High-level Tripartite Meeting on the Current Global Financial and Economic Crisis
(Geneva, 23 March 2009)

The financial and economic crisis: A Decent Work response [1]

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[1] This paper is also being submitted to the Governing Body Committee on Employment and Social Policy as document GB.304/ESP/2.

Executive summary

The global crisis is deepening …

1. The world economy has been significantly affected by the financial crisis and prospects are the worst since the Great Depression. Already, the largest developed countries, notably those where the crisis originated, have entered into recession. Spillover to other countries was initially small, but several emerging economies are now being hit hard – assumptions about a "decoupling" of these economies have indeed proved wrong.

2. Developing countries too are facing the effects of the crisis, which will disrupt – and in some cases reverse – the achievement of the Millennium Development Goals, including decent work for all. This is of particular concern given that, even in the pre-crisis period, growth patterns in certain regions, notably in Africa, led to only negligible reductions in poverty. Decent living and working conditions still remain out of reach for large numbers of people.

3. Importantly, the crisis is spreading throughout the real economy by means of three mutually reinforcing transmission channels, namely: the limited availability of credit for working capital, trade finance and viable investments in the real economy (the credit crunch); cautious spending decisions, leading to lower output, employment and prices, in turn affecting confidence among consumers and investors (the vicious cycle of depression); and international trade and investment linkages and remittance flows (the globalization channel).

... and entails a risk of a prolonged labour market recession ...

4. The consequences of the crisis on labour markets have been visible since 2008, especially in the United States where the crisis originated. At the global level, after four years of consecutive declines, the number of unemployed increased in 2008 by 11 million. As the crisis continues to spread and job losses mount, worldwide unemployment could increase by an additional 40 million by the end of this year.

5. The bleak labour market picture affects certain groups disproportionately – notably women, migrant workers and youth. In some countries, the financial sector, construction and automobiles are suffering the most. In general, export-oriented sectors, which in many developing countries are major providers of formal jobs, notably for women, face the prospect of rapidly shrinking world markets. And the impact of the crisis on labour markets will go beyond job losses. In particular, the incidence of informal employment and working poverty will rise, aggravating pre-existing challenges.

6. The biggest risk is of a prolonged labour market recession. Lessons from past financial crises show that the labour market tends to recover only four to five years after the economic recovery (which is not expected before the end of 2009). This is because massive rises in long-term unemployment and greater labour market "informalization" – exacerbated by return migrants and large-scale reverse migration from urban to rural areas – are very difficult to reverse. If these trends take root, the negative effects of the crisis will be long-lasting, thus yielding significant social hardship and depriving the economy of valuable resources.

... threatening social stability

7. Social hardship will be heightened in developing countries where social protection is often limited. But even in emerging economies and a number of developed countries, most new jobseekers do not receive unemployment benefits. The result is that millions of workers will be left without adequate support.

8. Pension systems are under severe strain as a result of the collapse of capital markets. Private pension funds have recorded substantial losses on their investments. Though the trends are often presented in overly technical language, one thing is clear: pension entitlements for workers who rely on such funds have been cut by over 20 per cent, on average. In some countries, even retirees have been left with the prospect of lower pension benefits. Importantly, well-designed public pension systems have been much less affected than private funds. This has motivated a policy shift in the stance of certain international organizations, which now advocate greater focus on more stable, security-oriented public pension systems. This is a much-welcomed development, though the damage has already been done and will be difficult to repair.

9. Finally, there is concern that the crisis is affecting all groups, while the gains of the pre-crisis expansionary period had been distributed unequally.

10. In short, a social crisis is looming large and can only be averted if adequate action is taken promptly.

Countries have attempted to address the crisis through the adoption of massive financial rescue measures and the announcement of fiscal stimulus packages …

11. Much of the focus to date has been on stabilizing financial markets and attempts to restore credit liquidity. At the same time, to stimulate the economy many countries have announced fiscal rescue packages – cutting taxes and boosting spending – of varying sizes. Several countries have also taken some action to mitigate the labour market and social consequences of the crisis. However, the amount committed for financial rescue measures has been for the most part far in excess of fiscal tools deployed to stimulate demand, output and employment.

... but the plans have not succeeded so far ...

12. It is commendable that countries have reacted so quickly, given the time lag for these packages to reach the real economy. Nevertheless, the impact of the measures has been limited to date. This is because, as evidenced from the over 40 rescue and stimulus plans assessed for the purposes of this paper, the transmission mechanisms through which the crisis is spreading have not been fully addressed. And the measures have often failed to tackle the structural imbalances that lie behind the crisis.

… because the credit system has not been revived …

13. First, rescue measures to banks, though of unprecedented magnitude, have not revived bank credit. To avert the risk of systemic collapse, developed countries have rescued financial institutions through capital injections, credit guarantees and sometimes outright assumption of bad loans. Indeed, protecting banks' solvency and restoring the availability of credit to enterprises and households was rightly regarded as a pre-condition to avoid a total collapse of the financial system, with unpredictable consequences for the real economy. However, access to bank credit remains limited.

... fiscal packages do not focus sufficiently on decent work and are not coordinated, thus failing to boost the economy …

14. Second, fiscal stimulus measures announced by governments are generally on a lower scale than rescue support to banks. In addition, they mostly do not focus sufficiently on employment and social protection. For instance: only a handful of countries have announced labour market initiatives; infrastructure programmes do not adequately take into account the need to reinforce the existing capacity of businesses and skills supply – so that part of the infrastructure spending may result in higher prices, rather than higher production and jobs; and some tax cuts will end in higher savings rather than higher demand, output and jobs. The measures moreover involve only limited social dialogue with employers and unions and lack coordination across countries.

15. Lack of international coordination obviously diminishes the overall effect of the stimulus measures. But it also makes each individual country reluctant to move faster than its trading partners, given the international linkages. As a result, practical implementation of the fiscal packages may be postponed further, aggravating the vicious cycle of depression.

… world markets face the risk of inward-looking solutions, competitive devaluations and wage deflation …

16. Third, world markets are affected by the credit crunch (which dries up trade finance available to enterprises) and face the risk of inward-looking solutions and protectionist responses. The repercussions for developing countries, which rely so heavily on world markets, would be especially acute. This is why the multilateral system should remain vigilant vis-à-vis the mounting pressure to support strategic sectors like automobiles. Likewise, attempts to overcome the crisis through competitive currency devaluations would be counterproductive.

17. Generalized wage deflation to protect individual economies would aggravate the crisis even more than a wave of competitive devaluations. Indeed, wage deflation would deprive the world economy from much-needed demand and would also seriously undermine confidence. Open market policies, which are so crucial to the recovery, would also face a risk of backlash if workers perceive the measures as unfair.

… little attention has been devoted to the development dimension …

18. Fourth, inadequate attention has been given to the development perspective. The social impacts of the crisis in developing countries are exacerbated by the fact that the majority of workers and small businesses do not have basic social security. It is expected that between 40 and 50 per cent of men and women globally will not be able to earn enough to lift themselves and their families above the two US dollars a day poverty line in 2009.

19. Moreover, many developing countries lack the capacity to undertake massive public investments. Already a number of countries are facing sizeable fiscal and current account deficits on the heels of the food and fuel price crisis of mid-2008. If the gap between countries widens even further as a result of varying capacities to respond to the crisis, global imbalances and inequalities will intensify.

20. Traditional International Monetary Fund (IMF) packages to support countries that undergo balance of payments crises are simply not adapted to the situation. Such packages were based on an approach that assumed countries faced local crises, for which the countries involved themselves had the main responsibility. The current crisis, however, is global and originates in the developed world. A multiplication of traditional rescue packages would further aggravate the decline in world demand and perpetuate the global crisis. This is why a new mechanism, which would coexist with IMF rescue packages, rather than replace it, is needed.

… and the structural causes of the crisis have not been tackled

21. Fifth, the stimulus measures have, so far, not been deployed with a view to ensuring that global growth is more equitable and sustainable in the medium to longer term. Global imbalances, decent work deficits and inequalities have been a significant contributor to the crisis. Likewise, reflecting poorly regulated financial markets, the real economy has been subject to pressure to raise returns in the short run, sometimes to the detriment of workers' incomes and the long-term interests of sustainable enterprises. It is vital to tackle the root causes of the crisis to support the recovery, reduce the risk of another major systemic crisis and promote a sense of fairness. Reverting to the "status quo" is not an option.

What is needed is a global jobs pact

22. Moving ahead with the Decent Work Agenda is crucial to supporting the economic recovery, averting the labour market and social crises and promoting social cohesion on the measures. In the global crisis context, this is best done through a global jobs pact.

23. A *global* approach is needed because the measures, to be effective, need to avoid beggar-thy-neighbour solutions to a crisis which is global in nature. The emphasis on *jobs* comes from evidence provided in this paper that it will not be possible to reactivate the economy in a sustainable manner unless greater emphasis is placed on decent and productive employment for women and men, well-designed social protection and workers' rights. Measures are best implemented through social dialogue in countries, but greater cooperation at the international level can also have mutually-reinforcing benefits – thus the need for a *pact*.

24. The global jobs pact would build on the ILO's Global Employment Agenda and the November 2008 statement by the Officers of the ILO Governing Body. In essence, the global jobs pact seeks to support economic recovery through decent-work friendly policies, reduce the risk that the crisis spreads further across countries and pave the way for a more sustainable, fairer globalization. This is how.

25. To ***restore credit***, governments could consider:

- Making financial support, such as government's assumption of toxic assets, conditional on: beneficiary banks providing new credit for viable projects of businesses and individuals; and limitations to managers' pay and dividend policy, so that government support does not miss the target of reactivating credit.

- Providing credit lines and direct access to government loans to small businesses (important drivers of innovation and employment growth) so they can maintain operations (and seize potential new opportunities) until demand is restored.

26. ***Fiscal stimulus packages would provide a much stronger boost to the economy and jobs, while also proving cheaper than current packages***, if the following conditions were met:

- Ensuring that infrastructure, construction and housing projects leverage capacity among existing businesses by: giving small and medium-sized enterprises (SMEs) support to take advantage of new opportunities; ensuring that workers have the skills to respond to new requirements; and promoting the rural and agricultural dimensions of the projects, which are crucial for developing countries as they would help boost domestic economic and job dynamism and attenuate the looming food crisis.

