003; Jiang 2013). In other words, these studies estimate the effects of a changing structure of trade. It might be argued, on these grounds, that our employment effects are overestimated, since imports into the 44 economies also declined during the COVID-19 trade collapse. We do not expect this to be a concern, however, since these earlier studies were evaluating the employment impact of trend changes in the structure of trade. Trend changes in the structure of imports might be expected to have predictable effects on domestic employment because of substitutions between imported and domestically produced goods. But this would not hold for a sudden import shock such as the one that occurred during the COVID-19 crisis, given the associated instability and uncertainty, and the fact that import declines were driven by a reduction in total demand rather than substitutions between imports and domestically produced goods.

Total (male plus female) employment data used to construct \hat{E} are from the ImpactEcon database for 2014, the base year for the GTAP input-output data (Walmsley and Carrico 2013). The ImpactEcon data were developed to provide an employment “satellite account” for the GTAP database, with sectoral breakdowns corresponding with the 65 GTAP sectors. ImpactEcon employment data are derived from ILO sources and are reported as “the economically active population, as defined by the ILO” (Walmsley and Carrico 2013, 4). Data with breakdowns by male and female employment are from ILOSTAT (ILO), for which we use the most recent year of available

3 See Kucera, Roncolato and von Uexkull (2012) for an example of how this could be done.

data.⁴ These data are available for many countries at the two-digit International Standard Industrial Classification (ISIC) level. GTAP provides a correspondence table between its 65 sectors and ISIC at the more detailed three-digit level, but matching GTAP with ISIC at the two-digit level requires some compromises. For example, there are 12 GTAP sectors within the ISIC two-digit sector “Crop and animal production, hunting and related service activities”. In this case, we apply the same gender ratio for this ISIC two-digit sector across the 12 corresponding GTAP sectors. (Details on how we dealt with other mismatches between GTAP and two-digit ISIC are available upon request.)

Trade data for the United States are from the United States International Trade Commission (USITC) and from Eurostat for the EU. These were downloaded at the 5-digit SITC level, with data for the EU converted to the 65 GTAP sectors via the Harmonized System (HS) industry classification using a crosswalk from Eurostat and data for the United States converted via a crosswalk from the World Bank World Integrated Trade Solution (WITS). While the GTAP, ImpactEcon and ILO data are comprehensive in that they cover the economy as a whole, including goods and services, the trade data for the United States and the EU do not include trade in services. In this sense, our chapter underestimates the employment effects of falling exports to the United States and EU resulting from input-output production linkages. Our chapter does, however, address the indirect effects of trade changes during COVID-19 on service industries.

A key objective of our chapter is to evaluate how men and women workers were differently affected by changes in the number of jobs, whether losses or gains, on account of changing exports during the COVID-19 periods of trade collapse and recovery. We do this by evaluating how the industries in which

women and men workers were disproportionately represented were particularly affected during these periods. That is, we compare the percentage of women workers estimated to have experienced changes in the number of jobs during the periods of trade collapse and recovery (derived from input-output multiplier analysis) with the observed percentage of women workers for the most recent year of available data. We do so on the narrow assumption that the distribution of changes in the number of jobs between men and women workers in each industry are proportionate to the observed distribution of men and women workers in each industry. In this sense, we only evaluate gender differences in structural employment effects. These clearly do not include all gender differences in employment effects that might result from changes in exports, notably those driven by differences in hiring and firing patterns for men and women workers during the COVID-19 crisis periods of trade collapse and recovery.

As a hypothetical example, if falling exports to the EU are estimated to have resulted in a loss of 100 jobs in an industry in which 40 per cent of workers were female, this is broken down into job losses for 40 women and 60 men workers in that industry. In this sense, results for men mirror those for women. For any given economy as a whole, the number of men and women workers estimated to have lost or gained jobs is derived in turn by summing such job losses and gains across industries broken down by gender. These sums are then used to construct measures of “gender bias” with women’s employment representation as the reference, by subtracting the observed percentage of women workers for the entire economy from the percentage of women estimated to have lost or gained jobs for the entire economy due to changes in exports.⁵

⁴ Employment data with male–female breakdowns are for either 2018 or 2019. To construct labour coefficients, we use total employment data for 2014 – for the sake of internal consistency with GTAP data and to avoid systemically underestimating employment effects because of the tendency of output and labour productivity to increase over time. In the case of male–female breakdowns, such considerations do not apply – and using the most recent year of data provides a more up-to-date sense of patterns of gender representation across industries at the time of the COVID-19 crisis.

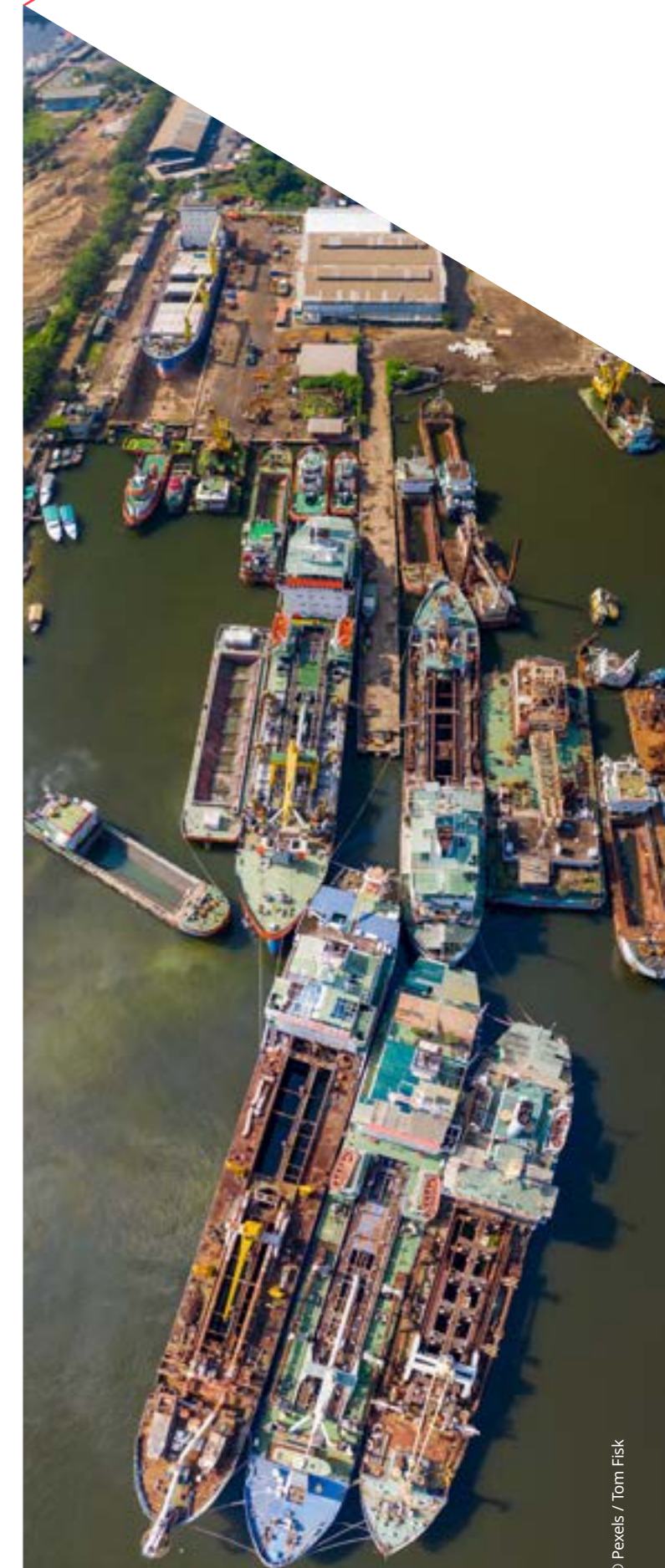
⁵ In exceptional cases, our method of calculating the percentage of women estimated to have lost or gained jobs for the economy as a whole due to changes in exports [%Ft] may result in a negative percentage, creating problematically large measures of gender bias when subtracting the observed percentage of women for the most recent year of available data for the economy as a whole [%Fb] from [%Ft]. This occurs when a country has total (male plus female) employment losses (or gains) at the same time as female employment gains (or losses) for the economy as a whole – which may be attributed to some industries experiencing employment gains and other experiencing employment losses in a given period, depending on how men and women are distributed across these industries. In such exceptional cases, we allow [%Ft] to equal zero, so that the measures of gender bias are effectively capped at minus [%Fb]. This occurs in three cases in our analysis: exports to the EU for Costa Rica and Israel in the period of global trade collapse; and Egypt in the period of global trade recovery.

Whether a measure of gender bias is favourable or unfavourable to women workers cannot be determined simply by looking at the sign of the measures of gender bias, since this depends on whether a country is estimated to have experienced job losses or gains for the economy as a whole on account of changes in exports. That is, in scenarios of overall estimated job losses, a measure of gender bias unfavourable to women workers will carry a positive sign, meaning that a higher percentage of women are estimated to have lost jobs relative to the base year benchmark. Conversely, in scenarios of overall estimated job gains, a measure of gender bias unfavourable to women workers will carry a negative sign, meaning that a lower percentage of women are estimated to have gained jobs relative to the base year benchmark.

Results

Exports to the United States

Table 4.1 shows the estimated effects on total (male plus female) employment because of changing exports to the United States during the periods of trade collapse and trade recovery as well as these periods combined, in columns 1 to 3. These are followed by measures of gender bias for these same periods, columns 4 to 6. The base year (2014) female percentage of employment for the entire economy is shown in column 7, to provide context for the measures of gender bias.



► Table 4.1. Estimated changes in the number of jobs and gender biases due to changing exports to the United States during the COVID-19 crisis

	Jobs			Gender bias*			% Fem.
	Collapse	Recovery	Overall	Collapse	Recovery	Overall	
Bangladesh	-837 920	1 192 328	354 408	1.9%	1.6%	0.9%	30.7%
China	1 569 049	5 667 089	7 236 131	1.3%	-7.8%	-5.8%	44.9%
India	-4 381 050	8 813 792	4 432 743	2.09%	3.7%	4.5%	20.5%
Indonesia	-304 456	1 571 836	1 267 380	4.9%	-2.6%	-4.4%	39.6%
Rep. of Korea	-48 531	155 644	107 113	-6.3%	-5.8%	-5.6%	42.3%
Malaysia	-150 505	504 419	353 915	-0.1%	-0.6%	-0.8%	38.5%
Pakistan	-588 433	1 098 737	510 304	14.3%	15.3%	16.5%	20.0%
Philippines	-254 595	524 079	269 484	17.5%	12.4%	7.6%	39.0%
Singapore	28 955	-40 068	-11 113	-1.2%	-1.4%	-1.8%	41.1%
Taiwan, China	-6 481	316 810	310 329	-5.9%	-2.7%	-2.6%	44.0%
Thailand	96 534	235 944	332 478	-1.5%	5.8%	3.7%	45.8%
Viet Nam	-1 451 351	5 796 781	4 345 430	3.2%	-0.5%	-1.8%	47.2%
Belarus	-4 657	1 310	-3 348	-14.7%	-19.2%	-13.0%	49.6%
Kazakhstan	-16 354	25 881	9 527	-15.7%	-15.9%	-16.1%	48.2%
Russian Fed.	-110 459	198 571	88 112	-6.2%	-8.1%	-10.4%	48.8%
Ukraine	-6 315	72 647	66 332	-8.1%	-9.0%	-9.1%	47.9%
Argentina	-31 955	37 152	5 197	-9.0%	-9.1%	-9.8%	42.8%
Bolivia, Pluri. State of	-18 965	-2 922	-21 887	4.4%	31.6%	8.1%	41.7%
Brazil	-7 570	482 262	474 692	48.4%	-16.7%	-17.8%	41.6%
Chile	-179 197	154 205	-24 992	-12.4%	-15.3%	5.8%	41.0%
Colombia	-37 449	183 485	146 036	-8.2%	-5.9%	-5.4%	39.3%
Costa Rica	10 548	65 446	75 994	-22.1%	-0.3%	-3.3%	37.4%
Dominican Rep.	24 702	65 047	89 748	-34.9%	1.1%	-8.8%	38.4%
Ecuador	-87 794	182 350	94 555	-3.3%	-2.3%	-1.4%	40.0%
Guatemala	-64 375	169 428	105 054	24.6%	18.5%	14.8%	32.6%

► Table 4.1. (cont'd)

	Jobs			Gender bias*			% Fem.
	Collapse	Recovery	Overall	Collapse	Recovery	Overall	
Mexico	-3 641 816	4 832 967	1 191 151	-1.6%	-0.5%	2.9%	38.3%
Paraguay	-4 284	5 878	1 594	1.5%	1.5%	1.5%	39.0%
Peru	-423 606	432 978	9 372	-0.6%	-1.7%	-44.1%	44.1%
Uruguay	3 003	1 407	4 411	-9.6%	-32.8%	-17.0%	45.5%
Kenya	-29 785	39 595	9 810	-11.9%	3.7%	50.9%	49.3%
South Africa	52 962	81 886	134 848	-2.3%	-7.1%	-5.3%	43.6%
Tanzania, United Rep. of	-37 987	18 428	-19 559	-0.5%	-1.8%	0.9%	48.0%
Zambia	-17 149	20 095	2 946	-16.6%	-9.1%	34.6%	48.0%
Egypt	-30 188	54 618	24 431	8.9%	8.1%	7.2%	16.1%
Iran	-88	67	-21	-8.3%	0.0%	-15.4%	15.4%
Israel	-48 341	62 057	13 716	-17.5%	-19.1%	-24.5%	48.0%
Jordan	-46 654	77 030	30 376	10.6%	4.4%	-5.1%	16.2%
Kuwait	-732	1 806	1 074	-16.2%	-19.7%	-22.0%	23.3%
Morocco	-13 342	33 235	19 893	28.5%	17.1%	9.5%	25.7%
Oman	1 723	5 743	4 020	3.5%	2.3%	1.8%	11.2%
Qatar	-64	1 095	1 031	-11.0%	-9.7%	-9.6%	13.8%
Saudi Arabia	-10 824	59 673	48 849	-12.1%	-12.0%	-11.9%	18.0%
Tunisia	11 113	-6 332	4 781	-10.1%	-22.9%	6.8%	26.4%
UAE	-16 243	48 982	32 738	12.8%	-12.9%	-13.0%	16.0%
Sum	-11 114 371	33 243 456	22 129 084				

Notes:

- Indicates gender bias unfavourable to women in countries with employment loss in global trade collapse or employment gain in recovery or overall.
- Indicates gender bias unfavourable to women in countries with employment gain in global trade collapse or employment loss in recovery or overall.
- Indicates figures against the current of global patterns (e.g., job gains during trade collapse).

