International Labour Organization

INTERNATIONAL INSTITUTE FOR LABOUR STUDIES

STUDIES ON GROWTH WITH EQUITY

MAKING RECOVERY SUSTAINABLE:

LESSONS FROM COUNTRY INNOVATIONS

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PREFACE

It is often argued that the cost of social equity is less economic growth, highlighting the supposed trade-off between these two goals. The crisis that erupted in 2008 - which was preceded by rising social inequalities - has shown that this is simply not the case. In fact, if properly designed, equity-enhancing policies can also promote prosperity and reduce the risk of future crises. The aim of the *Studies on Growth with Equity* is to show how such policy complementarities can be achieved.

This paper is based on detailed analyses of Brazil, Germany and Indonesia, published under the series *Studies on Growth with Equity*, as well as other country experiences gathered for the purposes of the project. It shows that certain countries could successfully respond to the crisis by adopting a coherent package of employment, social and macroeconomic policies. The paper also shows that there are limits to country-specific action and draws lessons for international policy coordination.

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INTRODUCTION

The world economy is expected to grow at a robust 4.4 per cent in 2011.[1] Yet a sustainable economic recovery will not be achieved unless key employment and social challenges are addressed. The purpose of this paper is to: (i) examine the crucial contribution of employment and incomes to a sustainable recovery (section 1); (ii) assess how policies can best be designed in order to promote employment and incomes, taking into account the lessons learned from country experiences since the start of the global crisis in 2008 (section 2); and (iii) draw issues for discussion arising from the findings (section 3).[2]

[1] International Monetary Fund (IMF): *World Economic Outlook*, Update (Washington, DC, Jan. 2011).

[2] This analysis is partly based on the main findings of country studies carried out as a follow-up to the ILO Declaration on Social Justice for a Fair Globalization, under the series title *Studies on Growth with Equity*. Three of these studies, for Brazil, Germany and Indonesia, are available. Two more, for Spain and Tunisia, are in preparation.

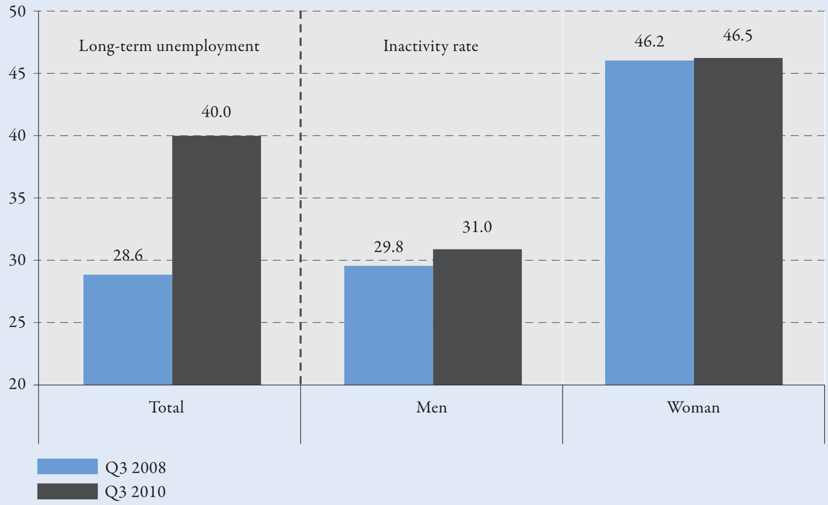
1 EMPLOYMENT AND BALANCED INCOME GROWTH CENTRAL TO SUSTAINABLE RECOVERY

Economic growth without quality job creation is not sustainable.[3] This is so for three interrelated reasons. First, in the majority of advanced economies, a growing proportion of the workforce is dropping out of the labour market, thereby imposing significant human costs and also eroding the basis for economic recovery.[4] Long-term unemployment has increased, as over 40 per cent of the unemployed are without work for more than one year. And, more worryingly, the proportion of working-age people who are outside the labour market has increased to 31 per cent for men and over 46 per cent for women (figure 1). On a global level, youth are disproportionately affected by unemployment (figure 2). Already prior to the crisis the job prospects for youth were unfavourable[5] and while young persons are generally more susceptible to economic downturns, evidence from earlier crises shows that youth unemployment persists long after growth resumes. It is therefore crucial to support the participation in the labour market of vulnerable groups and sustain the real economy.

