



# **International Monetary and Financial Committee**

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**Statement by Mr. Somavia  
International Labour Office**





## **From crisis response to recovery, jobs and sustainable growth**

**Statement by Mr Juan Somavia, Director-General, International Labour Office**

**International Monetary and Finance Committee and Development Committee**

**(Istanbul, 4-5 October 2009)**

### ***Continuing Risks to Employment and World Economic and Social Stability***

1. Indicators of global labour market distress are on an upward track which is likely to continue well into 2010 despite some initial signs that measures of the fall in output are easing and could become positive. The ILO forecasts that continued labour market deterioration around the world in 2009 would produce an estimated increase in global unemployment of between 39 and 61 million workers relative to 2007, which could result in global unemployment ranging from 219 to 241 million – the highest level ever on record.<sup>1</sup> These figures also do not include a large increase in the numbers of discouraged workers, those on involuntary part-time work and pushed into informal work. This jobs' shortfall is despite the employment and social protection measures taken by G20 governments since the economic crisis began which will have created or saved an estimated 7 to 11 million jobs in the G20 countries this year.<sup>2</sup>
2. Labour market distress remains acute as a result of the crisis. If the special measures taken are unwound or withdrawn too early, the jobs crisis may worsen even further. Although some countries in Asia and Latin America have managed to keep their economies growing albeit at a reduced pace, job creation has slowed and job loss increased virtually worldwide. For women and men worldwide, and in particular for the most vulnerable and disadvantaged, the crisis will not be perceived as receding until they get a decent job and a minimum floor of social protection.
3. I welcome the Managing Director's statement that "even if growth recovers, it might still take some time for employment to follow. Unemployment might very well continue rising next year, even as the economy bounces back. For people losing their job, the crisis is not over. In many countries, particularly those without adequate social safety nets, poverty will persist. And with this comes risks to social stability."<sup>3</sup> A jobless recovery would not be economically, socially or politically sustainable.

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<sup>1</sup> Key Indicators in the Labour Market, 6th edition, 2009

<sup>2</sup> Protecting People, Promoting Jobs: From crisis response to recovery and sustainable growth: ILO Communication to the Pittsburgh G20 Summit

[http://www.ilo.org/public/libdoc/jobcrisis/download/protecting\\_people\\_promoting\\_jobs\\_summary.pdf](http://www.ilo.org/public/libdoc/jobcrisis/download/protecting_people_promoting_jobs_summary.pdf)

<sup>3</sup> Remarks by Dominique Strauss-Kahn, Managing Director, International Monetary Fund, at the Global Creative Leadership Summit, New York City, 23 September 2009

4. The world's economically active population rises every year by some 45 million persons; mostly young women and men in developing countries entering the labour market. The challenge we face is to reduce unemployment and absorb this increase in the labour force. To do so we will need to ensure that employment recovers strongly along with the pick-up in output.
5. There is a grave danger of long-term damage to the job prospects and productivity of the current cohort of young working women and men as a result of the scarring effects of unemployment and underemployment.

### *The ILO Global Jobs Pact*

6. Harnessing economic recovery to the expansion of decent work opportunities through a internationally agreed basis for policy making is the fundamental objective of the ILO Global Jobs Pact adopted at our June 2009 International Labour Conference.<sup>4</sup> It is a call for urgent worldwide action: national, regional and global. Heads of State and Government, Vice-Presidents, ministers of labour and leaders of employers' and workers' organizations from all regions voiced vigorous political support for the Global Jobs Pact at the ILO Summit on the Global Jobs Crisis held from 15 to 17 June 2009. It was strongly backed by UN Secretary-General Ban Ki-moon in his message to the Summit.
7. The Pact is a robust response of the representatives of governments, business and labour – actors of the real economy – to an unprecedented increase in global unemployment, underemployment and informal work which compound pre-existing labour market problems. It proposes a balanced and realistic set of policy measures that countries, with the support of regional and multilateral institutions, can adopt to strengthen their ongoing efforts to address the crisis while pursuing economic, social and environmental sustainability. It presents an integrated portfolio of tried and tested policies that puts employment and social protection at the centre of crisis response. These policies can be tailored to national and local situations and many countries are already implementing some of them.
8. The Pact proposes measures and policies to:
  - Retain women and men in employment as far as possible, and sustain enterprises, in particular small, medium and micro-enterprises;
  - promote investments in employment intensive sectors, including green jobs and support job creation across economic sectors, highlighting the critical role of agriculture for employment and economic development in developing countries;
  - facilitate more rapid re-entry into employment and address wage deflation;

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<sup>4</sup> "Recovering from the crisis: A Global Jobs Pact". Resolution adopted by the 98th Session of the International Labour Conference, Geneva, June 2009.

