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Report of the Director-General

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Recovery and growth with decent work

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Introduction

Quality work at the heart of the recovery

1. One year ago, as the global financial and economic crisis was in full force, the International Labour Conference came together to agree on a Global Jobs Pact as a policy contribution to address the worst worldwide jobs crisis since the Great Depression. It has received support in all regions, [1] including the endorsement of the G20 Leaders' Summit in Pittsburgh [2] and the follow-up meeting of their Labour and Employment Ministers in Washington, DC.

2. Some signs of weak economic recovery are becoming clearer, and some countries – particularly in Asia – are growing at a brisker pace. But now the risk of a new phase of the financial crisis around sovereign debt has appeared, jeopardizing prospects of growth for some countries, potentially affecting the global economy and again raising doubts about the stability of the international financial and monetary system. The 750 billion euros support package put together by the European Union, with the backing of other countries through the IMF, attests to these new uncertainties. It was a swift and decisive response.

3. In thinking about how to cope with the main problem of putting recovery on a strong worldwide footing while dealing with the reality of high levels of public debt and large budget deficits, we must not forget that for many working women and men, and for many enterprises in the real economy, recovery has not yet started.

4. Although job growth has reappeared, global unemployment is still at record levels. This is just the tip of the iceberg of discouraged jobseekers, involuntary temporary and part-time workers, informal employment, pay cuts and benefit reductions. There is still much suffering in many countries. Insecurity and uncertainty abound both for enterprises and for workers.

5. We know there is no sustainable recovery without jobs recovery. The test we face is to secure and accelerate a jobs-rich recovery and get onto a path of strong, sustainable and balanced growth that leads to the social stability provided by decent work for all. This is the foundation of a sustainable process of reducing deficits and debt.

6. With our tripartism and experience of the real economy, we at the ILO have a major responsibility to help shape the national and global policies that can take us to recovery. That is the message that I have heard over and over from our constituents in all regions. But it is also the concern of major international actors who have put the goal of quality jobs at the heart of the recovery.

7. As we meet in mid-2010, there is a rapidly growing concern that progress towards this very widely accepted goal could be at risk as a result of a dangerous new twist to the financial crisis. In this Report, I highlight the nature of this threat, its consequences for the world of work and for our Organization, the lessons of the recent past upon which we can draw, and the key policy issues we will have to address in the future.

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[1] Regional statements can be found on the regional pages of the Global Jobs Pact web site at: http://www.ilo.org/jobspact/lang--en/index.htm (accessed 19 May 2010).

[2] In a chapter on "Putting quality jobs at the heart of recovery", the G20 Leaders' Statement at the Pittsburgh Summit, September 2009 stated: "We also welcome the recently adopted ILO resolution on Recovering from the crisis: A Global Jobs Pact, and we commit our nations to adopt key elements of its general framework to advance the social dimension of globalization. The international institutions should consider ILO standards and the goals of the Jobs Pact in their crisis and post-crisis analysis and policy-making activities."

The 2008 Declaration provided us with a reliable compass

8. As we move forward, we have a good compass to guide us: the 2008 Declaration on Social Justice for a Fair Globalization. It tells us that the promotion of social justice must continue to guide our policies and actions. It tells us that a fair globalization that provides opportunities for all is an urgent necessity. And it tells us that we − the International Labour Conference, the Governing Body and the Office – must look to ourselves to make the necessary governance and management changes to better service our constituents and discharge our international responsibilities. I hope this Report can contribute to the discussion we will have on the recurrent item of employment during this session of the Conference − a major innovation introduced by the 2008 Declaration.

9. The Declaration gives us a far-sighted vision of how we want to build on the principled legacy of our Constitution and shape an Organization fit to address the evolving needs of our constituents in the world of work: needs that have been substantially altered by the rapid expansion in the size and influence of the finance sector, its systemic volatility, and repeated crises. [3] In a time of uncertainty the Declaration’s reaffirmation of the importance of our rights-based approach and our processes of social dialogue gives us a solid foundation from which to assess and choose policy options.

10. Many of the policy options facing governments and intergovernmental bodies will revolve around choices made necessary by inherent conflicts between human values and market values and between speculative and productive investments; choices which must respect the dignity of work and the way in which it underpins stable families and cohesive communities. They will also raise the question of equity: which sections of society should bear the brunt of the costs of the crisis, and how can the most vulnerable be better protected and empowered? Working families and small enterprises cannot be the real payers of last resort.

11. The social justice perspective inspired the way we put together the Global Jobs Pact, together with a productive approach – an approach based on the investment, innovation and sustainable enterprises that are crucial to delivering quality work.

Stabilizing financial markets

12. In the light of the mandate of the Philadelphia Declaration and the 2008 Declaration, the ILO today has the responsibility to judge from a real economy perspective whether the evolution of global financial markets and reform proposals will serve the purpose of creating and maintaining stable long-term growth, sustainable enterprises and decent work.

13. The latest “sovereign debt” twist to the global financial crisis has now set in motion extremely tough and painful social measures, which for any government are difficult to implement. The resulting tensions are already visible. The measures I am referring to are either decided autonomously by countries or are made a condition of massive public guarantees to the financial system and international support to governments. This may stifle growth in the short term in a number of countries and eventually threaten global recovery. That is what is now happening, mainly in Europe; whether a contagion effect can reach other regions is unclear at this stage, but the risk is certainly there.

[3] Latin America in the 1980s, the Asian crisis in the 1990s; the “dot.com” bubble and the subprime crisis in the early twenty-first century; not to mention the economic crises that have affected countries such as Argentina, Mexico, Turkey, Brazil, and the Russian Federation in the last 15 years.

14. Political, social and financial stability are interrelated – a lesson from history that we must remember and act upon if we are to avoid the sort of catastrophes that can arise when that interrelationship is destabilized.

15. In 2009, governments bailed out financial institutions that had raised systemic risk – the famous “too big to fail” banks. They have since recovered; valuations, benefits and bonuses are up; and a sense of “back to business as usual” pervades financial markets. Yet, many toxic assets have not been absorbed, and in many countries we are far from a return to the normal pre-crisis private credit flows to the real economy, although most central banks keep expanding liquidity at very low interest rates. So we are really not yet out of the financial crisis proper. Having regained their self-assurance, financial markets are now expressing a lack of confidence in – indeed, many would say, they have begun to speculate on – the high public debt levels of certain countries in the euro zone, downgraded their bond ratings and set off a potential global domino effect that has, for the moment, been contained. Volatile capital flows of short-term hot money movements have increased significantly in the recent period, as the IMF has documented. [4]

16. There is no doubt that the public debt and public deficit problems of many countries are real and need to be dealt with, as both a national and a global stability issue. There are legitimate questions as to why and how they reached such high levels even before the crisis. These questions must be addressed. They raise important issues of national responsibility and international supervision.

17. Everyone, both debtors and creditors, made mistakes based on the belief in easy money and the widespread acceptance of high levels of debt that prevailed at that time. Both now have a responsibility to contribute to the solution.

18. The public debt of advanced countries in the G20 rose from 72.9 per cent of GDP in 2007 to 90.6 per cent in 2009, and the fiscal deficits of the G7 countries are now running at 8.8 per cent of GDP, compared to 1.1 per cent in 2007. We seem to forget now that it was with those resources that banks were saved and a depression was avoided, to the general relief of everyone. By contrast, emerging G20 countries had a public debt to GDP ratio of 38 per cent in 2009, compared to 36.9 per cent in 2007. In 2007 this group had a small fiscal surplus and is now running deficits equal to 4.9 per cent of GDP. [5]

19. The size of deficits and the level of debt will have to be brought down; but that must be done in an orderly manner. Many countries have already committed themselves nationally and internationally to exit strategies at a pace consistent with securing recovery, especially in employment. As G20 Finance Ministers said in April 2010, we should all elaborate credible exit strategies from extraordinary macroeconomic and financial support measures that are tailored to individual country circumstances while taking into account any spillovers. They should be maintained until the recovery is firmly driven by the private sector and becomes more entrenched. We emphasized the necessity to pursue well-coordinated economic policies that are consistent with sound public finances; price stability; stable, efficient and resilient financial systems; employment creation; and poverty reduction. [6]

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[4] IMF: *Global Financial Stability Report,* (Washington, DC, Apr. 2010). See in particular Chapter IV on global liquidity expansion.

[5] IMF: *Navigating the Fiscal Challenges Ahead, Fiscal Monitor*, World Economic and Financial Surveys (Washington, DC, May 2010), available at http://www.imf.org/external/pubs/ft/fm/2010/fm1001.pdf (accessed 19 May 2010).

[6] Communiqué of G20 Finance Ministers, Washington, DC, 23 Apr. 2010.

20. This commitment by countries representing a significant percentage of world output already existed before the latest flare-up. Why have markets chosen this particular moment to test the will of governments for fiscal consolidation when exit strategies were already under way?

21. Is this a new temporary “herd reaction” of investors looking for short-term profits in a still volatile atmosphere? A calculated bet to weaken the euro and test Europe’s resolve? A crisis-induced preoccupation with long-term unsustainable debt and deficit levels of many major developed countries? Or are traditional investors, pension funds and others, fearful of a future inflationary environment that would reduce the value of their assets?

22. Maybe it is simply a conscious or unconscious test of strength between financial markets and governments on who will ultimately set the direction of policies. We know that from time to time, markets play this role – compelling governments to act when they have been reluctant to do so. Yet we have also learned that private decisions by traders in volatile financial markets are a poor guide for public policy – particularly so in times of crisis.

23. It may also reflect some deeper and yet unclear geo-economic shift that has the effect of spotlighting the fact that the developed world overall may be living beyond its means while the developing world is living below its needs. Does this herald the beginning of a global rebalancing of production and consumption in the future? Imagine the major contribution to investment and growth in the developing world that might result from releasing the resources tied up in the developed world’s public debt!

24. These issues are important because − I emphasize − they come at a time when governments are in agreement that exit strategies from stimulus packages need to be put in place. Many have already begun to do so and there are delicate conversations in diverse forums on global cooperation, on how to ensure that their timing is linked to an upswing in private demand and growth. The suddenness of the pressures on sovereign debt certainly unsettles these efforts for an orderly withdrawal.

25. It is essential to keep this in mind. The reality in the real economy, from which the world of finance seems increasingly divorced, is that in many countries we are facing a weak recovery that is by no means assured, particularly in terms of what counts most for working families: jobs recovery.

26. But now, in response to pressure from financial markets, many countries are being pushed into stringent fiscal policies that jeopardize recovery, making it less likely that investments, growth, employment and wages will pick up in the short run or that tax revenues will recover any time soon. The end result is that deficits will become more difficult to reduce and debts more difficult to pay off.

27. So why now, at this very uncertain time of weak recovery, should the sovereign debt issue, with such a sense of a gathering storm, become the major, urgent, overriding global policy priority for markets? [7] This may not be in their own interests if it leads to greater economic contraction or even a double-dip recession. It was just such a response that helped to bring about the Great Depression of the 1930s. We should not forget that today’s negative fiscal position is due much more to significantly lower tax revenues

[7] J.C. Trichet, President of the European Central Bank, described the situation in the following terms: “A number of markets were no longer functioning correctly. It looked somewhat like the situation in mid-September 2008 after the Lehman Brothers’ bankruptcy.” Interview with *Der Spiegel*, 13 May 2010, available at http://www.ecb.int/press/key/date/2010/html/sp100515.en.html (accessed 19 May 2010).

resulting from falls in GDP growth than from stimulus packages expenditures, that were, by the way, applauded by markets last year. [8]

28. The fact is that strong, sustainable and balanced global growth with strong job creation is the only sensible way ahead. That should be the global economic priority. Within the financial limitations of the situation, it is crucial to prioritize government programmes in favour of employment and social protection over those with limited productive and employment content. We must insist on well-targeted productive policy packages based on stimulating investment and income-led growth that will also contribute to recovering government revenue losses and increase fiscal space. That will permit an orderly reduction of deficits and debt sooner. This is the Global Jobs Pact approach.

29. These are also above all people's priorities. Throughout the world, working families' share in the prosperity of globalization has been limited. All studies point to a growth of inequality over recent decades. On the other hand, there is no doubt that the participation of working families in the cost of the crisis has already been very large and can only increase if sovereign debt resolution, rather than growth and jobs, now takes centre stage. We have had too much experience, in Latin America in the eighties and Asia in the nineties, of the human implications of balancing accounts by unbalancing people's lives.

30. So essentially, we need to act on both fronts in a convergent policy manner so that the fiscal consolidation objectives and the growth and jobs goals develop simultaneously. This requires creativity and ingenuity by policy shapers and courage and determination on the part of political leaders to strike the right balances; not just cutting spending but increasing revenues in a fair way. Simply going back to the pro-cyclical, conventional wisdom that prevailed before the crisis will leave deep scars. Pursuing policies that promote productivity, dignity and rights at work, social protection programmes that help and support families, and social cohesion for peaceful communities, must be at centre stage.

