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Urgent coordinated measures to promote employment and decent jobs

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Summary

- Four years after the global financial crisis an unemployment crisis continues in many countries. Global unemployment is still over 30 million higher than before the crisis and nearly 40 million more people have dropped out of the labour force. With growth slowing around the world there is a high risk of the world economy sliding into a period of sustained high unemployment and declining labour force participation, which would lead to sub-par growth into the foreseeable future. Prolonged lower global growth and mass unemployment and underemployment will exacerbate the already bleak outlook for poverty alleviation, youth unemployment and social cohesion. The victims will be billions of people and the communities and nations in which they live.
- The latest forecasts of the IMF suggest further deterioration in growth in the latter part of 2012 and in 2013 which will deepen the global jobs gap that opened up with the 2008 crisis. Yet as the World Bank's latest World Development Report confirms, "Jobs are instrumental to achieving economic and social development." It is time for a policy rethink.
- At their Summit in Los Cabos in June, G20 Leaders agreed in their Growth and Jobs Action Plan that "should economic conditions deteriorate significantly further, Argentina, Australia, Brazil, Canada, China, Germany, Korea, Russia and the US stand ready to coordinate and implement additional measures to support demand, taking into account national circumstances and commitments." It is now abundantly clear that such a deterioration is underway and additional measures are urgently needed. The countries that indicated their willingness to join such a coordinated effort account for half of global output, and so could have a pronounced effect on global conditions.
- The latest IMF World Economic Outlook recognizes that fiscal multipliers had been underestimated by many governments embarking on austerity measures. This means that the damage to the economy of such measures is larger. By contrast, the IMF estimates that the benefits of the earlier stimulus measures taken since the crisis began have been two to three times higher than previously thought. Therefore, a systematic review of fiscal targets to boost demand, coupled with continued monetary easing, would have substantial multiplier effects that could, if taken simultaneously, put the global economy onto a sustainable recovery and growth track.
- Policy initiatives should focus on measures that act on both the demand and supply side of the labour market such as: i) supporting infrastructure investment; ii) improving access to bank funding for SMEs; iii) extending the coverage of social protection; and iv) investing in job prospects for youth. The ILO stands ready to work with governments, business and labour as well as with regional and global institutions to turn these proposals into practical policy options and programmes.

New global initiatives needed to increase employment and decent jobs and to support demand

1. I must emphasise in the strongest terms that prolonged global sub-par growth and widespread unemployment and underemployment have disastrous consequences for billions of people and their communities and nations by weakening potential growth and undermining stability and social cohesion.

2. Yet four years after the crisis precipitated by the fall of Lehman Brothers there is high risk of the world economy sliding into a period of sub-par growth.

3. Global unemployment is still more than 30 million higher than before the crisis and nearly 40 million more women and men have stopped looking for work. 75 million of the more than 200 million unemployed are young women and men under 25. With the world's workforce growing by around 40 million a year we face large and growing decent work deficits stretching out years ahead.[1]

4. Of those employed, 900 million women and men are unable to earn enough to lift themselves and their families above the $2 a day poverty line. Had pre-crisis trends in poverty reduction been maintained this figure would now be 55 million lower.

5. Coordinated action by the governments of the world's leading economies can and must prevent a slide into a political, economic and social quagmire.

6. Just three months ago at their Summit in Los Cabos, G20 Leaders agreed in their Growth and Jobs Action Plan that "should economic conditions deteriorate significantly further, Argentina, Australia, Brazil, Canada, China, Germany, Korea, Russia and the US stand ready to coordinate and implement additional measures to support demand, taking into account national circumstances and commitments."