Second, to sustain recovery, several emerging and developing countries need to consolidate the gains made in boosting domestic sources of growth in order to compensate for weaker export markets in advanced economies. Well-designed employment and social policies can be instrumental in this respect. There is no one-size-fits-all strategy for achieving this. Indeed, the obstacles to domestic growth vary across countries, requiring a different mix of infrastructure investment, wage and social protection policies and rural development initiatives, including facilitating enterprise creation and expansion. In all cases, respect for core labour standards and rights at work is key. According to various studies, boosting domestic sources of growth would be more effective in sustaining employment and reducing global imbalances than exchange rate changes on their own – an important finding which highlights the relevance of crisis responses inspired by the Global Jobs Pact.

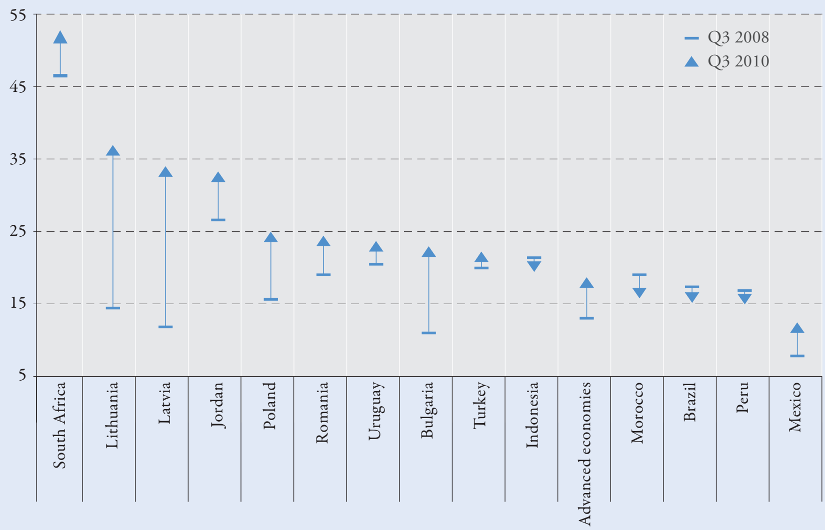
[3] ILO: *Global Employment Trends* (Geneva, 2011).
[4] ILO–IMF: *The challenges of growth, employment and social cohesion*, Discussion document, Joint ILO–IMF Conference in cooperation with the Office of the Prime Minister of Norway, Oslo, 13 Sep. 2010.
[5] Between 1997 and 2007, the number of unemployed youth rose by 8 million (ILO, *Global Employment Trends for Youth*, 2008).

Figure 1 **Incidence of long-term unemployment and inactivity, advanced economies (third quarter 2008 and third quarter 2010)**[6]



Source: National sources; ILO–Laborsta; Eurostat.

Figure 2 **Youth unemployment rates (third quarter 2008 and third quarter 2010)**



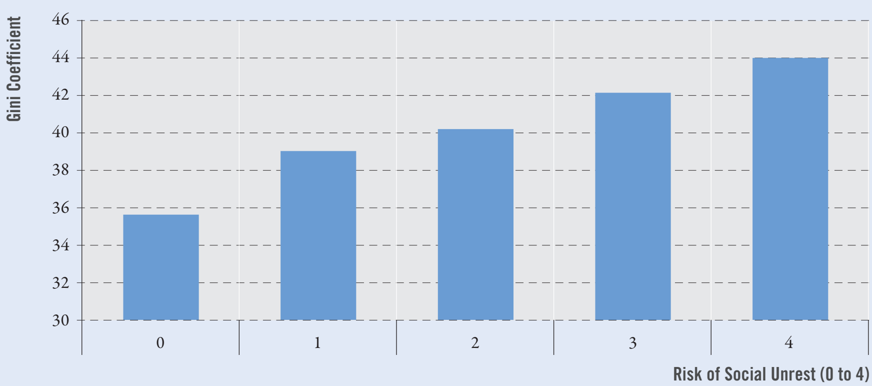
Note: Data for Uruguay refer to the second quarter 2008 and second quarter 2010, respectively.
Source: National sources; ILO–Laborsta; Eurostat.

