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**Statement by Juan Somavia
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Towards an Employment-Oriented Framework for Strong, Sustainable and Balanced Growth

**Statement by Mr. Juan Somavia, Director-General, International Labour Office
International Monetary and Finance Committee and Development Committee
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Summary

1. In 2010 and 2011, public and private policies must converge to strengthen credit flows, investment, sustainable enterprises and decent work creation, and reinforce what in many countries is still a fragile recovery. The timing and sequencing of the progressive winding down of extraordinary measures will require careful assessment. The aim should be that they progressively give way to stronger household consumption and business investment in lifting employment and output.
2. In this framework, 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. Building a much closer relation between labour market developments and macroeconomic policy is essential. The employment and social protection policies deployed by many countries interact with each other and contribute to improved macroeconomic performance and a stronger employment intensity of growth. We must ensure that financial markets service the real economy.
3. Accelerating the jobs recovery is the key policy challenge. International coordination is vital in all these policy fields. A continued focus, in all countries, on productive investment, sustainable enterprises, inclusive labour markets, wide coverage of social protection and basic labour rights, the elements of the decent work agenda, will usher in a more stable, stronger world economy with a robust social dimension.

Prospects for employment recovery weak despite differentiated pick-up in output

4. 2010 opened with record levels of global unemployment estimated by the ILO to total 212 million. Furthermore this is only the tip of the iceberg. In addition there are large numbers of discouraged workers who have temporarily ceased active job search, others involuntarily working part time and, especially in developing countries, workers resorting to informal activities unable to find formal jobs. Earnings have also been squeezed in many countries by reduced hours of work, cuts in overtime and benefits and, in some cases, cuts in rates of pay. The direct and indirect consequences are an estimated increase since 2008 of 100 million in the numbers of working poor.¹
5. The latest economic forecasts of the IMF and others now point to a recovery in output in most countries although highly differentiated between regions.

¹ Global Employment Trends, ILO January 2010

However unemployment could still increase in a number of mainly advanced countries during the year or at best only stabilize at high levels. In developing countries, especially those with a continuing fast pace of growth in the working age population, the challenge is to reach rates of employment growth which meet the need to offer opportunities to new entrants as well as the unemployed and those moving to urban areas out of agriculture.

6. Youth unemployment and long-term unemployment have increased in many countries with the risk that the scarring effects of the financial crisis on society could be prolonged and entrenched. As the IMF World Economic Outlook estimates there is a risk that the turn round in unemployment could lag six quarters behind that in output. This in turn could mean that employment would not be back to pre crisis levels until several years after the end of the recession.
7. This is a scenario that we need to change. As I said in Istanbul in October 2009, “a jobless recovery would not be economically, socially or politically sustainable.”

Policy responses are having an impact

8. The ILO has recently estimated that overall G20 policy responses will have created or saved 21 million jobs in G20 countries by 2010 as a result of both discretionary policy measures and the working of automatic stabilizers. The policy conclusion is that strong counter cyclical policies are working. They are mitigating the rise in unemployment and helping people through the crisis by expanding social protection measures. This period has been one of activism and experimentation. The scale and extension of this policy approach is innovative, different in many respects from that applied to previous financial crises. And yet we know that a jobs-rich recovery is not yet in sight.²
9. Countries’ policy responses have reflected the options offered in the ILO’s Global Jobs Pact, adapting the composition and weight assigned to different instruments. Balancing the choice of policies in accordance with national realities, priorities, institutional capacities and resources has proven to a key policy challenge. Overall it would seem that integrated policy packages work best.³
10. Now the central policy issue facing all countries is to find the policy combination for 2010 and beyond that reduces the time lag between output growth and employment creation in socially acceptable ways. In all countries, reinforcing social cohesion is central.
11. In this regard, three policy evolutions are noteworthy. First, the role and legitimacy of social protection has grown significantly. There is a growing consciousness of its triple benefit: it protects people from becoming trapped in debilitating poverty, empowers them to seize market opportunities and contributes to aggregate demand. Several countries are already putting in place

² Accelerating a Job-Rich Recovery in G20 Countries: Building on Experience, An ILO report, with substantive contributions from OECD, to the G20 Labour and Employment Ministers Meeting, Washington D.C., 20-21 April 2010

³ Recovering from the crisis: A Global Jobs Pact, ILO June 2009

and expanding progressively a comprehensive and fiscally sound basic floor of social protection as a regular component of overall economic and social policies.

12. Second, in many countries, tripartite understandings, social dialogue, collective bargaining and diverse labour-management agreements to address the crisis (from the firm to the national level) took place. In the critical years ahead, social dialogue can prove to be a key management tool to help implement policies to accelerate a job-rich recovery and shape a more stable and inclusive path for the global economy.
13. Third, in many countries, labour and employment ministers are today closer to macroeconomic policymaking. The political importance of employment and labour issues for citizens and the need to conceive policies in more integrated ways has given greater space to combined economic growth, employment and social protection policies. Such policies support labour demand and labour supply by enabling more women and men to enter productive employment.