*Gender bias is constructed by subtracting column (7) from the percentage of women estimated to have lost or gained jobs for the economy as a whole as a result of changes in exports.

Measures of gender bias are shaded in blue to indicate when these measures are relatively unfavourable to women workers and unshaded when they are relatively unfavourable to men workers,⁶ with lighter blue shading used to indicate gender bias unfavourable to women workers in cases where there were estimated job gains for the economy as a whole during the period of global trade collapse and, conversely, where there were estimated job losses for the economy as a whole during the period of global trade recovery. Estimated effects on total employment are shaded in pink in cases where there were estimated job gains for the entire economy during the period of global trade collapse, where there were estimated job losses for the entire economy during the period of global trade recovery, and where there were estimated job losses for the entire economy during the combined periods of global trade collapse and recovery. That is, lighter blue shading is used in columns 4 to 6 and pink shading is used in columns 1 to 3 to indicate when a country is swimming against the prevalent current of job losses and gains during the periods of global trade collapse and recovery, respectively, as well as job gains during the periods of global trade collapse and recovery combined.

During the period of global trade collapse, 36 of the 44 countries are estimated to have experienced job losses because of changing exports to the United States, the exceptions being China, Singapore, Thailand, Costa Rica, the Dominican Republic, Uruguay, South Africa, and Tunisia. Summing across the 44 countries, estimated job losses from changes in exports to the United States during the period of global trade collapse totalled 11.1 million jobs. China is particularly notable for having had an estimated increase of more than 1.5 million jobs during the period of global trade collapse, with its exports to the United States having recovered early in 2020. This may be attributed to swift lockdown policies which contained the pandemic outbreak at an early stage. The countries with the largest estimated job losses during the period of trade collapse are India

(4.4 million jobs), Viet Nam (1.5 million) and Mexico (3.6 million), the only countries exceeding 1 million estimated job losses.

During the period of global trade recovery, 41 of the 44 countries are estimated to have experienced job gains due to changing exports to the United States, the exceptions being Singapore, the Plurinational State of Bolivia, and Tunisia. Summing across the 44 countries, estimated job gains from changes in exports to the United States during the period of global trade recovery totalled 33.2 million jobs. The countries with the largest estimated job gains during the period of trade recovery are Bangladesh (1.2 million jobs), China (5.7 million), India (8.8 million), Indonesia (1.6 million), Pakistan (1.1 million), Viet Nam (1.8 million), and Mexico (4.8 million). In fact, these are the only countries that exceeded 1 million estimated job gains. India, Viet Nam, and Mexico were the three countries with the largest job losses during the period of global trade collapse, but also among the seven countries with the largest job gains during the period of global trade recovery. For all three countries, jobs not only recovered but exceeded pre-crisis levels by December 2021.

The pattern for these three countries is typical for the countries in our sample, of which 38 of 44 countries are estimated to have gained jobs because of changing exports to the United States over the entire period from January 2020 to December 2021, the exceptions being Singapore, Belarus, the Plurinational State of Bolivia, Chile, the Islamic Republic of Iran, and the United Republic of Tanzania. Summing across the 44 countries, estimated job gains from changes in exports to the United States during the combined periods of global trade collapse and recovery totalled 22.1 million jobs. However, as we have noted, this does not imply that the overall impact on jobs through changes in exports during the COVID-19 crisis was positive, since this would require a different exercise assessing the gap between actual exports in the recovery period versus the counterfactual exports that would have occurred in the absence of the crisis.

Gender bias resulting from changing exports to the United States

During the period of global trade collapse, 21 of the 44 countries experienced a gender bias unfavourable to women workers while, conversely, 23 of these countries experienced a gender bias unfavourable to men workers. In seven of the 21 countries experiencing an unfavourable gender bias towards women workers, this was in the context of overall job gains in these countries, meaning that women gained fewer jobs than men during the period of global trade collapse. There is a considerable amount of evidence, surveyed in this paper, that women's employment was more adversely affected than men's employment during the COVID-19 crisis, but the impact of changes in exports to the United States during the period of global trade collapse suggests a relative balance, at least for the 44 countries we assess. An important qualification, though, is that our trade data for both the EU and United States do not include trade in services, where women tend to be disproportionately represented. As such, we only capture employment effects on services through the indirect production linkages between traded goods and services.

During the period of global trade recovery, 29 of the 44 countries experienced a gender bias unfavourable to women workers, while 15 of these countries experienced a gender bias unfavourable to men workers. In 28 of the former 29 countries (with the Plurinational State of Bolivia being the

exception), this was in the context of overall job gains in these countries, meaning that women gained fewer jobs than men during the period of global trade recovery. For the periods of global trade collapse and recovery combined, 27 of 44 countries experienced a gender bias unfavourable to women workers, with 24 of these 27 in the context of overall job gains.

Comparing the periods of global trade collapse and recovery, there were more measures of gender bias that were unfavourable to women workers during the period of global trade recovery than collapse. Expressing this in terms of what we defined as structural employment effects, for 28 of the 44 countries during the period of global trade recovery, the industries in which women were disproportionately concentrated gained fewer jobs than the industries in which men were disproportionately concentrated due to changes in exports to the United States and associated inter-industry indirect effects.

Exports to the EU

Following the presentation of results for exports to the United States (table 4.1), table 4.2 shows the estimated effects on total (male plus female) employment due to changing exports to the EU during the periods of trade collapse and trade recovery, as well as these periods combined. It also depicts the measures of gender bias for these same periods, using the same shading conventions as those in table 4.1.

⁶ Note that the measures of gender bias contained in tables 4.1 and 4.2 show the magnitude of these biases for any given country, but for the purposes of this discussion we focus on these biases only in a bivariate sense, that is, whether they are favourable or unfavourable to women. We find this approach particularly illustrative given that we are endeavouring to find patterns across a sizeable sample of countries.

► Table 4.2. Estimated changes in the number of jobs and gender biases due to changing exports to the EU during the COVID-19 crisis

	Jobs			Gender bias*			% Fem.
	Collapse	Recovery	Overall	Collapse	Recovery	Overall	
Bangladesh	-1 839 240	1 963 368	124 128	2.2%	2.3%	4.6%	30.7%
China	1 069 743	6 147 478	7 217 221	13.0%	-11.0%	-7.4%	44.9%
India	-3 433 068	3 673 491	240 423	0.8%	-0.4%	-17.1%	20.5%
Indonesia	-493 260	669 222	175 962	-1.7%	-5.5%	-16.1%	39.6%
Rep. of Korea	-42 905	80 443	37 538	-6.0%	-5.8%	-5.6%	42.3%
Malaysia	-68 292	333 755	265 463	0.1%	-4.3%	-5.5%	38.5%
Pakistan	-1 169 224	1 266 008	96 784	15.6%	14.6%	2.2%	20.0%
Philippines	-261 045	441 231	180 186	11.1%	6.7%	0.3%	39.0%
Singapore	-11 227	6 854	-4 373	-3.1%	-8.2%	4.8%	41.1%
Taiwan, China	-90 831	185 385	94 554	-2.7%	-2.7%	-2.7%	44.0%
Thailand	-133 398	184 409	51 011	1.4%	3.6%	9.5%	45.8%
Viet Nam	-967 105	1 472 126	505 201	3.2%	-4.1%	-17.9%	47.2%
Belarus	-13 666	75 739	62 073	-15.8%	-17.6%	-18.0%	49.6%
Kazakhstan	-277 714	297 135	19 421	-15.0%	-15.3%	-19.1%	48.2%
Russian Fed.	-1 021 324	2 429 537	1 408 214	-7.0%	-3.9%	-1.7%	48.8%
Ukraine	-597 186	1 535 819	938 632	-8.5%	-8.9%	-9.1%	47.9%
Argentina	-15 901	50 602	34 701	-2.3%	-7.8%	-10.4%	42.8%
Bolivia, Pluri. State of	-72 188	87 736	15 548	-4.4%	-1.7%	10.8%	41.7%
Brazil	483 707	144 496	628 202	-22.6%	-8.8%	-19.4%	41.6%
Chile	1 848	-74 281	-72 433	116.0%	-8.4%	-11.5%	41.0%
Colombia	20 615	8 913	29 528	-5.8%	-21.2%	-10.4%	39.3%
Costa Rica	303	27 425	27 725	-37.39%	0.3%	-3.5%	37.4%
Dominican Rep.	3 284	13 851	17 135	-36.4%	-20.2%	-23.3%	38.4%
Ecuador	-7 812	49 415	41 602	0.5%	-0.1%	-0.2%	40.0%
Guatemala	-6 415	46 782	40 367	98.1%	31.7%	21.2%	32.6%
Mexico	-115 090	186 005	70 915	5.6%	-5.3%	-23.0%	38.3%
Paraguay	-1 912	17 869	15 957	1.5%	1.5%	1.5%	39.0%
Peru	-140 825	404 722	263 897	-4.2%	-4.3%	-4.4%	44.1%
Uruguay	-12 365	658	-11 706	-11.9%	28.1%	-14.1%	45.5%

► Table 4.2. (cont'd)

	Jobs			Gender bias*			% Fem.
	Collapse	Recovery	Overall	Collapse	Recovery	Overall	
Kenya	28 836	-86 367	-57 532	9.6%	12.7%	14.3%	49.3%
South Africa	-221 764	202 980	-18 785	-5.1%	-5.0%	-5.5%	43.6%
Tanzania, United Rep. of	-73 403	24 991	-48 412	2.1%	-5.2%	5.8%	48.0%
Zambia	-11 144	21 655	10 511	-6.0%	-7.3%	-8.6%	48.0%
Egypt	19 229	14 465	33 694	49.6%	-16.1%	-13.1%	16.1%
Iran	-49 407	49 335	-72	2.9%	1.9%	674.1%	15.4%
Israel	-4 428	24 123	19 695	-48.0%	-30.1%	-13.3%	48.0%
Jordan	-7 283	6 504	-778	0.7%	-0.8%	12.9%	16.2%
Kuwait	-6 790	6 424	-366	-20.4%	-20.2%	-23.3%	23.3%
Morocco	-546 436	624 196	77 760	-0.2%	-0.1%	0.4%	25.7%
Oman	-1 007	10 800	9 793	-6.4%	-6.3%	-6.3%	11.2%
Qatar	-3 372	21 364	17 992	-8.2%	-6.8%	-6.5%	13.8%
Saudi Arabia	-52 083	57 412	5 328	-11.4%	-10.8%	-4.2%	18.0%
Tunisia	-131 852	248 459	116 606	11.8%	3.8%	5.3%	26.4%
UAE	-27 103	51 902	24 799	-12.3%	-11.8%	-11.2%	16.0%
Sum	-10 300 504	23 004 434	12 703 930				

Notes:

Indicates gender bias unfavourable to women in countries with employment loss in global trade collapse or employment gain in recovery or overall.

Indicates gender bias unfavourable to women in countries with employment gain in global trade collapse or employment loss in recovery or overall.

Indicates figures against the current of global patterns (e.g., job gains during trade collapse).

*Gender bias is constructed by subtracting column (7) from the percentage of women estimated to have lost or gained jobs for the economy as a whole as a result of changes in exports.

During the period of global trade collapse, 36 of the 44 countries listed in tables 4.1 and 4.2 are estimated to have experienced job losses due to changing exports to the EU, the exceptions being China, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Kenya, and Egypt, with five of these eight countries in the Latin American and the Caribbean (LAC) region. Three of these eight countries were also among those estimated to have experienced job gains because of exports to the United States during the period of global trade collapse: China, Costa Rica, and the Dominican Republic. Summing across the 44 countries, estimated job losses from changes in exports to the EU during the period

of global trade collapse totalled 10.3 million jobs, somewhat less than the estimated job losses of 11.1 million from changes in exports to the United States. As with exports to the United States, China stands out among the 44 countries as having had an estimated increase of more than 1 million jobs during the period of total collapse on account of exports to the EU. Yet Brazil too is notable, having had an estimated increase in over 480,000 jobs due to exports to the EU during that same period. The countries with the largest estimated job losses during the period of trade collapse are Bangladesh (1.8 million jobs), India (3.4 million), Pakistan (1.2 million) and the Russian Federation (1.0 million), the

only countries exceeding 1 million estimated job losses. India was also among the top three countries in terms of estimated job losses during the period of global trade collapse because of exports to the United States.

During the period of global trade recovery, 42 of the 44 countries are estimated to have experienced job gains due to changing exports to the EU, the exceptions being Chile and Kenya. Summing across the 44 countries, estimated job gains from changes in exports to the EU during the period of global trade recovery totalled 23 million jobs, considerably less than the figure of 33.2 million jobs from changes in exports to the United States. The countries with the largest estimated job gains during this period were Bangladesh (2 million jobs), China (6.1 million), India (3.7 million), Pakistan (1.3 million), Viet Nam (1.5 million), the Russian Federation (2.4 million) and Ukraine (1.5 million) – the only countries to exceed one million estimated job gains. India, Pakistan, and the Russian Federation were the three countries with the largest job losses during the period of global trade collapse, while also being among the seven countries with the largest job gains during the period of global trade recovery. For all three countries, job gains during the period of global trade recovery exceeded job losses.

For the combined periods of global trade collapse and recovery, 35 of the 44 countries are estimated to have gained jobs due to changing exports to the EU, the exceptions being Singapore, Chile, Uruguay, the Islamic Republic of Iran, Kenya, Kuwait, South Africa, the United Republic of Tanzania, and Jordan. Four of these nine countries are also estimated to have lost jobs because of changing exports to the United States during the combined periods of global trade collapse and recovery: Singapore, Chile, the Islamic Republic of Iran (though numbers are negligible for exports to both the United States and EU), and the United Republic of Tanzania. Summing across the 44 countries, estimated job gains from changes in exports to the EU during the combined periods of global trade collapse and recovery totalled 12.7 million jobs, compared to the total of 22.1 million jobs from changes in exports to the United States, with

the difference driven more by the greater estimated gains from changes in exports to the United States during the period of trade recovery.

Gender bias resulting from changing exports to the EU

During the period of global trade collapse, 19 of the 44 countries experienced a gender bias unfavourable to women workers on account of to changing exports to the EU, while 25 of these countries experienced a gender bias unfavourable to men workers. For four of these 19 countries, all in the LAC region, this was in the context of overall job gains, meaning that women gained fewer jobs than men during the period of global trade collapse.

During the period of global trade recovery, 33 of the 44 countries experienced a gender bias unfavourable to women workers on account of changing exports to the EU while 11 of these countries experienced a gender bias unfavourable to men workers. In 32 of the former 33 countries (with Kuwait being the exception), this was in the context of overall job gains in these countries, meaning that women gained fewer jobs than men during the period of global trade recovery. For the periods of global trade collapse and recovery combined, 32 of 44 countries experienced a gender bias unfavourable to women workers, with 27 of these 32 in the context of overall job gains.