[6] Long-term unemployment is defined as unemployment of one year or more, except for Canada, Republic of Korea and United States (27 weeks or more).

Third, the sustainability of the growth process is threatened by the persistence of unbalanced income developments, which has several dimensions. One is the fact that labour incomes have tended to lag behind productivity developments.[7] In the case of advanced economies, this has contributed to excessive recourse to debt in order to fund household consumption and housing investment. In some emerging countries, the growing gap between labour income gains and productivity growth has contributed to the rising export–dependency of these economies. Another dimension is the growing attractiveness of financial investment vis-à-vis real investment in advanced economies. For the past three decades, investment as a percentage of GDP has either decreased or stalled in these economies.[8]

The recent events in certain countries in the Middle East and North African region have highlighted the centrality of employment and balanced income developments for social cohesion – itself a key ingredient of sustainable growth. Empirical evidence shows that unemployment and inefficient income inequalities are the principal factors explaining social unrest (figure 3).[9] The issue deserves urgent attention, especially since the trend rise in food prices is likely to exacerbate income inequalities.

Figure 3 **Income inequality and estimated risk of social unrest**



Note: Risk of social unrest: 0 is country group with lowest risk, 4 is highest risk country group.
Source: IILS, op. cit.

[7] ILO: *Global Wage Report 2010/11: Wage policies in times of crisis* (Geneva, 2010).

[8] R. Torres: "Incomplete crisis responses: Socio-economic costs and policy implications", in *International Labour Review* (2010), Vol. 149, No. 2, June, pp. 227–237. See also ILO–IMF, op. cit.

[9] International Institute for Labour Studies (IILS): *World of Work Report 2010*: From one crisis to the next? (Geneva, ILO, 2010).

2 PROMOTING JOBS AND BALANCED INCOME GROWTH THROUGH WELL-DESIGNED COUNTRY POLICIES

The crisis has created a window of opportunity for developing new policy approaches and gaining policy space. This section reviews some of the lessons learned in this respect.

INITIAL CONDITIONS MATTER

Although some countries were equally hit by the crisis, similar policy responses often resulted in different outcomes. One reason is that the speed and sustainability of policy responses significantly influences the impact of such measures, given that the employment multiplier is larger when measures are adopted quickly. This proved easier in countries where effective labour and social programmes were already in place – which reinforced "automatic stabilizers" such as in some advanced economies and parts of Latin America.[10] Other countries with relatively large internal markets, such as China, India and South Africa, reacted quickly to stimulate domestic sources of growth. A sound fiscal position was instrumental in the ability of countries to sustain these programmes.

EFFECTIVE JOB-CENTRED MEASURES

The most successful policy instruments to reduce unemployment, long-term unemployment and inactivity are those that attempt to prevent these trends from taking hold in the first place. Indeed, countries for which the government's response was job centred have fared comparably well. More fundamentally, good policy design is at the heart of any successful policy intervention, whether it is an incremental change to an existing programme or the roll-out of a new initiative. Critical design issues emerging from country experiences are discussed in Box 1.

[10] Among the G20 economies, automatic stabilizers – such as unemployment benefits and social assistance programmes – were estimated to amount to 0.4 per cent of GDP on average in 2008 and 1.6 per cent in 2009. See IMF: *The state of public finances cross-country fiscal monitor: November 2009*, SPN/09/25 (Washington, DC).

Box 1 Effective employment policies

Safeguarding employment: Shorter working time schemes proved extremely successful during the crisis to lessen the number of dismissals. In Germany, employment stability was achieved largely through working time adjustments facilitated by effective social dialogue, and through conditionality of the measures to support the viability of enterprises.