- Given the lags in launching infrastructure, construction and housing projects, it would be helpful to: provide support to existing jobs in viable firms through shorter working hours, partial unemployment benefits and training; reduce labour taxes on low-wage employment; and enhance social protection through well-designed programmes that support aggregate demand and are consistent with work incentives. This could include conditional cash transfers to enhance access to education and health services, and unconditional transfers in countries where poverty is widespread and administrative capacity is limited. More structural measures are also needed however, so that social protection becomes broad-based.

- For job losers and new entrants who do not find jobs, the following measures proved useful in earlier crises: putting in place at least minimal unemployment benefits or employment guarantees for those not able to access income support (experience from the Asian crisis shows successful performers overcame the crisis partly through these new, cost-effective schemes); active labour market programmes and training administered through solid, well-resourced public employment services (evidence shows that these services, if well functioning, are crucial at times of crisis and are cost-effective relative to other measures); and specific programmes and approaches to vulnerable groups, notably women who return to the labour market after maternity leave, youth, who could also be encouraged to stay longer in education, and migrant workers.

- To the extent that specific industrial sectors need support, such support should be: subject to strict social and environmental criteria; and targeted and coordinated globally, consistent with international trade agreements.

- Enhance fiscal space, administrative capacity and technical support to developing countries in the event of global crises, possibly through the creation of a global jobs fund. Unlike the IMF rescue packages, this fund would be anti-cyclical. The global jobs fund would not be subject to cuts in social spending and wage deflation (which not only depress the domestic economy but also affect neighbouring countries, exerting further downward pressure on world demand). Recipient countries could take advantage of ILO expertise in developing the various dimensions of the global jobs pact. They would engage social partners in the design of the measures. Repayment of the fund's loans, possibly larger in scale than traditional rescue loans, would be made easier because the system is anti-cyclical in nature, and thus supports the global recovery, and is designed to promote domestic economic capacity.

27. ***Avoiding wage deflation through coordinated systems of collective bargaining and protecting workers' rights*** would not only provide adequate support to victims of the crisis, but would also ensure a timely demand stimulus and pave the way for a more sustainable economy. As such, the global jobs pact would also comprise the following measures:

- Strengthening respect for core workers' rights, as this would be both socially desirable and economically efficient to achieve more balanced income developments.
- Building the capacity of social partners for dialogue and reach agreements at various levels so that wages for the economy as a whole grow in line with productivity developments (and not below them as was the case over the past two decades).
- Guaranteeing the purchasing power of minimum wages, so that they act as anchor to all wages.
- Avoiding wage deflation to support global demand and reduce trade tensions.

Global policy coherence for shared prosperity and development

28. Now is the time to enhance cooperation among key international organizations. This is key to speed up the recovery. Indeed, inward-looking solutions would be counterproductive. More fundamentally, the crisis is global and multi-faceted, so no organization or country is equipped to address all its dimensions. This is why the ILO has reaffirmed the importance of fostering greater cooperation among national governments, international organizations, and other stakeholders in support of a stronger, cleaner and fairer economy. International partners can increase coherence between financial, trade, social, environmental and development goals. This also implies a reprioritization between these goals, to:

- ensure that the financial system serves the real economy and social development, through a deep reform of the financial architecture and the implementation of executive compensation packages that are reasonable and geared towards real performance;
- re-balance the globalization process, as stated in the ILO Declaration on Social Justice for a Fair Globalization (the Social Justice Declaration), and in particular address the decent work gaps, and excessive income inequalities as well as the growing incidence of informal and non-standard employment that developed during the pre-crisis period;
- pave the way for a green economy, given that future spending will be limited by the need for governments to tighten budgets so as to repay mounting public debt after the economy recovers. Importantly, green technologies tend to be more job-rich than their CO_2-intensive counterparts – hence the Green Jobs agenda; and
- ensure that official development aid is not affected by the crisis and establish a new mechanism such as the global jobs fund, to complement existing measures and support adjustment of emerging and developing countries at times of crisis.

29. Debates at the G20 could offer an opportunity to discuss these issues, as well as the global jobs pact. In addition an exchange of good practices could take place at the ILO, so that countries benefit from each other's experiences and take advantage of the expertise developed at the ILO.

30. In sum, responses to the crisis must *not* be piecemeal in nature and rolled out temporarily, only to revert back to "business as usual" as soon as possible. The challenge now is to respond to the current crisis by putting in place measures that pave the way for a better pattern of growth and development.

Introduction

31. What started as a mortgage crisis in the United States in the latter half of 2007 has now developed into a global economic crisis, bringing with it unprecedented labour market and social challenges across advanced, emerging and developing countries.

32. The objective of this paper is to provide evidence-based policy analysis of how ILO members can best mitigate the challenges facing enterprises and workers. The first section of the paper reviews recent developments, discusses the origins of the crisis and how the damaging effects have spread from developed countries to other parts of the world, and from the financial economy to the real economy, employment and society.

33. The second section examines current international and national responses to the crisis, including financial and fiscal policy measures, labour market initiatives and social dialogue. The aim of this section is to assess the breadth and depth of the responses and identify potential gaps.

34. In building upon the lessons learned and measures taken to date, the third section of the paper examines the key ingredients to overcoming the crisis, and the role of the ILO in addressing the challenges.

35. The last section discusses how best to respond to the crisis through measures that support a recovery while meeting the longer term goal of achieving a more sustainable and equitable pattern of development, as provided in the Social Justice Declaration.

I. Crisis spreads worldwide and entails risk of prolonged social crisis

The largest developed countries, notably those where the crisis originated, have already entered into recession …

36. The global economy is experiencing the worst economic crisis since the Great Depression. What began as a financial crisis when the housing market in the United States turned sour has now expanded into a global meltdown, wiping away trillions of dollars of financial wealth, putting the real economy at grave risk of prolonged recession, and causing significant job losses and widespread social hardship.

37. The IMF predicts that world output will grow at 0.5 per cent this year, the lowest rate since the Second World War (table 1). In comparison, in 2007 and 2008, world output grew by over 5 per cent and 3.4 per cent, respectively. The European Union (EU), Japan, the United States and other large developed economies have already entered into recession or are on the brink of doing so. The UN's Department for Economic and Social Affairs (UNDESA) has confirmed the IMF's bleak economic prospects for 2009. And private-sector analysts such as the Deutsche Bank paint an even direr scenario, with world output actually falling in 2009.

Table 1. World Economic Outlook *

	IMF		Deutsche Bank	UNDESA
	2008	2009	2009	2009
World output	3.4	0.5	-0.8	1.0
United States	1.1	-1.6	-2.7	-0.9
Euro Area	1.0	-2.0	-3.0	-0.7
Japan	-0.3	-2.6	-7.6	-0.3
Brazil	5.8	1.8	1.2	2.9
China	9.0	6.7	7.0	8.4
India	7.3	5.1	4.8	7.0
Russian Federation	6.2	-0.7	-2.4	4.8
South Africa	–	–	–	2.5
Africa	5.2	3.4	–	4.1
ASEAN-5	5.4	2.7	–	–
Central and Eastern Europe	3.2	-0.4	–	–
Western Hemisphere	4.6	1.1	–	–
Middle East	6.1	3.9	–	–

* IMF and UNDESA forecasts are from January 2009 and Deutsche Bank from 25 February 2009.

Source: IMF, Deutsche Bank and UNDESA.

… and the crisis is now spreading to the rest of the world …

38. Spill over to emerging and developing economies was initially small, but the crisis has now spread worldwide and from financial markets to the real economy through a number of transmission mechanisms (box 1).

Box 1
The crisis: causes and transmission mechanisms

The crisis has been brought about by a combination of inappropriate financial regulations, excessive risk-taking of certain financial intermediaries and inefficient remuneration practices of bank managers and traders. But it is the interaction between these financial factors and global imbalances that lies at the heart of the crisis:

- Since the early 1990s, significant savings-investment imbalances built up. This is partly the result of export-oriented growth strategies in some countries, and insufficient savings in others. Lack of exchange rate adjustments contributed as well.
- Within countries, income inequalities grew significantly since the early 1990s. Stagnating wages and incomes for a majority of workers in some countries spurred demand for credit to sustain consumption possibilities and housing investment decisions. Interestingly, a rise in the share of over-indebted households has been observed in all the countries where income inequalities have increased.
- This was made possible by lightly regulated financial practices that allowed excessive debt accumulation and focused on short-term returns (because of skewed compensation packages) rather than long-term investments in the real economy. When housing markets reached a turning point and interest rates rose, over-leveraged low-income households defaulted on payments and foreclosures rose significantly. As the value of the assets plummeted, banks had to finance foreclosures, and effectively stopped lending to each other, causing liquidity to dry up substantially. [1] In short, financial markets have tended to operate to the detriment of labour market stability and sustainable enterprises.

The crisis then spread to the real economy, and beyond developed countries, through three channels.

First, the crisis spread through the financial system via the process of "securitisation" of "toxic assets". Direct exposure to toxic assets led to some localized bank failures, but more broadly, inter-bank credit was affected and as a result, the volume of new credit available to the real economy declined. Even businesses with a long record of creditworthiness have had credit lines cut and have had difficulty selling their bonds. This abrupt freezing up of the normal credit lines needed for trade, coupled with the inability of companies to raise capital for seemingly profitable business opportunities and investment plans, created the so-called "credit crunch".

Second, over and above the credit crunch, the crisis is gaining its own dynamics in the real economy through the confidence channel. Consumers and investors lack confidence and postpone their spending decisions. This affects firms' prospects and leads to job losses, further aggravating confidence.