31. Underlying this discussion is a question of trust. Many people have the perception that major actors of the financial sector have broken their social contract with society. A recent Gallup survey in the United States shows that public confidence in banks in 2009−10 has reached its lowest historical level. [9] An international tax on banks was supported by more than 60 per cent of those polled in Europe and 44 per cent in the United States by *The Financial Times* and Harris. [10] The special role of banks in the global market economy rested on trust that society's savings were safe in their hands and that finance would lubricate the workings of the real economy on which people's livelihoods depend. It will be a long hard road to rebuild that trust.

32. Furthermore, the ethic of good hard work with fair treatment and remuneration, a foundation of market institutions and contracts, has been badly undermined by wealth creation increasingly unrelated to the real economy. Not to speak of the particular notion of "self worth" which has come to be symbolized by limitless salaries and bonuses. It is in this closeted atmosphere, so distant from the real lives of people, that financial

[8] It is estimated that tax revenue in the United Kingdom will be 16.4 per cent lower in 2010−11 than in 2008, according to *The Financial Times*, 14 May 2010.

[9] D. Jacobe: "Americans' confidence in banks remains at historical low", in *Gallup*, 6 Apr. 2010, available at http://www.gallup.com/poll/127226/americans-confidence-banks-remains-historic-low.aspx (accessed 19 May 2010).

[10] R. Atkins: "Global nervousness about government defaults", in *The Financial Times*, 17 May 2010.

institutions − which last year were saved by governments – now turn against them this year in the sovereign debt market. However legitimate their concerns, for the ordinary bystander it certainly looks like “biting the hand that fed you”.

33. But the same bystander is also observing another phenomenon: the serious difficulties that governments are having in agreeing on how to better regulate the global financial system. It is, after all, around three years since the subprime crisis. This is another dimension of the test of wills being played out between governments and financial markets.

34. We must have, and soon, strong collective action by governments to re-regulate the global financial system to ensure the safety of savings, the supply of finance to the real economy and stable management of public finances. The sum of the understandable separate actions of individual governments faced with a bond market plunge and sky-high interest rates could add up to a global setback. Better regional and global collective action is needed to realize balanced outcomes for recovery, sustainable growth and fiscal consolidation.

35. So how might a return to a more sound fiscal position be combined with the need to secure recovery and growth in a reasonable period of time? It requires a convergence of policies, many of which are under discussion by many national and international actors, including the European Union, the Bank for International Settlements, the Financial Stability Board, the IMF and the G20. Let me mention some of them:

- Avoid confusing priorities. Give debt resolution a longer timeframe and make space for the immediate measures needed to stimulate sustainable growth and jobs. A politically and socially viable process of fiscal consolidation needs to take place in the context of a stable recovery of global growth. Social dialogue is essential to avoiding an explosion of social unrest.
- Ensure well-sequenced coordinated short-term exit strategies and deficit reduction policies that are linked to a progressive recovery of the real economy and jobs and the protection of the most vulnerable. Measures should be tailored to specific country situations. There are significant differences between and within the countries of Europe, other developed countries, emerging economies and least developed countries.
- Re-establish normal credit flows − where needed − and give full support and incentives to a financial system at the service of the real economy as a driving force for a strong, sustainable and balanced pattern of growth. Channelling savings to lending for innovation, investment, trade and consumption; what some call “boring banking”.
- Prepare multilaterally agreed policies that consider all options and permit an orderly long-term management of debt repayments and cost sharing.
- Accelerate reform of regulations to reduce the volatility of financial markets and limit non-productive and purely speculative activities by banks, hedge funds and private equities. Reform proposals include regulation of non-bank financial activities, limiting own-account banking, reducing risk-taking of banks, and ensuring that financial institutions take responsibility for their own market behaviour.
- Raise new revenue through a fair distribution of responsibilities between those – persons, firms and banks – that benefited most from globalization and financial laissez-faire, and lower- and middle-income families. There are many initiatives in this sense, including from the IMF.

- Significantly enhance the supervisory and monitoring capacity of public agencies, national and multilateral, in relation to financial regulation, including cross-border activities, but also with respect to public debt and deficit, while developing agreed forms of multilateral surveillance.
- Review the accountability system and increase transparency of rating agencies for their actions and decisions and their potential conflicts of interest.
- And above all, respect and protect people. There may be hard decisions ahead which must be conceived and implemented with fairness in mind and upholding fundamental principles and rights at work. It is sound macroeconomic policies and sound macro-social policies working together that will generate sustainable growth, sustainable jobs, and sustainable communities.

An employment-oriented agenda for recovery and growth

36. Gradual fiscal consolidation strategies are linked to the agenda for policy dialogue and action on an employment-oriented framework for strong, sustainable and balanced growth. In this Report I identify a number of vital and converging objectives for this agenda in different policy fields, among them: [11]

- Making high employment creation a priority macroeconomic goal alongside low inflation or sound fiscal management.
- Increasing the employment intensity of growth.
- Promoting an income-led growth pattern.
- Enhancing a conducive environment for innovation and investment in sustainable enterprises, especially by significantly upgrading the financial, management and technical support to the “small” economy in all its forms.
- Holding and reversing downward pressures on wages with a fairer linkage between productivity and salaries.
- Building a social protection floor for the most vulnerable.
- Promoting a “working out of poverty” approach to accelerating progress on the Millennium Development Goals.
- Preparing the transition to clean energy through green investments and jobs.
- Designing integrated policy packages promoting convergence and synergy between diverse policy fields within a sustainable development approach.
- Reinforcing international cooperation for balanced growth, ensuring that financial markets service the real economy and tax competition is prevented and that fiscally constrained countries are able to join in recovery promotion policies.

Balance and dialogue

37. As we seek the right policy options to secure recovery and shape sustainable growth which generates decent work for all, balance and dialogue are essential.

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[11] See my synthesis of statements to the March 2010 session of the ILO Governing Body at http://www.ilo.org/public/english/bureau/dgo/speeches/somavia/2010/gbsynthesis.pdf (accessed 19 May 2010).

We need a new *political balance* based on the mutually reinforcing role of:

- the public policy functions of the State;
- the productive dynamism of the market;
- the democratic voice of society; and
- the needs and choices of individuals, families and communities.

We need a new *policy balance* between:

- the economic, social and environmental dimensions of life;
- the financial economy and the real economy; and
- the interests of capital and the needs of labour.

To get there, we must rely on dialogue:

- *Citizens' dialogue* to build social cohesion and peaceful, productive communities as active participants in vibrant societies.
- *Political dialogue* to strengthen democracy and the authority of publicly accountable institutions to regulate markets in the public interest. The capacity to converge around national interests in times of crises is the principal proof of political leadership.
- *Effective social dialogue* and collective bargaining based on mutual respect between organized workers and employers to build trust and cooperation in the world of work, in line with a strengthened application of international labour standards.
- *Global dialogue* to work together among countries for balanced international solutions to common challenges.

38. The International Labour Conference is above all a place of balance and dialogue based on the value of social justice. I look forward to our discussions on the immense challenges we face.

1. Recovery in the balance

Sharp decline in production and large increase in unemployment in 2009

39. The current financial and economic crises caused world production to contract by 2.2 per cent in 2009, the first time in the post-Second World War period. [12] This contraction in output raised the number of unemployed people worldwide by about 34 million, from 2007 to the end of 2009, corresponding to an estimated increase of 0.9 percentage points in the global unemployment rate during this period. [13] Forecasts of global macroeconomic trends indicate that GDP is expected to grow through the remainder of 2010 and into 2011. Yet, the recovery is still largely driven by government stimulus measures. Consumption in the industrialized countries is likely to remain weak as consumers rebuild savings and companies strengthen their balance sheets.

40. Unemployment has continued to rise in many countries in 2010, even as output has revived. With recovery in 2010 still fragile, and employment lagging behind the pickup in output, there is a strong risk in many countries of unemployment stabilizing at high levels or even continuing to increase (figure 1.1). Unemployment now stands at its highest level ever recorded and the spectre of a jobless recovery is present in many countries.

Rising underemployment, discouraged workers and informal and vulnerable work

41. Unemployment is only the tip of the iceberg of labour market distress. Underemployment has increased significantly, raising concerns that many discouraged workers may permanently detach from the labour market. A marked increase in vulnerable employment and working poverty has also occurred between 2008 and 2009. [14] Temporary and contract workers have been among the first to lose their jobs. [15] Wages and benefits have been reduced for many workers.

42. Due to low levels of wage employment, measurements of unemployment need to be supplemented when assessing the labour market impacts of the crisis in developing countries. In many countries, analysing the share of workers in vulnerable employment [16] and the working poor, that is those living on less than $1.25 or $2 per day, is more telling. The ILO's *Global Employment Trends* estimates a potential increase in vulnerable employment by up to 110 million individuals between 2008 and 2009. As a result, around 1.5 billion workers, or half of the world's workers, were estimated to be in vulnerable employment in 2009. [17]

[12] World Bank: *Global Economic Prospects 2010: Crisis, Finance, and Growth* (Washington, DC, 2010).

[13] ILO: *Global Employment Trends* (Geneva, Jan. 2010).

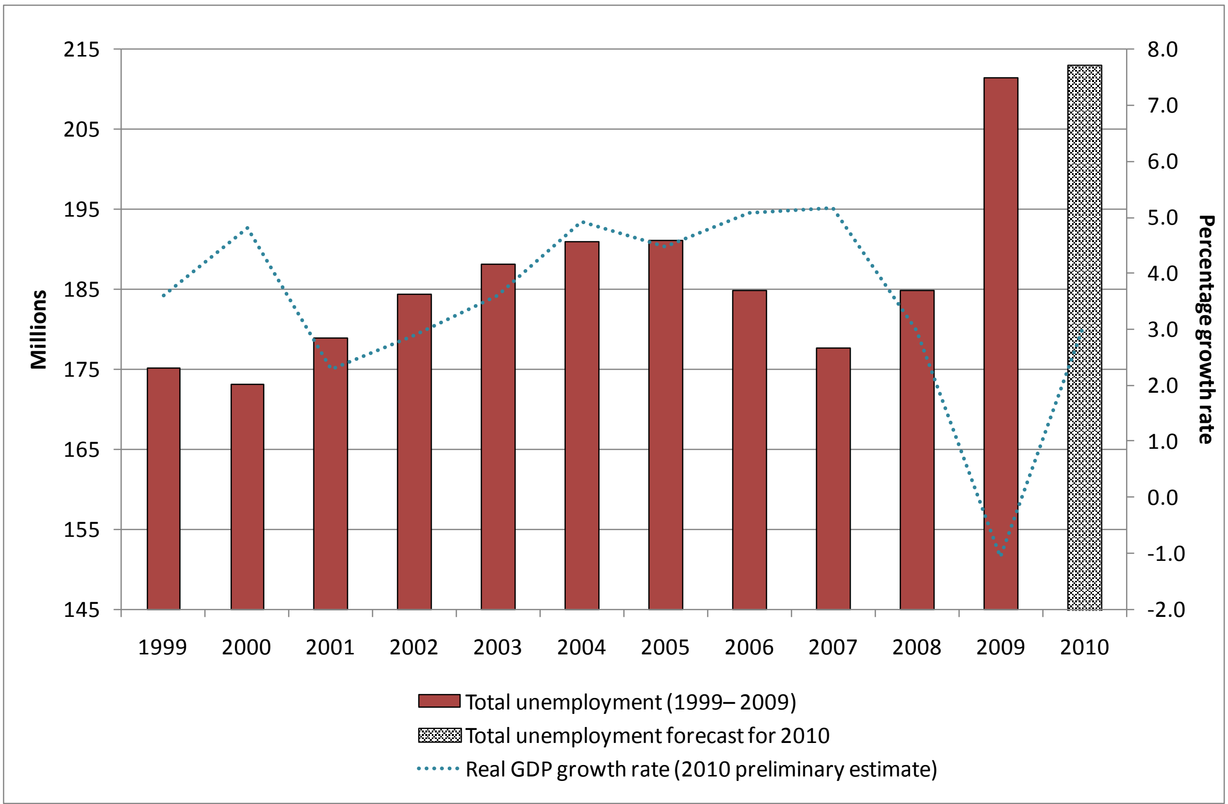
[14] ibid.

[15] ILO: *Private employment agencies, temporary agency workers and their contribution to the labour market*, Issues paper for discussion at the Workshop to promote ratification of the Private Employment Agencies Convention, 1997 (No. 181), 20–21 Oct. 2009 (Geneva, 2009).

[16] Vulnerable employment is defined as the sum of own-account workers and contributing family workers.

[17] ILO: *Global Employment Trends*, op. cit.

Figure 1.1. Global unemployment and GDP trends (1999–2010)



Note: 2009 and 2010 are preliminary estimates.