To recapitulate the main findings for exports to the United States and EU (see box 4.2), the number of countries with measures of gender bias unfavourable to women workers during the period of global trade collapse was 21 and 19 for exports to the United States and EU, respectively; while the number of countries with measures of gender bias unfavourable to women workers during the period of global trade recovery was 29 and 33 for exports to the United States and EU, respectively. In sum, there were more measures of gender bias that were unfavourable to women workers during the period of global trade recovery than the period of global trade collapse, even more so for exports to the EU than the United States

► Box 4.2. Structural gender bias resulting from changing exports to the United States and EU

Gender bias = % female change in employment from change in exports
MINUS baseline % female employment

	Total employment loss	Total employment gain
Negative gender bias	Favourable to women	Unfavourable to women
Positive gender bias	Unfavourable to women	Favourable to women

	Global COVID-19 trade collapse	Global COVID-19 trade recovery
Exports to the United States	Twenty-one of the 44 countries experienced a gender bias unfavourable to women workers (7 of 21 ATC)	Twenty-nine of the 44 countries experienced a gender bias unfavourable to women workers (1 of 29 ATC)
Exports to the EU	Nineteen of the 44 countries experienced a gender bias unfavourable to women workers (4 of 19 ATC)	Thirty-three of the 44 countries experienced a gender bias unfavourable to women workers (1 of 33 ATC)

ATC: *Against the Current*, that is, gender bias in the context of job gains in collapse or job losses in recovery

Industry-level drivers of gender bias resulting from changing exports to the United States and EU

Two key questions arise from our findings: Why were there more countries with measures of gender bias that were unfavourable to women workers during the period of global trade recovery than during the period of global trade collapse? And, in particular, what were the industry-level drivers of these differences between the two periods for exports to the United States and – even more so – exports to the EU? One may glean a global sense of the situation by looking at the industries that had a combination of particularly large changes in

exports to the United States and EU in the collapse and recovery periods, and particularly high or low shares of female employment. Columns 1, 2, 4 and 5 of table 4.3 indicate changes in exports to the United States and EU (separately) during the periods of global trade collapse and recovery (that is, the sum of T_1 and T_2 across the 44 countries), with columns 3 and 6 showing the difference in changes in exports between the two periods. Column 7 shows the average female percentage of employment by industry across the 44 countries. Column 8 shows the measures in column 7 divided by the cross-industry average of these same measures, providing female propensities of employment by industry. Female propensities greater than 1 indicate more female-intensive industries, while lower than 1 reveal more male-intensive industries.

► Table 4.3. Industry-level drivers for gender bias due to changing exports to the United States and EU

	Change in exports to US (mill. USD)			Change in exports to EU (mill. Euros)			%Fem. (avg.)	Fem. propensity*
	Collapse	Recovery	Difference	Collapse	Recovery	Difference		
Paddy rice	41	-54	-95	25	-10	-35	28.4	1.01
Wheat	0	0	0	8	9	2	28.4	1.01
Cereal grains n.e.c.	10	-3	-13	-134	228	362	28.4	1.01
Vegetables, fruit, nuts	-463	535	1 298	-68	58	126	28.4	1.01
Oil seeds	19	-9	-28	368	-291	-659	28.4	1.01
Sugar cane, sugar beet	-1	12	13	12	-4	-16	28.4	1.01
Plant-based fibers	1	0	0	-11	18	29	28.4	1.01
Crops n.e.c.	-21	206	226	-75	275	351	28.4	1.01
Cattle, sheep, goats, horses	11	21	10	-2	5	7	28.4	1.01
Animal products n.e.c.	4	-2	-6	-25	26	50	28.4	1.01
Raw milk	0	0	0	0	0	0	28.4	1.01
Wool, silk-worm cocoons	-5	8	13	-73	24	97	28.4	1.01
Forestry	0	1	2	2	29	27	19.7	0.70
Fishing	-45	67	113	-86	111	197	15.2	0.54
Coal	-7	27	34	-118	642	760	14.1	0.50
Oil	-2 258	2 149	4 406	-5 182	5 317	10 499	18.3	0.65
Gas	2	1	-1	-504	4 836	5 340	18.3	0.65
Other extraction	-1 354	1 258	2 612	-890	1 343	2 233	14.9	0.53
Meat: cattle, sheep, goats, horse	96	42	-51	-80	65	141	32.4	1.15
Meat products n.e.c.	1	80	79	-26	2	28	32.4	1.15
Vegetable oils and fats	41	1 277	1 236	177	676	500	32.4	1.15
Dairy products	8	0	-8	0	0	0	32.4	1.15
Processed rice	0	0	0	0	0	0	27.8	0.99
Sugar	109	-72	-180	-7	3	10	32.5	1.15
Food products n.e.c.	-209	1 047	1 256	-496	429	925	32.5	1.15
Beverages and tobacco products	-87	479	566	-19	57	76	30.7	1.09
Textiles	2 900	-2 202	-5 101	5 224	-4 976	-10 199	43.1	1.53
Wearing apparel	-2 856	3 060	5 916	-2 865	2 513	5 379	49.3	1.75
Leather products	-1 426	1 249	2 676	-1 403	808	2 210	32.9	1.17
Wood products	-49	515	564	-87	333	421	25.9	0.92
Paper products, publishing	-16	244	260	-70	339	409	27.0	0.96

► Table 4.3. (cont'd)

	Change in exports to US (mill. USD)			Change in exports to EU (mill. Euros)			%Fem. (avg.)	Fem. propensity*
	Collapse	Recovery	Difference	Collapse	Recovery	Difference		
Petroleum, coal products	1 236	1 584	2 820	-2 743	2 701	5 444	26.5	0.94
Chemical products	167	1 648	1 481	-218	2 774	2 992	26.4	0.94
Basic pharmaceutical products	-179	747	927	-21	582	603	34.8	1.23
Rubber and plastic products	-599	1 746	2 345	-222	887	1 109	25.2	0.89
Mineral products n.e.c.	-363	798	1 161	-229	550	779	21.3	0.76
Ferrous metals	-169	1 710	1 879	-503	933	1 436	17.7	0.63
Metals n.e.c.	1 353	506	-874	-652	1 437	2 089	17.8	0.63
Metal products	-578	1 515	2 093	-702	1 373	2 075	15.7	0.56
Computer, electronic and optical products	1 112	15 006	13 893	-1 924	10 869	12 793	31.5	1.12
Electrical equipment	-2 046	5 779	7 825	-1 677	4 150	5 827	25.6	0.91
Machinery and equipment n.e.c.	-424	3 557	3 981	-830	2 069	2 899	20.4	0.73
Motor vehicles and parts	-7 100	8 759	15 859	-1 055	2 446	3 500	21.2	0.75
Transport equipment n.e.c.	-2 129	2 370	4 499	1 165	1 622	2 787	20.3	0.72
Manufactures n.e.c.	-2 388	4 810	7 198	-672	1 951	2 623	22.5	0.80

Notes:

- Male-intensive sector with any trade value greater than 2,000 (mill. USD or Euros) per subperiod (cols. 1, 2, 4 & 5)
- Female-intensive sector with any trade value greater than 2,000 (mill. USD or Euros) per subperiod (cols. 1, 2, 4 & 5)

* Female propensity is defined as the ratio of (1) the cross-country average % female by industry to (2) the cross-industry average of (1)

Taking as an illustrative threshold an export change of greater than US\$2 billion or €2 billion for the global collapse or recovery period, there are two industries with a combination of significant changes in exports and high female intensity, indicated by pink shading. These are Textiles and Wearing apparel, with female propensities of over 1.5. Taking the same threshold of US\$2 billion or €2 billion, there are five industries with a combination of large changes in exports and high male intensity, indicated by

blue shading. These are Oil; Gas; Machinery and equipment; Motor vehicles and parts; and Transport equipment, with female propensities of 0.75 or less.⁷ These five industries share a common pattern in that there were large export declines during the collapse period and generally larger export increases during the recovery period.⁸ The difference in exports between the collapse and recovery periods was correspondingly large and positive for these male-intensive industries. Consequently, when

⁷ Taking an alternative illustrative threshold of US\$3 billion or €3 billion, the only difference is that Transport equipment drops from the list.

⁸ An exception is exports for the Gas industry to the United States, for which there were negligible changes in both the global trade collapse and recovery periods.

exports and employment picked up strongly for these industries during the recovery period, men disproportionately benefited from the situation. These industries thus contributed to measures of gender bias that were unfavourable to women during the recovery period.

Unlike the five male-intensive industries for which exports moved in parallel, exports in the female-intensive Textiles and Wearing apparel industries moved in opposite directions to each other. In the case of Wearing apparel, there were large export declines during the collapse period and large – though not larger – export increases during the recovery period; however, exports to both the United States and EU moved in the opposite direction in the Textiles industry. This may plausibly be attributed to a supply chain effect, in which falling demand initially hit the Wearing apparel industry – followed by a falling demand for Textiles as the main intermediate input into the Wearing apparel industry. The effect of these two industries with respect to measures of gender bias was to offset rather than reinforce each other. Taken together, these developments enabled the five male-intensive industries rather than the two female-intensive industries to dominate measures of gender bias.

It is worth noting that the discussion on gender bias measures with respect to tables 4.1 and 4.2 gives equal weight to all 44 countries, regardless of their size and export dependence, whereas table 4.3 (particularly with respect to summing T_1 and T_2 across countries) gives more weight to larger exporters. Table 4.3 also does not account for differences in employment multipliers across industries. Still, the table clearly demonstrates that industries for which exports recovered most strongly after the period of global trade collapse tended to be male-intensive.⁹ In this sense, this chapter's findings focusing on the impact of exports on employment are aligned with the findings of slower job recovery for women at the macroeconomic level, especially for low- and middle-income countries (UN Women and ILO 2021).

Concluding remarks

This chapter of the GEPR uses input-output fixed multiplier analysis to estimate changes in the

number of women's and men's jobs due to changes in exports to the United States and EU during the COVID-19 crisis for 44 regionally dispersed developing and emerging economies. We construct measures of "structural" gender bias by evaluating how the industries in which women and men workers were disproportionately represented were differently affected during this time, distinguishing between the period of overall global trade collapse from the onset of the crisis until mid-2020 and the period of relative recovery thereafter.

Results are situated within discussions on:

- ▶ The way in which the causal channels of the COVID-19 trade collapse differed from those of the 2008–09 economic crisis
- ▶ The impact of recovery policies in developing and emerging countries as well as in the United States and EU
- ▶ Possible implications for global trade patterns and the restructuring of GSCs
- ▶ The wider impacts of COVID-19 on employment and gender differences in these impacts

This chapter describes how the COVID-19 trade collapse differed from the 2008–09 crisis in that it was not just a massive demand shock but also a massive supply shock, with economic uncertainty compounded by epidemiological uncertainty. The combination of widespread lockdowns and factory shutdowns resulted in these shocks being transmitted rapidly both up and down GSCs. Their negative impacts led countries and companies to reevaluate their GSC strategies and gave further impetus to discussions on increasing the resilience and robustness of GSCs, on the reshoring and nearshoring of production, and on the overreliance on export-oriented growth more generally. It is difficult at present to have a clear sense of how these discussions will play out concretely and how the situation will affect countries' development prospects and the global division of labour. It is clear, though, that the strategies pursued by China in its "Made in China 2025" initiative and India in its "Self-Reliant India Mission" will prove more difficult

for most developing and emerging countries, given the more limited size of their domestic markets. At the same time, exports remain central to the development strategies of even the largest economies.

Differences aside, the COVID-19 crisis resembled the 2008–09 crisis in that it deepened the understanding of the way in which employment in developing and emerging economies might be adversely impacted by falling exports to such large markets as the United States and the EU. It revealed that employment recovery in developing and emerging economies is not only contingent upon their own recovery policies but also upon those in the United States and the EU.

A main finding in this chapter is that during the period of global trade collapse, there was a roughly equal number of countries for which measures of gender bias were unfavourable to both women and men workers on account of changes in exports to the United States and the EU. Conversely, during the period of global trade recovery, there was a sizeable majority of countries with measures of gender bias unfavourable to women workers, a reflection of women workers benefiting less than men workers from job gains because of changes in these exports. In short, there were more countries with measures of gender bias that were unfavourable to women workers during the period of global trade recovery than the period of global trade collapse. This finding is consistent with the rapid recovery of exports in such male-intensive industries as Oil; Gas; Machinery and equipment; Motor vehicles and parts; and Transport equipment. In contrast, there was no such consistent pattern for female-intensive industries. For example, although there was strong recovery in the Wearing apparel industry during the period of global trade recovery after mid-2020, this was offset by the large declines in Textiles exports from the 44 economies to both the United States and EU during this period. At least with respect to COVID-19 trade shocks, gender-responsive policies are as much if not more important during periods of global trade recovery than collapse.

Our findings on the relatively balanced gender impact of trade on employment during the early period of the COVID-19 crisis contrast with the findings surveyed by this chapter on the wider employment impacts of the crisis. That is, these latter findings show that women's employment was generally more negatively affected than men's during both the early and recovery periods of the

crisis. This contrast may be attributed to the fact that our chapter assesses only the impact of exports on employment, rather than focusing on the other components of aggregate demand, namely consumption, investment, and government spending. The decline of these other components due to the COVID-19 crisis, especially consumption demand, resulted in disproportionately adverse effects on women's employment at the macroeconomic level.

Taken together, our chapter's findings and those of prior studies suggest two points. First, women's employment is contingent upon structural issues inherent in women's and men's employment. Gender disparities may be reduced if the following are present: (1) sustainable job creation for women in sectors that tend to exclude women; and (2) infrastructure and services that facilitate redistributed responsibilities of care (UNIDO 2019). Second, COVID-19 crisis recovery policies have not been sufficiently gender-responsive – and this is not merely because insufficient resources have been channelled into female-intensive industries most impacted by the crisis. As argued by Esquivel in Chapter 2 of this volume, such support should include not only subsidies and tax cuts to prioritize women's income security and support women-owned enterprises, but also the safeguarding of public investments in the care economy and better gender responsiveness of industrial policies. Additional support for unpaid care work and the expansion of childcare and elderly care services would not only improve employment recovery but also long-term resilience, productivity and fairness (Esquivel, Chapter 2 in this volume).

Primary data sources

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Input-output data: *The GTAP Data Base: Version 10 (compare Aguiar et al. 2019).* <https://www.gtap.agecon.purdue.edu/databases/v10/index.aspx>.

Total (male plus female) employment data: *ImpactECON Labor Data (compare Walmsley and Carrico 2013).* <https://impactecon.com/downloads/labor-data/>.

Male and female employment data: *ILO ILOSTAT.* <http://www.ilo.org/ilostat>.