Direct support to employment-intensive sectors: Support to specific labour-intensive sectors, if well targeted, can help workers keep their jobs and stimulate new job creation. This proved essential in countries which had to cope with falling external demand. In Brazil, the Government supported rural farms. It also reduced the industrial production tax, which is estimated to have saved up to 60,000 jobs. In Indonesia, stimulus spending focused on cutting personal income taxes to boost domestic consumption, which had strong spillover effects in related sectors. In fact, wholesale trade, retail trade, and the restaurant and hotel sector added 728,000 jobs between August 2008 and 2009.

Training to address skills erosion and changing skill demands: As is often the case, skill requirements change during periods of adjustment – a situation exacerbated by skills loss among disadvantaged jobseekers. Efforts are urgently needed to improve the delivery and effectiveness of training programmes, perhaps by leveraging better private–public partnerships, with a view to improving skills mismatch. Moreover, returns to training are often positive over the medium term and can be quite strong if well targeted. The challenge for youth is particularly daunting, as skills loss at an early age can permanently compromise future employment prospects. In this regard, training programmes are more effective if they contain elements of credential recognition and acquisition, which are key considerations for young persons.

Public employment service – client ratios and effective service delivery: Training provisions and active labour market programmes more generally (such as job-search assistance) have a greater likelihood of success if administered via a well-resourced public employment service. During the crisis, Germany recruited additional staff in an effort to improve the effectiveness of service delivery to unemployed persons, placing particular emphasis on youth. The staff/client ratio for the most disadvantaged unemployment benefit recipients (youth in particular) is 1:75, and 1:150 for others. The Spanish Government has also hired 1,500 additional professional advisers to provide employment services to laid-off workers.

Targeting disadvantages rather than groups – the case of youth: The effectiveness of policy instruments is enhanced when directed towards addressing a particular disadvantage, rather than an entire group. This is particularly relevant in the case of youth, given that in many instances it is often the most qualified youth who benefit from apprenticeship programmes and training provisions more generally. Some countries, for instance France and the United Kingdom, have launched specific programmes to reintegrate long-term unemployed and inactive youth into the labour market.

Important complementary role of product markets and good governance: To be effective, well-designed labour market and social policies must be accompanied by well-functioning product markets. In particular, open and transparent product markets – accompanied by a good governance structure and the absence of corruption – are crucial for investment and have important positive spillover effects on employment and wages.

Source: ISSA (2010); M. Caetano (2009); J. Savoia (2007)

Creating new jobs, however, is not enough. During the crisis, many temporary workers were laid off and formal jobs were replaced with informal ones. There is a risk that if informality persists and new job creation is disproportionately non-standard in nature, overall job quality will deteriorate as the recovery takes root. Many of these workers do not have access to the same rights as other workers. Importantly, reducing the current job quality gap will not only achieve equity objectives but with the right policy mix can enhance productivity and future resilience to economic shocks. This too is an area where some recent innovations can help (Box 2).

Box 2 Improving job quality

Well-designed employment protection legislation: There is no simple cross-country correlation between labour legislation and employment performance. What matters is good design in order to protect workers while avoiding excessive labour market duality. The reform experiences of Austria and Brazil show how this delicate balance, facilitated through social dialogue, can be achieved successfully. Spain recently launched a series of reforms along similar lines.

Simplifying the tax regime: Providing tax and credit incentives to enterprises, particularly small and medium-sized enterprises (SMEs), to "formalize" could help spur the creation of formal jobs and help a sizeable share of employment-rich SMEs to remain in the formal sector. Several developing and emerging countries, particularly in Latin America and Eastern Europe, have done this quite successfully. For instance, Hungary decreased taxes for enterprises employing underprivileged workers and gave tax concessions to those sectors with informal workers, such as the domestic work and construction sectors. In other countries, such as Argentina, the Plurinational State of Bolivia and Peru, various taxes (VAT, income tax, social security contributions) have been replaced by a single tax. Similarly, some African countries, including Kenya and the United Republic of Tanzania, have simplified their tax system to encourage SMEs to formalize.