Third, the crisis is spreading worldwide through international linkages, so even countries with relatively healthy financial systems are being affected:

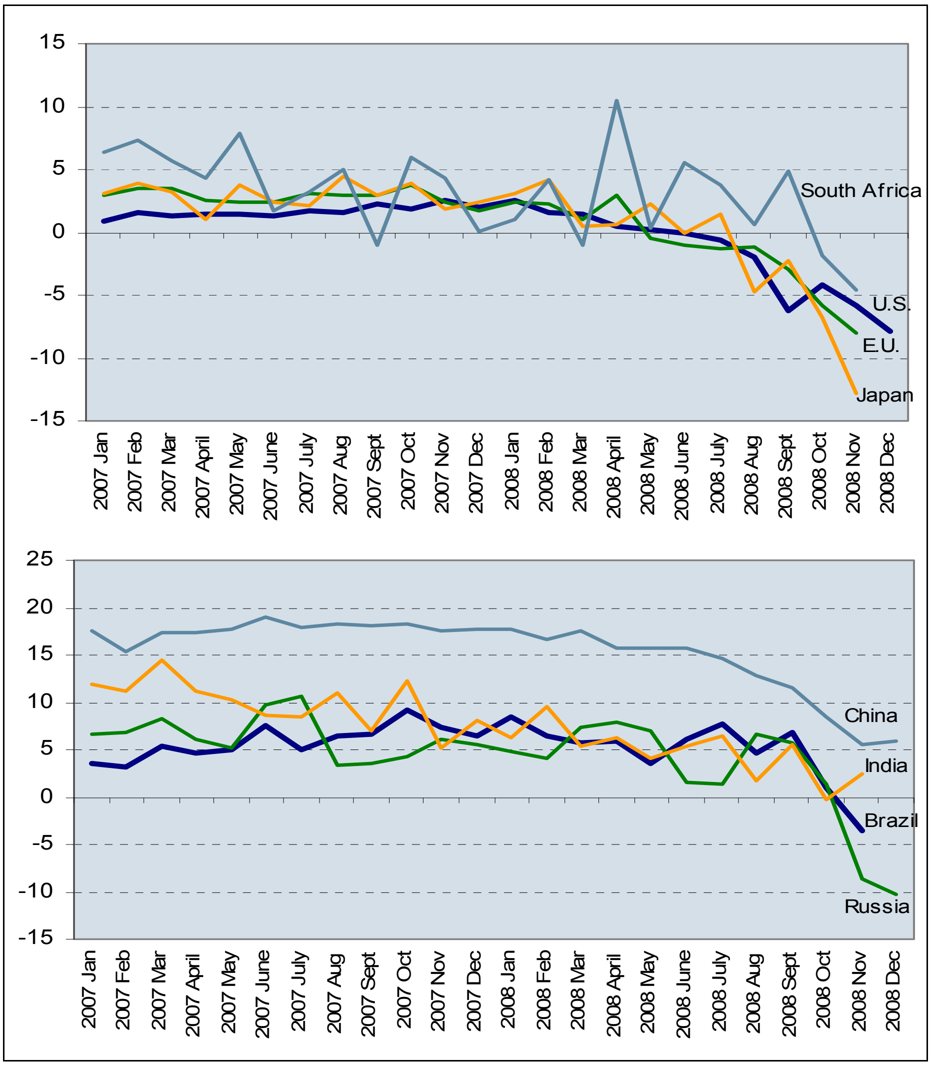
- World trade is estimated to contract by 2.8 per cent in 2009 after growing at an average annual rate of 7.8 per cent for the last three years. [2] This has dire consequences for economies around the world, especially the export-led economies of Asia and Latin America. Moreover, global trade activity is also negatively affected by the scarcity of trade financing.
- Some trade prices, notably for oil and other commodities, declined significantly as a result of the recession. As such, oil and gas producers like Mexico, Middle Eastern countries, the Russian Federation and the Bolivarian Republic of Venezuela face a sudden reduction of export revenues. Likewise, declines in prices of metals such as nickel, lead and zinc have deeply affected countries such as Australia, Brazil and South Africa. Lower commodity prices – though improving the terms of trade for importing countries – have not outweighed the other negative forces at work.
- Foreign direct investment and other private capital flows are affected as well. In particular, private capital flows to emerging economies are expected to fall to $165 billion in 2009. From the high of $929 billion in 2007, this represents an unprecedented drop of 82 per cent. [3] This has implications for development, since one third of growth in emerging countries comes from investment. [4] Reduced flows of capital may have a dramatic effect on countries with large current account deficits and with a limited ability to borrow from abroad.
- It is likely that, for the first time in decades, remittances will fall, impacting the economic security of households around the globe. Remittances represent more than 10 per cent of GDP in over twenty countries, and in some cases as much as 24 per cent. [5] For many countries, remittances are larger than the amount received in Official Development Assistance. The negative impact of falling remittances on the developing world could be in the order of $3 billion per year. [6]
- Although donor countries have committed not to reduce development aid in several international forums, this commitment might eventually come under pressure in view of declining outputs in major industrialized countries.

[1] This issue is discussed in detail in ILO: *A global policy package to address the global crisis*, Policy Brief, International Institute for Labour Studies (IILS), Geneva, 2008. [2] World Trade Organization: *Annual Report*, 2002. [3] Institute of International Finance: *Capital Flows to Emerging Market Economies*, 27 January 2009. [4] UNCTAD: *Trade and development report: Commodity prices, capital flows and the financing of investment,* 2008. [5] World Bank: *Migration and Development Brief*, 29 November 2007. [6] Under the assumption that remittances fall 2 per cent globally – in line with the estimated decline in Latin America (Inter-American Development Bank: *IADB estimates of 2008 remittance flows to Latin America and the Caribbean*, October 2008).

39. Large emerging economies are being hit hard by the crisis – assumptions of a "decoupling" of these economies have proved wrong. During the second half of 2008, industrial output slowed significantly and even contracted in some large emerging economies (figure 1).

40. Other emerging and developing countries are also being affected. There is a risk that the development path will be seriously disrupted and in some cases reversed. This could compromise the attainment of the Millennium Development Goals, notably "full and productive employment and decent work for all, including women and young people". Decent living and working conditions still remain out of reach for a large number of people.

Figure 1. Monthly change in industrial production (percentage)



Source: World Bank.

… with severe impacts on certain sectors

41. Certain sectors are being disproportionately affected by the crisis. The effects on financial services and construction – the sectors at the epicentre of the crisis in developed countries – have been immediate and profound. [2] In a second round, those sectors most affected by the credit squeeze and confidence effects, like automobile production, were hit. [3] Export-oriented activities, tourism and commodity sectors are now suffering from rapidly falling world demand and declining prices. The impact on developing economies that rely heavily on a narrow, commodity-based export sector, is dramatic.

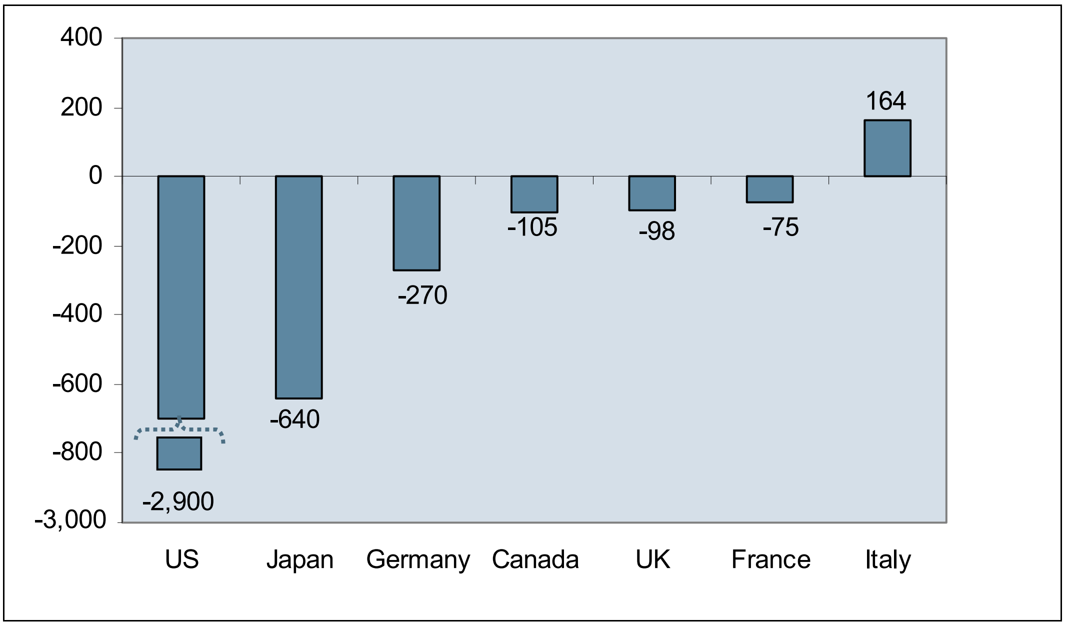
[2] See GB.304/STM/2/2 and V. Escudero: *Effects of the crisis on the financial sector: Trends and policy issues*, Discussion Paper, IILS, ILO, forthcoming 2009.

[3] Two-thirds of cars in the world are purchased with credit. However, it is important to note that even before the current crisis, the automotive sector was facing a number of challenges, including decreased demand for relatively high-profit vehicles due to volatile fuel prices and geographical relocation of some operations to areas with low labour costs. See GB.304/STM/2/2.

Global unemployment rose in 2008 and employment levels have declined significantly in advanced economies …

42. As growth rates declined in 2008, the effects on the labour market started to be felt. After four years of consecutive declines, the global unemployment rate increased to 6 per cent in 2008, up from 5.7 per cent in 2007, and the number of unemployed rose by 11 million. [4] The impact was immediate and particularly severe in the United States, where employment losses started in early 2008 and have continued to mount since. Similar trends are present in Japan (figure 2). In European countries, job losses have been contained to some extent due to recourse to shorter hours or partial unemployment benefits. However, even there, recent indicators suggest significant increases in unemployment.

Figure 2. Employment declines in 2008 in the G7 (000s)



Source: International Institute for Labour Studies (IILS) estimates based on national sources.

… with already visible impacts on emerging and developing countries ...

43. In other countries, the job losses stemming from the crisis have only just begun and so the full extent of the impacts on labour markets may not be felt for some time. Nevertheless, there are early and clear indications that the crisis is impacting labour market and social conditions in emerging economies and developing countries:

- Following job losses in factories on the industrialized eastern coast of China, more than 20 million workers have reportedly returned to their residential rural areas. [5]

[4] ILO: *Global Employment Trends*, January 2009.

[5] China national statistics, Ministry of Agriculture.

- During the last quarter of 2008, employment in eight export-oriented sectors in India (mining, textile and textile garments, metals and metal products, automobile, gems and jewellery, construction, transport and information technology) fell by over 3 per cent. [6]

- The South African economy may lose a quarter of a million jobs as a result of the crisis and this is likely to undermine government plans to cut the unemployment rate to 14 per cent by 2014. [7]

- Reflecting a sudden deterioration in the economic outlook, Central and Eastern European countries are experiencing a dramatic reversal of earlier, hard-won employment gains.

- Significant job losses have been recorded in developing countries that rely heavily on a narrow export base. For instance, in Africa, employment levels in commodity production and tourism have declined significantly in recent months.