[http://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---relconf/documents/meetingdocument/wcms\\_108456.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_108456.pdf)

- protect persons and families affected by the crisis, in particular the most vulnerable and those in the informal economy, by strengthening social protection systems to provide income support and sustain livelihoods as well as security of pensions;
  - accelerate recovery of employment and expand opportunities by acting simultaneously on labour demand and on labour supply; and to
  - equip the work force with the skills needed for today and tomorrow.
9. The Global Jobs Pact is based on the ILO Decent Work Agenda and recalls that respecting fundamental principles and rights at work, promoting gender equality and encouraging voice, participation and social dialogue are also critical to recovery and development. Adopted in an integrated and coordinated manner these policies can reduce social tensions, mitigate the impact on people, stimulate aggregate demand and reinforce both competitive market economies and a more inclusive growth process.
10. Importantly, the Global Jobs Pact calls for coordinated global policy action to maximise the positive impact on jobs and sustainable enterprises worldwide. Special attention is given to developing countries, particularly the least developed countries, and countries with restricted fiscal and policy space to respond to the crisis.
11. The Pact calls on donor countries and multilateral agencies to consider providing funding, including through existing crisis resources, for the implementation of the Pact's recommendations and policy options. It can contribute to tighter and more effective coordination of policies and delivery among all relevant international organizations, including the United Nations, the Bretton Woods institutions, and the regional organizations and development banks. In addition the Pact reflects the ILO's commitment to give effect to the decisions of the United Nations Chief Executives Board (CEB) under its system-wide joint crisis responses initiative as well as a contribution to the G20 and other governmental processes.

### ***Putting Quality Jobs at the Heart of the Recovery***

12. The Pittsburgh G20 Summit agreed “on the importance of building an employment-oriented framework for future economic growth. In this context, we reaffirm the importance of the London Jobs Conference and Rome Social Summit. 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.”<sup>5</sup>
13. The IMF, the World Bank and the United Nations, have all warned in their recent forecasts that initial signs of recovery are relatively frail and that the coordinated effort to pull the world economy back from the brink of a severe depression needs to be maintained. Finance markets are still not functioning normally and confidence in the

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<sup>5</sup> Leaders' Statement at the Pittsburgh Summit, 24-25 September 2009 (paragraph 46)  
<http://www.pittsburghsummit.gov/mediacenter/129639.htm>

future amongst working women and men and enterprises is fragile. As a result in many countries consumption, the main driver of growth, is weak as is investment. As I argued in my statement to the April meetings of the IMFC and Development Committee, “imbalances in financial markets are related to wider disequilibria in society and in the process of globalization.”

14. Building the framework for a strong, sustainable and balanced global growth that creates the good jobs that people need, to which the G20 Leaders committed in Pittsburgh, requires a new approach to global development that seeks to remedy the imbalances that were root causes of the current crisis. In many countries sustainable enterprises and decent work in the real economy were undervalued by comparison with the finance sector whose recent growth produced a bubble that has now burst. The social and environmental dimensions of sustainable development have not had the same priority as the economic. Flexibility has dominated the equally important need for security in labour market policy. The drive to liberalize at any cost has too often overwhelmed the importance of intelligent regulation of markets.
15. One of the consequences of these imbalances is that in most regions of the world, the share of national income that goes to labour has been declining over the past three decades of globalization. Financial openness and financial crises have had a particularly detrimental impact on labour incomes.<sup>6</sup> A shift of incomes away from labour and towards capital has contributed to rising inequality. A reduced labour share is thus a consequence of slow wage growth and a low employment component to output growth in the run-up to the crisis. These shifts also help to explain both the dependence of some countries on exports to drive growth and, in others, the pressure on wage earners to take on excessive debts to finance housing and consumption.