Source: ILO: *Global Employment Trends* (Geneva, Jan. 2010); IMF: *World Economic Outlook* (Washington, DC, Oct. 2009).

43. In Africa, the impacts of the crisis have been transmitted through declining export earnings, commodity prices, remittances, overseas development assistance and foreign investment, thus compounding the effects of the earlier food and fuel price crises. Poverty reduction targets have been set back, with impacts falling hardest upon the rural population, youth, women and other vulnerable groups, thereby augmenting informality and social exclusion. [18] In Asia and the Pacific, it is likely the crisis reversed the 2003–08 declining trend of workers in vulnerable employment (involving an estimated 65 per cent of women and 58 per cent of men in ASEAN countries). Export sectors were hit hard, especially manufacturing, where women workers bore the brunt of job losses. [19] In Latin America and the Caribbean, the economic crisis cut short a five-year cycle of economic growth, [20] thereby raising urban unemployment while also leading to labour market detachment by discouraged workers (particularly youth), rising informality and reduced job quality, with more workers lacking social protection. [21]

44. Youth unemployment, which on average is double that of adult unemployment, has risen in most industrialized countries during the crisis and most policy frameworks are

[18] ILO: “Recovering from the crisis: The implementation of the Global Jobs Pact in Africa”, First African Decent Work Symposium, 1–2 Dec. 2009, Ouagadougou.

[19] ILO: “Labour and social trends in ASEAN 2010: Sustaining recovery and development through decent work”, ILO Regional Office for Asia and the Pacific (Bangkok, 2010).

[20] ILO and ECLAC: *Coyuntura laboral en América Latina y el Caribe*, Bulletin No. 2 (Santiago, Sep. 2009).

[21] ILO: *Panorama Laboral* (Lima, 2009).

inadequate to address their precarious labour market conditions. [22] Migrant worker remittances have declined by an estimated 8 per cent in 2009, although vulnerability varies by destination country, sector of employment, regularity of their status and whether male or female. [23] Contrary to previous crises, women's labour force participation rates increased in the second half of 2009 in eight out of 14 industrialized countries, while men's labour force participation declined in the same period. [24] This reflects the heavy layoffs in the more traditionally male sectors such as manufacturing and construction, [25] but may also imply that some women are shouldering an increasing role in household earnings as a result of the crisis.

Recovery is differentiated across different regions

45. The crisis impacted differently across countries and regions. ILO data identify four broad sets of country experiences in terms of unemployment in 2009: decrease; slight to moderate increase; strong increase; and very strong increase (table 1.1). Likewise there were broadly four different patterns of GDP growth: slower but positive GDP growth; moderate shock; strong shock; or very strong GDP shock. Countries in the white diagonal boxes followed a pattern of contractions in output leading to a similar rise in unemployment. However, the light and dark shaded boxes in the table also show there were many outliers to this common pattern. A number of countries experienced an increase in unemployment far lower, or far greater, than would have been expected from the decline in output.

46. There are three main likely reasons for these variations. First, the initial points of departure varied across countries and this led to differing impacts of the crisis. The pre-crisis situation of domestic financial systems differed significantly between countries. In countries where the banking system did not invest in new derivative securities, credit flows were maintained, which allowed the private sector to continue operating. Second, countries that entered the crisis in good fiscal shape had the conditions with which to launch large-scale stimulus packages and counter-cyclical measures, while others had less space. Third, the intensity of the external impact varied by country, either involving a sharp international credit squeeze, a fall in exports, a drop in inward investment, a decline in remittances, or a combination of all these factors. [26]

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[22] ILO: *Accelerating a job-rich recovery in G20 countries: Building on experience*, an ILO report, with substantive contributions from OECD, to the Meeting of G20 Labour and Employment Ministers, Washington, DC, 20–21 Apr. 2010.

[23] I. Awad: *The global economic crisis and migrant workers: Impact and response* (ILO, Geneva, 2010).

[24] ILO: *Employment and labour market adjustments in G20 countries during 2007–09 and outlook for 2010: A statistical overview*, an ILO report, with substantive contributions from OECD, to the Meeting of G20 Labour and Employment Ministers, Washington, DC, 20–21 Apr. 2010.

[25] ILO: *The global economic crisis sectoral coverage: Trends in employment and working conditions by economic activity*, Working Paper No. 271, Sectoral Activities Department (Geneva, 2010).

[26] ILO: *Employment and labour market adjustments in G20 countries during 2007–09 and outlook for 2010: A statistical overview*, op. cit.

Table 1.1. Differing impact of the crisis on real GDP (in per cent) and unemployment rate in percentage points (PP) in 84 countries, in 2009

	Decrease in unemployment rate	**Slight to moderate increase in unemployment rate** (from 0 to 1.5 pp)	**Strong increase in unemployment rate** (from 1.51 to 3.0 pp)	**Very strong increase in unemployment rate** (more than 3.0 pp)
Slower but positive GDP growth	Algeria, Indonesia, Kazakhstan, Morocco, Uruguay	Albania, Argentina, Australia, Plurinational State of Bolivia, China, Dominican Republic, Ecuador, Egypt, Israel, Jordan, Korea, Republic of, Mauritius, Panama, Peru, Philippines, Poland, Saudi Arabia, Sri Lanka, Tajikistan, Tunisia, Uzbekistan	Colombia, Viet Nam	
Moderate GDP shock (from -2.5% to 0%)	The former Yugoslav Republic of Macedonia	Brazil, France, Honduras, Malaysia, Malta, Nicaragua, Norway, Singapore, South Africa, Switzerland, Thailand	Chile, Costa Rica, Cyprus, Greece, New Zealand	United States
Strong GDP shock (from -2.51% to -4.99%)		Austria, Belgium, Bosnia and Herzegovina, El Salvador, Netherlands, Bolivarian Republic of Venezuela	Canada, Czech Republic, Luxembourg, Portugal, Serbia, Slovakia, Sweden, Turkey, United Kingdom	Spain
Very strong GDP shock (-5.0% and less)	Montenegro	Armenia, Bulgaria, Croatia, Germany, Italy, Japan, Mexico	Barbados, Denmark, Finland, Hungary, Moldova, Russian Federation, Slovenia	Estonia, Iceland, Ireland, Latvia, Lithuania, Romania, Ukraine

Source: ILO, Department of Statistics, based on LABORSTA, IMF and UNDESA, 2010.

47. In developing countries with fast growth in the working-age population, a key challenge is to attain rates of employment growth which offer opportunities to new entrants, the unemployed and those moving from agriculture into urban areas. The shift from relatively low productivity work to better paid employment is vital to poverty reduction; yet, this process is likely to have slowed with the recession. The potential for a large increase in the numbers of working poor as a result of the effects of the crisis is illustrated by a simulation of a cumulative decline in the incomes of working women and men living just above the $1.25 a day poverty line. If incomes among those workers declined by 10 per cent in 2008 and 20 per cent in 2009, this would push 215 million working women and men below the extreme poverty line. A less sharp decline in the incomes of those workers living marginally above the poverty line, 5 per cent in 2008 and 10 per cent in 2009, would cause approximately 110 million people to fall into

extreme poverty. [27] These simulations serve to illustrate the fragility of progress in poverty reduction under the effects of economic downturn.

Box 1.1
Sectoral impacts of the crisis in global production

For many countries, the greatest shock was a trade crisis, not the financial crisis itself. [a] The fall in world trade led to a sharp drop in production, bankruptcies of firms and layoffs of workers in export-linked sectors in developing countries, particularly in highly integrated sectors characterized by global supply chains. The fact that export credit support provided by developing countries during the crisis often remained unused by exporting companies illustrates this was a crisis in demand, not supply. [b]

Sectors tied to key consumer goods such as garments and automobiles, and some services such as tourism, were especially hard hit. [c] Sectoral recovery is industry-specific and increasingly accompanied by differentiation between regions and within industries.

Social dialogue between employers' and workers' organizations and other public and private sector stakeholders has an important role to play in this context, in line with the recommendations of the ILO's MNE Declaration. [d] For trade unions, this structure of global production requires new conceptions regarding industrial relations and cross-border cooperation. [e] Key stakeholders require tools, information, good practice examples and policy guidance in order to generate more decent work and respect for labour standards in global production, as being practised by the Better Work Programme. [f] The International Institute for Labour Studies has fostered the creation of an international research network on global production and decent work to analyse economic and social upgrading processes in certain sectors across selected countries. [g]

[a] R. Baldwin (ed.): *The great trade collapse: Causes, consequences and prospects*, Centre for Economic Policy Research (CEPR, London, 2009). [b] M. Jansen and E. von Uexkull: *Trade and employment in the global crisis* (ILO, Geneva, forthcoming). [c] ILO: *The global economic crisis sectoral coverage*, op. cit. [d] ILO: *Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration)*, fourth edition (Geneva, 2006). [e] ILO: *International Journal of Labour Research*, Vol. 1, Issue No. 1, Geneva, 2009. [f] ILO and IFC: *The Better Work Programme: Stage II: July 2009–June 2012*, a partnership between the International Labour Organization and the International Finance Corporation (Geneva and Washington, 2009). [g] The research network is coordinated by the Brooks World Poverty Institute, University of Manchester, with funding from the UK Department for International Development (DFID) and other agencies.

48. Two years after the crisis first hit, recovery is starting but it is proceeding at varying speeds. [28] The International Monetary Fund (IMF), in its April 2010 *World Economic Outlook*, forecast global economic expansion of 4.2 per cent for the year. [29] This aggregate figure masks significant heterogeneity between regions. Recovery in advanced economies, which still have the largest weight in the global economy, is projected to be 2.3 per cent and remains fragile, largely driven by extraordinary policy support and the upturn in the inventory cycle. Credit markets remain tight, and high levels of unemployment could continue throughout the year and into 2011, dampening consumption in many countries. The danger of reining in stimulus measures before the recovery has fully taken hold in the private sector and in job creation is a major risk. Exposure of banks to non-performing property loans in some countries and concern over possible sovereign debt defaults further threaten confidence.

49. Growth in developing and emerging countries as a group is expected to reach 6.3 per cent this year, noticeably faster than in advanced countries, and is further encouraged by strong stimulus measures in the larger countries. The financial systems of most developing countries were also more resilient than those of the main financial centres. However, there are significant variations in the prospects for different countries.

[27] ILO: *Global Employment Trends*, op. cit.

[28] United Nations: *World economic situation and prospects: Monthly briefing No. 18* (New York, Apr. 2010). Available at http://www.un.org/esa/policy/publications/dpad_wespmbn.html (accessed 10 May 2010).

[29] International Monetary Fund: *World Economic Outlook: Rebalancing growth*, (Washington, DC, Apr. 2010).

GDP expansion of 8.7 per cent is forecast for Asian economies, led by China and India. China's growth rebound is an important motor for the region and minerals exporters as it pulls in imports of components and raw materials. In the other regions, Mexico experienced a sharp fall of 6.5 per cent in 2009, but is expected to recover to 4.2 per cent in 2010. Brazil likewise could grow at 5.5 per cent. The Russian Federation, helped by a pickup in commodity prices, is also returning to growth after a deep recession in 2009. Other developing and emerging economies are forecast to grow in a range of 4 to 5.5 per cent. [30]

50. By mid-2010, in many countries, there is little sign of recovery for many working women and men and sustainable enterprises in the real economy. Furthermore, prospects are uncertain. High unemployment together with other indicators of labour market distress could weaken household consumption in many countries. Financial markets remain weak and dependent on government and central bank support as demonstrated by the emergence of serious concerns over sovereign debt. The resilience of a number of large emerging and developing countries is a cause for optimism, nevertheless, the critical issue in global terms is whether the private sector motors of recovery, household consumption and business investment will take over from government stimulus measures in securing recovery.

[30] ibid.

2. Policy lessons from crisis responses

51. We still have a great deal to learn from policy responses undertaken to address the dramatic economic situation which unfolded from the financial crisis in September 2008. Many policies were consistent with, or inspired by, the policies of the Global Jobs Pact. They have helped to mitigate the rise in unemployment, sustain consumption and aggregate demand, and protect people.

52. The ILO has endeavoured to help governments and social partners by providing information and analysis in keeping with the vision of the 2008 Declaration. Now, as countries are aiming to transition from crisis response to securing recovery, a review of some of the main lessons to be drawn from this experience is important as a basis for the continuing policy dialogue amongst ILO constituents and with national and international partners.