44. In these countries, job losses will exacerbate challenges of employment informality and working poverty. In the absence of income support alternatives, job losers either move back to rural areas or take up informal jobs in the urban economy. [8] This has started to happen, according to an ILO report. [9] For instance, a reversal in rural-to-urban migration flows has been noted in China and, in Africa, workers who had formal jobs in export-oriented sectors have been pushed to the informal economy where they will earn lower wages. As a result, between 40 and 50 per cent of the world's working men and women in 2009 are not expected to earn enough to lift themselves and their families above the $2 a day per person poverty line. [10]

… and disproportionate effects on vulnerable groups such as women, youth and migrant workers

45. Groups that were already in a vulnerable position before the crisis will be disproportionately affected, while temporary and migrant workers are also usually not protected by collective bargaining agreements. [11]

[6] C.P. Chandrasekhar; J. Ghosh: "Asian face of the global recession", in *The Hindu Business Line*, 10 February 2009.

[7] N. Seria; M. Cohen: "Manuel cuts South African growth forecast to decade low of 1.2 per cent", in *Bloomberg.com*, 11 February 2009.

[8] G. Betcherman; R. Inslam (eds): *East Asian labour markets and the economic crisis*, World Bank, 2001.

[9] ILO Regional Office for Asia and the Pacific: *The fallout in Asia: Assessing labour market impacts and national policy responses to the global financial crisis*, prepared for the forum Responding to the Economic Crisis – Coherent Policies for Growth, Employment and Decent Work in Asia and Pacific, Manila, 18–20 February 2009.

[10] ILO: *Global Employment Trends*, January 2009.

[11] The impact on vulnerable groups varies by country and time period under consideration (see, for example, ILO: *Global Employment Trends for Women*, March 2008).

46. The crisis is already having differentiated employment and social impacts from a gender perspective. Many of the job losses to date in advanced economies, especially the United States, have been in male-dominated sectors such as finance and construction. [12] However, in many developing countries, women are often in more precarious employment situations. [13] In particular, the concentration of women in export-oriented enterprises in emerging and developing countries brings a number of acute labour market challenges (box 2).

Box 2
Impact of the crisis on women's employment [1]

The crisis has already hit major exporting industries dependent on American and European markets, such as labour-intensive sectors of developing countries. This includes clothing, footwear and processed foods, as well as micro-circuits and electronic products. Since women make up the majority of the workforce in these sectors, their labour market position has worsened considerably.

More generally, women are often regarded as a flexible reserve, to be drawn into the labour market in upturns and expelled in downturns. [2]

Women are also over-represented among casual and temporary employment, contract labour and home workers. They also tend to earn lower wages than their male counterparts and the crisis is likely to worsen the situation in this regard.

[1] A. King-Desjardin; J. Owens: The global economic crisis: impacts and responses from a gender perspective, ILO, forthcoming 2009. [2] Studies of economic recessions in several developed countries in North America, Europe and Asia show that women's employment moved pro-cyclically, and significantly more pro-cyclically than men's (J. Rubery (ed.): *Women and Recession*, Routledge & Kegan Paul, London, 1988). In addition, women's integration into the workforce in the 1980s was generally associated with their providing forms of labour market flexibility (G. Standing: "Global feminisation through flexible labour", World Development, Vol. 17, No.7, 1989).

47. Youth are facing considerable difficulties entering the labour market. [14] This comes on top of an already fragile situation for youth in both developed and developing countries. Even during the previous period of economic expansion, most economies fell short of creating enough decent and productive jobs for young people. Between 1997 and 2007, the number of unemployed youth rose by 8 million. [15] Moreover, a lack of decent work opportunities at an early age may permanently compromise the future employment prospects of youth. The relative disadvantage of young workers is even more pronounced in developing countries. [16]

48. As employment losses mount, migrant workers are particularly vulnerable and often among the hardest hit, due in part to their low bargaining position (especially among newly arrived migrant workers). Evidence from past crises reveals that for the most vulnerable migrant workers, especially women and those in irregular status, this often translates into significant job loss. For those able to maintain employment, a serious deterioration in working conditions is often registered.

[12] Of the 2.9 million job losers in the United States in 2008, 2.3 million were male.

[13] ILO: *Global Employment Trends for Women*, March 2008.

[14] For example, in Spain, during the fourth quarter of 2008, employment decreased for most age groups, but the drop, at 10 per cent, was particularly severe for 20–24 year-olds.

[15] ILO: *Global Employment Trends for Youth*, October 2008.

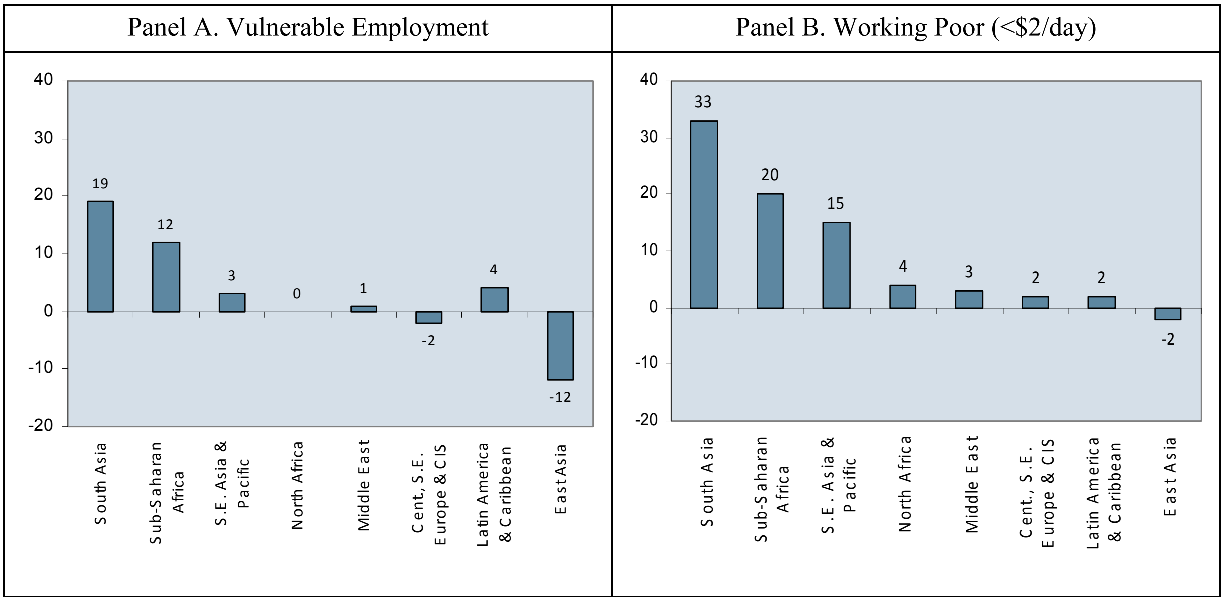
[16] ibid.

The prospects are for a continued deterioration in labour market and social conditions …

49. The global number of unemployed persons could rise by 20 million in 2009. [17] If the outlook worsens to the point where increases in unemployment match the magnitude witnessed in the 1990s, then unemployment could rise by 50 million, bringing the global unemployment rate above 7 per cent. [18]

50. Likewise, vulnerable employment, as measured by own-account workers and contributing family workers, is expected to rise by some 25 million (figure 3, Panel A). The majority of the increase is expected to occur in South Asia and sub-Saharan Africa.

Figure 3. Projected increase in vulnerable employment and working poverty
(millions, change from 2007 to 2009)



Source: ILO: Global Employment Trends, 2009.

51. As was the case in previous crises, this could generate substantial downward pressure on informal-economy wages, which before the current crisis were already declining and are substantially lower than for regular workers. [19] This is also likely to lead to a reduction in the number of days worked. [20] This combination of factors will reduce incomes at the household level and erode purchasing power, leading to an increase in the proportion of

[17] ILO: Global Employment Trends, January 2009. Scenario 2: Projection on the historical relationship between economic growth and unemployment at times of crises in each economy; IMF revised estimates for economic growth, November 2008.

[18] ibid. Scenario 3: Projection on the basis of a simultaneous increase in the unemployment rate in the developed economies and the European Union equal to the largest increase since 1991 and half of the largest increase since 1991 in economies in other regions; IMF revised estimates for economic growth, November 2008.

[19] ILO: *World of Work Report. Income Inequalities in the Age of Financial Globalization*, IILS, Geneva, 2008.

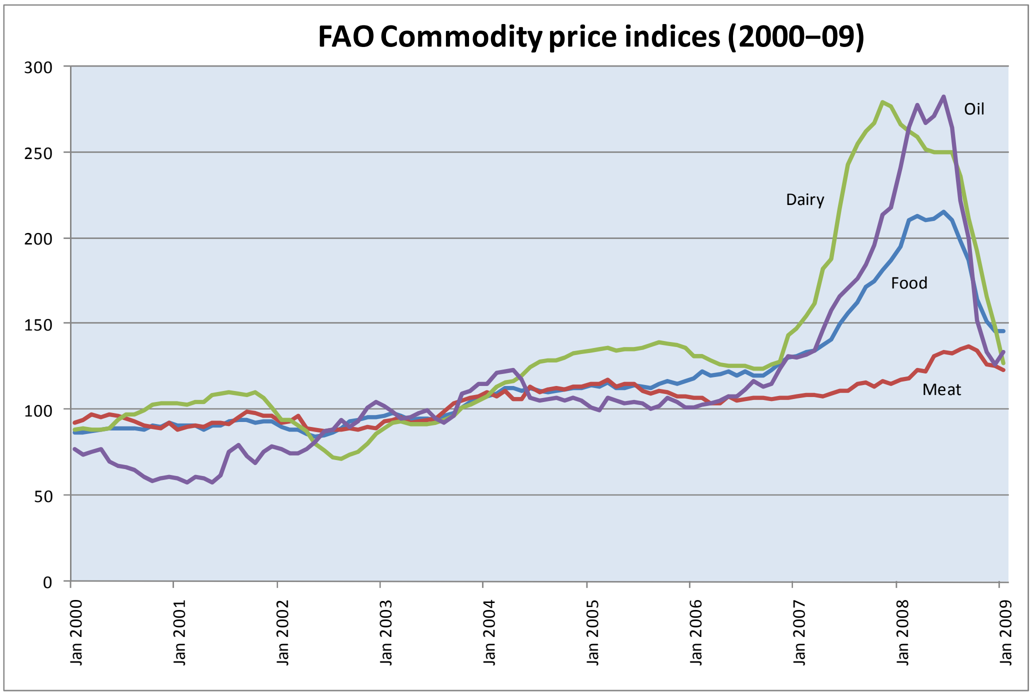
[20] G. Betcherman; R. Inslam (eds): op. cit.

working poor in most developing economies (figure 3, Panel B). Based upon a threshold of $2 per day, over 2008 and 2009 the incidence of working poverty is expected to rise across all developing regions. This will add over 75 million people to the working poor, with most of the increase occurring in South Asia and sub-Saharan Africa.