REDUCING THE INCIDENCE OF INFORMAL EMPLOYMENT: THE CASE OF BRAZIL

In particular, in 1996 the government introduced Simples (Simples Federal) which for micro and small enterprises (in certain sectors) streamlined the existing tax regime (a range of tax levies) and put in places a single levy that varied according to gross sales. As such, the burden to "formalize" was reduced and thus helped spur formal job creation (as Box 2 illustrated, several developing and emerging countries, particularly in Latin America and Eastern Europe have also done this quite successfully). In 2007, Brazil expanded the law further through the introduction of Super Simples under the General Small Business Act (Complementary Law 123/2006). Under this new law, companies with annual gross revenues of up to R$2.4 million (US$1.3 million) pay a single tax – which varies depending on the type of activity – and replaces the various federal, state, and municipal taxes.

In addition to simplifying the tax regime, Brazil lowered administrative and social security burden on enterprises geared towards greater formalization. For example, the government launched the Individual Entrepreneur Law (*Lei do Emprendedor Individual*) in June 2009 that facilitates the registration of micro-businesses with up to one employee and reduces their cost of social security contributions. Prior to the introduction of this law, the social security system came under criticism because it placed an unduly large burden on the self-employed: they had to pay both the employer and the employee's contribution, deterring formalization. Under the new law, micro-entrepreneurs with annual revenues below R$36,000 (or US$18,116) per year could legally register their business and obtain a tax identification number (known as the CNPJ) and were exempt from federal taxes. Furthermore, the law entitled micro-entrepreneurs to pension, invalidity, and maternity benefits as they pay social security contributions equivalent to 11 percent of the minimum wage (or R$52 or US$26 per month). Overall, entrepreneurs are able to access the social security system at an affordable cost are also able to obtain a tax identification number that facilitates their access to credit and business transactions in the formal economy. The number of benefiting workers expected to move from informal to formal sector due to this law is expected to be one million in 2010.

THE DOUBLE DIVIDEND OF WELL-DESIGNED SOCIAL PROTECTION

During the crisis, some countries took permanent steps towards deepening the coverage and effectiveness of social protection. If well designed, such policies also boost the overall recovery process and may contribute to long-term growth. What matters is to enhance work opportunities and ensure adequate funding of the programmes (Box 3).

Box 3 Growth-friendly social protection

Social protection as economic and employment stabilizer: Social protection measures that provide income support to those most in need have proved to be positive for economic growth and employment. This is due principally to the fact that lower income households consume domestic goods that have high employment multipliers. In the case of Brazil's *Bolsa Família* programme, while it successfully reduces poverty and hunger and improves social development overall – which are its principal objectives – it has been found to have positive effects on income growth and business activity. In particular, spending by recipients enhances the dynamism of local economies since the money is spent on domestic products that are sold in the local markets. As such, programmes of this nature can reduce economic volatility resulting from a shock; and, more generally, programmes that are well established at the onset of a crisis are more cost-effective and efficient, given that new programmes can be expensive to start up and the effect occurs only with some delay.

Social transfers can lead to improved employment outcomes: Well-designed social protection policies need not prove detrimental to employment. Some social transfers, in and of themselves, can improve work incentives by providing support to families that can be used to take care of the household's basic needs until employment is found. This has been found, for example, in South Africa where families that receive pension income tend to have increased employment among prime-aged adults. The result is owing to the increase in total household income, which can support workers – particu-

Box 3 Growth-friendly social protection

larly labour migrants to urban areas – until they become self-sufficient.[1] In other cases, complementary policies – such as unemployment benefits accompanied by active labour policies – help to keep workers tied to the labour market and prevent skills erosion. One example is the Employment Insurance System in the Republic of Korea, which funds the Vocational Competency Development Programme that provides training and instruction in vocational development.

Cash transfers for development: Cash transfer programmes provide income to households often with reciprocal responsibilities in the educational and health realms, especially obligatory school attendance for children, which can pave the way for long-term development and future prosperity. A number of countries, for example Brazil, Honduras, Indonesia, Mexico and Nicaragua, have such programmes in place.

Promoting domestic sources of growth through effective use of minimum wages: Minimum wages serve as a social floor for wage adjustments and also as a buffer against wage deflation. At the same time, minimum wage increases can act as a fiscal stimulus by boosting consumer spending. During the crisis, roughly half the world's economies increased minimum wages (this includes countries such as Brazil, Japan, Russian Federation, United Kingdom and United States). What matters is the wage-fixing system: regular adjustments to avoid sudden changes, negotiated by the social partners.