Counter-cyclical measures slowed the rise in global unemployment

53. A central finding from the ILO's analysis of crisis responses is that strong counter-cyclical policies have eased the labour market consequences of the economic shock. The ILO has estimated that global unemployment could have been a third higher without the effect of stimulus measures and automatic stabilizers: nearly 21 million jobs may have been created or saved in 2009 and 2010 in the G20 countries alone (table 2.1). [31]

Table 2.1. Impact of discretionary fiscal stimulus measures and automatic stabilizers on 2010 employment levels in G20 countries, by region

Number of jobs saved or created ('000)

Regions	**Discretionary fiscal stimulus**	**Automatic stabilizers**	**Total**	**Change in employment level** (%)
Africa	323	11	334	2.38
Asia	7 921	1 260	9 181	0.62
Europe	1 910	1 710	3 620	1.71
Latin America	1 850	2 060	3 910	2.57
North America	2 680	1 060	3 740	2.26
Total	14 684	6 101	20 785	1.03

Source: ILO: "Estimating the employment impact of the stimulus measures undertaken by the G20 countries for the crisis" (Geneva, 2010).

54. The scale and scope of these policies represent a sharp departure from measures taken in previous crises. Stimulus packages of around 1.7 per cent of global GDP are unprecedented. By implementing counter-cyclical policies, countries have raised public expenditures and extended social protection in the current crisis, in contrast to cutbacks undertaken during the Asian crisis of 1997.

[31] ILO: *Accelerating a job-rich recovery in G20 countries: Building on experience,* an ILO report, with substantive contributions from OECD, to the Meeting of G20 Labour and Employment Ministers, Washington, DC, 20–21 Apr. 2010.

International policy coordination was stepped up

55. Important coordination efforts between countries have been spurred by the crisis. In their recommendations to leaders on 21 April 2010, the G20 Labour and Employment Ministers emphasized that additional efforts were required to ensure economic recovery was sustained and delivered rapid employment recovery. They stated "… the ILO Global Jobs Pact and Decent Work Agenda are valuable resources for our governments as we design further measures to address employment and social protection systems". [32]

Global Jobs Pact approach widely supported and followed

56. The adoption of the Global Jobs Pact in June 2009 was preceded by extensive consultations and an emerging consensus among ILO constituents on the most appropriate responses to the crisis. Indeed, core elements of the approach were contained in the statement of the Officers of the Governing Body in November 2008 [33] and built upon at the March 2009 High-level Tripartite Meeting on the Current Global Financial and Economic Crisis. The Pact offers a framework of tried and trusted policies as an agenda for national and international discussion and decision. It is adaptable to national circumstances while encouraging international cooperation. Many countries have adopted approaches which fall within the framework, with several drawing on it explicitly. The Pact's value is that it fosters convergence without demanding conformity.

57. Since the approval of the Pact, ILO constituents have been meeting at different levels in the different regions, to put in place the commitments made at the global level on the promotion of decent work and the implementation of the Pact.

58. At the Arab Employment Forum held in October 2009 labour ministers and social partners called for greater "… regional cooperation and integration for a sustainable and fair recovery …" as essential for the successful pursuit of the Decent Work Agenda. [34]

59. The XVI Inter-American Conference of Ministers of Labor (IACML) of the Organization of American States, in its Declaration of 8 October 2009, called for the coordination of policies and programmes for the promotion of employment and protection of workers' rights. [35]

60. The Second African Social Partners' Forum on Mobilizing Social Dialogue for the implementation of the Global Jobs Pact in Africa, held on 30 November 2009, called for

[32] Statement to the Meeting of G20 Labour and Employment Ministers, Washington, DC, 20–21 Apr. 2010. Available at http://www.dol.gov/ILAB/media/events/G20_ministersmeeting/index.htm (accessed 11 May 2010).

[33] Submitted to the 303rd Session of the ILO Governing Body (Nov. 2008). See web site for the minutes of the 303rd Session of the Governing Body http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_104657.pdf (accessed 11 May 2010).

[34] ILO and Arab Employment Forum: *A jobs pact for recovery and growth: Arab action agenda for employment,* Beirut, 19–21 Oct. 2009. Available at http://www.ilo.org/public/english/region/arpro/beirut/downloads/aef/conclusion_eng.pdf (accessed 11 May 2010).

[35] Organization of American States, XVI Inter-American Conference of Ministers of Labor (IACML), Declaration and Plan of action of Buenos Aires 2009, *Facing the crisis with development, decent work and social protection*, Buenos Aires, 8 Oct. 2009. Available at http://www.sedi.oas.org/ddse/english/cpo_trab_xvi_cimt.asp#_Hlk2 (accessed 11 May 2010).

national implementation of the Global Jobs Pact and proposed five prerequisites and ten priorities. [36]

61. The United Nations Ministerial Conference on the Social Impact of the Economic Crisis in Eastern Europe, Central Asia and Turkey, held in Almaty, adopted a Declaration on 8 December 2009 where the Ministers committed to "… building employment, social protection and food security policies that will ensure that every working woman and man has the opportunity to participate in the economy …". [37]

62. The Tripartite High-level Meeting: Decent Work for Sustainable Development in the Pacific, held in Port Vila, Vanuatu, adopted a Statement on 9 February 2010, affirming "… commitment to the application of the Global Jobs Pact ... to the Pacific region". [38]

Stimulus measures to generate employment

63. In response to the global economic crisis, countries have implemented a range of measures combining additional fiscal expenditure and tax cuts for enterprises and for the purchase of specific products. Automatic stabilizers have played an important role, particularly social transfers benefiting lower-income households with a high propensity to consume. "Green stimulus" measures involving investments in low carbon power, energy efficiency and water management have also been prominent.

Public spending on infrastructure creates jobs

64. In periods of downturn, public expenditures on infrastructure stimulate economic activity and create jobs with little risk of crowding out private investment. Infrastructure investments in social sectors (education, water and sewage and low-cost housing) and in economic sectors (roads, ports, railways, waterways and conservation) lay the foundation for long-term development, raising productivity and growth prospects. On average, emerging G20 economies have dedicated close to 1 per cent of GDP, and advanced G20 countries around 0.4 per cent of GDP to infrastructure investments. Decentralized public investment, involving smaller tenders, smaller enterprises and local economies, has attained quicker implementation and raised the scale of job creation. [39]

Employment programmes for vulnerable communities

65. Public works programmes targeted at depressed communities and groups have proven to be effective and socially and economically justified when alternative employment opportunities are unavailable. India's National Rural Employment Guarantee Scheme, offering 100 days of employment per year to one person of every poor household, is the largest programme of this type and has spawned adaptations in

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[36] ILO: Second Social Partners Forum on "Mobilizing social dialogue for the implementation of the Global Jobs Pact in Africa" (Ouagadougou, 30 Nov. 2009). Available at http://www.ilo.org/public/english/region/afpro/addisababa/events/socialpartner2nd.htm (accessed 11 May 2010).

[37] United Nations Ministerial Conference: *Social impact of the economic crisis in Eastern Europe, Central Asia and Turkey: "Almaty ministerial declaration"*, Almaty, 8 Dec. 2009. Available at http://www.ilo.org/public/english/region/eurpro/geneva/download/events/almaty2009/ministerial_declaration_en.pdf (accessed 11 May 2010).

[38] The Tripartite High-level Meeting on Decent Work for Sustainable Development in the Pacific: *Port Vila Statement on Decent Work*, Port Vila, 9 Feb. 2010. Available at http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/meetingdocument/wcms_122277.pdf (accessed 11 May 2010).

[39] ILO: *Accelerating a job-rich recovery in G20 countries: Building on experience*, op. cit.

other countries. These employment guarantee schemes are a form of social protection that adds value by combining basic income support with infrastructure investment.

Supporting small and medium-sized enterprises (SMEs) as important job creators

66. Measures to support small and medium-sized enterprises helped save and create jobs. Most stimulus packages have included specific measures for SMEs, such as access to finance, tax benefits, employment incentives, support for entrepreneurship and promotion of market opportunities. [40] Effective measures have included higher loan guarantees, accelerated amortization, overdraft facilities, and faster settlement of invoices. Some countries have also extended a range of tax deductions, from social security to capital gains and value-added taxation. Availability of credit to SMEs in emerging countries, such as Brazil and China, has increased substantially in 2009, while in advanced countries there are still signs of constraints on normal credit flows. Sector-specific policy responses have been important. [41]

Working-time reductions averted job loss and retained skilled workers

67. Reduced working hours combined with partial unemployment benefits and skills development have been shown to be effective in averting open unemployment. Enterprise arrangements negotiated between workers and management or national schemes to achieve adjustments in working time have been widespread in advanced and emerging economies. Such programmes not only prevent unemployment from rising, they also allow enterprises to retain skilled workers, putting them in a better position to take advantage of the recovery. [42]

Social protection buffers the crisis

Social protection systems protect workers and families

68. Providing basic social protection to workers and their families affected by job losses and at risk of poverty is the first line of defence in a major downturn. Unemployment benefits, health insurance, old-age pensions and child benefits have been expanded in many G20 countries since the onset of crisis. Other measures have targeted low-income households.

Box 2.1
Expanding social protection coverage during the crisis

The crisis has accelerated plans to expand coverage of basic social protection. India is expanding health protection for low-income households. Basic pension benefits have been raised and coverage expanded in a number of countries, including Brazil, France, India and the Russian Federation. China launched a major reform in December 2009 to introduce a basic pension scheme for 700 million persons in rural areas. Temporary benefits for families have been introduced in Germany, and on a permanent basis in Argentina. Brazil, Mexico and Turkey have expanded coverage of cash transfer programmes to low-income households.

[40] ILO: *Employment and social protection policies from crisis to recovery and beyond: A review of experience*, an ILO report to the Meeting of G20 Labour and Employment Ministers, Washington, DC, 20–21 Apr. 2010.

[41] ILO: *Review of sector-specific stimulus packages and policy responses to the global economic crisis,* Sectoral Activities Programme (Geneva, 2009).

[42] Statement to the Meeting of G20 Labour and Employment Ministers, op. cit. Available at http://www.dol.gov/ILAB/media/events/G20 ministersmeeting/index.htm (accessed 11 May 2010).

Social protection as a means to sustain aggregate demand

69. Unemployment benefits are strongly counter-cyclical – they sustain consumption when incomes are declining and prevent people from falling into poverty. Research on the stabilizing impact of social protection, and unemployment insurance in particular, has confirmed its effectiveness in cushioning incomes and supporting demand. [43]

Crisis measures have extended a floor of social protection

70. A floor of social protection benefits (including services provision, income support through social transfer schemes and a minimum set of social security benefits) is a key mechanism to cushion low-income households against the impacts of the crisis. Countries with established social protection systems have seen reduced volatility of consumption. Many developing countries have used crisis response measures to introduce structural change designed to extend coverage of social protection benefits. [44]

Promoting recovery in employment

Public employment services (PES) strengthened to reintegrate jobseekers

71. Many countries have strengthened PES job-matching services and partnerships with private employment agencies in response to the crisis. Measures to increase skills development, job-search assistance and counselling have featured prominently. To compensate for a sharp decline in job vacancies, many countries have expanded short-term programmes for the unemployed such as short vocational courses, general and remedial training, information seminars, work experience and internship programmes. Staffing levels of employment services have been increased to cope with the surge of jobseekers.

Skills development boosts readiness for the recovery

72. Using the downturn as an up-skilling opportunity to prepare for recovery and beyond has been common. Making use of shorter working hours is often combined with investment in skills development – showing how combined policies spheres can work together to leverage greater impact. These programmes are often negotiated at either the enterprise or sectoral level, to help identify private sector needs.

Policies for the low paid

73. High unemployment and the weak recovery forecast in advanced countries may restrict the scope for real wage increases. In this context, it is important to protect the consumption levels of low-paid workers. In-work benefit schemes complement wages mainly in the higher-income countries, while maintaining or preventing a fall in the purchasing power of low-paid workers is important to prevent rising poverty and deepening recession.

[43] ILO: *Extending social security to all: A guide through challenges and options*, Social Security Department (Geneva, 2010).

[44] ILO: *Accelerating a job-rich recovery in G20 countries: Building on experience*, op. cit.

Temporary hiring subsidies to accelerate new hires

74. Temporary hiring subsidies appear to be most effective when used during periods of economic recovery and when aimed at improving the employability of unemployed and relatively low-skilled workers. When combined with training and vocational guidance, subsidies tend to improve the long-term employment prospects of vulnerable groups. Incentive payments should normally be higher in the first phase of recovery and reduced thereafter.

Social dialogue as a key to manage crisis and promote recovery

75. Consultations between employers, trade unions and governments have focused uppermost on the crisis and the recovery. Many countries have engaged in some form of social dialogue, underpinned by workers' rights. Especially in times of heightened social tension, strengthened respect for, and use of, social dialogue, including collective bargaining, is invaluable for designing policies to fit national priorities. This builds the commitment of employers and workers to act jointly with governments to overcome the crisis and achieve a sustainable recovery.

Box 2.2
Social responsibility saving jobs

Protecting employment during the crisis often puts enterprises in a better position to respond to market opportunities after the crisis. This is the main assumption of socially responsible labour-management solutions adopted by many companies over the last months, following social dialogue and collective bargaining at enterprise, sector, national and cross-border levels.