52. Rising working poverty will compound the effects that the increase in food prices has had on the poor in developing countries (box 3). And while prices have now fallen, given their recent volatility there is a risk that then when demand for food commodities recovers, the challenges associated with poverty will intensify.

Box 3
Unstable food prices and impact on the poor

The rise in food prices between 2005 and 2008 is estimated to have increased the share of the population of East Asia, the Middle East, and South Asia living in extreme poverty by more than 1 percentage point. The impact on Africa was relatively lower because food prices increased somewhat less than in other regions. As the poor in developing countries spend 50 percent or more on food, the increase in food prices had a disproportionate impact on them. Since July 2008, prices of all commodities, including food items, have fallen sharply mainly reflecting declining world demand. However, food prices remain well above the levels reached in the 1990s. [1]



[1] ibid.

Source: Food and Agriculture Organization of the United Nations (FAO), February 2009.

… entailing a risk of prolonged labour market recession

53. Previous crises show that it take much longer to reach pre-crisis employment levels than to restore economic growth – with the impact from banking-related crises often being deeper and more prolonged (box 4).

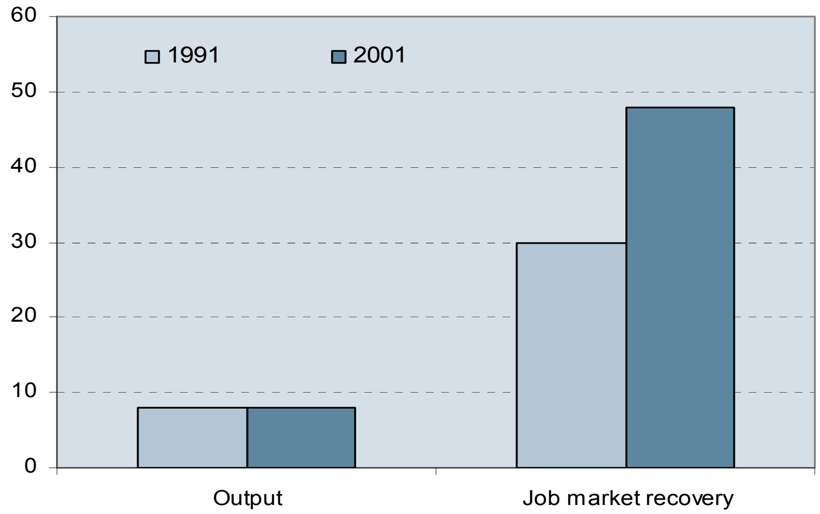
Box 4

Aftermath of banking crises and employment recovery after recessions

Banking crises typically have long-lasting effects on employment. [1] Earlier crises caused, on average, a drop in GDP for approximately two years and increases in unemployment for a much longer period – 4 to 5 years. Furthermore, as growth of government revenues weakens significantly in the year of a crisis and declines in the following years, the real value of government debt tends to surge, rising an average of 86 per cent. Thus, the fiscal consequences of banking crises reach beyond the immediate sector-specific bailout costs.

The figure below shows the duration of the last two recessions in the United States (1991 and 2001). Both recessions lasted eight months (according to the National Bureau of Economic Research), but the job market recovery took 30 months in the case of the 1991 recession and 48 months in the 2001 recession. In other words, not only does it take much longer for the job market to recover in response to a recession, but the time it takes for such recovery to materialize seems to have increased in recent years.

Duration of output recovery and job market recovery after the 1991 and 2001 US recessions (in months)



[1] See C.M. Reinhart; K.S. Rogoff: Banking Crises: An Equal Opportunity Menace, National Bureau of Economic Research (NBER), Working Paper No. 14587, 2008a; and C.M. Reinhart; K.S Rogoff: The Aftermath of Financial Crises, paper prepared for presentation at the American Economic Association, 2008b.

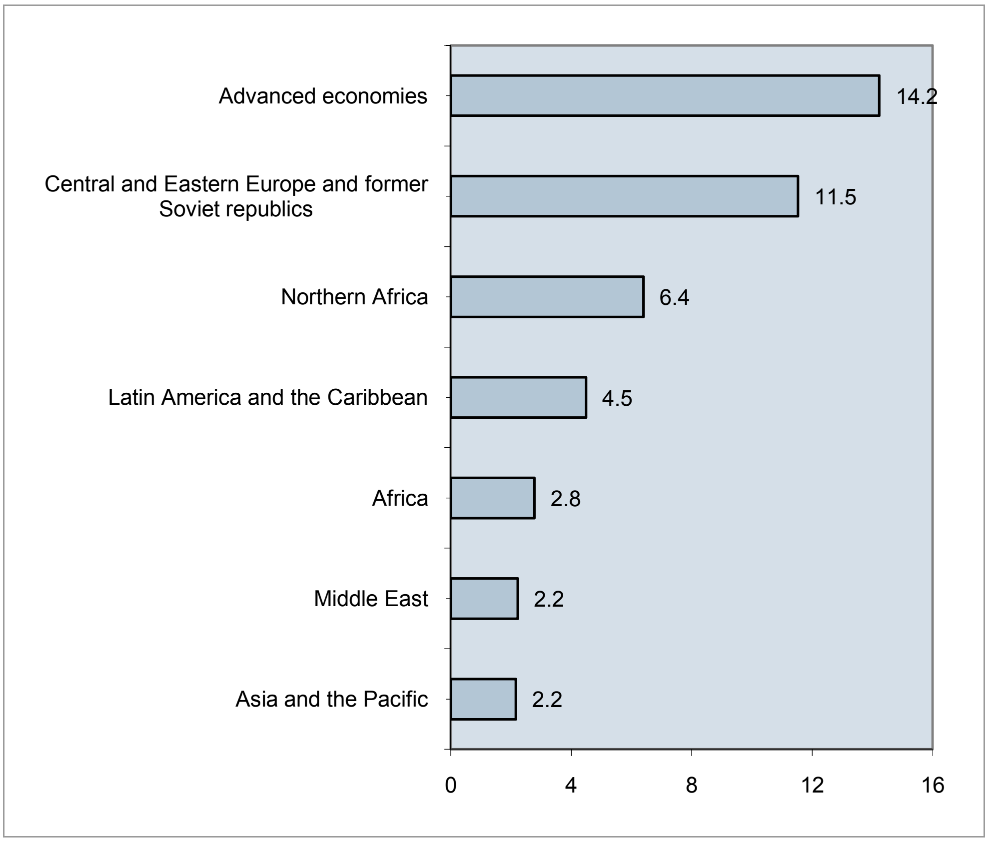
Source: J. Irons, How long would a job-market recovery take? Economic Policy Institute, 7 January 2009.

Depending on social protection coverage, the labour market recession will lead to significant social hardship ...

54. Social protection, if well designed, plays a crucial role in alleviating social hardship in the face of the crisis. Yet, the array of benefits and support measures available to individuals varies significantly across countries and regions. Social spending as a share of GDP ranges from as high as 14 per cent in advanced economies to as low as 2 to 3 per cent in Asia, the Middle East and sub-Saharan Africa (figure 4). The reality is that in many emerging and developing countries, the majority of workers do not contribute to basic social security coverage, including unemployment benefits. [21] This is due mainly to the fact that most employment is in the informal economy.

[21] It is important to note that in many countries – emerging, developing and developed – unemployed workers often have access to other benefits and support (e.g. social assistance, training, etc.).

Figure 4. Social expenditures as a percentage of GDP, most recent year available*



* Social expenditures (consolidated central government) are defined as transfers to protect the entire population against certain social risks such as medical services, unemployment compensation, social security pensions, and social assistance benefits. Social security benefits include sickness and invalidity benefits, maternity allowances, children's or family allowances, unemployment benefits, retirement and survivors' pensions, and death benefits. Subsidies, grants, and other social benefits include all unrequited, non repayable transfers on current account to private and public enterprises; grants to foreign governments, international organizations, and other government units; and social security, social assistance benefits, and employer social benefits in cash and in kind.

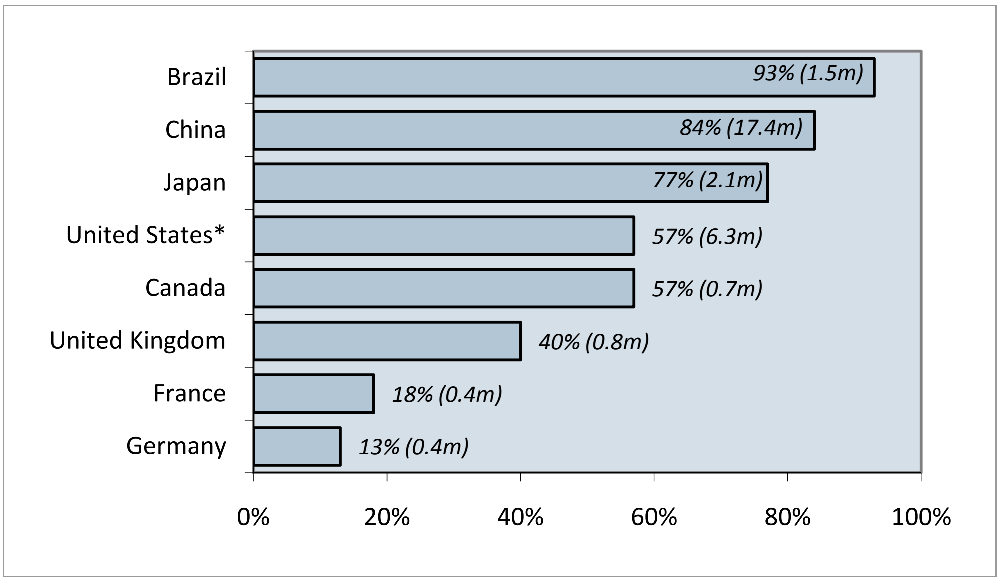
Source: IMF: Government Financial Statistics, 2007.

… as millions of workers are left without adequate support …

55. Even where unemployment benefit systems exist in emerging and developing economies, they are often restricted to urban areas. For example, in China, close to 5 million unemployed urban workers (57 per cent) were without unemployment insurance in 2005. Given that over 60 per cent of total employment in China is in rural areas, the share of unemployed workers unable to access unemployment benefits is probably closer to 84 per cent (figure 5).