⁹ There were also large export declines during the collapse period and generally larger export increases during the recovery period for the Petroleum, coal products; Computer, electronic and optical products; and Electrical equipment industries (especially the second of these), which had comparatively neutral female propensities hovering around one – at 0.94, 1.12 and 0.91 respectively.

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Chapter 5

A pro-employment macroeconomic policy framework for Africa

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Main findings

Africa's commodity-dependence and lack of structural transformation lies at the heart of its poor employment outcomes. The ILO's tripartite constituents have consistently acknowledged this centrality of structural transformation, and the need for comprehensive employment policy frameworks that include pro-employment macroeconomic, sectoral and labour market policies in order to address it.

Achieving decent and productive employment growth requires coordination of, and integration across, macroeconomic, sectoral and labour market policies under a comprehensive employment policy framework.

Employment goals should be targeted directly across government departments, rather than being treated as a residual outcome of GDP growth.

A macroeconomic framework should do more than stabilize the economy. Instead it should benefit from incorporating employment and sectoral objectives into a fiscal and monetary policy framework so as to stimulate employment through both short-run demand-side measures and longer-run measures that expand and diversify supply.

Sectoral diversification policies in Africa cannot be separated from achieving macroeconomic sustainability in the balance of payments (external balance). Diversification of exports helps relax supply-side constraints: these are reflected in employment-inflation trade-offs and balance of payments constraints. Diversified supply also helps make external financing more sustainable.

Labour market policies are vital to ensure that gains from productivity are evenly distributed, helping with terms of trade, reduction of poverty and inequality, and economy-wide linkages from commodity production.

Only through such a transformative, pro-employment macroeconomic policy framework will African countries be able to achieve sustained structural transformation and productive and decent employment for African women and men, and particularly youth.

► Introduction

Creating decent employment opportunities in developing economies is commonly (mis)conceived as being merely a challenge of increasing economic growth. However, despite the fact that African countries have experienced relatively strong economic growth since 2002, the improvement in employment outcomes has been less robust, and has even worsened over the last decade (Rodrik 2018). This is particularly true with respect to the quality of employment; growth has been unable to create enough *productive* and *gainful* employment opportunities for the fast-growing labour force, and high levels of informality, poor working conditions, and working poverty have persisted. Furthermore, the type of work most prevalent in African countries involves low levels of labour productivity (Fox and Sekke Gaal 2008; Léautier and Hanson 2017).

Africa's commodity dependence and lack of structural transformation lie at the heart of its poor employment outcomes. Domestic manufacturing is weak and the trade balance precariously dependent on high commodity exports and terms of trade. This lack of structural transformation¹ has made the growth path of the 2000s both unsustainable and non-developmental for much of the African population living in poverty (Rodrik 2018). And when commodity prices declined (up until recently), so too did employment generation, government revenue and GDP growth. By contrast, while the recent commodity price surges may create positive revenue and growth effects for commodity-dependent countries, these gains are unlikely to translate into substantial creation of productive jobs, but in turn are likely to be sapped by the larger inflationary pressures that will hit the majority of the population much harder.

Structural transformation is central to employment outcomes because what a country produces can either expand or limit the possibilities for decent and productive employment opportunities. The higher the domestic value added in production is, the greater the potential to expand and upgrade domestic employment opportunities (including

wages, training, hours and so on) – alongside an increase in domestic production and productivity.

Governments, as well as employers' and workers' organizations, have consistently agreed on the centrality of structural transformation, and the need for comprehensive employment policy frameworks that include pro-employment macroeconomic, sectoral and labour market policies. This is documented both at the global level, most recently in the form of the *Resolution concerning the third recurrent discussion on employment* (ILO 2022a), and in the African context with the adoption of the *Abidjan Declaration* (ILO 2019). This chapter therefore contributes towards shaping and advancing such progressive and *pro-employment* policy frameworks, specifically for the context of African countries.

While the underlying challenges raised in this chapter have been present for several decades, the COVID-19 pandemic has further weakened employment outcomes across the continent, as growth and employment were particularly hard hit (Strauss, Isaacs and Rosenberg 2021; Rosenberg et al. 2021). The ILO has estimated that in the course of 2020 alone a deficit² of 15 million jobs was generated in Africa (ILO 2022b). Accompanying these significant job losses, it estimated that 5 million African workers and their households fell below the extreme poverty line in 2020, increasing the working poverty rate by 1.3 percentage points (ILO 2022b). Women and youth in particular suffered disproportionately from these losses in jobs and income. In the South African Development Community (SADC), it is projected that 11 million jobs have been shed in the economy, 72 per cent of those being informal (Strauss, Isaacs and Rosenberg 2021). According to Fox and Gandhi, 10 million new jobs need to be created every year to meet the increasing and existing demand for jobs on the continent (Fox et al. 2021). At the same time, the ILO warns of a "great divergence" with regard to the post-crisis recovery (ILO 2022c), where low and lower-middle income countries – particularly in Africa – are falling behind richer nations on account

¹ We define structural transformation to mean production shifting towards higher value-added, higher productivity, activities, often in combination with a greater share of formal wage employment. This includes shifts across and within primary, secondary, and tertiary sectors. See, for example, Cramer, Di John and Sender (2022).

² The deficit is the difference between the actual employment level and the employment level that would have occurred if the employment-to-population ratio had remained at its 2019 level in 2020.



of vaccination inequality and a lower capacity to mount adequate fiscal stimulus packages.

Building Africa's employment "back better" requires a job-rich growth path for African economies, which is less commodity-dependent and features greater export diversification, domestic value-added, and higher productivity levels for better quality jobs. At the same time, macroeconomic policy must widen its focus from its traditionally stabilizing role to a "transformative" one that actively targets decent and productive employment, inclusivity, and sustainability. At the heart of this stands the need to achieve structural transformation – that is, a diversification of production towards higher value-added and higher-productivity activities, often in combination with a greater share of increasingly formal wage employment (Gindling and Newhouse 2012).

This chapter argues that employment generation requires using and integrating macroeconomic policy tools within a broader pro-employment policy context to achieve such a job-rich growth path. The pre-existing policy context – both before and during COVID-19 – is one in which macroeconomic policy has focused, almost exclusively, on achieving "macroeconomic stability", generally understood as low inflation, low debt, moderate tax levels, liberalized markets, and stable spending. This has resulted in pro-cyclical fiscal policy and restrained monetary policy, the latter being due to either fixed exchange rates in much of Africa or nominal variable targeting, in particular inflation targeting. The heavy lifting of employment creation, and ensuring decent employment, has therefore been left to labour market policies and programmes, accompanied by a belief that an "enabling business environment" suffices to attract investment and generate employment growth. Clearly this approach was insufficient.

The employment-centric macroeconomic framework advanced here takes place within debates regarding the most appropriate macroeconomic framework for African countries to strengthen employment outcomes (Nissanke 2019; Stein and Nissanke 1999; Tarp 2002). Studies on employment outcomes tend to concentrate either on the macroeconomic sphere (Epstein 2008; Heintz and Pollin 2008), sectoral and industrial policies (Oqubay 2015, 374; Ovadia and Wolf 2018), or labour market policies (Auer and Leschke 2005), with little attention paid to how these policies interact with one another. Yet, as we illustrate, in practice these policy tools and frameworks



can work against each other, leading instead to less employment and less growth if they are not integrated within a single coherent employment policy framework.

This chapter aims to fill the conceptual gap with regard to the way in which policy frameworks interact with one another in the African context by advancing an integrated macroeconomic, sectoral, and labour market policy framework that targets employment outcomes spurred by structural and inclusive transformation.

It shows why and how, in an open-economy African context, sectoral and labour market instruments are vital to support macroeconomic goals of full employment (internal balance) and a sustainable current account (external balance) under stable prices (price stability).³ This is because the context of most economies in Africa is one of undiversified and weak supply conditions, resulting in macroeconomic constraints that are "binding" at much lower levels of growth and fiscal policy stimulation than in advanced economies, where supply capacity is more developed. Consequently, inflation, import growth, and government debt tend to increase rapidly in African economies even at modest levels of GDP and spending growth, putting a break on economic and employment growth. Further complicating matters, many African economies have a lack of monetary policy independence (fixed exchange rate), which reduces the number of policy tools they have to achieve internal and external balance.

Another major aspect of weak employment dynamics in African economies arises from shallow labour market institutions. As a result, wage growth is not connected to productivity or profit growth.

The combined effect of this policy and institutional context is that employment generation, both in terms of quantity and quality of jobs, cannot currently be sustained in African economies. GDP growth based on macroeconomic stabilization is not enough. Given these structural constraints, sectoral and labour market instruments become vital tools to integrate into macroeconomic policy regimes. Our pro-employment framework highlights that:

- ▶ The achievement of decent and productive employment growth requires the coordination

³ In Swan internal balance generally is conceived as being stable prices without unemployment – although it may be helpful to separate these concepts.

of, and integration across, macroeconomic, sectoral, and labour market policies under a *comprehensive* employment policy framework.

► Employment goals should be *targeted* directly across government departments, rather than being treated just merely as a residual outcome of GDP growth.

► A macroeconomic framework should do more than stabilize the economy, and benefit from incorporating employment and sectoral objectives into the fiscal and monetary policy framework. Macroeconomic policies can stimulate employment through both short-run demand-side measures and longer-run measures to expand and diversify supply.

► Sectoral diversification policies in Africa cannot be separated from achieving macroeconomic sustainability in the balance of payments (external balance). The diversification of exports helps relax supply-side constraints: these are reflected in employment-inflation

trade-offs, and balance of payments constraints (Thirlwall 1986; 2012). Diversified supply also helps make external financing more sustainable.

► Labour market policies are vital to ensure that gains from productivity are evenly distributed, helping with terms of trade, the reduction of poverty and inequality, and economy-wide linkages from commodity production.

Following these introductory remarks, the first section shows why and how the existing market-centric macroeconomic policy regimes – focused on “stabilization” policies – have failed, and will continue to fail, to generate sustainable employment. We shall then present an alternative pro-employment macroeconomic policy framework, which combines sectoral, macro, and labour market policies – thereby contextualizing our approach within other strands of macroeconomic theory. Subsequently, we shall provide examples and policy tools, which follow on from our framework, before drawing our final conclusions.

► Failure of existing macroeconomic policy frameworks

Africa’s failure to grow sustainably: Commodity dependence and macroeconomic outcomes

Africa has failed to grow sustainably and to produce adequate employment outcomes for its people. Maintaining positive rates of real GDP growth has proved challenging across the continent.

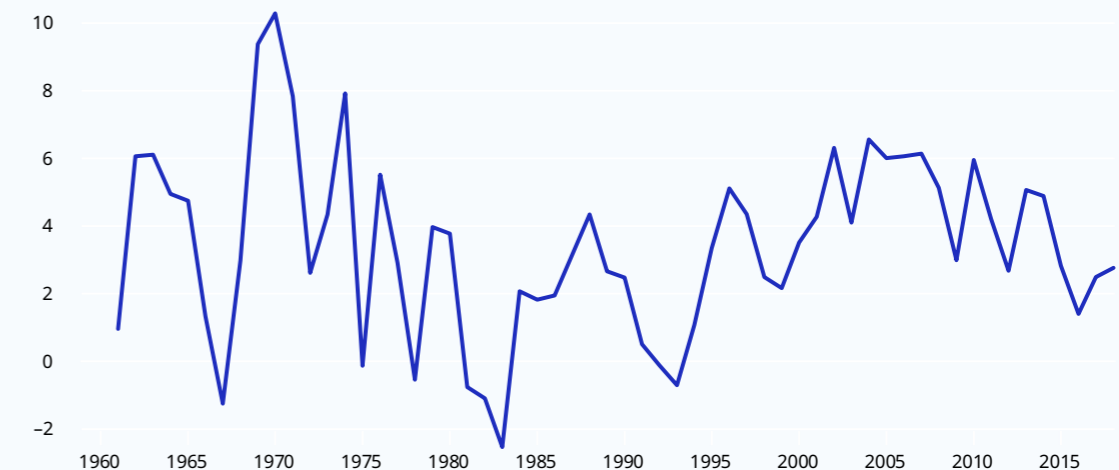
This situation may be attributed, *inter alia*, to high population growth, frequently high levels of inflation, boom–bust financial inflows, pro-cyclical (Leibfritz 2014) government revenue and spending (Ouedraogo and Sourouema 2018; Lledó et al. 2011), and exchange rate volatility. But all of these economic pathologies stem from a common source:

an overarching lack of structural transformation towards higher value-added production. This is underpinned by continued commodity dependence⁴ – with more than three quarters of African countries relying on commodity exports for more than 70 per cent of their total merchandise export revenues (UNCTAD 2022). It is also important to highlight frequent examples of political instability, as well as limited policy coherence and institutional capacity, which all hinder countries’ ability to effectively implement sound economic policies and development plans.

Growth is weaker and more cyclical in resource-dependent economies outside of commodity price “boom” periods. This cyclical and volatility in GDP growth is shown in figure 5.1. It is generally linked causally to the external global commodity price cycle (Page and Tarp 2020).

⁴ Defined as more than 60 per cent of a country’s total merchandise exports being composed of commodities.

► Figure 5.1. Cyclical and volatility GDP growth in sub-Saharan Africa (annual %), 1961–2018



Source: World Bank, *World Development Indicators*, accessed via Google Data Explorer.

Commodity dependence makes internal macroeconomic management difficult, as it is prone to external shocks (Collier 2002) and anchored to global commodity demand. Using policy tools to escape the “boom-bust” economy (Varangis, Akiyama and Mitchell 1995) is central for domestic employment growth to be sustained and enter higher-productivity, higher-wage sectors.