The main measures include:

- promoting training, establishing internal staff pools, and/or carrying out temporary transfer of workers to training agencies or "work foundations";
- working-time redistribution/reorganization, consisting of temporary or long-term reduction of the working week, greater variability in working hours without overtime premium, increased use of part-time work, and/or extension of operating hours (e.g. weekend work);
- workforce stabilization, i.e. establishing conditions for use of fixed-term contracts and agency work, transforming precarious posts into more stable jobs, providing additional employment for specific groups (e.g. young people, long-term unemployed), relocating workforce within the company and in-sourcing of formerly outsourced activities;
- process/product innovation consisting of new forms of work organization (e.g. teamwork) and investment in new products or technologies;
- strengthening the voice of employees by using social dialogue mechanisms, establishing new information or consultation rights for employee representatives; and
- employment security in exchange for negotiated temporary wage freezes or cuts.

Source: ILO: *Restructuring enterprises through social dialogue and labour–management agreements: Social responsibility practices in times of crisis*, Briefing note, Industrial and Employment Relations Department (Geneva, Apr. 2010).

Crisis responses verify the value of integrated policy approaches

76. Countries emerging rapidly from the crisis demonstrate the value of pursuing integrated policy approaches. This reinforces what the 2008 Declaration has already

stressed: that the four pillars of the Decent Work Agenda are inseparable, interrelated and mutually supportive. For example, in Australia, a large stimulus (equivalent to over 5 per cent of GDP for 2008–10) composed of cash transfers to low-income households, coupled with large infrastructure projects and accommodative monetary policy, has cushioned the downturn impact on output and the labour market. In Brazil, expanded social protection, a significant rise in the minimum wage, tax incentives for mostly domestically produced automobiles and consumer durables and increased credit through public development banks have sustained domestic demand. The Republic of Korea invested over 6 per cent of GDP in economic stimulus, which included tax cuts for enterprises, infrastructure investments, energy efficiency, support to small enterprises and labour market measures (including expanded unemployment benefits, wage subsidies and skills development). In all cases, targeting measures on specific population groups, economic sectors and institutions proved particularly effective. [45]

77. Importantly, these policy lessons are not only valid for periods of crisis. The 2008 Declaration fully recognized the potential benefits offered by globalization, and also underscored the challenges our Organization must face to achieve an improved and fair outcome for all in the global economy. I now turn to these key policy challenges.

[45] ILO: *Employment and social protection policies from crisis to recovery and beyond: A review of experience*, op. cit.

3. Securing recovery, shaping a fair globalization: Key policy challenges

78. We stand at a critical juncture. The employment crisis remains pervasive even if a deeper setback was forestalled by the swift and decisive response of governments. As I stated in the early days of the crisis: "… a rebalancing between economic, social and environmental goals is vital both to recovery and also the shaping of a fair globalization". [46]

79. The Global Jobs Pact aims to confront the crisis, shape recovery and "contribute to economic revitalization, fair globalization, prosperity and social justice. The world should look different after the crisis". We must again be creative and build upon the experience of the Pact to move forward and help shape an employment-oriented framework for strong, sustained and balanced growth. This is an urgent and major undertaking.

80. Before the present crisis there was already a crisis – a growing unease with the course of globalization, accompanied by rising inequality and imbalances. Too many women and men working in the formal and informal economies have been deprived of opportunities for decent work and sustainable livelihoods.

81. The employment challenge – to raise the quantity as well as the quality of work opportunities for all persons of working age wanting to work – is now more urgent than ever before. The needed quantity and quality of work should underpin our efforts to attain sustained and balanced growth.

82. The starting point is securing recovery and ensuring that it is job-rich.

Fiscal strategies to exit from the jobs crisis

83. Pressure is mounting on governments to scale back or even withdraw fiscal stimulus measures, due to concerns over rising budget deficits. These measures played a crucial role in mitigating the spread of the economic and jobs crises, but we know they cannot last forever. On average, in G20 countries, general government debt as a percentage of GDP increased from 62 per cent in 2007 to 75.1 per cent in 2009.

84. It is important to underscore that deficits have widened primarily as a result of losses in tax revenue, arising from the fall in output and employment provoked by the financial crisis, as the Managing Director of the IMF noted recently. [47] Furthermore, in countries where the financial crisis originated, the growing public deficits also reflect the bailout of financial institutions. Tax increases on the finance sector to recoup the bailouts, including on its most highly paid senior executives, should also play a significant role in fiscal consolidation.

85. Considering the fragile and multi-speed recovery within and across regions and that unemployment is still high in many economies, the IMF has recommended that macroeconomic policies need to be appropriately supportive of the recovery where

[46] International Institute for Labour Studies: *World of Work Report 2008: Income inequalities in the age of financial globalization* (ILO, Geneva, 2008), Preface.

[47] International Monetary Fund: *Key issues note by the IMF Managing Director to the IMFC on the global economy and financial markets – outlook and policy responses*, (Washington, DC, Apr. 2010). Available at http://www.imf.org/external/np/pp/eng/2010/042310.pdf (accessed 11 May 2010).

possible [48] throughout 2010 (and to begin tightening in 2011). The goal is to support the economy until the private sector has acquired sufficient autonomous dynamism. Similarly, the G20 Finance Ministers agreed that stimulus measures still have a role to play: "… In economies where growth is still highly dependent on policy support and consistent with sustainable public finances, it should be maintained until the recovery is firmly driven by the private sector and becomes more entrenched …". [49] The timing and sequencing of unwinding fiscal stimulus must take into account the impact that a rapid or poorly planned withdrawal may have on consumer confidence and domestic demand.

Sound medium-term fiscal strategies need a fast pickup in employment

86. An important lesson from earlier crises is that it takes time for job growth to recuperate to pre-crisis levels after economic recovery is attained. In the current crisis, the IMF estimates there is a risk that the turnaround in unemployment could lag six quarters behind the recovery in output – which means that employment might not return to pre-crisis levels until several years after the end of the recession. [50] Hence, while recognizing that fiscal stimulus packages cannot continue to carry the main weight of the recovery indefinitely, before deficits can be progressively reduced we need to ensure that household consumption and business investment have revived and started to generate new jobs and economic growth.

87. The continuation of well-designed, job-centred measures would effectively support employment recovery, and reduce the risk of wage deflation thereby contributing to revived economic growth. According to recent ILO analysis, this would help attenuate unemployment-related public spending and boost the tax base, thereby contributing to the achievement of fiscal goals in the medium term. [51]

88. Conversely, an early withdrawal from the stimulus would not only damage the employment outlook but would also result in no more than a temporary improvement in the fiscal balance. Indeed, a premature exit would reduce economic growth and thus erode the tax base, while also increasing unemployment-related spending. The attainment of fiscal goals would be compromised in the longer run.

89. Therefore, the best fiscal consolidation strategy is to rapidly revive employment. As I stated earlier this year to the International Monetary and Finance Committee of the IMF, "it is vital that the dimensions of fiscal policy that favour most job creation in the real economy and maintain social protection for the most vulnerable are given priority". [52] Finally, when the time comes for exit strategies to be implemented, there is a need for coordination; if all countries exit suddenly, this may then provoke a double-dip recession.

[48] International Monetary Fund: *World Economic Outlook: Rebalancing growth* (Washington, DC, Apr. 2010).

[49] G20: *Communiqué: Meeting of Finance Ministers and Central Bank Governors*, Washington, DC, 23 Apr. 2010.

[50] International Monetary Fund: *World Economic Outlook*, op. cit.

[51] International Institute for Labour Studies: *Promoting employment recovery while meeting fiscal goals*, Policy Brief (ILO, Geneva, 2010).

[52] ILO: *Towards an employment-oriented framework for strong, sustainable and balanced growth*, statement to the International Monetary and Finance Committee and Development Committee by Mr J. Somavia, ILO Director-General, Washington, DC, 24–25 Apr. 2010.

International support for fiscal consolidation

90. Many advanced, emerging and developing countries lack adequate fiscal space to finance stimulus measures and are in deficit on their balance of payments, with significant foreign debts. [53] The origin of these deficits is usually structural as well as cyclical, requiring major long-term economic adjustments. However, many such countries are now under short-term pressure from finance markets to reduce public spending and increase taxes. Moreover, rapid deficit reduction measures add to the threat of rising labour market distress, a further contraction in domestic demand and a vicious cycle of falling public revenues. A new twist to the financial crisis in the sovereign bond markets risks weakening the incipient recovery in some key regions or even, perhaps, globally.

91. The effective implementation of an employment-oriented framework for recovery by financially constrained countries will require international support to provide the time and space for fiscal consolidation strategies that do not add to the risks of recession but rather promote a pickup in employment. [54] International financial assistance through public agencies and central banks must be supplemented by re-regulation of the finance sector to prevent speculation becoming a self-fulfilling prophecy.

Finance at the service of the real economy

92. The crisis has demonstrated, in the most dramatic terms, why markets do not self-regulate, particularly financial markets with an incentive structure which encourages short-term risk-taking. The unwinding of long and complex chains of credit based on risky and opaque foundations has shown their devastating effects in the real economy. As Richard W. Fisher, President of the Federal Reserve Bank of Dallas has written, "market failures that roil the financial system can have disastrous repercussions, setting off an adverse financial feedback loop of contracting credit flows, declining economic activity and sustained high unemployment". [55]

93. We must start rebuilding the regulatory regime for global finance markets to reduce chronic volatility and instability. Money must work for people. Our financial systems must support, not undermine, fairness in society. We need financial policies that promote productive investment, restrain speculative behaviour, ensure transparency and rebuild credibility in the system.

94. Since the 1980s, world financial assets have grown much faster than GDP and capital has been increasingly channelled into financial assets (figure 3.1). This decoupling process has created inflation of assets, leading to asset bubbles in equities, commodities and real estate and to the speculative flows of capital that have become a permanent source of instability. In the United Kingdom, banking assets have jumped from 50 per cent of GDP to more than 550 per cent over the past four decades. [56]

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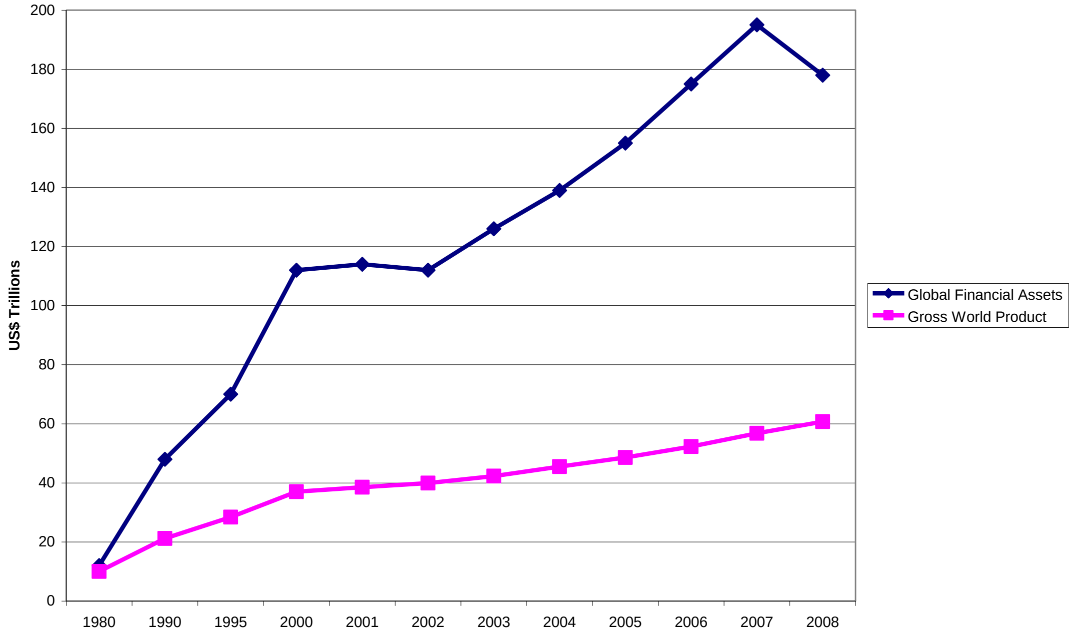
[53] International Institute for Labour Studies: *World of Work Report 2010* (ILO, Geneva, forthcoming).

[54] ILO: *Recovering and sustaining growth and development: The contribution of the Global Jobs Pact*, Working Party on the Social Dimension of Globalization, Governing Body 307th Session, Geneva, Mar. 2010, GB.307/WP/SDG/1.

[55] R.W. Fisher: "Reflections on the financial crisis: Where do we go from here? An essay", in Federal Reserve Bank of Dallas: *2009 Annual Report* (Dallas, 2009). Available at http://www.dallasfed.org/fed/annual/2009/ar09b.pdf (accessed 11 May 2010).