56. In many developed countries, job losers are often not eligible for unemployment benefits. In half of the OECD member countries, 50 per cent or more of the unemployed do not receive unemployment benefits (though non-recipients may be entitled to social assistance benefits).[22] Even in countries like France and the United Kingdom, where coverage is greater, many workers do not receive unemployment benefits (figure 5).

Figure 5. Share (and number) of unemployed workers NOT receiving unemployment benefits



* For the United States, if benefits under the extended unemployment compensation programme authorised by Congress in the summer of 2008 are also included, the rate declines to 42 per cent.

Source: IILS estimates based on national statistics. For Brazil, recipiency rate is taken from Vroman and Brusentsev: *Unemployment Compensation Throughout the World: A Comparative Analysis*, 2005, and applied to the level of unemployment from the December 2008 Labour Force Survey.

57. In Canada, Japan, and the United States, where regulations governing access to such benefits are often much stricter, the share of unemployed workers not receiving benefits can be well over half. As of January 2009, more than 6 million jobless Americans were not receiving unemployment insurance. In Japan, about 77 per cent of unemployed persons do not receive unemployment benefits.

58. The absence of unemployment benefit support is made worse by the fact that for many individuals social protection is conditional on being employed. The immediate fall in income resulting from unemployment is thus worsened by the loss in non-cash benefits such as employer-sponsored health. The loss of these benefits can be a particularly severe blow to middle- and low-income households.

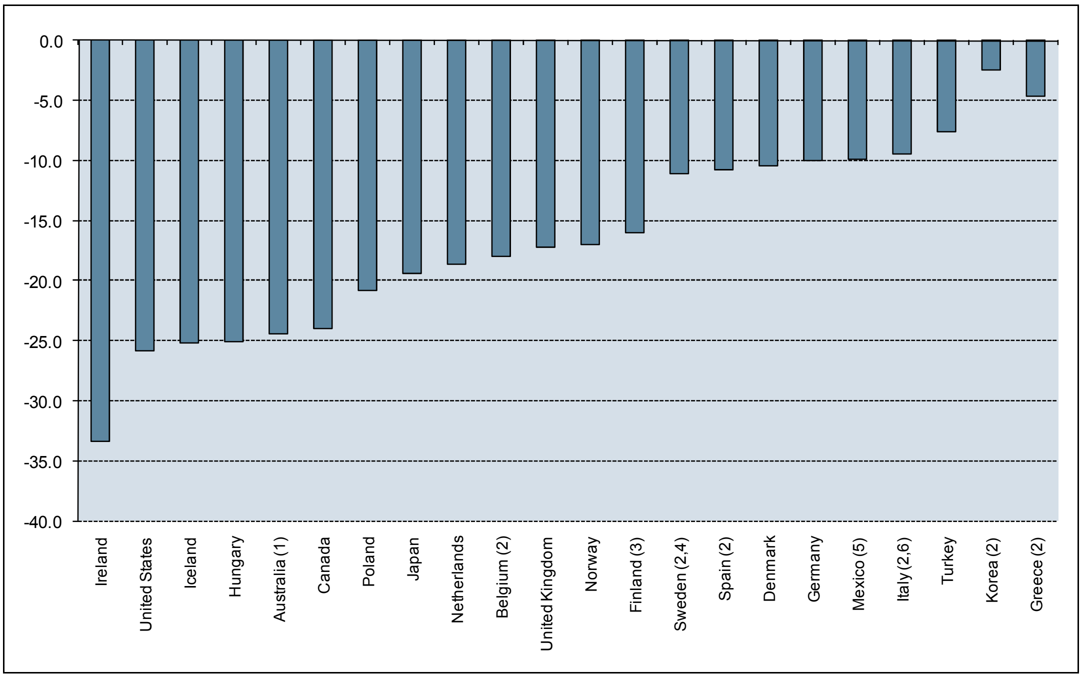
… and retirement savings are eroded

59. An immediate consequence of the collapse of stock markets in 2008 has been the dramatic decline in individual wealth held in pensions.[23] According to the OECD, between January

[22] The generosity and replacement rates of unemployment benefits – an important consideration – vary significantly from country to country, and should not be taken as an indication as to the amount of money spent on non-work assistance. OECD: *Employment Outlook*, 2008; C. Stone; R. Greenstein; M. Coven: *Addressing Longstanding Gaps In Unemployment Insurance Coverage*, Center on Budget and Policy Priority, 2007; and OECD Database on Benefits and Wages.

and October of 2008, private pensions registered losses of nearly 20 per cent – representing a value of $4.5 trillion (figure 6). This has prompted concerns about the adequacy of retirement savings for many individuals.

Figure 6. Pension fund returns (real), for selected countries, January–October 2008 (percentages)



[1] Official data up to June 2008 then complemented by OECD estimate up to October. [2.] 2008 data refer to 30 September 2008. [3] Data refer to statutory earnings-related pension plans. [4] Data refer to occupational pension plans only. [5] Data refer to the mandatory and voluntary pension systems. [6] Data refer to new pension funds (contractual and open) instituted after 1993 legislation.

Source: OECD.

60. In World Bank client countries with funded pension systems, losses in pension funds range from 8 per cent to 50 per cent.[24] In Chile, for example, the private pension funds that cover 8.3 million workers lost a total of $25 billion in 2008. Traditional pension systems provided by governments on a pay-as-you-go basis will also be affected by the current downturn, but much less than private pension funds. Interestingly, in view of the pension crisis, the World Bank has shifted its stance on this matter and is now advocating greater focus on government-backed pay-as-you-go systems.[25]

[23] Losses in advanced economies approached 40 per cent in 2008. The MSCI Emerging Market Index (25 emerging country indices) lost more than half its value (54.5 per cent) over the same period – the worst annual performance since the measure was created two decades ago.

[24] World Bank: *The financial crisis and mandatory pension systems in developing countries*, 2009.

[25] ibid.

These developments come on the heels of an expansionary period where the gains of growth were unevenly distributed

61. The global economic crisis comes after a sustained period of growth, whose benefits were unevenly shared. [26] During the two decades that preceded the crisis, the incomes of richer groups grew faster than those of middle- and low-income groups. [27] As mentioned in box 1, growing income inequalities within countries contributed to an increase in the demand for credit, which, in conjunction with poor financial regulation, lies at the heart of the current crisis.

In sum, the risks of prolonged labour market and enduring social crises need to be averted

62. By definition, any financial crisis has serious consequences on the entire real economy, which depends so vitally on financial markets in order to grow and create jobs. But the current financial crisis is deeper than recent ones. It has its origins in developed countries which had been the engine of global demand and trade growth. In addition, given the strong international inter-linkages, it affects most countries. And, against the backdrop of the pre-crisis expansionary period, in which gains were unevenly shared, the economic and social costs of the crisis are noticeably widespread. Perceptions of unfairness are mounting, increasing the risk of social instability.

63. The challenge is to avoid a major labour market and social crisis. Already, job losses have mounted and new entrants like youth have had difficulty finding employment. However, the rise in unemployment has been contained to some extent as firms have attempted to limit the extent of layoffs via recourse to shorter hours and partial unemployment. This could change with a prolonged recession – in such an event, significant increases in unemployment would be unavoidable and, in developing countries, a long-lasting shift to informality and higher working-poverty would occur.

64. A prolonged recession would have deeper effects than just higher unemployment and increased informality and working-poverty. With so many people around the world lacking social protection, social hardship resulting from poor job prospects would intensify. Some developing countries will also need to integrate growing numbers of return migrant workers. And within countries the movement of workers from urban centres where jobs disappear, back to rural areas poses acute challenges as well. Social protection itself is being affected by the crisis, at the time when it is most needed, especially in countries that relied excessively on private pension funds or employer-provided health care.

II. International and country responses to the crisis

65. Given the grim economic outlook, and risk of widespread labour market and social consequences, countries around the world have adopted unprecedented measures to address the global economic slowdown. This section provides a brief overview of the

[26] ILO: *World of Work Report: Income inequalities in the age of financial globalization*, IILS, Geneva, 2008.

[27] ibid and ILO: *Global Wage Report*, Geneva, 2008.

outcomes of efforts to coordinate the measures among countries. It also describes rescue efforts undertaken by 40 countries (including the G20). [28] This includes an overview of the labour market initiatives that have been put in place, and the role of social dialogue and tripartite institutions in shaping the discourse to date.

International efforts to coordinate responses to the crisis have been stepped up

66. The global financial market has been unstable since as early as 2007. But 2008, marked by bankruptcies and bailouts of financial institutions (notably AIG, Bears Stearns and Lehman Brothers) placed the financial system in a state of constant turmoil and volatility. Credit markets froze and stock indices tumbled throughout 2008. The first round responses were largely uncoordinated, but the case for more internationally coordinated action has become increasingly clear – as witnessed by several efforts. These include:

- the G20 commitment at the meeting in Washington in November 2008, which prescribes action to be taken in key determinants of decent work and agrees on the importance of coordinating macro-economic policies and reducing global imbalances;

- an Economic Recovery Plan approved by the European Council in 2008 (200 billion euros), which aims to boost demand through joint fiscal stimulus action as well as temporary support for the unemployed through cash transfers and extension of unemployment benefits. It also calls for lower taxes and social contributions, and measures targeting small enterprises. [29]

67. Addressing the social dimensions of the crisis is at the core of ILO’s mandate. The Social Justice Declaration stresses that “As trade and financial 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”.