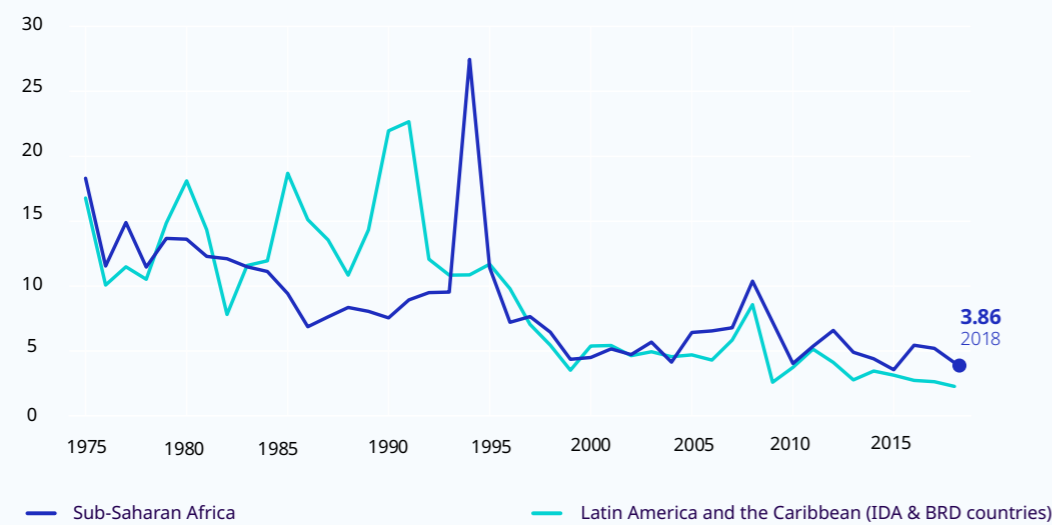
Theoretically, inflation in Africa tends to be initiated by three primary external sources: changes in commodity prices, which acts on domestic demand and exchange rates; shocks to agricultural prices (Nguyen et al. 2017; Aron et al. 2014); and large financial inflows (aid, FDI, banking, and portfolio flows) (Stein and Nissanke 1999; Passari and Rey

2015). These interact with weak domestic supply and absorptive capacity to generate higher prices⁵.

Empirically, inflation increased steadily in sub-Saharan Africa during the 2000s (figure 5.2), as higher global commodity prices saw domestic demand grow and procyclical capital flows enter African economies. Lower commodity prices post-2014 helped to depress demand and inflation (figure 5.2). Africa’s inflation today, however, has entered a more elevated period due, in part, to the war in Ukraine raising food and fuel costs, expected to be 12.2 per cent and 9.6 per cent in 2022 and 2023, respectively – the first time since 2008 that regional average inflation will reach such high levels (Selassie and Kovacs 2022).

⁵ Countries within the CFA franc zone tend to have the lowest inflation in Africa.

► Figure 5.2. High and declining inflation in sub-Saharan Africa, (CPI, annual %), 1975–2018

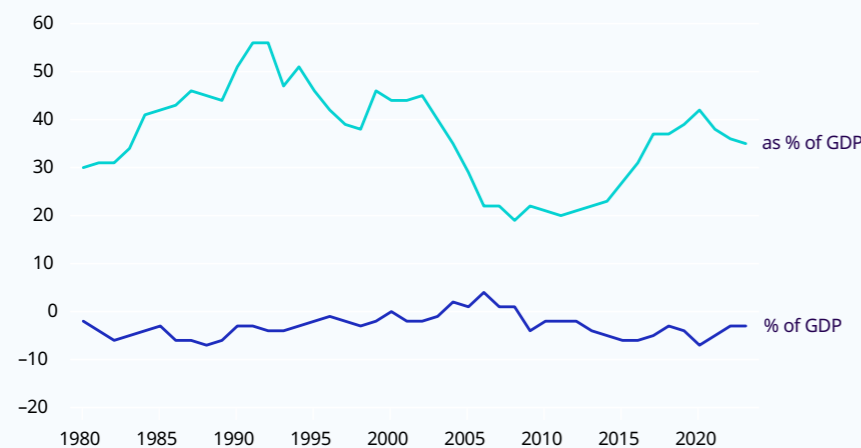


Source: World Bank, *World Development Indicators*, accessed via Google Data Explorer.

Despite relatively austere public investment policies, government fiscal balances and access to foreign exchange in Africa deteriorated after 2008, in line with the slump in global demand and commodity prices. Non-tax revenues fell dramatically, while government spending remained constant – leading to an accumulation of debts through the downswing of the commodity price cycle (AfDB 2019b). In particular, commodity price declines since 2014

saw debt levels rise once again in Africa (figure 5.3, LHS) despite improved fiscal balances (RHS). External debt, as a percentage of GDP, increased in Africa as a whole from 21.5 per cent in 2015 to 37.6 per cent in 2018. Debt levels increased further in 2020 and 2021 during the COVID-19 pandemic – though at more moderate levels than expected due to higher commodity prices, stronger remittance inflows, and suppressed imports.

► Figure 5.3. Fiscal indicators in African countries (% of GDP), 1980–2021



Note: Fiscal balance (RHS), total debt to GDP (LHS).

Source: African Development Bank.

On the revenue side, tax income has been highly cyclical and increasingly regressive.⁶ Studies show that resource-dependent exporters, especially oil exporters, are more likely to have highly procyclical spending and tax policies (Leibfritz 2015). This also stems in part from weak tax linkages to commodity production. Resource tax intake remains low, while revenue from direct taxation (predominately income taxes) have fallen the most, driven by a decline in corporate income taxes as a share of GDP, which fell from 3 per cent in 2010 to 2.8 per cent in 2018 (OECD/AUC/ATAF 2020). In turn, reliance on regressive value-added taxes continued to increase steadily.

Similarly, Africa's current accounts also remain tied to commodity prices and have deteriorated since 2008, falling to -7.3 per cent of GDP in 2016 and -2.4 per cent in 2021 (AfDB 2019b; AfDB 2022). The COVID-19 pandemic, however, changed all this, as exports grew amid higher commodity prices and imports fell amid domestic demand suppression. There is a strong link between a country's export composition and its long-run current account balance, indicating that countries with more diversified export compositions tend to have fewer negative current account balances in the long term (AfDB 2019b; AfDB 2022).

Africa's inability to grow sustainably is exemplified by its employment outcomes. Strong economic growth since 2002 resulted in only a modest improvement in employment dynamics, limited by massive growth in the labour force and a lack of higher productivity structural transformation (Rodrik 2018). Most growth has occurred in services, which are often characterized by low productivity. In 2018 approximately one third of workers remained in extreme poverty, despite some important gains made over the last decade; a further 22 per cent were moderately poor (ILOSTAT 2023).

Most employment in Africa is in precarious, informal, and low productivity work. The African region has the highest level of informal employment at 86 per cent (ILO 2018a). Women are more exposed to informal employment in over 90 per cent of sub-Saharan African countries, with a gender wage gap of 13 percentage points (ILO 2018a). Since 2002, own-account (largely informal) workers as a percentage of total employment have remained

unchanged in Africa at around 47 per cent of total employed workers (ILOSTAT 2023). Between 2002 and 2017, labour force participation rates for people aged 15 to 64 declined, from 66.3 to 64.8 per cent. For women, participation rates are lower than for men, at 56 per cent in 2017, and have remained roughly constant since 2002. Moreover, Africa's population is expected to double by 2050, increasing pressure to ensure job-rich growth to keep up with the large flow of new labour market entrants.

Employment outcomes are strongly shaped by commodity dependence. Despite their high share in exports, the mining and energy sectors make only a small contribution to employment: in low- and lower-middle-income African countries they account for less than 2 per cent of total employment (ILOSTAT 2023), indicating their limited capacity for employment generation. In contrast, countries with higher manufacturing exports have much lower levels of vulnerable employment, and higher shares of (more stable) wage employment. Similarly, commodity dependence makes working poverty rates and wage growth vulnerable to downturns in commodity cycles (UNCTAD 2019b; ILOSTAT 2019), as seen by the 5 per cent shrink in real wages between 2015 and 2017.

Economic activity in Africa was further constrained by COVID-19, with a real GDP contraction of 1.9 per cent in 2020. It is estimated that the pandemic resulted in a deficit of 15 million jobs in Africa. An estimated 5 million African workers entered extreme poverty (an increase of 1.3 percentage points) (ILO 2022b) – the first time in over two decades that working poverty in Africa has increased. In Africa, the African Development Bank (AfDB) reports that the crisis has had a disproportionate impact on vulnerable groups such as women, youth, and low-skilled informal sector workers. Those with lower levels of education, few assets, and working in informal jobs have been the most affected (AfDB 2019a).

The external positions of African countries have, however, experienced mixed impacts from COVID-19 over time and between countries, given the uneven impacts on commodity prices, the increased regionalization of trade resulting from the pandemic, and high inflows of remittances (Rosenberg et al. 2021). Angola and Nigeria are benefiting greatly from current elevated oil prices, for example. The

⁶ Although subsidies and transfers are mostly equalizing, inequality-induced tax regressivity is a common phenomenon, where most countries with a revenue-to-GDP ratio of 20 per cent and above have Gini coefficients of 0.5 or more.

World Bank forecast for 2022 that resource-rich countries, and especially their extractive sectors, would see improved economic performance due to the war in Ukraine, while non-resource rich countries would experience a deceleration in economic activity (World Bank 2022). War, however, also translates into higher food and energy inflation for most African countries – which was increasing even before the pandemic (Choi 2021).

This section has highlighted how African economies are grappling with problems related to their internal and external imbalances – underemployment and excessive current account deficits. These may be partly attributed to the prevailing macroeconomic orthodoxy detailed below, which allows for only a limited set of policy tools and dismisses employment generation as an overt objective of macroeconomic policy. This is precisely the approach that the framework proposed below offers an alternative to, thereby providing an avenue out of “jobless growth”.

Macroeconomic policy context

Poor macroeconomic outcomes have occurred in the context of decades of macroeconomic policy, which has been limited to achieving “macroeconomic stability”. Macroeconomic policymakers have argued that market integration, as well as the ability of prices for goods and services to adjust within the market – with little or no intervention – was the best way to arrive at the optimal level of macroeconomic “aggregates”, including employment. As a result, policy has focused predominantly on price stability, low or moderate debt and deficits, economic prices, and specific market-centric labour and capital market regulatory regimes.

This stabilization-orientated policy approach has dominated African economies since the structural adjustment programmes (SAPs) of the 1980s and 1990s, which were driven by the International Monetary Fund (IMF) and implemented in the wake of the collapse in commodity prices and Africa’s surging debt crisis (Strauss, 2016). These SAPs sought to liberalize the state-led and highly protected (and protectionist) economies of Africa, and included the privatization of public sector companies, the elimination of subsidies, fiscal surpluses, free capital flows, low tariffs, and limitations on the scope of monetary policy (Fine 2003).

A “lost-decade” of poor economic growth ensued, with GDP per capita growth rates falling to near zero in Africa from the early 1980s (Strauss 2016, figures 10 and 11). Nigeria, for example, went from being classified by the World Bank as a middle-income country in 1978 to a low-income country by 1989 (Kaplan 2012). Between 1960 and 1985, life expectancy in sub-Saharan Africa increased from 40 years to 49.5 years. However, the following 15 years (1985–2000) saw no improvement in life expectancy as debt service costs and liberalization policies took priority over healthcare, education, and investment spending (Easterly 2001; Vreeland 2002). By 2000, Africa’s real GDP per capita was 20 per cent below its 1980 level (Strauss 2016, Figures 10 and 11). In 2015, GDP per capita levels in Madagascar and the Republic of the Congo were similar to those of 80–90 years before, while those of Zambia and Zimbabwe are only marginally better. Similarly, Nigeria’s GDP per capita was higher in 1970 than in 2003 (Milanovic 2016). This is because until 2000 Africa was burdened by debt and the collapse of the commodity cycle. In contrast, rich countries fared well during this period, growing by about 2 per cent per year, so that by 2000 their GDP per capita was 50 per cent higher than in 1980 (Strauss 2016).

From a macroeconomic standpoint, the policies implemented in Africa during the period of SAP were a failure: growth collapsed and resulted in a decline in debt service capacity. By 1990, even with reduced levels of debt service, debt still accounted for 28 per cent of sub-Saharan Africa export earnings (Mistry 1992). Proper debt relief only began with the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative of 1999, jointly administered by the World Bank and IMF – but it still required structural adjustment. Debt relief was accelerated further in 2005 through the Multilateral Debt Relief Initiative. Before the HIPC Initiative, eligible countries were, on average, spending slightly more on debt service than on health and education combined.

The macroeconomic policies implemented under the SAPs also served to aggravate vulnerability to shocks. Unlike the rest of the world, sub-Saharan Africa experienced two inflation peaks: in the 1970s along with the rest of the world; and in the early 1990s with a uniquely high inflation peak of 25 per cent amid extreme liberalization attempts (Strauss 2016).

A deflationary and contractionary approach to macroeconomic policy persisted well beyond the

SAPs and into the 2000s. In the period between the global financial crisis and the pandemic, contractionary fiscal policies to reduce debt balances were being implemented in over a dozen African countries receiving IMF external financing support – despite their often negative impact on long-term growth potential (Sibeko 2019). This situation has been aggravated by COVID-19-pandemic response loan conditionalities, with IMF agreements with 32 African countries containing fiscal consolidation recommendations or conditionalities. In 2021 the IMF was advising 13 sub-Saharan African countries to cut their public sector wage bill and even to increase (regressive) value-added tax (Oxfam 2021).

These policy prescriptions follow from the IMF’s approach to (macro)economic stabilization called “financial programming”,⁷ which “focus[es] primarily on containing aggregate demand and adjusting relative prices and [has] the advantage of taking effect relatively quickly” (Karlik et al. 1996). This approach came to be known as “shock-therapy” (Klein 2007). Although a failure, such financial programming models continued to be used in one form or another (Fine 2006).

Monetary policy context

Historically, and at present, African countries have limited monetary policy independence, with most prioritizing capital account liberalization and exchange rate stability, and/or limiting inflation.

The majority of countries have adopted fixed exchange rates (figure 5.4)⁸ to deal with high degrees of external price shocks (food and commodities) (Nguyen et al. 2015) and vulnerability to sudden stops in financial flows.⁹ This, however, comes at the cost of limiting monetary policy flexibility and consequently making countries more reliant on other

7 For a discussion see Mikkelsen (1998) and Easterly (2002).

8 Our categorization largely follows definitions in Kokenyne et al. (2009)

9 According to the IMF’s de facto exchange rate classifications of 53 African countries in 2018, only 9 countries (17 per cent) had floating arrangements (the criterion for a float is that the exchange rate is largely market-determined) while around 38 countries (72 per cent) had various forms of fixed, or non-market determined, exchange rates. The latter includes countries with softer pegs such that, in practice, the exchange rate is “not largely market determined”. Six countries were considered to be “other” by the IMF either because not enough information was available on them or because they use multiple indicators when setting monetary policy.