7. I believe it is now abundantly clear that conditions are deteriorating significantly and additional measures are urgently needed. The countries that indicated their willingness to be part of such a coordinated effort account for half of global output. The latest IMF World Economic Outlook recognizes that fiscal multipliers had been underestimated. This means that the damage of austerity measures has been more profound than previously thought. By contrast, the IMF now finds that stimulus measures adopted since the crisis have had multiplier effects two to three times as large as the multipliers governments have been using. A systematic review of fiscal targets, coupled with continued monetary easing, could, if taken simultaneously, put the global economy on a recovery and growth track. A credible commitment from those leading countries best positioned to support global demand would also open policy space for others to either slow the pace of fiscal adjustment or themselves add to the stimulus.

Coordinated fiscal and monetary stimulus to overcome effects of financial crisis on jobs

8. Large scale financial crises have long lasting and extremely damaging effects, not least on employment. Both fiscal and monetary policies have to be used actively to stave off prolonged stagnation. Fiscal deficits can eventually be brought down and monetary policy can return to a more neutral stance but premature retrenchment weakens growth and works against both the public and private sectors' efforts to reduce the debt overhangs left by the financial crisis.

9. The financial markets of the largest advanced countries are still not performing their essential function as the conduit of savings into the productive investments that generate decent work opportunities. Reform and repair of the private financial sector is not complete yet the focus of attention is on public finances, which took the burden of preventing banking failures. Small enterprises in particular are credit constrained in many countries when they could add significantly to recovery if the banking system operated more efficiently. Measures such as credit guarantees or the establishment of public banks to support small enterprise investment are being introduced by several countries and should form part of the reform agenda.

10. Current international policy conditions for support to Eurozone countries in financial difficulty have not focused on the need to stabilize economies as a precondition for future growth. Wave after wave of austerity is reducing the denominator (GDP) faster than the numerator (public debts) leading to higher ratios, higher interest rates for public and private borrowing and still deeper recession. With unemployment and youth unemployment in particular reaching catastrophic levels, the costs in terms

[1] Global Employment Outlook September 2012: Bleak Labour Market Prospects for Youth, ILO Geneva September 2012 http://www.ilo.org/global/research/global-reports/global-employment-trends/2012/WCMS_188810/lang--en/index.htm

of social and political cohesion as well as future economic potential are rising daily. Where fiscal consolidation is needed, it can only be sustainable if undertaken with social responsibility and a fair sharing in the burden of pain. Investment in active labour market policies such as well-resourced public employment services and special programmes for disadvantaged groups, notably youth, pay off by reducing expenditure on unemployment benefits and boosting growth potential.

11. As I take up the office of Director-General of the ILO, I confirm that the ILO is prepared to work with the IMF and governments to explore and facilitate pathways to socially viable fiscal consolidation.

Urgent policy packages to boost employment and reactivate sustained economic recovery

12. There is now an urgent need to revisit the timelines for fiscal balances taking a much longer view of the time it will take to repair the damage done by the financial excesses of the pre-crisis period. In the interconnected global economy of the 21^{st} century, the spillover effect of countries with fiscal space continuing to cut deficits is extremely damaging on countries most exposed to a capital market strike.

13. The way out of this policy impasse was foreseen in Los Cabos and must now be implemented. As the joint ILO, OECD, IMF, World Bank report "Boosting Jobs and Living Standards in G20 countries" argued "in considering further action to accelerate the pace of job recovery, G20 countries may wish to focus on specific areas covering both the demand and supply sides of the labour market." [2]

14. I would urge that attention be given to the four priority policy areas suggested by that report:

i) supporting infrastructure investment by taking advantage of ultra-low interest rates; developing, emerging and developed economies alike should invest in future-growth enhancing infrastructure;

ii) improving access to bank funding for SMEs, which is currently impaired by bank overhangs and restructuring;

iii) extending the coverage of social protection, an urgent need and an affordable option in all countries as recognized by the ILO social protection floor initiative; and

iv) improving job prospects for youth, one of the groups most exposed to the crisis with potentially long term scarring effects

15. The ILO stands ready to work with governments, business and labour as well as with regional and global institutions to turn these proposals into tangible and feasible options. Such policy packages--tuned to the differing circumstances of deficit and surplus, advanced and emerging economies--could not only boost jobs and living standards but also support rebalancing of the global economy.