68. The IMF has provided financial assistance to countries affected by rapidly declining capital inflows, and balance of payments deficits. The policy response by most emerging economies facing such situations has generally involved pro-cyclical fiscal and monetary tightening designed to restore market confidence, combined with IMF interventions to bail out international creditors and investors. [30] Therefore, as part of the crisis resolution tools available for countries, the IMF has offered its fast-track emergency lending facilities. So far, the governments of Belarus, Hungary, Iceland, Latvia, Pakistan and Ukraine have resorted to IMF loans to restore their financial and economic systems (figure 7). Latvia has a stand-by arrangement whereby IMF credits can be provided to finance a temporary

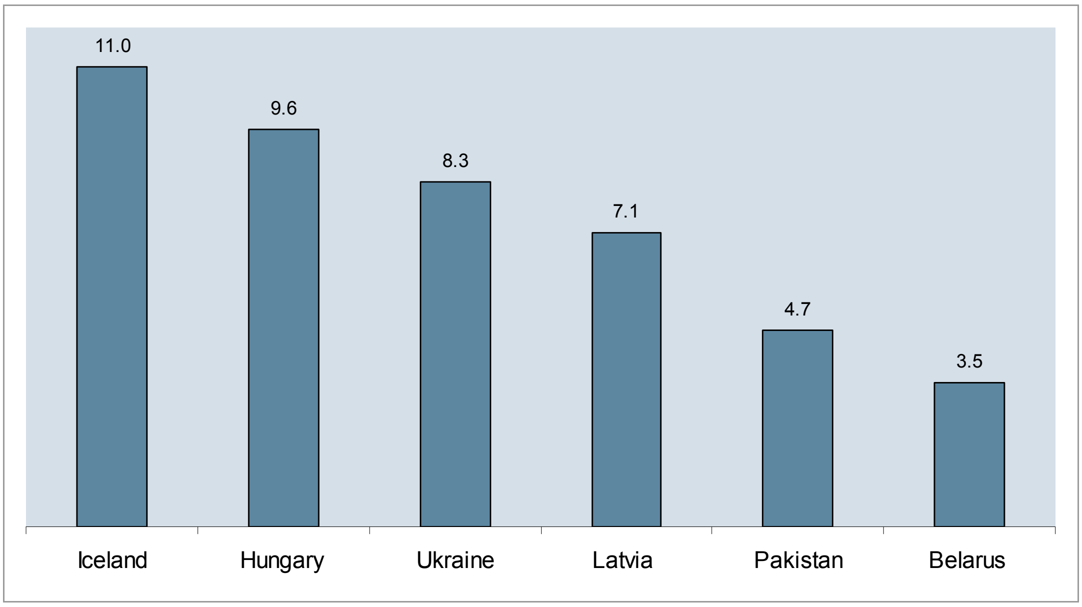
[28] For a detailed presentation of the measures, see S. Khatiwada: *Stimulus packages to counter the global slowdown*, IILS, ILO, forthcoming 2009.

[29] On 11 and 12 December 2008, the European Council approved a European Economic Recovery Plan, equivalent to about 1,5 per cent of the GDP of the European Union. The plan provides a common framework for the efforts made by Member States and by the institutions of the European Union.

[30] Y. Akyüz: From liberalization to investment and jobs: Lost in translation, Policy Integration and Statistics Department, Working Paper No. 74, ILO, Geneva, 2006.

balance-of-payments deficit. The IMF also has about $200 billion for immediate lending and can draw an additional $50 billion if needed. [31]

Figure 7. IMF assistance as percentage of GDP



Source: IMF.

Governments have provided prompt, massive support to rescue the financial system …

69. Government efforts to strengthen bank balance sheets were initially undertaken on a case-by-case basis. For example, the United States and European governments injected capital into individual banks or induced mergers in hopes of reviving the credit market by encouraging banks to lend to one another. But market confidence continued to decline and credit markets remained frozen, highlighting the need for system-wide intervention.

70. The system-wide interventions subsequently put in place by the United States and European governments have involved ensuring bank funding through explicit government guarantees on retail deposits and other bank liabilities, and reducing bank leverage through government purchases of distressed assets or capital injections. Almost all the major economies have increased guarantees of private deposits, put in place inter-bank loan guarantees, banned or restricted short-selling and injected capital into troubled banks by buying equity stakes (table 2).

[31] As IMF Managing Director Dominique Strauss-Kahn recently pointed out, the IMF may need another $150 billion to help counter the hit to emerging markets and poor countries. Japan has pledged $100 billion while other nations have yet to commit to help.

Table 2. Crisis resolution instruments for selected countries [1]

	Increased guarantee of private deposits	Guarantees for bank loans or debt	Fund to purchase commercial papers	Purchase mortgage bonds	Ban or restrict short-selling [2]	Capital Injections	Option to purchase toxic assets	Induced mergers and acquisitions	IMF's emergency lending
Australia	X	X		X	X		X		
Austria	X	X			X	X			
Belgium	€100 000	X			X	X			
Brazil								X	
Canada		X		X	X		X		
China						X		X	
Denmark	X	X		X	X				
Finland	€50 000	X			X				
France	€70 000	X			X	X			
Germany	X	X			X	X	X		
Greece	€100 000	X			X	X			
Hungary	€50 000	X				X			$15.7 billion
Iceland	X					X			$2.1 billion
India						X			
Indonesia	2 billion rupiahs								
Ireland	€100 000	X				X			
Italy	€100 000				X	X			
Japan		X			X				
Korea, Republic of	X	X				X			
Mexico		X							
Netherlands	€100 000	X			X	X			

	Increased guarantee of private deposits	Guarantees for bank loans or debt	Fund to purchase commercial papers	Purchase mortgage bonds	Ban or restrict short-selling [2]	Capital Injections	Option to purchase toxic assets	Induced mergers and acquisitions	IMF's emergency lending
New Zealand	X	X							
Norway	X	X					X		
Poland	€50 000								
Portugal	€100 000	X				X			
Russian Federation	X	X			X	X			
Spain	€100 000	X		X	X		X		
Sweden	€50 000	X		X		X			
Switzerland	X		X			X	X		
Turkey									X
United Kingdom	£50 000	X		X	X	X		X	
United States	$250,000	X	X	X	X	X	X	X	

[1] Most crisis resolution instruments were put in place in October-November, 2008; only the countries that instituted at least one measure are included. An "X" denotes some action taken by a country in the corresponding area.
[2] Ban on short-selling has been lifted for some asset classes in Switzerland and the UK.

Source: IILS based on Bloomberg, Bank for International Settlements and OECD.

71. Australia, Canada, Germany, Norway, Spain, Switzerland and the United Kingdom have opted to buy (or insure) toxic assets, while the United States abandoned this plan in favour of direct capital injections. However, under the new administration, the United States is considering getting troubled assets off banks balance sheets by using at least $500 billion (possibly up to $1 trillion) in private and government money. The three main elements of the new programmes proposed by the United States Treasury Secretary are: injecting government capital into the biggest financial institutions; establishing public-private partnership to buy banks troubled assets; and starting a credit facility with the Federal Reserve with as much as $1 trillion to promote lending to consumers and businesses.

… which has been supported by monetary easing and other actions of central banks

72. In addition, central banks around the world have taken action to address the challenges in the global financial market by means of providing liquidity and easing monetary conditions. [32] For example, the United States Federal Reserve Bank and other major central banks, including the European Central Bank, the Bank of England, and the Bank of Japan increased assets substantially in order to provide direct lending to banks and dealers through existing and new lending facilities.

73. In addition, aggressive monetary easing has been adopted in light of the rapidly deteriorating economic outlook, including a series of internationally-coordinated interest rate cuts (table 3). This shift in focus of monetary policy from inflation targeting to supporting economic activity has been supported by a rapid decline in inflation, with some countries now facing deflation pressures. For example, the United States Federal Reserve cut its federal funds rate to a historically low level of between 0 and 0.25 per cent. Even among emerging economies, inflation fears have largely subsided with the rapid decline of commodity prices. However, despite these efforts, global economic activity has continued to decline and with rates at near-zero levels in some cases, further recourse to monetary policy is limited. Governments have thus turned their attention to fiscal rescue packages.

[32] Quantitative easing involves increasing the base money stock by purchasing government securities and qualitative easing involves purchasing private securities, including possibly illiquid private securities and/or private securities subject to substantial default risk.

Table 3. Monetary policy interest rate changes

Australia	Cut to 3.25 per cent, February 2009	**Malaysia**	Cut by 0.75 per cent to 2.5 per cent, January 2009
Austria	Cut (ECB)[1]	**Mexico**	Cut by 1 per cent to 6.75 per cent, January 2009
Belgium	Cut (ECB)	**Netherlands**	Cut (ECB)
Brazil	Cut by 1 per cent to 12.75 per cent, January 2009	**New Zealand**	Cut by 1.5 per cent, December 2008
Canada	Cut by 2.25 per cent over 2008; cut by 0.5 per cent to 1 per cent, January 2009	**Nigeria**	Cut by 0.55 per cent to 9.7 per cent, September 2008
Chile	Cut the overnight lending rate by 1 per cent to 7.5 per cent, January 2009; cut by another 0.25 per cent to 7.25 per cent, January 2009	**Norway**	Cut
China	Cut one year lending rate by 1.89 per cent to 5.58 per cent, December 2008; cut by another 0.27 per cent to 5.31 per cent, December 2008	**Philippines**	Cut by 0.5 per cent to 5 per cent, January 2009
Denmark	Cut by 0.75 per cent to 4.25 per cent, December 2008	**Poland**	Cut
Finland	Cut (ECB)	**Portugal**	Cut (ECB)
France	Cut (ECB)		
Germany	Cut (ECB)	**Saudi Arabia**	Cut main repo rate by 0.5 per cent to 2.5 per cent, December 2008; cut by another 0.5 per cent to 2 per cent, January 2009
Greece	Cut (ECB)	**South Africa**	Cut main repo rate by 0.5 per cent to 11.5 per cent, December 2008
Hungary	Increase by 3 per cent, October 2008 (emergency measure); cut by 0.5 per cent to 10.5 per cent, December 2008; cut by another 0.5 per cent to 10 per cent, December 2008	**Spain**	Cut (ECB)
Iceland	Increase (emergency measure)	**Sweden**	Cut by 1.75 per cent, December 2008
India	Cut repo rate by 1.5 per cent to 7.5 per cent, October 2008; cut by 1 per cent to 6.5 per cent, December 2008; cut by another 1 per cent to 5.5 per cent, January 2009	**Switzerland**	Cut to 0.5 per cent, December 2008
Indonesia	Cut by 0.25 per cent to 9.25 per cent, December 2008; cut by 1.5 per cent to 8.75 per cent, January 2009; cut by 0.5 per cent to 8.25 per cent, February 2009	**Thailand**	Cut to 2 per cent, January 2009
Ireland	Cut (ECB)	**Turkey**	Cut to 13 per cent, January 2009
Italy	Cut (ECB)	**United Kingdom**	Cut by 1 per cent to 2 per cent, December 2008; cut by 0.5 per cent to 1.5 per cent, January 2009; cut by another 0.5 per cent to 1 per cent, February 2009
Japan	Cut by 0.2 per cent to 0.3 per cent, October 2008; cut by another 0.2 per cent to 0.1 per cent, December 2008	**United States**	Cut by 3.25 per cent from January to October 2008; cut to a range of 0.25 to 0 per cent, December 2008
Republic of Korea	Cut by 1 per cent to 3 per cent, December 2008; cut by another 1 per cent to 2 per cent, February 2009	**Viet Nam**	Cut by 1.5 per cent to 7 per cent, January 2009