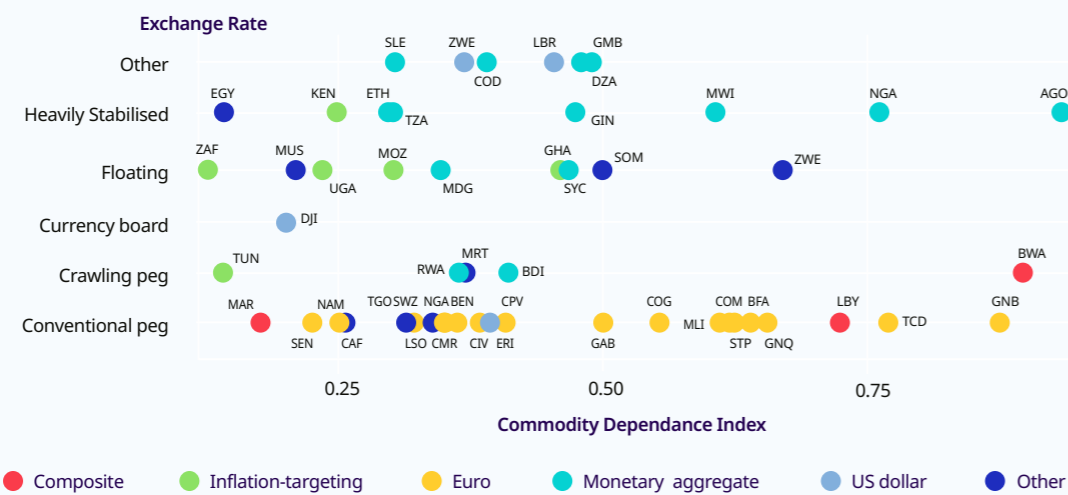


policy mechanisms for adjustment. At present, six Central African and eight West African economies are tied to the CFA Franc Zone. For these countries, IMF financial programming models based on changes in the money supply have less relevance. Some evidence indicates that sub-Saharan African countries with pegged exchange rate regimes have generally experienced slower growth since around 2000 (IMF 2016). This observation is, however, not definitive since comparatively richer economies in Africa are more likely to adopt flexible exchange rates (South African Reserve Bank 2016), including inflation-targeting regimes. These regimes adopt a

very limited mandate – focused exclusively on price stability – and target short-term interest rates operationally. Pegs also tend to be more common among more commodity-dependent economies subject to strong cyclical fluctuations in financial flows, while floating tends to be used by more diversified producers.

Current foreign exchange rate regimes in Africa are largely an outgrowth of severe monetary instability in the 1980s, when monetization of debt was common and went hand in hand with interest rates being fixed at low values (“financial repression”). This resulted in high inflation and real exchange rates being overvalued and fixed (Berg et al. 2014).

► Figure 5.4. Exchange rate and monetary regimes in Africa by degree of commodity dependence



Note: Tunisia, Kenya, and Mozambique are listed here as “inflation-targeting” even though they have only taken some steps towards moving over to this policy. The colour of the bubbles correspond to different monetary regimes: “Composite” is a mixed currency peg; “Monetary aggregate” means the monetary authority targets a growth rate for a monetary aggregate, which becomes the nominal anchor or target of monetary policy.

Source: Authors based on classifications and data from the IMF (2019).

Although monetary reforms were necessary, their applicability to the African context remains partial at best. According to leading IMF researchers (Kokenyne et al. 2009), the central banks that emerged from two decades of economic reform in Africa pursue conventional objectives in unconventional environments. More specifically, the researchers highlight three specific shortcomings of monetary policy as practised in most African economies.

First, those which practise managed floating exchange rates may be forced to move their interest rates in line with the global financial and credit cycle – led by United States interest rate movements (Rey 2015; Edwards 2015). This limits actual monetary policy freedom in practice and requires managing the capital account to limit the transmission of global monetary policy on monetary aggregates locally.

Second, the monetary frameworks are not adjusted to the largely supply-side shocks which govern prices

in African economies. The same IMF researchers (Berg et al. 2014) note that domestic supply shocks play a prominent role in macroeconomic fluctuations [in Africa], as do global food and export prices, remittances, and foreign aid. [...] and that SSA lacks a comprehensive analytic framework for thinking about the impact of shocks on inflation and the role of policy in offsetting them. Evidence shows that inflation in sub-Saharan Africa is responsive to changes in domestic demand, agricultural prices due to climatic change, and commodity prices (exchange rate) (Nguyen et al. 2017).

Third, to limit inflation most African countries target “monetary aggregates” such as the money supply or credit creation (Berg et al. 2014). The money supply is believed to be one of the few variables that “authorities could control” (Polak 1997) to limit inflation and current account deficits. This is a vestige of IMF financial programming models. This approach tries to limit inflation by suppressing spending (Polak 2001), with the assumption that there is a strong link between domestic demand and credit creation. Yet empirical evidence on this relationship for Africa is weak at best. The observed relationship between money growth and inflation has weakened during the past decade across Africa, making monetary aggregates less useful as intermediate objectives (at least in countries with lower levels of inflation) (Berg et al. 2014).

All this indicates the need for a monetary policy framework to be adapted to Africa’s specific structural characteristics and policy issues. These structural characteristics expose prices and employment to large exogenous food and commodity price shocks. Aiming to anchor inflation expectations in this environment, as the primary goal of monetary policy, is inappropriate. This situation is compounded by the weak monetary policy transmission mechanisms on the continent, making traditional tools often ineffective. As a result, IMF researchers recommend that changes be made to existing monetary frameworks in Africa (Berg et al. 2014).

It is necessary to develop an independent appropriate framework to ascertain how to respond to exogenous shocks, bringing together fiscal, monetary, and sectoral policies. This allows for a more diverse set of both tools and targets. Within Africa’s monetary policy regimes, employment targets do

not feature, either directly (Epstein 2007) or indirectly through dual employment-inflation mandates, as is the case with the United States Federal Reserve’s interest rate targeting regime.

Fiscal policy context

Historically, fiscal policy in Africa has tended to focus on its stabilization function, rather than distributional or allocational efficiency (Musgrave and Peacock 1958); but this is increasingly changing. Fiscal stabilization itself – using aggregate demand management to smoothen the business cycle – was historically limited, as it focused on deficit reduction rather than counter-cyclical stabilization. This may be attributed to the fact that the IMF’s financial programming model saw excessive fiscal policy as causing monetary excesses, creating unsustainable increases in the balance of payments.¹⁰ Economic models are now more open to counter-cyclical fiscal policy, especially for productivity-enhancing infrastructure spending (Lin 2011).

With the 2008 global financial crisis, and especially with the impact of COVID-19, the global North austerity consensus on fiscal policy has changed (IMF 2020): against a one-sided reliance on monetary policy, against government’s neutral allocational role, and in favour of direct cash transfer policies – especially to poorer households. Governments in advanced economies are now using fiscal policy to favour certain sectors in an attempt to make supply chains more robust, and to deal with the competitive advantage of China’s State-supported innovation model. This has created a growing overlap between industrial policy and national security interests, with specific sectors and resources deemed essential to have domestic capabilities and supply (Tooze 2020).

This more robust fiscal approach has not yet taken root in Africa. Although 45 African governments announced some form of fiscal stimulus in response to the pandemic, this has, for the most part, accounted for a small percentage of GDP – except in the high-income countries of Mauritius and the Seychelles (IMF 2021). Fourteen out of 16 West African countries intend cutting their national budgets by a combined US\$ 26.8 billion over the next five years in an effort to partially plug the US\$ 48.7 billion lost in 2020 alone across the entire

¹⁰ Because monetary and fiscal policies are linked – the banking system often provides net financing to the public sector – fiscal restraint may be a prerequisite for limiting the growth of monetary aggregates.

region due to the pandemic (Oxfam 2021b). This has been reinforced by COVID-19 pandemic response loan conditionalities: IMF agreements with 32 African countries contain fiscal consolidation recommendations or conditionalities. The question therefore remains unclear as to how this new fiscal consensus should apply to Africa, given its much weaker fiscal resources, its inability to monetize debt and its weaker institutional framework – all of which are compounded by austerity-driving loan conditionalities.

The central challenge is that Africa's fiscal position currently relies on the global commodity price cycle. This makes any fiscal planning framework reliant on commodity price projections for state revenue, growth, and spending projections. In practice, commodity prices are rarely incorporated adequately into fiscal frameworks in Africa – either on the revenue or the expenditure side. In part this reflects difficulty in forecasting, but also a theoretical negligence – including in IMF frameworks (IMF 2019b). Pro-cyclical fiscal policy has also resulted from the so-called “Dutch Disease” effects, when commodity booms have generated large windfalls for commodity-dependent economies. However, these have often been mismanaged, thus leaving little room for fiscal stimulus in times of economic downturns.

Avoiding pro-cyclicality in fiscal positions therefore requires long-term macroeconomic planning, which aims at diversifying production out of a narrow set of commodities. This highlights the importance of bringing sectoral policies on board in macroeconomic planning and allocations.

Although fiscal planning is becoming more common in Africa, it is often to the detriment of employment outcomes and sectoral diversification. The focus has overwhelmingly (or exclusively) been on the need to contain spending, thereby failing to adequately incorporate allocational goals of sectoral (export) diversification and prioritization. Part of this planning has seen the adoption of fiscal rules. More than a third of African countries are currently committed to such rules, yet this often reinforces pro-cyclicality. Employment outcomes invariably suffer as a result.

Limited emphasis in fiscal analysis is given to distributional questions, with most policies favouring

growth and ignoring any possible strong interactions between growth, distribution, and inequality. Part of the issue is how to incorporate informal households and the low productivity agricultural sector in fiscal considerations. Between 1990 and 2013, fiscal progressivity declined in 29 African countries for which data are available (Bhorat et al. 2017).

Automatic stabilizers (Gagnon and Hinterschweiger 2011) (such as unemployment benefits and other social protection measures), which have proven to be very successful in stabilizing output, are almost never utilized in African economies – leading to greater volatility in GDP and employment. They are often thought of as being within the realm of labour market and social protection policies, reliant on labour and social security ministries to spearhead policy discussions, while Treasuries decide if finances are available for such measures. In practice though, their impacts are macroeconomic and rely on labour and macro ministries working together. Fiscal obligations often exclude automatic stabilizers such as unemployment insurance since formal employment constitutes only a small portion of the labour market. A study in 2018 found that fiscal expenditure for such passive labour market policies is negligible or basically inexistent in sub-Saharan Africa, while spending on active labour market policies accounts for less than 0.2 per cent of GDP (Pignattie and van Belle 2018). Overall public expenditure on social protection (excluding health) in Africa was estimated at only 3.8 per cent of GDP in 2020 (ILO 2021).

A major problem in Africa's fiscal frameworks remains the composition of spending. Spending is often intensive in consumption, with limited productive investments, and low expenditure on social protection and other distributional measures. Although, prior to COVID-19, investment rates increased across the continent, they generally remained insufficient. Public investment rates tend to be below private rates and insufficient to drive development (Van Ginneken et al. 2011; Barhoumi et al. 2018). Furthermore, a considerable share of public investments in many African economies is earmarked for supporting enclave commodity extraction.

► A pro-employment macroeconomic framework

Theoretical basis

We argue for deploying policy tools to stabilize employment concurrently in the short term in order to achieve “internal balance” (“full” employment with price stability) (Krugman et al. 2018), while expanding supply capacity (production) in the long term to achieve “external balance” (a sustainable balance of payments). A key implication of this is that domestic employment goals cannot be considered in isolation from external balance goals, i.e. a sustainable balance of payments. We nonetheless go beyond the traditional application of Keynesian open-economy macroeconomics (Davidson 2015; Temin and Vines 2014; Temin and Vines 2015), paying specific attention to the African context, where different tools and a different diagnosis are needed to address internal and external imbalances in African economies. This framework consists of the following elements.

First, exchange rate adjustments are traditionally the first option that countries select to achieve external balance, implying that exchange rate depreciations are used to balance the current account (and redirect spending away from domestic goods) (Swan 1963). However, as described above, most African countries have fixed exchange rates or limited monetary policy independence. Even if this were not the case, the exchange rate can only serve its role as an expenditure-switching device – with depreciations switching expenditure from imports to domestic production. But this is contingent upon a diversified and competitive domestic production capacity (Davidson 2015), so that a depreciation allows domestic firms to replace imports and increase exports. This is rarely the case for Africa's economies. As a result, other (non-exchange rate) adjustment mechanisms are needed to achieve internal balance in the short run, such as capital controls and import restrictions.

Second, following on from this, an effective use of fiscal policy – and especially its allocational role between sectors and geographies – becomes increasingly important under regimes with a fixed exchange rate or limited monetary policy independence (Krugman et al. 2018). This particularly applies to African countries, where supply is underdeveloped.

Third, unlike traditional approaches where demand and price adjustments are assumed to achieve full employment, supply in the African context is constrained by a lack of structural transformation. This limits a country's ability to concurrently achieve full employment (internal balance) and a sustainable current account (external balance). Sectoral policies therefore become pivotal policy tools required to alleviate macroeconomic constraints arising from a low inflation tolerance and a high propensity to import – and in turn have an impact on the balance of payments constraint.

Fourth, it is usually assumed that a single policy tool is sufficient to target a single policy goal. In practice, however, more than one tool may be helpful – especially because policy targets often implicitly combine several goals. For example, internal balance is usually defined as full employment *at price stability*. An inflation-employment trade-off (Phillips Curve relation) is usually assumed and targeted by central banks. In practice though, it is useful to break-down the internal balance objective into two separate targets – a price stability target and full employment target – to allow for more than one tool to achieve these targets. Policy can then work to improve the flexibility of this Phillips Curve relationship, allowing for increased employment and lower or stable inflation (that is, to “flatten the curve”) (Occhino 2019). Global integration and innovation have had a considerable impact on flattening this trade-off in advanced economies, for example – until COVID-19 saw supply-side bottlenecks become pervasive. In the African context, sectoral policies have a vital role to play in helping relax (that is, flatten) this relationship.