### ***Looking Ahead***

16. Stagnant or falling real wages and weak employment growth are a threat to a strong and sustained recovery. Strong, sustainable and balanced global growth into the future will need to be underpinned by an increase in the share of wages in national incomes. Wage cuts in a depressed market can be as damaging as trade protection in producing a downward spiral of falling demand. During the crisis, some countries with strong automatic stabilizers from their social protection systems and that have supported employment have experienced less damage than those with more deregulated labour markets. Recovery will not be helped by a narrow pursuit of flexibility as the key policy for employment growth. What we need are inclusive labour markets that encompass the time-tested institutions that underpin the security and adaptability of workers and enterprises.
17. The share of profits within the overall profits of enterprises from the intermediation services of the finance sector rose during the bubble years in a number of countries, dampening investment in productive enterprises and thus sustainable growth. Future

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<sup>6</sup> Labour Shares, Malte Lübker, ILO Policy Integration Department, Technical Brief No. 01  
[http://www.ilo.org/wcmsp5/groups/public/---dgreports/---integration/documents/publication/wcms\\_086237.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---integration/documents/publication/wcms_086237.pdf)

growth requires a reemphasis on the returns to medium to long term productive investment particularly for small and medium-sized enterprises.

18. Global recession has shown that we need to start thinking urgently about building and spreading the “automatic stabilizers” of social protection. The extension of social protection systems in all countries can play an important role in this shift towards a more balanced growth path. Building a basic social protection floor should include access to health care, income security for the elderly and persons with disabilities, child benefits and income security combined with public employment guarantee schemes for the unemployed and working poor. This needs to be done adapting to local realities and on a fiscally sustainable basis. Least developed countries should receive development assistance to support this effort. This is a key area of strengthened cooperation between the IMF, the World Bank, the United Nations and the ILO.
19. The policy framework for strong, sustainable and balanced growth must create incentives for new drivers of growth – productive investment, the generation of decent work opportunities and the expansion of income-based demand.
20. The coordinated effort to generate a strong recovery and shape a new more inclusive globalization must include measures to support countries facing policy constraints as a result of underlying structural problems. Several emerging and developing countries are not in a position to mount the fiscal or monetary stimulus measures used by other countries to stave off the recession. However, if they are obliged to adjust through retrenchment this would weaken prospects for a global recovery as well as putting severe strains on an often fragile social fabric. Highly concessional medium to long term international support is needed by policy-constrained countries to create time and space for strategies of adjustment through growth. The enlargement of concessional support by the IMF to least develop countries is welcome.
21. The crisis is not even beginning to be over for working women and men. The signs of a bottoming out of the recession are strongly influenced by the stimulus measures undertaken by many countries over the last year. The continuing rise in unemployment and the squeeze on wages is a drag on recovery. In most countries the private sector contribution to growth also remains weak, hampered by both a weak supply of credit and severely weakened confidence among enterprises and households. Thinking about eventual exit strategies from the stimulus may be worthwhile. For example, given the possible weakness of labour demand, retaining employment and social protection measures is likely to be essential. Premature action to roll back the stimulus packages risks cutting off recovery before it is firmly established.
22. The G20 Pittsburgh Summit has made important steps in setting out a strategy for both recovery and reform. The IMF, the World Bank, the ILO and other international institutions have important roles to play in supporting the development of a new strategy for strong, sustainable and balanced growth. The UN Economic and Social Council and the UN Chief Executives Board through its Joint Crisis Initiatives are making valuable contributions to the same end. The ILO particularly welcomes the agreement in Pittsburgh “on the importance of building an employment-oriented framework for future economic growth” and the request that “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 ILO looks forward to close collaboration with the IMF and the World Bank to follow up on the commitment “to work together as we manage the transition to a more balanced pattern of global growth.”

23. To avoid a prolonged period of labour market underperformance, international policy-makers must focus on measures to substantially improve the employment content of growth during the recovery. The ILO Global Jobs Pact provides an important impetus to this effort. Improved policy coherence between employment and social protection measures and financial, trade and environmental policies is a vital ingredient in getting the world back to work. It is necessary to show the capacity to adopt strong and innovative measures in the employment and social protection field as have been used to save finance institutions.
24. The ILO also looks forward to collaborating with member States and the UN system on the implementation of new commitments on climate change in Copenhagen. The policy framework for strong, sustainable and balanced growth must embrace a global strategy for greening the economy. The transition to a lower carbon economy will take place in enterprises and workplaces all over the world and create opportunities for green jobs from the reorientation of consumption, production and employment patterns. Realizing these opportunities and planning for the phasing out of unsustainable activities depends on extensive use of the ILO tool of social dialogue with industry and trade unions.

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