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## **The Challenges of Growth, Employment and Social Cohesion**

**Statement by Mr. Juan Somavia, Director-General, International Labour Office,  
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1. The world is facing a global jobs deficit that is holding back recovery and fuelling social tensions. But we must not forget that even before the onset of the global financial crisis we already had major decent work deficits. Half of the world's labour force continues to work in various forms of vulnerable employment. Social protection is not available to 8 out of 10 persons globally. In many countries, inequalities have grown significantly and middle class incomes have weakened. These imbalances are root causes of the global imbalances that contributed to the crisis.
2. The crisis caused large scale job losses and the highest ever number of unemployed, 210 million persons, up by over 30 million on 2007. And this is just the tip of an iceberg of labour market distress. In many regions informal employment is increasing and household incomes have dropped. The long and steady decline in extreme poverty was set back by the recession with the World Bank estimating that an additional 76 million people are surviving under the \$2 a day level relative to the pre-crisis trend.
3. Looking ahead, as well as filling the recession-induced jobs deficit, 440 million jobs are needed over the next ten years for the new entrants on to the global labour market.
4. A weak and fragile recovery in growth, as forecast by the IMF and many others, will further scar our societies and ruin the life prospects of many families. A prolonged failure to reduce the global jobs deficit will feedback into economic weakness, enfeebling recovery and undermining social stability. The longer we fail to counteract the cyclical downswing in employment the more will it add to the structural issues we faced before the crisis.
5. Concentrating on people's number one priority, a fair chance at a decent job, is essential if the risks to the fragile recovery are to be averted. But will not be possible with the same policies that led to the crisis. We must ensure that product and labour market reform does not become a post-crisis reformulation of the primacy of deregulation as a policy tool.
6. Can we rise to this major global jobs challenge with a policy approach built on fairness and opportunity?
7. This was the theme of a special ILO/IMF conference in Oslo on 13 September hosted by Prime Minister Stoltenberg of Norway. As we said in the discussion document we presented to the Conference, our objective "is to improve the integration of employment and social policies with international and national macroeconomic policy strategies. This requires a better understanding of the forces at work in the global economy, and the contributing factors, both globally and nationally to these, and how

a wider array of policy tools can contribute to better outcomes for people, communities and global sustainable development.”<sup>1</sup>

8. We agreed to build on the Oslo Conference. The ILO and IMF will work together to explore the concept of a social protection floor for people living in poverty and in vulnerable situations, within the context of a medium- to long-term framework of sustainable macroeconomic policies. We will also analyze policies to promote employment-creating growth with special attention to productive investment and sustainable enterprises. There was also general agreement that social dialogue plays a key role in times of crises, both as a way of building consensus around difficult issues and of ensuring that the social consequences of the crisis and its aftermath are taken fully into account.

#### ***Rebalancing for Recovery and Growth***

9. Rebalancing the global economy for recovery and growth should start by tackling the underlying imbalances in our societies and economies. The build up of widening income inequality and a reduced share of wages in national income in most countries in the decades before the crisis distorted economic growth. Wages did not keep pace with rising productivity. In many countries growth produced too few good jobs, too little decent work. With household incomes squeezed for all but the very wealthy, growth became dependent on an unsustainable credit bubble in some countries and on exports in others. And global imbalances widened too.
10. The world cannot have an export-led recovery strategy in all countries, or at least not without an equivalent import strategy. A reinvigorated drive to coordinate recovery is vital to avoid the risk that competitive devaluations and/or deflations will pitch the global economy into a further period of turbulence and weak growth or a second recession. The heart of such coordination should as G20 Leaders said Pittsburgh just one year ago be the commitment to “restoring the global economy to full health” so that “hard-working families the world over can find decent jobs”. We need an employment-oriented framework for future economic growth which accelerates a job rich recovery and a major shift towards a job rich pattern of development and growth.