Fifth, labour market policies and institutional reforms are ignored within the appropriate policy mix to achieve external and internal balance. These nonetheless have a vital role to play in reallocating demand internally – between wages and profits, and between investment and consumption. For example, minimum wages create new aggregate demand floors and levers to promote productivity-enhancing investments (Vogel 1991). Indeed, higher wages have historically played an important part in creating incentives for firms to upgrade their value-added and productivity. Labour market

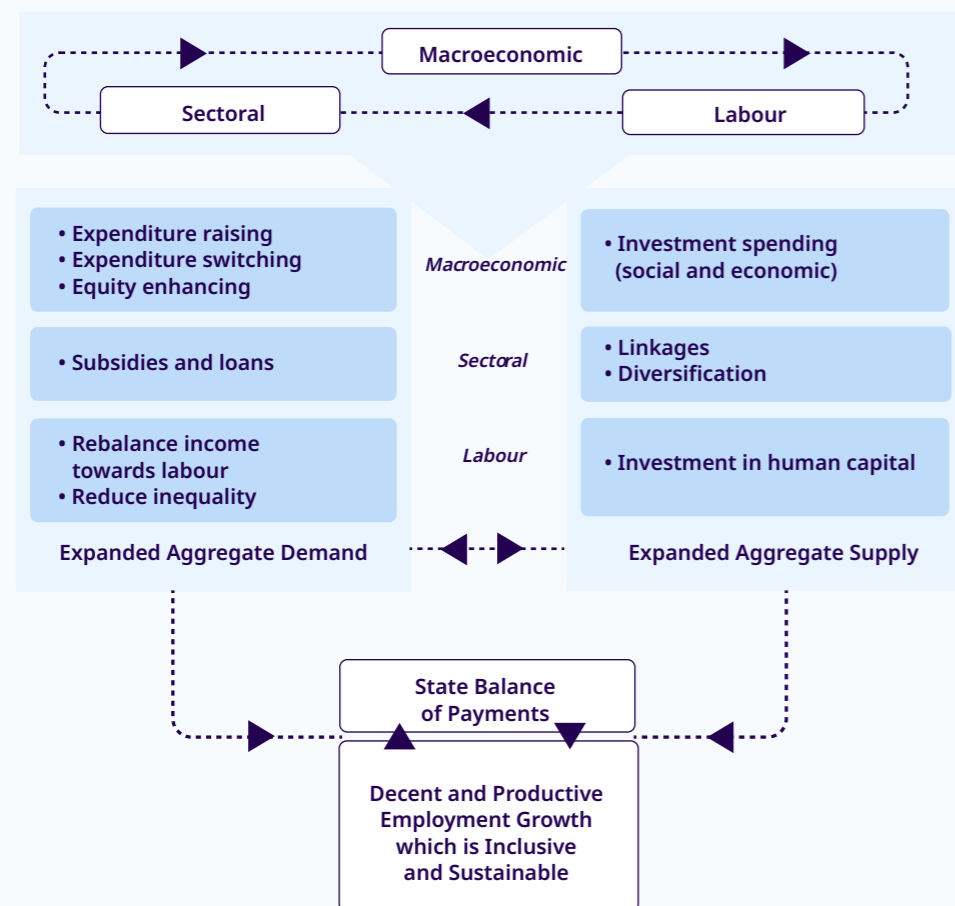
policies, as well as social protection policies and formalization strategies, can also help to protect and include vulnerable groups as transitions unfold, and to improve terms of trade for large exporters of commodities.¹¹

A pro-employment macroeconomic policy framework

The five elements listed above may be achieved if macroeconomic policies are embedded within a

broader policymaking framework, which aims for structural and employment transformation. Labour market and sectoral policy tools are needed to help unlock constraints in Africa's macroeconomic environment and achieve better employment outcomes. The mutually reinforcing nature of macroeconomic, sectoral, and labour market policies, and a number of tools that may be deployed to achieve internal and external balance, are summarized in figure 5.5.

► Figure 5.5. A pro-employment macroeconomic approach



Source: The authors.

11 Weaker relative labour market institutions in the global South were central to Prebisch and Singer's argument of declining commodity terms of trade (Singer 1950).

This is both a short-run and long-run framework, both of which are needed to improve an economy's employment-generating capacity. In a nutshell, demand is considered to govern the short run, and supply the long run. Our framework looks to expand the set of tools used to achieve both by focusing on sectoral supply transformation.

In the short run, aggregate demand works to increase the level of employment by changing the level and composition of expenditures. Supporting aggregate demand to increase employment sustains growing consumption and demand for investment goods, thereby allowing firms to grow through achieving economies of scale. Extensions in the size of the market can lead to sustained productivity growth within firms and the economy, particularly if most of the additional expenditure is incurred domestically. There is a larger policy toolkit for increasing aggregate demand is commonly portrayed, and this will be discussed later in the text.

In the long run, a sustainable current account can only be achieved through structural transformation that diversifies and expands domestic production. This should enable domestic supply to absorb domestic demand, thereby reducing import leakages, supporting greater export diversification, and achieving more positive terms of trade. Aggregate supply measures, as outlined below, work to remove bottlenecks and capacity constraints in the economy and can generate future conditions for decent and productive employment. If designed and implemented correctly, these demand- and supply-side policies positively reinforce each other.

► Box 5.1. China's pro-employment law

China has integrated pro-employment policymaking (ILO 2017) at various levels, including passing employment promotion laws (PRC 2007), and integrating employment targets into national and local legislation and budgets (ILO 2014). Such policies are relevant for all countries regardless of size. Sectoral policies, exchange rate and financial management, attracting FDI, promoting specific skills acquisition and university training, and selective trade integration – were all used to upgrade productive capabilities and radically transform labour markets.

Sources: ILO 2017; PRC 2007; ILO 2014.

Fiscal policies

Undeveloped supply has made policymakers cautious of expansionary fiscal policies, since increased spending tends to fuel higher prices or imports, worsening a current account deficit. However, several non-exchange rate methods may be used in conjunction with expansionary fiscal policy to try and ensure that domestic employment growth is still possible without placing undue pressure on the balance of payments or prices. These include:

► **Expenditure-raising policies:** levels of government spending; revenue mobilization; composition of government spending (consumption versus investment); spending which impacts the distribution of income; and income policies, such as tax breaks or government transfers.

► **Expenditure-switching policies:** exchange rate management; multiple and dual exchange rates; import and export taxes and quotas to discourage imports and encourage exports, either targeted (focusing on particular products or sectors) or general; and capital controls and interest rate mechanisms to attract, repel, or direct capital flows.

All this highlights the need to use more than one tool per policy target. Policy tools should also be less "blunt" in their impact, thus avoiding unnecessary harm to the labour market.

For example, dealing with a supply-side inflation shock by just raising interest rates is a very blunt tool, but many countries still do this. Advanced economies increasingly prefer to use multiple tools to try to mitigate their blunt force impact on firms and households. For instance, during the 2022 energy shock in Europe, prior to any interest rate changes the German government announced measures to cushion the impact of inflation, including a cut in fuel duty, greatly discounted train tickets, and one-off payments to taxpayers and recipients of social protection benefits (Arnold 2022).

Africa's monetary policy approach fails to use a multiple-instrument framework to achieve its inflation targets, potentially locking in higher rates of unemployment for a given level of inflation (Michl 2008). Indeed, higher levels of interest rates would be required if these were the only tool used to restrain prices. This points to the previously mentioned

ideological limitations, as well as to potential capacity constraints in policymaking as a whole.

More specific pro-employment fiscal policies might include:

- ▶ Providing five- and ten-year fiscal planning, which includes realistic commodity price forecasting, prioritizes sectoral transformation, assesses investment gaps, and redirects expenditure away from recurrent needs (consumption) and towards investment spending (using locally sourced inputs). Such planning also requires a constant adjustment of commodity price forecasts.¹²

- ▶ Introducing counter-cyclical aggregate demand management. Most African countries remain pro-cyclical in their fiscal frameworks driven by the commodity price cycle and political imperatives.

- ▶ Avoiding a balanced budget “austerity dogma” as the principal (legal) framework that governs fiscal budgetary management. Fiscal balances may still require primary surpluses but should also be determined by broader pro-employment objectives of employment upgrading and structural changes. IMF austerity policies tend to underestimate negative multiplier effects, according to their own internal policy evaluations (IMF 2019b). Instead, the fiscal framework must recognize that counter-cyclical fiscal policy is important during crises and depressions, and that fiscal policy has important allocational and distributional roles in addition to its role of stabilizing demand during the business cycle (Musgrave 1959).

- ▶ Implementing and enhancing automatic stabilizers, through well-designed unemployment insurance and other social protection systems, as well as progressive taxation. This helps ensure that fiscal policy is more progressive, counter-cyclical, and equitable¹³

- ▶ Enhancing social spending, which can have high employment multipliers (especially during a recession) (Mittnik and Semmler 2012),

since lower-income households have a high marginal propensity to consume – including on domestically produced goods and services. Social spending should be balanced against capital upgrading and expenditure needs (Serrato and Wingender 2016; Brinca et al. 2016).

- ▶ Ensuring fiscal and sectoral policies are aligned through national planning commissions and structures. Fiscal management should be developed in conjunction with an overarching, non-neutral, policy outlook. National treasuries should not be divorced in their planning and allocations from national development planning and priorities, ministries of trade and industry, and a broader national employment policy framework.

- ▶ Regularly evaluating fiscal spending and its impact on employment, aiming for high employment multipliers. Avoiding inefficient support for State-owned enterprises which are capital-intensive and do not advance wider employment and structural transformation objectives (For example, South Africa’s Treasury support for South African Airways).

Many of the above policy approaches will require substantial institutional support structures and reforms, that allow for constant policy review and advise on necessary policy adjustments in line with changing fundamentals (such as commodity price developments). Such structures should rely on tripartite review mechanisms to ensure that policies meet the need of the private sector and civil society.

Monetary policy and financing

As discussed previously, monetary policy should also incorporate employment and developmental objectives beyond price stabilization. In traditional monetary policy models, employment and prices exist as a trade-off through the Phillips Curve. Yet the weighing of these sometimes-competing objectives can be achieved differently depending on the respective national contexts and priorities. For instance, tolerating 1 per cent higher inflation might be a worthy objective if it can help foster considerably higher job growth.

In the long run, however, we see no trade-off, assuming that productivity growth and innovation drive prices lower and employment higher. This highlights the importance of monetary policy in fostering investment growth to support the flattening of this trade-off.

Finally, especially in Africa, inflation is usually caused by an exogenous supply shock that raises the domestic price of agricultural products or energy. Many central banks in advanced economies hesitate to respond to such supply shocks by raising interest rates, unless they believe that they considerably disrupt domestic prices and price expectations. For the African context, no models exist on how to respond to these supply-side shocks.

Following on from this, a number of specific policies in the monetary context might work to advance pro-employment policymaking. These include:

- ▶ Dual central bank mandates (targeting both inflation and employment, as in the United States), rather than the widespread inflation targeting regimes. Inflation targeting has had mixed success, potentially with negative long-term employment impacts¹⁴ – especially when inflation is predominately imported (as in South Africa), inflation expectations are not affected by supply shocks, and interest rates respond to those shocks (Kantor 2016). Inflation targeting risks locking in high unemployment (Michl 2008). This outcome seems to have occurred in South Africa and parts of the eurozone.

- ▶ The adaptation of monetary frameworks for the African context – as recommended by leading IMF researchers (Berg et al. 2014) – where inflationary conditions are often driven by supply shocks from commodities and food, or from exchange rate volatility, over which interest rates have little control.

- ▶ Measures to create certainty that exchange rate pegs are adjusted regularly to avoid currency overvaluation.¹⁵

- ▶ Sterilization policies which are not overly contractionary to the money supply¹⁶ or too costly.

- ▶ Development financing / banks: successful sectoral support can be helped by a one-off budget allocation which involves establishing a fiscally separate state development financing bank. This helps circumvent a weak private sector financial sector (Macfarlane and Mazzucato 2018). Japan, China, and a number of South Asian developing economies make use of publicly owned banks for improved long-term capital allocation and risk mitigation. Alternatively, such financing could be provided to the development bank at preferential rates by the country’s reserve bank and forwarded to priority sectors, once again indicating the importance of integrating macroeconomic and sectoral policies.

▶ Box 5.2. Uganda fails to achieve employment targets as macroeconomic policy remains “neutral”

In the wake of the global financial crisis of 2008, Uganda’s macroeconomic policy stance continued – despite several opportunities to the contrary – to be driven by imperatives of stability and liberalization, including fiscal consolidation, inflation targeting through high interest rates, flexible exchange rates and capital account openness. The unabated lack of structural transformation and the economy’s inability to absorb the quickly growing labour force were persistent outcomes that led, in turn, to widespread informality, stunted productivity levels, underemployment and working poverty.

¹² Ignoring this factor results in the IMF persistently having significant errors in their budget forecasts for developing economies (IMF 2019b).

¹³ For discussion see Baunsgaard, Symansky and Cottarelli (2009), Debrun and Kapoor (2010), and Berg et al. (2009).

¹⁴ For criticisms, see Friedman (2004) and Walsh (2009).

¹⁵ For discussion in the context of Botswana, see Delechat and Gaertner (2008), and IMF (2006).

¹⁶ In relation to the European Central Bank, see Smith (2012).

► **Box 5.2 (cont'd)**

Since then, the Ugandan Government has launched a series of national development plans (NDPs), which increasingly recognize and emphasize the direct importance of employment creation through transformation for development and poverty reduction. Unfortunately any resulting interventions have been piecemeal, ad hoc, under-funded and poorly implemented, and – worst of all – have not been embedded in a wider framework that integrates and rallies key policy areas behind the unifying target of structural transformation. This has laid bare an inner contradiction between, on the one hand, the widespread glorification of the private sector as the driver of growth in the country, and, on the other, a failure to identify and address the concrete bottlenecks and support needs to release private investment in key transformative sectors. The complex political economy in the country has therefore created a situation in which – despite laudable announcements contained in the NDP – short-term macrofinancial priorities have dominated longer-term imperatives of growth and structural transformation; and this state of affairs has been exacerbated by the ad hoc and fragmented nature of many policy initiatives.

As a result, Uganda has stuck to its preference – still influenced by the country's relationship with international financial institutions since the country's participation in SAPs – for liberal market-led private sector mechanisms to foster growth and transformation, without sufficiently appreciating the intricate role the State has to play to ensure that the private sector develops along such a path. Efforts to promote (decent) employment have therefore remained fundamentally hampered by the Government's preference and the distinct lack of an integrated transformative macroeconomic framework.

Sources: Van Waeyenberge and Bargawi (2011), and Van Waeyenberge and Bargawi (2018).

Sectoral policies

Sectoral policies aim directly for a compositional shift in employment and output towards higher productivity sectors of the economy, thereby ensuring that employment growth does not rely on a handful of export-orientated commodities. These policies both expand employment and diversify production into more employment-intensive and productive sectors, with higher domestic value-added, which consequently support further demand in the economy. Sectoral policies are not limited to narrowly defined “industrial” policies, since they include all attempts to diversify production of goods and services across agriculture and the minerals sector, manufacturing and services, into higher productivity, higher value-added production.

Employment growth is most sustainable and inclusive when it takes place in sectors that generate employment for diverse sections of the population, including youth, women, and other marginalized groups, and occurs in an environmentally sustainable manner. Sectoral policies should therefore directly target inclusion, while promoting environmental sustainability and a just transition towards

carbon neutral economies. Furthermore, sectoral policies should work in tandem with labour market policies which aim to improve the quality of jobs through minimum working conditions and wages, targeting specific portions of the labour market.

Finally, sectoral policies can also help to support a balanced macroeconomic environment. For example, Africa's low inflation tolerance, in response to internal and external shocks, is largely due to its insufficiently diversified and productive supply capacity. Its tendency to drift towards a current account deficit when commodity prices fall is the result of similar forces. Moreover, the expansion of domestic agriculture can reduce food price inflation pressures. Sectoral policies aimed at structural transformation help to lift these constraints, which act as suffocating breaks on employment generation whenever aggregate demand expands.