Mending the link between wages and productivity to dampen rising income inequality

16. A forthcoming ILO report[3] finds that wages have lagged productivity growth in 36 developed economies for much of the past decade. The consequence was a change in the distribution of national income between wages and capital, with decreasing labour income shares and increasing capital income shares. This affected consumption, savings, exports and growth in different ways. The existence of a large current-account surplus in some countries suggests that there is room to better link wages and productivity increases as a means to stimulate domestic demand while addressing equity.

17. In current account deficit countries, increased competitiveness is a route out of the high unemployment/low growth trap. This requires lower unit costs of production, which can be achieved

[2] Available on http://www.ilo.org/global/about-the-ilo/how-the-ilo-works/multilateral-system/g20/lang--en/index.htm

[3] Global Wages Report 2012/3 ILO (forthcoming). The 2012 UNCTAD Trade and Development Report on Policies for Inclusive and Balanced Growth includes an extensive analysis of trends in income inequality and factor shares.

through increased productivity, lower real wages, lowered exchange rates when that is an option, or some combination of these measures. Yet in a world of open capital flows exchange rate devaluations are hard to achieve while raising productivity takes time and new investment. So the short cut to competiveness has been deemed to be wage cuts. The increased competiveness however is only effective if other countries do not follow suit. If export markets are flat even an increased share of exports in national output may not counterbalance the domestic recession deepened by wage cuts.

18. Widening income inequality and shifts away from wages in factor shares inhibit consumption and undermine growth. Among the most effective instruments to narrow social gaps are expansion of productive employment, strong support to collective bargaining, maintaining the value of the minimum wage, and expansion of social security coverage. The best way to achieve or maintain these successful policy measures is through negotiation and social dialogue between business and labour, with government participation and facilitation. As Director-General of the ILO, I intend to place new focus and emphasis on these critical policy tools.

The centrality of jobs in the development process

19. I welcome the World Bank's 2013 World Development Report (WDR): "Jobs" as a timely, well-researched and well-argued testament of why employment is instrumental to achieving economic and social development. In many respects the report's conclusions are convergent with those of the ILO and reference is made to the ILO's concept of decent work and numerous policy and research documents of the ILO. The report paves the way for the Bank to align itself with the endorsement of the ILO Decent Work Agenda by the United Nations and many other international organization and thus promote enhanced policy coherence.

20. We have many areas of collaboration with the Bank, and I look forward to an early opportunity to discuss with President Jim Yong Kim and his colleagues how our two organizations can collaborate closely in following up the report's findings with practical support to governments, business and labour around the world.

21. The notions that jobs are transformational, that development happens through jobs, and that working out of poverty is the most effective route for poverty reduction are ideas fully in line with ILO thinking, indeed ideas that the ILO has been advocating for years. The fact that the "Jobs" WDR contains these policy messages, and that it elaborates on their analytical and practical rationale, is an important contribution to a more people-centred development and to a much needed rebalancing of policies. With the jobs crisis deepening and reflection on the post 2015 sustainable development agenda beginning, these messages are timely and welcome.

22. The Report concludes with a heartfelt plea for more resources to collect the basic labour statistics we need to measure what is happening and assess the impact of policies. The ILO warmly welcomes the Bank's joining the ILO in advocacy of effective national labour statistics systems which were all too often decimated in the years of structural adjustment. The report identifies three data challenges: gaps, quality and dissemination. It highlights the need to build the labour statistics capacity of countries. It is particularly vital that the Bank and the ILO collaborate in following up this proposal as governments cannot afford to waste money and we must ensure an internationally standardized approach. As host to the regular International Conference of Labour Statisticians, the ILO is at the heart of the network of expertise in this field which can bring this about and looks forward to working together with the Bank closely.

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