Looking ahead

14. 2009 was the year governments had to act to bailout financial institutions that posed systemic risk, halt the slide from recession to depression and ensure that working families and the most vulnerable were protected as much as possible. Addressing these risks must continue, but overall 2010 and 2011 are much more about public and private policies converging to strengthen credit flows, investment, sustainable enterprises and decent work creation, and reinforce what in many countries is still a fragile recovery.
15. Fiscal stimulus packages cannot carry the main weight of sustaining demand forever. The timing and sequencing of progressive winding down of extraordinary measures will require careful assessment to progressively give way to stronger household consumption and business investment lifting employment and output. The faster the pick-up in employment the higher buoyancy in tax revenues and the lower unemployment-related expenditures will be. As the IMF argues in the April World Economic Outlook, in most countries, given the fragile recovery, fiscal stimulus planned for 2010 should be fully implemented.
16. In these circumstances, 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. I welcome the greater participation in many countries of employment and labour ministers in appraising macroeconomic recovery strategies.
17. Earlier this week, as requested by their Leaders in Pittsburgh, G20 Employment and Labour Ministers met in Washington and prepared recommendations for their Leaders. I strongly commend them to the International Monetary and Finance and Development Committees. They set out an approach which has global relevance. On placing employment and poverty alleviation at the centre of national and global economic strategies, they conclude:

“Our Leaders have already agreed on the importance of building an employment-oriented framework for future economic growth. The crisis has taught that employment and social consequences must be taken into account when adopting economic strategies. This will

*require greater coherence and coordination of the policies of our national governments as well as between international bodies assigned responsibility for different aspects of international economic policy. We welcome the participation of the ILO among the institutions implementing the Framework for Strong, Sustainable and Balanced Growth to help ensure that decent work, inclusiveness and social sustainability are part of the strong foundation that we seek to build for the future. We strongly concur with our Leaders that international institutions should consider ILO standards and the Global Jobs Pact in their crisis and post-crisis analysis and policy making activities.*⁴

18. Putting in place a strong framework for balanced and stable growth calls for action in different policy fields towards several converging objectives.
19. Establishing a much closer relation between labour market developments and macroeconomic policy than we have had in the past is essential, for example, by considering employment creation a priority macroeconomic goal in the same way as low inflation and sustainable public finances. As Dominique Strauss-Kahn has said “macroeconomic policy can pursue different objectives at the same time.”⁵
20. The employment and social protection policies deployed by many countries interact with each other and contribute to improved macroeconomic performance. Significant benefits are being realized from the pursuit of an integrated approach which embraces the potential for green jobs and clean energy technology to yield substantial employment and environmental benefits.
21. We need a stronger employment intensity of growth. This means hitting the right balance between productivity, employment and wage growth across the different sectors of the economy. This in turn can lead to an income-led growth and development pattern to replace the debt-driven and unstable model which led up to the financial crisis.
22. We must ensure that financial markets service the real economy. The finance sector should meet the need for investment, innovation, trade and consumption in the mainstream economy. We need to adopt financial policies and regulations which encourage resource flows and allocations – including development cooperation -towards longer-term productive investment by sustainable enterprises. I welcome the interim IMF report on A Fair and Substantial Contribution by the Finance Sector which suggests a number of possible avenues for rebalancing the role of the finance sector in our economies.
23. International coordination is vital in all these policy fields. It has proved its value in preventing a world depression. Balanced growth of the global economy rests on balanced growth of national economies. Sustaining the recovery of the global economy given the differences that are emerging may require yet more coordination.

⁴ G20 Labor and Employment Ministers’ Recommendations to G20 Leaders April 21, 2010. (Emphasis added.)

⁵ Economic Policy Challenges in the Post-Crisis Period, Speech to Institute for New Economic Thinking, Cambridge UK, April 10 2010

24. Looking ahead to the next 18 months and beyond, countries are faced with a differentiated recovery in output and a continuing jobs crisis and worsening public finances. Prolonged labour market weakness has a “scarring” effect on the economy and society that is hard to heal. Furthermore unemployment and underemployment are hampering recovery and heightening risks of a slow return to strong growth. Accelerating the jobs recovery is thus the key policy challenge for all countries.
25. Only a sustainable and balanced path of recovery will be able to consolidate the fragile gains recorded thus far. Strong, sustained and balanced growth as called for by G20 Leaders in Pittsburgh will require adaptations to the policy mixes and more attention to employment and social protection. In responding to the global crisis, countries have moved in that direction. A continued focus, in all countries, on productive investment, sustainable enterprises, inclusive labour markets, wide coverage of social protection and basic labour rights, the elements of the the decent work agenda, will usher in a more stable, stronger world economy with a robust social dimension.