#### ***Frameworks for policy coherence***

11. The framework for such an approach is the coherent application of the full range of policy tools in a medium term horizon in which incremental but tangible progress in national and international rebalancing through a coordinated process is made each year. Fiscal and monetary policies must remain active until recovery in employment takes firm hold. And they can be supported by employment and social protection policies which alleviate distress, make our societies more inclusive and strengthen the capacity of our economies to create decent work.
12. Employment and Labour Ministers of the G20 meeting in Washington in April 2010 supported 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. Growth in employment and incomes in all regions, and particularly in countries with large shares of low-income households, also represents an indispensable contribution to strong, sustained and balanced global

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<sup>1</sup> The Challenges of Growth, Employment and Social Cohesion: discussion document for Joint ILO-IMF conference in cooperation with the office of the Prime Minister of Norway.  
<http://www.osloconference2010.org/discussionpaper.pdf>

growth, a key goal of our countries' overall economic policy coordination." As they stressed economic recovery "must also address a number of challenges that had been building even before the crisis. We want to ensure that productivity gains are shared with workers as rising living standards; that work is a reliable path out of poverty for all of our people; that the fundamental rights of workers are respected; and that social dialogue is fostered. We can learn from each other's experience with policy interventions to improve the quality as well as quantity of jobs."

13. The Ministers recommendations encapsulate five key employment and social protection policy areas for a jobs-rich recovery:
  - accelerate job creation to ensure a sustained recovery and future growth;
  - strengthen social protection systems and promote inclusive active labour market policies;
  - place employment and poverty alleviation at the centre of national and global economic strategies;
  - improve the quality of jobs for our people; and
  - prepare our workforces for future challenges and opportunities.
14. Furthermore policies in other fields also need to focus on job creation. Financial market reregulation as well as building prudential controls on excessive risk taking must also create strong incentives for growth generating productive investment and disincentives to socially useless speculative trading.

***Making full use of fiscal space***

15. In the near term, there is a growing risk that the sum of national fiscal consolidation will weaken global recovery before household consumption and business investment picks up sufficiently to drive growth. Different countries face very different circumstances making coordination more complicated. Nevertheless those with policy space should use it to maintain stimulus efforts until recovery in employment is secure.
16. Low interest rates and accommodative liquidity policies are essential to sustain the recovery. But with banks still rebuilding their balance sheets, this added liquidity is not getting through to credit-squeezed businesses especially smaller enterprises. Active public policies to stimulate investment in the real economy have worked to boost growth in a number of economies.
17. Small enterprises are big job creators. But in many countries they are not getting the investment finance they need to kick start recovery. Instead, the finance industry is using liquidity made available by central banks at near zero rates to trade and speculate in currencies and commodities with negative consequences for the real economy. Financial reregulation must do more than strengthen prudential controls, it must also ensure that societies savings are channelled into productive investment.
18. A sensible workout of debt overhangs happens best when people are at work earning the incomes that pay off currently non-performing loans, paying the taxes that will reduce public deficits and buying the goods and services that businesses must sell to restore their balance sheets.

*Building more inclusive societies*

19. Building more inclusive societies through economic recovery is vital. Employment and social protection policies can support fiscal and monetary policies in reducing high levels of unemployment and working poverty.
20. Social protection systems are the first line of defence for families as well as whole economies in times of recession. Countries with strong systems were able to rely on them to automatically stabilize the fall in incomes in the recession. Building and strengthening social protection can also support recovery and rebalancing. The concept of a basic floor of social protection starting with people living in poverty and in vulnerable situations is gaining support. Such a basic floor could include essential health services, income support for children in school, employment guarantee programmes for the working poor and basic pensions for the old, the disabled and those who have lost the main provider in a family. It is adaptable to national circumstances and can be constructed gradually. Initial research suggests that fiscal sustainability for such a floor is within reach of even the least developed economies especially where international assistance is available.
21. Wages policies can also support recovery and growth and prevent a slide into deflation. Recent experience with minimum wage policies, including in response to the crisis, shows that they can help stimulate a reorientation towards domestic income-led growth as well cutting poverty. They also signal to employers and trade unions the scope for wage improvements throughout the economy. There is evidence that well-functioning minimum wage systems also set a social norm that is widely followed even in the informal economy.
22. Minimum wage setting and collective bargaining systems should aim to ensure that wage increases do not lag behind productivity. Where countries' unit labour costs have become uncompetitive social dialogue and labour market policies should focus on productivity improvements so as to avoid prolonged periods of downward pressure on wages. Tripartite consultation mechanisms have proven valuable in a number of countries to the coordination of labour market strategies with fiscal and monetary policies.
23. The recession has severely strained the social fabric of many countries. A recovery that is so weak that for many people it will feel like continued recession will further weaken social cohesion and stability. In such circumstances policies must be fair and be seen to be fair. Financial and social stability go hand in hand. Citizens' confidence is even more important than financial market confidence. The cost of the financial crisis is falling most heavily on those who had no responsibility for the disastrous decisions that nearly brought down the global economy. Many people are angry and they are right.