More specific pro-employment sectoral policies include:

- Promoting sectors with particularly high employment potential accompanied by higher productivity and value-added production. Identifying these sectors requires careful

research and social dialogue, involving all constituents, to identify value chains that meet domestic capabilities and economic needs and global demand, and achieve local employment targets. Identifying value chains that can serve as the basis for globally competitive productive clusters is vital, including steps needed to build domestic capabilities, attract investment, improve infrastructure and trade facilitation, and enhance quality and price competitiveness.

- Introducing inflation tolerance policies and current account specific policies. Import substitution industrialization – as originally practised – is not sustainable for today's sophisticated global economy, yet there is increasing recognition that economic autonomy in selective imported items should be sought. Key imported items may be targeted for domestic production over time, either as part of a global value chain strategy, as part of a national security strategy, or as part of an inflation targeting strategy. This also includes increased development of domestic and regional food and energy capacity (where possible and profitable).
- Advancing sectoral domestic competitiveness through a careful process of global value chain integration. This can also reduce pressures on the balance of payments. For example, South Africa's automobile industry strategy has seen large imports of car parts. As South Africa looks to upgrade its domestic capabilities this can help reduce the cost of imported items and raise the cost of exported items, thereby improving the balance of payments.
- Actively supporting sectors and value chains that exhibit large employment multipliers due to their potential for creating indirect and induced employment through backward and forward linkages along value chains.
- Introducing policies to foster forward linkages and expand the balance of payments constraint (Strauss, Sibeko and Isaacs 2021, 49–50). Forward linkages occur primarily in the form of mineral or commodity beneficiation (for example, into food or metal processing) and can concurrently work to expand the balance of payments constraint. This includes (IISD 2018):
 - a. Import duties on finished products to temporarily protect and promote local production;
 - b. Subsidies to support local industries, including: transferring funds directly to beneficiaries; assuming financial and other risks for industry; tax breaks and incentives; trade mandates and barriers. Other support may include access to selected capital imports; concessionary loans; transport access/infrastructure; and more;
 - c. Export restrictions and local development. Reserve raw materials for local industries through export taxes, quotas, bans or licensing; dual price mechanisms; and a reduction in VAT rebates on exports. We include here domestic market obligations, whereby mining firms are requested or required to sell a percentage of their proceeds to local manufacturers;
 - d. (Non-automatic) licencing requirements to control ownership structures, the number of firms involved in extraction activities, the type of minerals being extracted and the forms in which minerals should be exported;
 - e. Trade balancing and local content requirements, whereby imports should, over time, represent a progressively smaller proportion of value-added in final exports, in terms of volume or value.

► **Box 5.3. Mauritius's success in exports and employment go hand in hand**

Mauritius has been able to achieve the right pro-employment, sectoral, and labour policy mix, moving the country to a high-income category. This has allowed it to advance employment objectives while concurrently upgrading its infrastructure and industrial capabilities. Since independence, the Mauritian economy has evolved from its primary agricultural base to manufacturing and, more recently, to a service-oriented economy. Financial services, tourism, retail, wholesale, and ICT have become the country's main income earners. Specific reforms include: counter-cyclical fiscal policy management; a budgetary emphasis on investment; well-designed social spending to achieve a higher HDI level; making tertiary education accessible for youth in low-income households; job-rich employment sectoral targeting (such as tourism, clothing, and textiles), as well as more sustainable sectors (for a small country), such as financial and legal services; and attracting higher value-added foreign direct investments.

Source: SADC (2022).

Labour market policies

Although labour market policies are traditionally thought of as direct interventions to benefit workers and businesses or to structure labour markets differently, it is critical to view them not simply as microeconomic policies acting on an isolated labour market, but rather as also having macroeconomic impacts through shaping demand and supply at the aggregate level. In so doing, we place labour market policies within our pro-employment policy-making framework. This acknowledges that labour markets have strong connections to other markets in the economy, through both demand-side and supply-side features. At the level of aggregate demand, labour income is a vital source of purchasing power and consumption expenditure (Palley 1997; Kaldor and Mirrlees 1971). At the level of aggregate supply, labour is a cost of production, but wages are also a key motivating factor at the firm-level, which can drive productivity changes (Stiglitz 1976).

Active labour market policies (ALMPs) aim to keep workers employed, bring them into employment, increase their productivity and earnings, and improve the functioning of labour markets. Expenditure on these programmes usually focuses on: public employment services and administration; training; employment incentives; sheltered and supported employment; direct job creation; start-up incentives; and formalization strategies. Passive labour market policies (PLMPs) refer to public expenditures aiming to provide replacement income to individuals, usually through: unemployment insurance; unemployment assistance; other social protection schemes;

and programmes for early retirement. Beyond these, labour market intermediation measures help bridge the gap between supply and demand in the labour market by promoting more efficient and better quality matching of jobseekers and vacancies (ILO 2020).

In addition, various labour market regulations, such as minimum wages, work to ensure that employment growth produces equitable access to employment opportunities. This occurs when youth, women, rural populations, and all those who want jobs, or who have the least access to employment opportunities, are provided with these opportunities. Such policies also seek to advance a greater representation of workers, both in the informal and formal sectors. In this way, they work not only to enhance the policymaking process but also – with their impact on technology and competition – to impact the long-term trajectory of the economy.

The high degree of informality and fiscal conservatism have shaped ALMPs and PLMPs in Africa. Most African countries tend to spend very little, if anything, on PLMPs, which are usually tied to formal employment. Their expenditure on ALMPs is similar to that of other developing countries, but with a much larger share earmarked for direct job creation.

More specific pro-employment labour market policies include:

► Public employment programmes, which can be very useful in African countries if designed correctly. They serve the dual purpose of creating productive employment, especially for people facing poverty and requiring immediate

support, while at the same time creating important infrastructure that also expands supply capacity (such as improving the road network) or social expenditure that increases human capital (for example, increasing the number of teaching assistants). They also boost demand in local economies upon which poorer households are usually more reliant. In this way, a critical social protection function is combined with economic stimulus. Typical examples include the Expanded Public Works Programme (EPWP) in South Africa, as well as the Productive Safety Net Programme (PSNP) in Ethiopia.

► Wage or employment subsidies that support private sector hiring, often through tax incentives such as the South African Employment Tax Incentive (ETI). These should be used cautiously and designed carefully to suit a given country's context. While such programmes can be powerful, it is vital that they are able to reach the informal economy and not sideline the large number of informal workers and businesses in most African countries. For this reason, public employment programmes are often preferable.

► Formalization strategies, which support a gradual transition of workers and enterprises from the informal to the formal economy. Such strategies must acknowledge that informal employment, while having multiple causes, is often a coping strategy due to a lack of opportunities in the formal economy. Well-designed formalization strategies, which incentive a just transition to formality, can have a considerable effect on the quality of jobs and result in a better distribution of the benefits of growth.

► Public employment services, which play an important role in helping workers enter the job market and stay employed, and facilitate labour market transitions – particularly through processes of structural transformation. If well designed, they also provide up-to-date labour market information not only for jobseekers and employers, but also for policymakers in their quest to shape economic and employment policies. Employment services typically include job search assistance and placement services, counselling, vocational training, and skills development, as well as regulatory services

(including those for the administration of public employment programmes and unemployment benefits).

► Activation measures such as job search assistance, as well as incentives and sanctions such as mandatory participation in training or subsidized employment. These are particularly important against the backdrop of the COVID-19 crisis, which pushed many people not only into unemployment but also economic inactivity. Both public employment services and activation measures can play an important role but are difficult to implement in exceedingly informal contexts. Indeed, they can only be effective in situations where the economy creates sufficient employment opportunities for its (potential) labour force.

► Local employment policies that target employment creation for particular groups. It is crucial that these should be-sector specific (Strauss, Sibeko and Isaacs 2021). Important examples of such policies in African commodity sectors include (IISD 2018):

1. *A requirement to employ a percentage of local staff.* In the petroleum sector in Angola, 70 per cent of the workforce must be Angolan nationals.
2. *Quotas on the numbers of expatriates per job categories.* In Ghana, firms must apply for an immigration quota for expatriates, with the possibility of adjusting the quota in certain circumstances. The share of expatriate staff should not exceed 10 per cent of total senior staff within the first three years and 6 per cent after three years.
3. *Training of staff.* In South Africa, mining companies must invest a percentage of annual payroll in essential skills development activities for historically disadvantaged South Africans.

► Expanding the use of minimum wages, which can also play a vital role, as they contribute towards restructuring macroeconomic relationships and strengthening the link between growth and employment outcomes. In the first instance, this ensures that workers receive a fairer share from production as any surplus from profits is reallocated towards

wages. Over time, these serve to increase the “pie” for everyone as productivity improves, thus providing incentives for employers to invest in their workers and machinery and shift to higher value-added production. In this regard, they interact strongly with sectoral policies. Minimum wages also help alleviate balance of payments constraints if they contribute towards helping reduce outflows of profits while increasing consumption of domestic inputs. In addition, minimum wages have been shown to reduce gender and other wage inequalities. Measures that encourage formalization should take place in tandem to improve compliance with minimum wages and improve the working conditions of workers in the informal sector.

Coordination

Macroeconomic policy orientation should support sectoral and labour market objectives and vice-versa. This requires coordination across ministries, which is frequently inadequate in most countries (see example of Namibia in box 5.4). For instance,

if sectoral policies are aiming to extend credit to particular sectors or types of businesses, it would be counterproductive for monetary policy to be managed in a manner that greatly contracted credit in the economy.

Effective coordination is required at the geographical and ministerial levels, with strong overlaps between these different levels in budget and capital allocations. Geographical coordination must take place at the local/municipal, provincial/state and national levels. Effective coordination also requires harmonization and integration between the ministers of labour, finance, trade, and industry, and even those overseeing monetary policy, to ensure the alignment of fiscal policy and budget allocations, their implementation and monitoring, exchange rate management, trade facilitation, capital incentives, labour market incentives, training, and programmes.

The OECD (2015) shows how the benefits of particular policies may appear in areas monitored by departments other than those that are implementing the policy. Table 5.1 shows some potential policy approaches.

► Box 5.4. (Lack of) coordination of employment policies in Namibia

Namibia adopted its second national employment policy in 2013. The policy was very well formulated, firmly anchored in the objectives of the country's fourth National Development Plan. It included important policy areas as advocated for in this chapter, such as pro-employment macroeconomic policies and agriculture-led industrialization. It also incorporated an implementation framework that mandated inter-ministerial coordination, as well as the establishment of a National Employment Creation Commission (NEEC).

Yet, by the end of the NEP period (2013/14 – 2016/17), an independent evaluation of its implementation found that the NEP's objectives had not been achieved. This was attributed, inter alia, to the fact that the NEEC had not been established; no budget had been allocated for the NEP's implementation; and the NEP's activities had not been incorporated into Ministries' work plans and programmes. Effectively, the Ministry of Finance had not fulfilled its budgetary responsibilities as mandated by the NEP, and – as a wider problem – other government agencies had treated the NEP as a fundamentally “sectoral” policy, whose implementation would be the sole responsibility of the Ministry of Labour, Industrial Relations and Employment Creation.

This example shows that even good policy intentions and formulations cannot be implemented successfully if they are not pursued with a “whole-of-government” approach. This in turn requires the introduction of binding coordination and implementation mechanisms, such as employment commissions with powerful mandates, and the establishment of pro-employment budgeting mechanisms.

Source: Chiripanhura, Niño-Zarazúa and Chifamba (2019).

► Table 5.1. Policy coordination approaches and structures.

Alignment tool	Strengths/weaknesses
Creation of “super ministries” with responsibility for more than one department or portfolios that span departments	Success depends on the status of an individual and might not lead to effective integration at the policy level Internal silos often remain; merging two departments might not solve problems where policy has multiple dimensions
Policy “tsars”	Success depends on the status/personality of an individual
Inter-ministerial committees	Success depends on the status/personality of an individual
Independent policy units	May face challenges in establishing legitimacy across departments
Inter-ministerial policy teams	Can work if departmental priorities and approaches are aligned; more difficult if inherent trade-offs are involved

Source: Strauss, Isaacs and Rosenberg (2021, 65) citing OECD (2015).

Coordination may be achieved by implementing the following:

- A comprehensive national employment policy framework (ILO 2012). Such frameworks are an important tool to provide guidance and coherence to those setting policy goals and their prioritization. They also create a unifying framework through which practical institutional cooperation between government departments can be sought, and contribute towards incorporating international labour standards into national labour markets.
- National employment commissions. As shown by the Namibian example (as well as examples in many other African countries), having a well-formulated national employment policy is not sufficient for successful implementation. Having a coordination body as a centralized organ

is important for facilitating pro-employment planning and policy implementation across government. Such a body must be endowed with suitable coordinating and decision-making powers, and hence should ideally be linked to the highest levels of political leadership.

- Effective systemic policy coordination and implementation instruments. It is vital to put in place policy coordination and implementation instruments, which incentivize and compel public actors to incorporate employment targets in their work plans and programmes. Examples include pro-employment budgeting (attaching employment targets to national budgets) and rigorous systems of Employment Impact Assessment (EmpIA) to guide decision-making. Such tools have been successfully established in countries like China and the Republic of Korea.

► Conclusion

The pro-employment policy framework advanced here demonstrates the importance of adopting a comprehensive approach, which integrates

macroeconomic, sectoral, and labour market policies that are mutually supporting and reinforcing, to advance structural transformation and solve the

employment challenges in Africa. Each of these three policy areas contributes in specific and complementary ways. This chapter has shown how current African policy frameworks are ill-equipped to achieve this comprehensive approach, and that the current stabilization-centric approach to macroeconomic policy is inadequate. Resolving macroeconomic imbalances, such as excessive imports or inflation, lays the foundation for job-rich growth but does not achieve it on its own. Instead, pro-employment macroeconomic and sectoral policies must be actively mobilized to spur structural transformation and employment creation, while labour market policies are vital to ensure that the ensuing transitions are inclusive and benefit the wider public as a whole.

This chapter has argued that policy should target both internal and external balances – full employment, stable prices, and a sustainable current account balance. These three policy areas contribute towards raising levels of aggregate demand and expanding supply capacity. It is important to acknowledge that implementing such an ambitious

policy framework in the context of many African countries will encounter considerable institutional capacity challenges, and thus be impossible without substantial investments to expand administrative capacities, as well as broad capacity and policy development support.

But achieving structural transformation is imperative for the long-term expansion of supply, without which African economies will continue to be hobbled by a narrow production base. This chapter has shown a range of tools that are available to policymakers in all areas of macroeconomic, sectoral, and labour market policy, and stressed the importance of implementing these in a coordinated and mutually reinforcing manner. We believe that this pro-employment framework provides the basis for a coherent policy approach, which is more appropriate than prevailing norms for tackling employment creation, growth and development on the continent.

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