Financing social protection: The cases of Brazil and Germany illustrate that measures need not be costly to be effective. For instance, the expansion of *Bolsa Família* in Brazil cost approximately 0.014 per cent of GDP and, in Germany, spending to support job-sharing is likely to have led to cost savings in terms of fewer overall unemployment benefit recipients. In other cases, however, the issue of how best to finance new and existing social protection measures is a critical issue – especially against the backdrop of pressures to reduce government expenditures. In particular, financing social protection through excessive taxes on labour may distort hiring incentives. Similarly, offsetting declines in government revenue with increased reliance on sales and value-added taxes – regressive in nature – will only exacerbate income inequalities and disproportionately hurt low-income households.

[1] C. Ardington, A. Case and V. Hosegood: "Labor supply responses to large social transfers: Longitudinal evidence from South Africa", in *American Economic Journal of Applied Economics* (2009), Vol. 1, No. 1, Jan., pp. 22–48.

PROMOTING DOMESTIC GROWTH THROUGH JOB-FRIENDLY INVESTMENT: THE CASE OF INDONESIA

Following the 1997 Asian financial crisis, infrastructure investment in Indonesia fell dramatically – reaching 1 per cent of GDP in 2000. However, coupled with strong economic growth over the past decade, there has been renewed emphasis on the importance of infrastructure investment – with infrastructure investment accounting for roughly 3.5 per cent of GDP in 2009. In particular, as part of its Medium Term Development Plan 2010-14, the Government announced plans to invest IDR 1 429 trillion (USD 157 billion) through to 2014. The modernization of infrastructure in Indonesia is key to the strategy to improving Indonesia's investment climate.

As part of the Government's response to the crisis, 11 per cent of the stimulus efforts were allocated to infrastructure investment in an effort to prop-up existing programmes and build upon the existing broader strategy while placing emphasis on employment-oriented activities. Moreover, emphasis was placed on labour-intensive public works infrastructure investments – which were well-targeted and had good multiplier effects that provided a much-needed boost to job creation (an estimated 450,000 full-time equivalent jobs). In addition, according to a survey conducted by the ILO Country Office for Indonesia and Timor-Leste, disadvantaged groups were the main beneficiaries of the public works spending – in many instances in rural areas. For instance, the National Programme for Community Empowerment (PNPM) – a collection of community development programmes that serve as the primary instrument for poverty reduction in Indonesia – has been shown to be successful in stimulating economic development through improvement in the quality of local physical infrastructure and in generating local employment opportunities.

More generally, the benefits of investment (e.g. higher productivity, improved social outcomes, etc.) are well known. The case of Indonesia however illustrates that when combined with right mix of social policies, supply-oriented measures such as those that promote investment and a robust business climate can help to reinforce domestic demand.

THE CRUCIAL ROLE OF POLICY COHERENCE

In many ways, it is the combination of macroeconomic and social policies which makes the difference. In particular, promoting participation through activation policies will work best in the presence of adequate aggregate demand, which can be facilitated through fiscal measures. The experience of the current crisis shows us that, to be effective, job-centred policies need not be expensive. The fiscal stimulus packages of Brazil and Indonesia – two successful performers – were among the lowest in the G20.

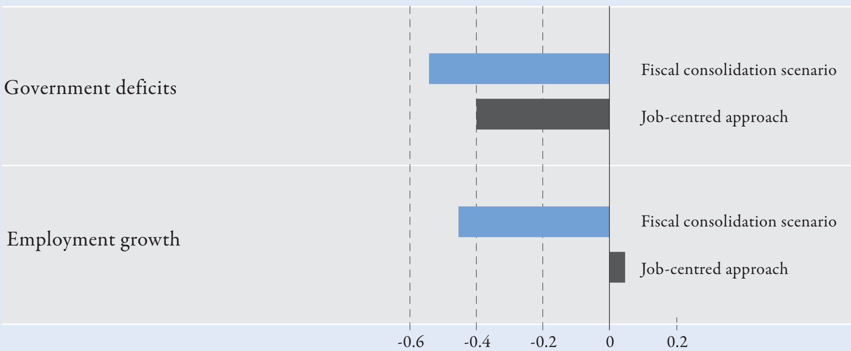
Model simulations suggest that a mix of fiscal policies, job-centred measures and effective social dialogue can yield positive employment outcomes, as well as meeting fiscal goals in the medium term.[11] These findings, consistent with other evidence, can be illustrated as follows:

- Investing in active labour market programmes creates positive multiplier effects on output through improved labour market functioning, in turn promoting employment and labour incomes. Although such investments require expenditure outlays in the short term, the model shows that the debt level recovers to a similar level as the baseline scenario in the medium term, given fewer passive labour market programme expenses and an improved tax base (figure 4).
- According to the model, the lower the incidence of non-regular or informal employment, the greater the resilience of the economy to crises. This is consistent with evidence that countries that had more stable employment arrangements during the crisis tended to suffer fewer job losses than other countries.

[11] These simulations are based on Global Economic Linkages, a macroeconomic model developed by the IILS to analyse the impact of different policy scenarios. The structure of this model is similar to the one used by the IMF in its macroeconomic projections.

- A novel result which can be derived from the model is that fiscal multipliers for both output and employment are larger when employers and workers negotiate over a wide range of issues, than in the case where bargaining centres on individual wages only.

Figure 4 **Government deficits (percentage of GDP) and employment (percentages) under two scenarios, 2015**



Source: IILS: World of Work Report 2010, op. cit.

THE ROLE OF SECTORAL DIALOGUE: THE CASE OF GERMANY

In Germany, employment fell only marginally despite steep declines in output. This is due principally to the fact that hours worked were adjusted instead of employment – often via agreements between workers and employers. In fact, as of the mid-1990s, so-called company-level pacts for employment (or "alliances for jobs") emerged with the aim of overcoming enterprise-level adjustments while enhancing competitiveness. These agreements between firms and workers aim to maintain employment levels by means of adjusting compensation and/or working time (e.g. reduced working hours, suspensions of annual bonuses, etc.). In some cases this is associated with additional training efforts – in 2005, almost one-quarter of agreements included such provisions.

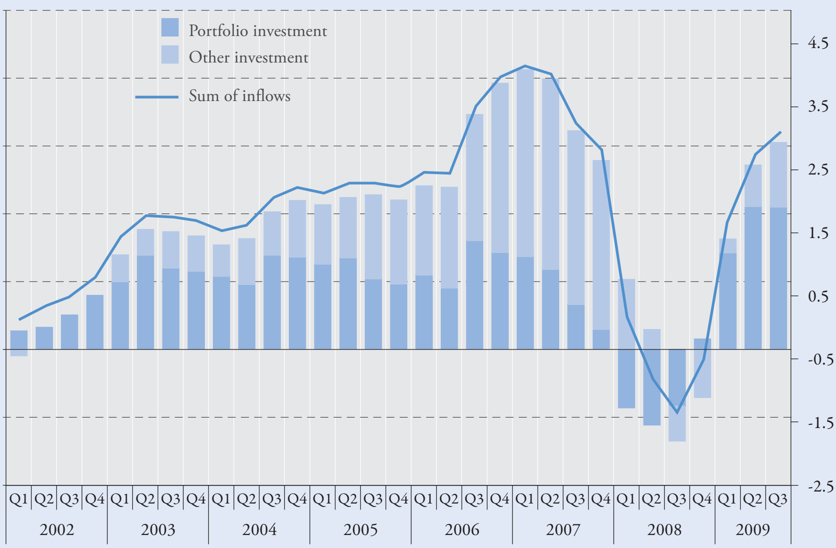
In 2009 approximately 16 per cent of all workers were employed in firms with such agreements, up from 14 per cent in 2006. The increase in the number of firms with agreements during the crisis was particularly predominant in large enterprises (with employees of 250 or more) where the share of enterprise-level agreements rose from 40 per cent in 2006 to nearly 50 per cent in 2009. In many instances, reductions in hours and incomes were also partially compensated through the government-sponsored Kurzarbeit programme. A unique feature of the programme is that the costs and benefits are shared among workers, employers and government: (i) while firms are still responsible for wage-related expenses, they avoid the unnecessary costs associated with employee turnover and can draw on existing labour and skills when demand returns; (ii) the government incurs the direct costs associated with the compensation provided to workers and employers, but the social and economic costs of higher unemployment are avoided, while instilling a sense of confidence in the economy; and (iii) workers are able to maintain their jobs but, as a result of reduced hours worked, have lower earnings.