[56] A.G. Haldane: *Small lessons from a big crisis*, remarks at the Federal Reserve Bank of Chicago 45th Annual Conference on Reforming Financial Regulation, Chicago, 8 May 2009. Available at http://www.bankofengland.co.uk/publications/speeches/2009/speech397.pdf (accessed 11 May 2010).

Figure 3.1. Global financial assets and gross world product (GWP) 1980–2008
(in US$ trillion, using 2008 exchange rates for all years)



Source: McKinsey Global Institute: *Global capital markets: Entering a new era* (San Francisco, Sep. 2009); and McKinsey Global Institute: *Mapping global capital markets: Fifth annual report* (San Francisco, Oct. 2008).

95. The banking sector has become highly concentrated – the combined assets of the top three US banks rose from 10 per cent to 40 per cent of total commercial banking sector assets in the period 1990 to 2009. "Too big to fail" financial corporations have been expanding their business across interconnected markets in the financial sector.

96. The financial sector's share of total corporate profit has increased from 25 per cent in the early 1980s to 42 per cent in the years before the crisis. While real wages in the non-financial sector have stagnated over the past 15 years, earnings grew significantly in the financial sector – driven by growing real compensation for top executives, including disproportionate bonus payments. The sector has attracted many of the best qualified personnel, employing over 40 per cent of graduates from the most prestigious business schools. [57] Substantial talent and resources that could have been used to boost innovation and entrepreneurship in the productive sector have been applied in what the head of the British Financial Service Authority, Lord Turner has called "socially useless activities". [58]

97. Moreover, growing pressures for quick financial returns have had a disproportionate effect on wages and job stability in the non-financial sector. Reduction in physical investments and increases in dividend payouts have constituted a noteworthy trend in many countries. The increasing number of mergers and acquisitions operations undertaken by private equity funds via leveraged buyouts with short investment horizons has led to the break up of previously sound and productive enterprises and burdened businesses with heavy debts. These operations tend to result in job cuts as part of

[57] International Institute for Labour Studies: *World of Work Report 2009: The global jobs crisis and beyond* (ILO, Geneva, 2009).

[58] P. Inman: "Financial Services Authority chairman backs tax on 'socially useless' banks", in *The Guardian*, 27 Aug. 2009. Available at http://www.guardian.co.uk/business/2009/aug/27/fsa-bonus-city-banks-tax (accessed 11 May 2010).

restructuring and have adverse impacts on pensions and retirement benefits. Years of commitment and dedication by many to making enterprises productive and sustainable with good labour practices are sacrificed to capture short-term gains for the few. [59]

98. These trends are economically inefficient and socially damaging. The ethic that good hard work deserves a fair reward, a foundation of market institutions and contracts, is undermined by wealth creation increasingly unrelated to the real economy and in some cases ephemeral. The capital gains of managers and owners contrast sharply with the lay-offs, diminished earnings and greater job insecurity of the workforce. Public opinion polls reflect the view that the financial sector has broken the contract with society. A recent Gallup survey shows that, in 2009–10, banking confidence has reached its lowest historical level in the United States. [60]

99. The IMF has pointed out that the fiscal cost of direct support to financial institutions has averaged 2.7 per cent of GDP for advanced G20 countries (net of amounts recovered thus far). In the most affected countries, however, unrecovered costs are in the order of 4–5 per cent of GDP. Amounts pledged, including guarantees and other contingent liabilities, averaged 25 per cent of GDP during the crisis. The IMF suggests consideration of a "financial stability contribution" which would be a levy paid for the fiscal cost of government support to the sector and a "financial activities tax" (FAT), levied on the sum of the profits and remuneration of financial institutions, and paid to general revenue. The FAT would effectively be a tax on value added, and so would partially offset the risk of the financial sector becoming unduly large because it is mostly exempt from existing value added taxes. The size of financial sector value added in many countries suggests that even a relatively low-rate FAT could raise significant revenue in a fair and reasonably efficient way: in the United Kingdom, for instance, a 2 per cent FAT (with all salaries included in the base), might raise about 0.1–0.2 per cent of GDP. The Fund also argues for increased international cooperation, particularly in the context of cross-border financial institutions, and action to reduce current tax distortions that favour debt rather than equity finance under most tax regimes. [61]

100. Progress in reforming the financial sector is a top priority to sustain recovery. Regulatory and supervisory failures must be remedied to build a stronger financial system. [62] Many initiatives are under discussion at the IMF, the G20, the Financial Stability Board (FSB), the United Nations and in regional and national forums. [63] Much of the attention bears on the future stability of the financial system. I think we need to go further. We must reflect on ways to return the financial system to its fundamental role, financing the real economy.

101. Smarter and more proactive regulation is required to stabilize the international system and encourage resource flows and allocations towards longer-term productive investment by sustainable enterprises that raise output and employment growth. The

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[59] ibid.

[60] D. Jacobe: "Americans' confidence in banks remains at historical low", in *Gallup*, 6 Apr. 2010. Available at http://www.gallup.com/poll/127226/americans-confidence-banks-remains-historic-low.aspx (accessed 11 May 2010).

[61] International Monetary Fund: *A fair and substantial contribution by the finance sector*, Interim report for the Meeting of G20 Ministers (Washington, DC, Apr. 2010).

[62] International Monetary Fund: *World Economic Outlook*, op. cit.

[63] United Nations: *Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System* (New York, Sep. 2009). Available at http://www.un.org/ga/econcrisissummit/docs/FinalReport_CoE.pdf (accessed 11 May 2010).

agenda for international regulatory reform is complex and long, but increasingly urgent. As well as tackling systemic risks it must include a focus on improving the flow of finance to sustainable enterprises that generate decent work opportunities.

102. Some building blocks to be considered for an employment-friendly financial sector might include, amongst others, increased incentives for long-term productive investment and conversely the elimination of incentives for short-term non-productive operations by, for example, establishing levies on short-term, “hot”, foreign-exchange transactions. It is also important to significantly upgrade programmes to facilitate access to credit to small and micro-enterprises through specific facilities along with stronger efforts to support management and technical skills development. Regulations to control mergers and acquisitions via leveraged buyouts, such as those undertaken by private equity funds, are needed that take into account the social impact of such operations. Multilateral agreements are also needed to address sovereign debt restructuring and eventual defaults in a long-term perspective. These could include clear restructuring procedures and mechanisms for debt resolution that would take into account abusive and speculative behaviour. Active consideration should be given to the proposals by the IMF for a “financial stability contribution” and a “financial activities tax”. Revenues from such taxation could be made available to finance global public goods through the establishment of global redistributive mechanisms.

103. A new approach to the role of finance in international development and growth is a vital element in shaping a more robust and inclusive globalization.

From recovery to sustainable growth and development

A revised macroeconomic policy approach for employment-oriented growth

104. Important rethinking of macroeconomic policies is under way. The United Nations Commission of Experts chaired by Professor Stiglitz delivered a thought-provoking report in September 2009. [64] The IMF, [65] the Institute for New Economic Thinking [66] launched by G. Soros, and many scholars [67] are acknowledging that a broader range of ideas and perspectives shaping macroeconomic policy decisions is urgently required.

105. I welcome this. It fits well with what ILO constituents are saying, when calling for a globalization guided by broad social justice.

106. The flurry of proposals to inject greater stability into the financial system is timely. Yet, much more than financial stability is at stake. The crisis was global. It requires global solutions. The International Labour Organization must contribute to this debate.

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[64] ibid.

[65] O. Blanchard, G. Dell’Ariccia and P. Mauro: *Rethinking macroeconomic policy*, IMF staff position note SPN/10/03 (Washington, DC, IMF, Feb. 2010).

[66] Institute for New Economic Thinking (INET): *The economic crisis and the crisis in economics*, INET Inaugural Conference held at King’s College, Cambridge, 8–11 Apr. 2010. Available at http://ineteconomics.org/initiatives/conferences/kings-college (accessed 11 May 2010).

[67] See, inter alia, N. Garcia: *La crisis de la macroeconomia* (Marcial Pons, Madrid, 2010); and M. Muqtada: *The crisis of orthodox macroeconomic policy: The case for a renewed commitment to full employment*, Employment Working Paper No. 53, Employment Sector (ILO, Geneva, 2010).

107. The downturn has been averted. Recovery is under way. The shaping of the global economy of tomorrow is still in the works. Post-crisis globalization demands a new course. It will be strongly influenced by the lessons of the 2008–09 crisis and those of the globalization process since 2000. Rising global inequality, persistent informal economy employment and deficient aggregate demand, are some of the imbalances of today that call for new and longer-term solutions.

108. As the IMF has remarked, macroeconomic policy must have many targets. The rate of growth and stable inflation are among these targets, as are broadly balanced public budgets. But there is more. A high level of productive employment, at or as close as possible to, full employment, must be one such target. Another must be broad coverage of basic social protection for all citizens, irrespective of the country. A third must be a better use of automatic stabilizers that protect low-income households in case of major crisis. In all these areas, broader views, greater geographical diversity, and a thorough revisit of the history of ideas, should inform future debates and proposals. I am committed to making the ILO a contributor to these debates.

109. We need a new path of sustainable growth and development. The way forward will require a much closer articulation of the established fiscal and monetary tools of macroeconomic policy with employment and social policies. We need to both raise the pace and employment content of growth and development to secure recovery and accelerate progress in poverty reduction. A process of policy convergence is required to ensure that improved productivity leads to a balanced expansion of wages and consumption on the one hand and savings and investment on the other. A fiscally sound expansion of social protection is a vital component. This will also entail moving from debt-led growth strategies to income-led growth. Furthermore, increased international cooperation and coordination is needed to underpin strong, balanced, and thus sustainable, growth and development.

Investing in economic dynamism and innovation

110. Rapid resumption of robust, job-rich economic growth should be as high an objective as that of lowering deficits and debt ratios. Economic dynamism and job creation in the post-crisis era will need to be spurred by greater innovation. Universities and government-funded research centres typically have longer research horizons than the private sector. For this reason, government policies, funding and incentives should act as a complement, as well as a stimulus, to private-sector investment in research and development (R&D), particularly to support activities that offer wide-ranging benefits and applications across many industries, but which individual firms are unable to undertake. Industrial policies have played a central role in the development of the advanced industrial economies as well as the rise of newly industrialized countries. Research and development (R&D) expenditures have also been rising among new emerging economies. China has launched a national science and technology strategic plan to build an innovation-driven economy and society by 2020. [68] Chilean companies' exports ranging from agricultural goods to information technology services have received government support for R&D. [69] Stronger support to innovation and the diffusion of new technologies is critical to revitalize existing industries and expand into new sectors related to the knowledge economy, with the potential to create productive, skilled and good-paying jobs.

[68] OECD: *Reviews of innovation policy: China* (Paris, 2008).

[69] D. Rodrik: *The return of industrial policy*, Project Syndicate, 2010. Available at http://www.project-syndicate.org/commentary/rodrik42/English (accessed 11 May 2010).

111. However, technological change can also bring about decline in less competitive and traditional industries, for which interventions are needed to cushion the economic and social impacts of restructuring. Employers and trade unions must be engaged as partners in these processes. Social dialogue can play a crucial role in negotiating the terms of tough restructuring measures.

112. Studies confirm that education and skills can raise the productivity of workers and enterprises, provide a foundation for future innovation, encourage investment and innovation, and also contribute towards higher wages and lower unemployment. Providing wider opportunities for workers to access relevant and quality training is a fundamental prerequisite for sustainable enterprises, particularly in making the transition towards productive and innovative sectors linked to the knowledge economy and emerging green industries. [70]

113. Government stimulus packages could include strategic expenditures to boost R&D, innovation, technological diffusion and skills development in new emerging sectors that are knowledge-intensive and highly productive. As the private sector revives, there will be scope for public–private partnerships that can promote economic growth and positive restructuring, which could pave a high road of adjustment with well-paying jobs.

Preparing for the transition to clean energy and green jobs

114. Climate change adaptation and mitigation policies are major drivers of change for societies, economies, enterprises and workers. Jobs in all economic sectors are subject to "greening" effects. Millions of green jobs already exist worldwide and many millions more could be created if investments, policy support and appropriate skills development were available. [71] The shift to a low-carbon, sustainable economy is likely to lead to a net growth of jobs. The balance will vary between countries and sectors, depending upon the extent to which green jobs are being created or substitute existing jobs, and whether proactive steps and policy support maximize opportunities and offset losses of jobs and enterprises. The debate on green taxes and how these can fund employment-friendly programmes is an example of how more positive employment impact could be linked to the greening of industry. [72]

115. A profound transformation in modes of production and consumption can be expected, involving changes in enterprises and redefinition of job profiles. A forthcoming study of 21 countries confirms findings from the Green Jobs Report that skills shortages and mismatches are widespread and threaten to reduce efficiency gains from new technology and slow the growth of green industries. New skills requirements create demand for vocational training institutions and new training curricula.