Beyond crisis responses, social dialogue plays a critical role in Germany. In particular, the vocational education training system in Germany is renowned for its ability to adapt to the changing skill requirements. Employers, through the Economic Chambers, and workers are heavily involved in the management, design and implementation of suitable training-related activities. This is critical for avoiding so-called “poaching” effects and thus ensuring that all enterprises have an incentive to carry out training. In addition, apprenticeship wages are determined through collective negotiations. Moreover, the various levels of government are also engaged at various stages to ensure that the system of skill development takes into consideration the longer-term needs of the labour market and education system.

A FINANCIAL SECTOR THAT SERVES THE REAL ECONOMY

The extent to which the financial system supports the real economy is another factor. Canada enjoyed a relatively well-managed financial system which helped limit the risk of credit crunch. Brazil and Indonesia used public credit institutions in order to sustain enterprises and jobs at a time when the financial crisis had affected certain credit institutions. More recently, however, the financial systems of emerging economies have faced a significant surge of capital inflows (figure 5). According to the January 2011 update of the IMF's Global Financial Stability Report, this could lead to excessive credit growth, destabilizing the real economy and labour markets. This is one reason why the report concludes that "without further progress in this field, global financial stability and sustainable growth will remain elusive".

Figure 5 **Short-term capital inflows in emerging economies (percentage of GDP)**



Source: IMF, International Financial Statistics.

3 KEY POLICY DILEMMAS FOR MOVING FORWARD

It is important to contemplate the policy strategies undertaken by successful performers during the financial and economic crisis. However, it is equally pertinent that policy measures take into consideration the unique set of characteristics and outside factors that impact on economic and social dynamics in individual countries. For example, studies have shown that cash transfer programmes work very well in middle-income countries in Latin America, but such a model of social protection faces significant challenges in low income environments in the same region, due mainly to weak institutional settings. Bearing this in mind, countries can learn from each other and tailor policies to fit their own national situation.

In this regard, one key lesson for individual country strategies is that considering economic, employment and social policies as a coherent package can lead to better overall outcomes. This is true of employment-centred projects, which create jobs while at the same time improving long-term productivity prospects. Similarly, social protection measures help to stimulate and maintain incomes among the most vulnerable but, if carefully designed, can have large multiplier effects that go beyond the targeted group, stimulating jobs and incomes at the aggregate level. Vice versa, financial systems and macroeconomic policies should provide the space for well-designed employment and social policies conducive to decent work opportunities. And sound labour and social policies will not lead to the expected results in the absence of well-functioning product markets that support sustainable enterprises.

Well-designed country specific strategies, crucial as they are, will not be enough. International coordination is also needed. As highlighted in the Global Jobs Pact, globalization needs to be made fairer in order to pave the way for sustainable recovery. Much remains to be done to address internal imbalances and inequalities within countries. To contribute to further progress on this, this paper has examined a range of well-designed national policies. But fighting the risk of international tax competition --which undermines the ability of countries to reduce excessive inequalities is also needed. Furthermore, external imbalances are connected to internal economic and social imbalances. Where employment and wage income growth are weak, governments may look again to other possible sources of growth such as exports or credit (debt) expansion, even though there is increasing recognition that these played a major part in the build-up to the crisis. Equally worrisome might be a tendency for individual countries to try to cut budget deficits too fast despite the weakness of private-sector recovery, in the expectation that others would take the lead in boosting global growth. Competitive deflation could be as damaging as competitive devaluation or trade protectionism.

This raises the issue of the scope for international cooperation for adopting growth-with-equity strategies in the context of a differentiated economic recovery. A crucial matter for ILO, G20 and other international fora.