116. Crisis responses in some countries have boosted the transition to a green economy. The total value of green stimulus packages has been estimated at US$513 billion globally, typically representing 10–15 per cent of packages. [73] Green stimulus measures

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[70] R.C. Altman et al.: *From recession to recovery to renewal: An economic strategy to achieve broadly shared growth*, Strategy Paper, The Hamilton Project (Brookings, Washington, DC, Apr. 2010).

[71] UNEP, ILO, IOE and ITUC: *Green jobs: Towards decent work in a sustainable, low-carbon world* (Nairobi, 2008). This report has been commissioned and funded by UNEP, as part of the joint UNEP, ILO, IOE, ITUC (Nairobi, 2008). Available at http://www.unep.org/labour_environment/PDFs/Greenjobs/UNEP-Green-Jobs-Report.pdf (accessed 11 May 2010).

[72] International Institute for Labour Studies: "Green policies and jobs: A double dividend?", in *World of Work Report 2009*: *The global jobs crisis and beyond* (ILO, Geneva, 2009), Ch. 4.

[73] UNEP: *Global green new deal: An update for the G20 Pittsburgh Summit* (Nairobi, Sep. 2009).

have buoyed growth of green jobs, by leveraging further private investment by households and enterprises. Following the climate negotiations in Copenhagen, 41 industrialized countries announced economy-wide targets for emissions reductions by April 2010 and 35 developing countries communicated nationally appropriate mitigation actions. [74] Hundreds of billions of dollars will be mobilized in national investments to meet these targets and a climate fund of US$30 billion has been pledged to assist developing countries.

117. Ministries of labour and the social partners can lead the transformation. A range of measures has shown to be effective at the national level, including among member States participating in the ILO Global Programme on Green Jobs. Such measures include mapping the projected impacts of climate change and environmental policies on labour markets (both job quantity and quality). Social protection and economic diversification plans can help the adjustment of regions and sectors (including SMEs) and vulnerable groups of workers affected by climate change or new environmental policies. Industrial policies and well-designed vocational curricula and training can be important tools in generating the technology, industries and qualified workers required to support dynamic green industries. Social dialogue should play a role in informing and guiding the transition to a greener economy at all levels.

Tackling the weak relationship between output and employment growth

118. Over the last two decades, up to the crisis of 2008–09, the world economy has on the whole grown quite rapidly. Yet, four interconnected imbalances in this growth experience gave rise to concern, even before the crisis. First, in many economies, the pace of employment growth had slowed despite strong GDP growth. Second, the share of wages in total income had declined. Third, median incomes were stagnant in many countries, reflecting the slow growth of wages among the bottom half and an excessive concentration of income gains at the very top of the income distribution. Finally, world growth was accompanied by increasing current account imbalances, raising questions concerning the sustainability of the overall pattern of world growth.

119. Looking forward and thinking about the policies required to foster strong, sustainable and broad-based growth, it is important to gain a better understanding of the experience of the last two decades and, in particular, analyse the trends in the growth of output, employment, wages and the patterns of final demand. ILO research on the relationship between growth in output and in employment shows it is possible to distinguish three different types of “growth episodes”. [75]

Type 1: Rapid economic growth with robust employment growth – in which growth is rapid and employment growth is also robust (employment elasticity of GDP growth between 0.3 and 0.7). Average labour productivity and employment are both growing.

Type 2: Rapid economic growth with slow or stagnant employment growth – in which GDP is still growing quite rapidly, but employment is growing very slowly or not at all (employment elasticity is below 0.3 or negative).

[74] United Nations Framework Convention on Climate Change (UNFCCC): communications from countries about their economy-wide targets and nationally appropriate mitigation actions pledges (Bonn, 2010), available at http://unfccc.int/home/items/5265.php.

[75] M. Mahmood and C. Saget: “The employment intensity of growth in the G20 countries: Some lessons for strong, sustainable and balanced growth”, Employment Working Paper No. 55 (Geneva, forthcoming).

Type 3: Slow economic growth with low or negative employment growth – in which both GDP and employment are growing far below the trend, are declining, or are nearly entering into recession.

120. The ILO research examined 53 growth episodes for 18 countries over the period 1990–2007. The analysis shows that robust employment growth (type 1) was achieved in only 24 growth episodes, less than half of total episodes. Meanwhile, slow growth and stagnation or decline in employment was the experience in 29 episodes (both types 2 and 3). This finding implies that better outcomes are possible, but they are too often missed.

121. The most desirable and sustainable type of growth is one characterized by rapid expansion of output, accompanied by both employment and productivity growth. This would also require wages rising at a rate close to the rate of increase of productivity with domestic demand expansion as the main driver of growth in demand. Both exports and imports can, and in most cases should, rise faster than output. This is the type of balanced and sustainable growth that leaders called for at the Pittsburgh Summit in 2009.

Reversing the decline in wage shares

122. A further key issue in examining the growth experience in the run-up to the crisis is the development of wages. Wages grew more slowly than GDP per capita over 1995–2007 in many countries. A trend of productivity gains rising faster than real wages over the 1990s and early 2000s generated a reduction of wage shares in total income in many countries. An ILO analysis of the wage share in 71 industrialized and transition countries over the two periods, 1995–2000 and 2001–2007, showed a declining trend in 50 countries. [76] Overall, this analysis estimated that a one-percentage increase in annual growth of GDP was associated with a 0.05 percentage point decrease in the wage share over the two time periods.

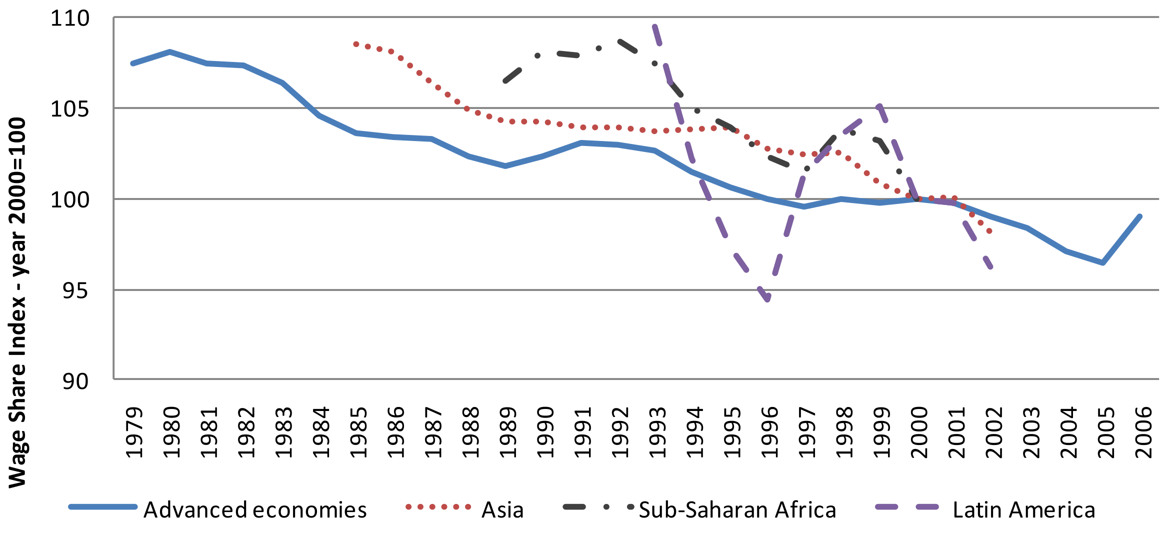
123. A further ILO study revealed a similar trend, in which wage shares declined in nearly two-thirds of 73 countries examined over the period 1979–2006 (figure 3.2). The decline in wage share has been attributed in the literature to three core factors: [77] technology-induced shifts in the demand for skilled labour, or so-called skill-biased technological change; growing participation in global trade where the presence of large low-wage exporters in the market for labour-intensive products has worked as a wage moderating factor; and a declining presence of trade unions in many countries which has weakened workers' bargaining power. The literature tends to omit the effects of the development of financial markets on the wage share even though evidence shows that financial crises as well as financial liberalization have a depressing effect on the wage share. [78]

[76] ILO: *Global Wage Report 2008/2009: Minimum wages and collective bargaining towards policy coherence* (Geneva, 2008). Available at http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_100786.pdf (accessed 11 May 2010); and ILO: *Global Wage Report: 2009 Update* (Geneva, 2009).

[77] ILO: *Global Wage Report 2008/2009*, op. cit.

[78] International Institute for Labour Studies: *World of Work Report 2008: Income inequalities in the age of financial globalization* (ILO, Geneva, 2008). Ch. 2, figs 2.5 and 2.7.

Figure 3.2. The trend decline in labour income as a share of national income, 1979–2006



Note: The figure shows the ratio of total compensation of employees to GDP, corrected for changes in the incidence of self-employment.

Source: International Institute of Labour Studies: *World of Work Report 2008*, op. cit., Ch. 1, Appendix B. Available at http://www.ilo.org/public/english/bureau/inst/download/world08.pdf.

Narrowing wide income gaps

124. Alongside a shift in the wage share in national income in many countries, the gap between the top of the income ladder and the middle and bottom has widened. These widening wage and income inequalities have taken place worldwide, irrespective of national income levels and in spite of an overall fall in absolute poverty worldwide. Recent research based on a cross-country statistical panel including 92 countries over the period 1960–2000 confirms the negative effects of income inequality on economic growth, [79] in addition to the damaging societal effects.

125. United States Vice-President Joseph Biden recently stated: "The middle class needs to get its fair share again", emphasizing his Government's recognition that the weakened link between productivity growth and wages must be renewed if a politically sustainable recovery is to be ensured. [80] This goal was reiterated by G20 Labour and Employment Ministers in their recommendations to the G20 Leaders in April this year. Consumption is a key component of real aggregate demand. Considering that the marginal propensity to consume is higher for labour income than for capital income, policies that aim to boost domestic demand should logically involve a strong focus on raising employment levels, wages and improving the distribution of income.

126. Key policy mechanisms in this regard include measures to stimulate more coordinated collective bargaining for real wage adjustments, particularly where representative institutions for social dialogue exist, as well as minimum wage policies. [81] A larger supply of human capital is associated with lower income inequality, [82] for

[79] R.J. Barro: *Inequality and growth revisited*, ADB, Working Paper Series on Regional Economic Integration, No. 11 (Asian Development Bank, Manila, 2008).

[80] J. Biden: "Opening speech", delivered at the Hamilton Project Forum, Brookings Institute, Washington, DC, 20 Apr. 2010.

[81] ILO: *Global Wage Report 2008/2009*, op. cit. and *Global Wage Report 2009 Update*, op. cit.

[82] International Institute for Labour Studies: *World of Work Report 2008*, op. cit., Ch. 3.

which skills development and strengthened vocational training policies and institutions also play a crucial role. Social dialogue between governments and the social partners can be a particularly effective process to discuss labour market reforms, particularly around social protection, and to attain an efficient design of skill development policies, as well as to facilitate implementation of any agreed measures. Meanwhile, large numbers of atypical and vulnerable workers will also require measures designed to provide them with more appropriate employment conditions and levels of employment security.

127. Improved earnings and social protection are fundamental elements to support domestic demand and investments, rather than the debt-driven culture that was part of the pre-crisis imbalances. Rising real wages are a crucial component within income-led growth policies.

Building a social protection floor

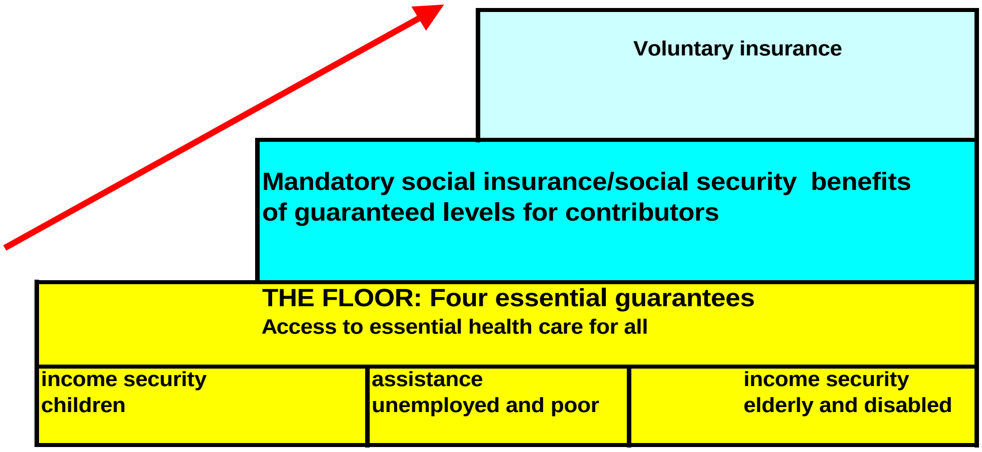
128. There is a growing consciousness of the benefits of social protection: it shields people from destitution and poverty; it empowers them to seize market opportunities; and it contributes to the stabilization of aggregate demand.

129. Countries that have introduced or expanded social protection schemes are now in a better position to cope with the social fallout of the crisis. Nevertheless, universal coverage of basic social protection is still a distant goal, although gradual steps towards that goal are possible.

130. Over the last decade, many developing countries have taken remarkable steps to expand basic health services and establish large-scale social transfer programmes, both important elements of a basic social protection floor. These programmes have been reinforced during the crisis and many governments have announced development plans that include measures to broadly extend their schemes in the coming years.

131. In the years to 2020, I believe the world can experience the fastest and largest social inclusion and poverty reduction process ever. An accelerated and massive social protection coverage expansion is under way to secure the provision of a basic social protection floor to a larger share of the population. Innovation and experimentation have been the hallmark of this emerging holistic social policy approach which combines social protection and decent employment policies as the primary route towards working out of poverty. In this sense, the floor should be understood as the first step towards higher levels of protection, as well as creating the conditions for successful insertion of the poor and disadvantaged in the labour market and improvement in labour standards (figure 3.3).

Figure 3.3. The Social Security Staircase



Source: ILO: Extending social security to all: A guide through challenges and options, Social Security Department (Geneva, 2010).

132. In 2004, the World Commission on the Social Dimension of Globalization concluded that "a minimum level of social protection for individuals and families needs to be accepted and undisputed as part of the socio-economic 'floor' of the global economy ... A global commitment to deal with insecurity is critical to provide legitimacy to globalization".[83] Since then, and during the crisis period, awareness of the need for a global social floor has gained worldwide support, echoed in statements issued by the UN system and the G20.[84]

133. ILO estimates have shown that a tax-financed social protection floor is an achievable medium-term objective in most countries. Initially, some least-developed countries will need international financial support to gradually start up and phase in the schemes.[85]

134. ILO calculations show that a basic social floor benefit package, including cash transfers targeted to poor children, the elderly and workers in 49 least-developed countries would cost about US$46 billion[86] per annum. If transferred to poor families, these resources would be sufficient to pull about 442 million people out of the most severe poverty in the first year, as very substantial contribution to the achievement of MDG One. The cost would amount to 8.7 per cent of the GDP of all least-developed countries, but only less than 0.1 per cent of global world product and 38 per cent of the total official development aid (ODA) for 2009.

135. Certainly, to maintain the impact, international support should be continuous and only gradually withdrawn once the beneficiary countries increase their fiscal space. The

[83] World Commission on the Social Dimension of Globalization: *A fair globalization: Creating opportunities for all* (ILO, Geneva, 2004).

[84] United Nations General Assembly: *Role of the United Nations in promoting development in the context of globalization and interdependence*, a UN General Assembly Resolution, A/RES/53/169 (New York, 1999).

[85] ILO*: Extending social security to all*, op. cit.

[86] In the calculations the benefit package is composed of old-age and invalidity benefits, cash transfers for children and people who cannot earn enough income on the labour market and is designed to lift all poor to the level of the international poverty line equivalent to 1.25 purchasing power parity dollars per day. This calculation includes an administrative cost for the delivery of benefits calculated as 20 per cent of the benefit expenditure.

recent experience of developing countries shows that the flow of monetary resources directly injected at the household level would have significant impacts on local consumption and investment, boosting aggregate demand, generating employment and thereby contributing to expanding the tax base and fiscal space.

136. International financial support should not relieve least-developed countries from their own social responsibilities. Instead, it should provide incentives for them on a cost-sharing basis to move forward on gradually mobilizing national resources for the implementation of social protection measures

Reinforcing international cooperation for balanced growth

137. The past two decades of globalization have deeply interlinked our national economies. The global financial and economic crises have demonstrated how rapidly the negative impacts generated in one country, region or sector can spread to others. International coordination was effective both in forestalling the transmission of contagion, but also in enhancing the positive effects of policy interventions, and must be further strengthened in the future.

138. More than just trade and monetary policies are required to correct imbalances and set us on a new path. We must ensure that our policies towards inclusive and fair labour markets are also coherent with other macro-level policies. This requires a developmental perspective, which includes all countries – and all people of these countries – in this process. Through international coordination, we can obtain better quality growth. Conversely, if we fail to coordinate, then we risk slipping off a sustainable global development path of growth with the risks of imbalances provoking a renewed and perhaps still more serious recession. The twin goals of coordination thus involve controlling volatility while also fostering a more equitable participation in globalization.

139. Economic re-balancing is more vital than ever and a better link between finance, trade, employment and social protection is required. Many countries have turned to exports as a fast track to growth. Increasing trade implies adjustments in both importing and exporting countries, and this process has labour market consequences. Export-led growth cannot be a global strategy. It must have, as a counterpart, an import-led growth strategy. All countries cannot pursue the same export-led strategy. As international discussions focus on securing a fragile recovery, efforts by deficit countries to reduce current account imbalances by restraining public and private domestic demand, without an accompanying effort by surplus countries to maintain demand, could impart a deflationary impulse to the world economy. To counteract such a risk would require a coordinated commitment to sustain global effective demand, including demand in many developing countries by facilitating their better access to long-term capital, thereby permitting a smoother re-balancing. As stated by the G20 Labour and Employment Ministers: "We support the coordination of efforts to prioritize employment growth because strong growth of jobs and incomes in many countries at the same time will buttress global demand, creating still more jobs." [87]

140. International support is also vital to enable fiscally constrained countries to finance their crisis response and recovery promotion policies. This must be part of a reinforced effort to increase the volume and quality of finance for development. Much more

[87] G20: "Labour and Employment Ministers' Recommendations to G20 Leaders", Washington, DC, 21 Apr. 2010.

vigorous and innovative means of international support are needed as part of the new framework to ensure that they are able to adjust through growth and jobs and that recovery is globally inclusive. International cooperation is essential to finance basic social protection and employment promotion programmes in rural development, infrastructure and other areas. A country that does not generate a reasonable tax base will lack sufficient revenues with which to finance social expenditures. Therefore, low-income countries wishing to build social protection floors, will require international assistance for a period of time.

141. There is an important role for international cooperation to prevent tax competition that can undermine the revenue base countries need to ensure the provision of vital public goods. Experience has shown that in a crisis context, tax cuts are more likely to have an impact on aggregate demand through increased consumption if poor households are targeted. In periods of uncertainty, tax cuts for middle- and high-income sectors will probably be converted into increased savings, which has positive effects but not the desired result of increased demand.

142. Working as part of the United Nations system, we share in the aim to accelerate progress towards the Millennium Development Goals (MDGs), as many efforts have been blown off track by the crisis. The MDGs have identified development objectives around which agencies have focused their efforts. However, a broader international framework is needed to attain these development goals. A crucial issue concerns how the creation of decent jobs and sustainable enterprises is central to efforts to get back on track for rapid poverty reduction. The ILO has a great deal to contribute to this international development framework, because of our mandate, because of our expertise and because of our tripartite membership with the actors of the real economy. We look forward to participating in the MDG Summit this September at United Nations headquarters in New York. We also plan to contribute actively towards the Fourth United Nations Conference on Least Developed Countries, to be held in Turkey next year. These are important forums which can give guidance to the actions taken by regional organizations or groups such as the G20.

4. Enhancing ILO capacity to face the new challenges

143. As my Report has highlighted, governments have taken historical steps to respond quickly and decisively, and this has forestalled the evolution of a worse global jobs crisis. Based upon our analysis of the crisis policy measures taken, we have learned a great deal and have developed new expertise to share with each other. However, as with all things, each step forward brings with it new challenges. This Report has identified some of the key challenges ahead. Our 2008 Declaration provides guidance regarding how the Organization should adapt itself to better assist its Members in their efforts to confront these new challenges, signalling that "… the Organization should review and adapt its institutional practices to enhance governance and capacity building in order to make the best use of its human and financial resources and of the unique advantage of its tripartite structure and standards system …". [88] I describe below a number of activities which the Office is undertaking in order to enhance its capacity to face these new challenges. We are reacting to the requests made of our Office. Below are a few of these unprecedented elements which I would like to highlight.

144. The 2008 Declaration called upon us to respond to the challenges of globalization. Now globalization has just given us the biggest crisis in history. These are my views below. I would like to know your views on this.

145. **Developing a more robust database of national and international employment indicators.** In general, there exists a deficit of broad labour indicators available for countries and regions. While broad economic indicators are generally available, there exist few updated data sets of employment and labour indicators, except for some countries. In this regard, we are now moving to assist countries to improve their data gathering and compilation and publish their employment indicators more frequently and to make available a broader range of indicators beyond employment and unemployment indicators. For example, some areas where we could benefit from improved data would include indicators of labour underutilization, employment quality and wages.

146. **Enhancing knowledge management and providing real-time policy analysis.** I am building up the institutional capacity of the Office to manage and disseminate knowledge more effectively. With this new capacity, we will have an operational system in place that permits the Office to follow policy evolutions in the realm of the Decent Work Agenda in real time. We can better disseminate this knowledge through publications such as short policy briefs. We have already demonstrated our knowledge capacity this year, by preparing various studies involving data collection, policy analysis and identification of joint lessons learned of country crisis policy responses, for a series of meetings of various regional and international groupings. Further strengthening this capacity implies major changes in the way we work, in the way we follow the evolution of policies under our mandate and in the manner in which we deepen our country-specific expertise.

147. **Linking employment and macroeconomic policies.** I am increasing the capacity of the Office to examine employment outcomes of macroeconomic policies. This strengthened analytical capacity will enable us to better assist ministries of labour and

[88] ILO*: ILO Declaration on Social Justice for a Fair Globalization*, adopted by the International Labour Conference at its 97th Session, 10 June 2008, Section II(A) (Geneva, 2008). Available at http://www.ilo.org/wcmsp5/groups/public/---dgreports/---cabinet/documents/publication/wcms_099766.pdf (accessed 11 May 2010).

employment to engage in macroeconomic debates in general. As an example, we could examine the impacts of changes in tax policy upon employment, or how monetary supply and credit flows affect micro, small and medium enterprises and their job-creating potential. Our research capacity will also assist our Members through cyclical reviews and through country studies that undertake our work in a comprehensive fashion, treating the four strategic objectives as inseparable, interrelated and mutually supportive, in line with the 2008 Declaration, "… As trade and financial market policy both affect employment, it is the ILO's role to evaluate those employment effects to achieve its aim of placing employment at the heart of economic policies". [89]

148. **Delivering technical support at the national level.** The Office is enhancing its capacity to provide technical support and policy oversight at the national level. I have recently announced a new two-tier field structure, the establishment of a number of Decent Work Technical Support Teams that will achieve greater critical mass in each region, and the use of national coordinators in countries without an office but where our activities warrant a stronger presence. The new field structure is intended to strengthen the ILO's capacity to service its Members globally, in regions and at the country level. This is another way in which the Office is assisting its Members, in line with our 2008 Declaration that has requested the Organization to "… provide, upon request of governments and representative organizations of workers and employers, all appropriate assistance within its mandate to support Members' efforts to make progress towards the strategic objectives through an integrated and coherent national or regional strategy …". [90] The new field structure is also intended to respond to the rapidly evolving development and operational framework within the United Nations system at the country level. These new arrangements provide for the flexible deployment of technical specialists within regions. In addition to these structural changes, of equal importance are the associated changes in working methods, particularly enhanced teamwork across the Office. [91]

149. **Providing knowledge sharing and policy dialogues.** The crisis has strengthened the Office's collaboration with other international agencies, the regional development banks, the international finance institutions and with regional economic commissions. It has also further enhanced our good working relationships within the United Nations system more generally. This represents an important institutional step forward for the ILO. Looking ahead, we must work in closer partnership with the World Bank, regional development banks and within the United Nations system. The ILO must assume a strong role in developing a new multilateralism, in line with the vision of our 2008 Declaration, and promote decent work which is a priority in virtually all countries and is interconnected with a wide range of economic, social and environmental objectives. We are already collaborating actively with UNDP and other United Nations agencies, both in headquarters and through our field offices. We contribute to the United Nations Development Assistance Frameworks (UNDAFs) together with governments and the social partners. Additionally, we are currently engaged at the request of the G20 with the IMF in a mutual assessment exercise of long-term policies. These important relationships must be further built and strengthened, especially at the regional level.

[89] ibid., Section II(C).

[90] ibid., Section II(C) of the Follow-up to the Declaration.

[91] ILO: *Enhancing delivery of ILO services to constituents*, Director-General's Announcement, ILO internal governance documents system (IGDS), No. 150, 13 Apr. (Geneva, 2010).

150. Consistent with the 2008 Declaration, which began a process of self-examination, this Conference will discuss a report on employment policies for social justice and a fair globalization. The recurrent item discussion is an opportunity for you to provide your views on what we have learned from the crisis, how the Office has responded and what the future directions are to enhance the ILO capacity to face the new challenges ahead.