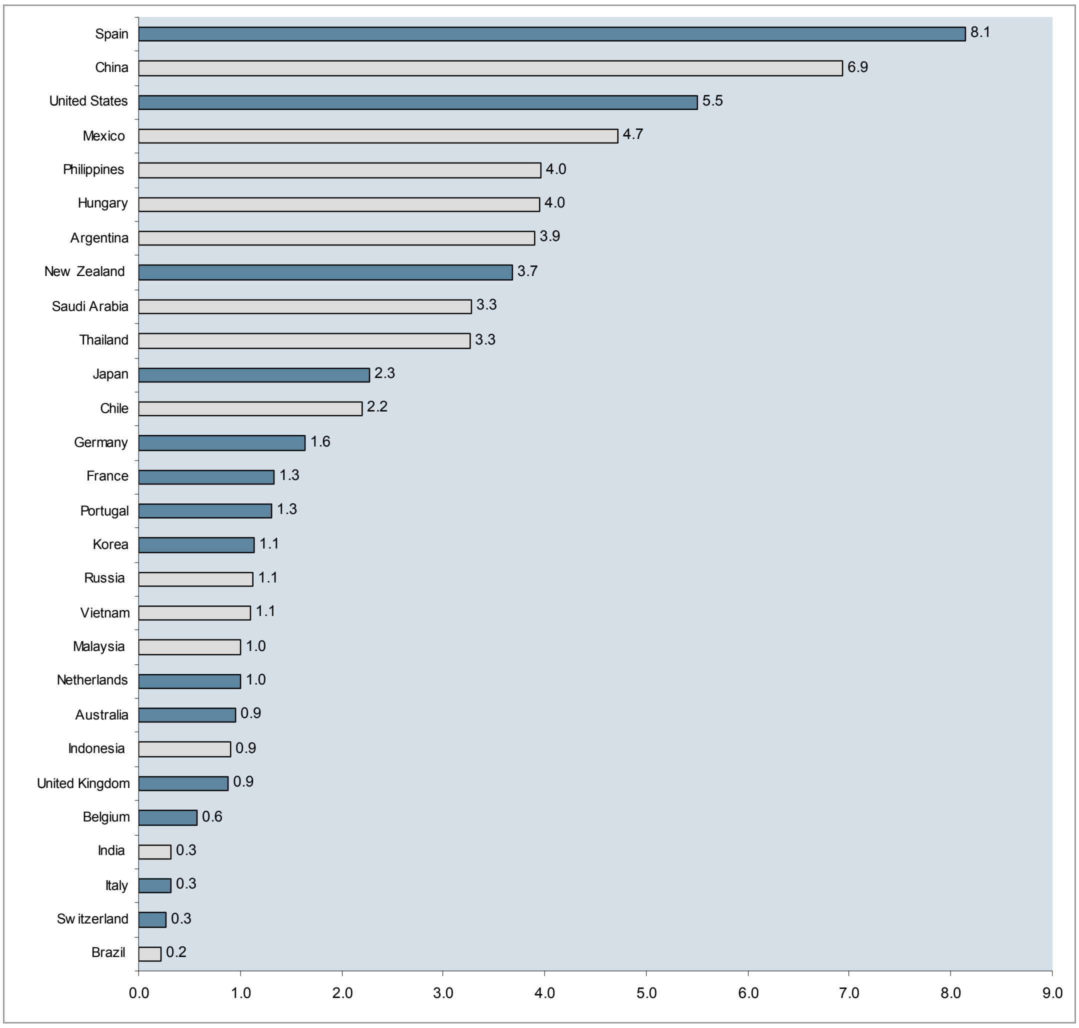
[1] The European Central Bank (ECB) rate stands at 2 per cent as of January 2009.

Source: IILS, based on national sources.

Fiscal stimulus packages have been announced, though with a delay vis-à-vis financial rescue measures …

74. As the G20 Summit in Washington underscored, there is a growing consensus that aggressive fiscal measures – cutting taxes and boosting spending – are required to stimulate domestic demand and avert the worst economic slump since the Great Depression. As a result, countries have announced fiscal rescue packages of varying sizes, with Spain announcing the biggest package as a percentage of GDP, followed by China and the United States (figure 8).

Figure 8. Fiscal package as a percentage of GDP (as of February 2009) *



* 2008 GDP from IMF World Economic Outlook. Developed economies are indicated in dark grey; developing and emerging economies, in grey. Time frame of spending is not clear for most countries and in some cases, package was announced but not the details. For China, Germany and the United Kingdom, the time frame is 2 years, hence the total package was divided by 2.

Source: IILS, based on national sources.

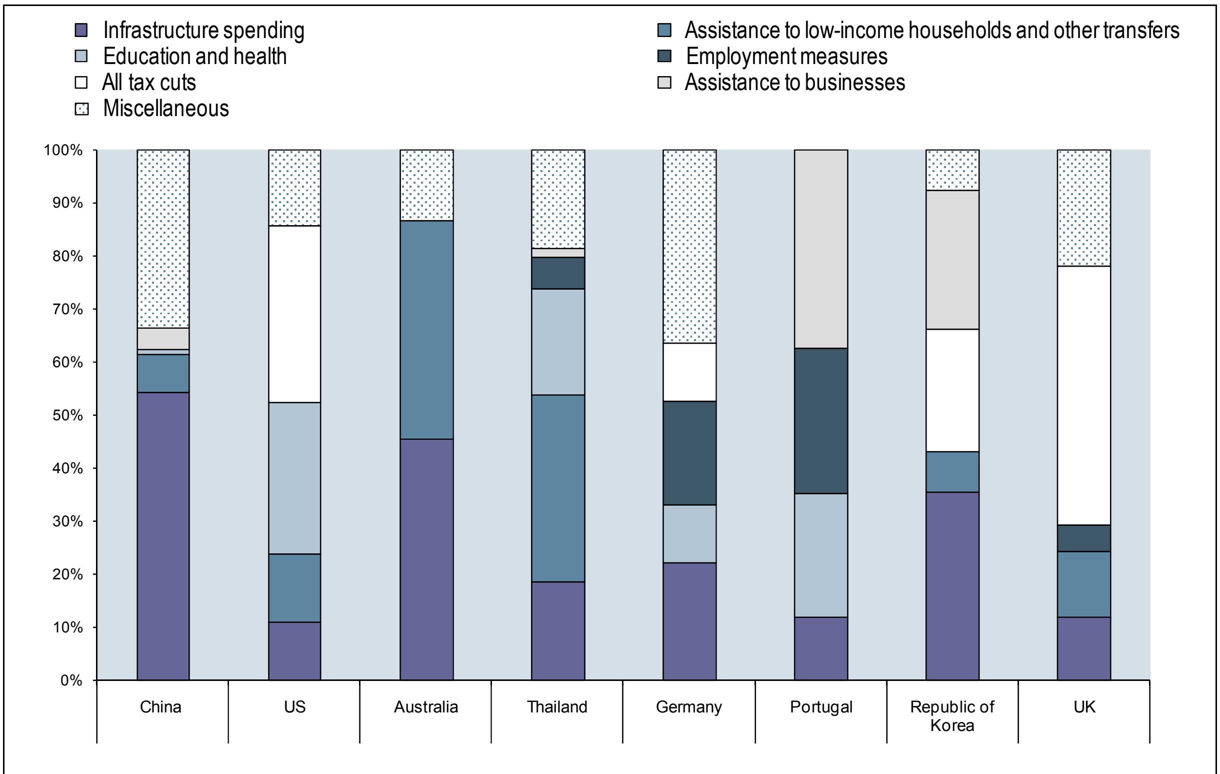
… a degree of uncertainty regarding the precise size and timing of the package …

75. However, there are uncertainties regarding the exact size and timing of the stimulus packages. First, the breakdown of rescue efforts in terms of old spending (already in the pipeline) and new spending is uncertain. Second, the time-horizon in which the stimulus package will be administered is also unclear. For some countries like China, Germany and the United Kingdom, the time frame is two years (2009–10), but for most countries, the time frame of new spending measures has not been decided as yet. [33] Third, most countries have announced fiscal rescue packages different from their financial rescue packages, but there is a tendency to count in financial help to different sectors (like loan guarantees) as part of the package. For the countries examined here, an attempt has been made to disentangle fiscal efforts from financial efforts. And fourth, some countries have announced stimulus spending embedded in their annual budgets, which makes it difficult to identify the size of new spending.

... and significant variation in the composition of spending efforts …

76. Across a range of 8 countries with detailed available data, there is significant variation in terms of the emphasis placed on different components of the stimulus package (figure 9). All, however, have dedicated resources to infrastructure spending, though the share ranges from over half (54 per cent) in China to as low as 11 per cent in the United States. On the other hand, the degree of employment measures and support to low-income households is generally limited. For example, only half the countries have implemented employment measures (notably Germany and Portugal) and only Australia and Thailand dedicate significant resources to low-income households.

Figure 9. Composition of spending as a percentage of total for selected countries*



* Countries are organized by rescue package as a percentage of GDP.

Source: IILS, based on Bloomberg, Asian Development Bank, and New York Times.

[33] The total rescue package for the China, Germany and the United Kingdom is divided by two before calculating the package as a percentage of GDP.

77. A broader analysis of the 40 countries with available data confirms that the composition of rescue packages varies considerably, but almost all the rescue efforts can be divided into three main areas: increase spending on public goods and services, fiscal stimulus aimed at consumers (e.g. personal income tax cuts, cash transfers), and fiscal stimulus aimed at firms (e.g. corporate tax cuts).

78. In terms of *spending on public goods and services:*

- At least half the countries have announced spending increases in infrastructure and on education and health:

  – infrastructure projects generally focus on building and repair of roads, bridges, railway lines, and rural infrastructure with attention given to projects in the pipeline (e.g. China, Italy, and the Netherlands). Some countries (e.g. China, Japan, Portugal, and the United States) include energy-efficient projects as part of infrastructure investments. China and Thailand have also announced measures to increase home availability (through public housing projects) for poor households;

  – in terms of education and health, China and Saudi Arabia have announced significant increases in education and health spending with some school and hospital constructions as part of rural development programmes for several countries.

79. In terms of fiscal stimulus aimed at consumers:

- Germany, New Zealand, Russian Federation, Spain, the United Kingdom, and the United States are some of the many countries that opted for tax cuts aimed at stimulating consumer spending (these tax cuts fall into two categories: income tax cuts and sales tax cuts such as VAT reductions). Others have adopted tax cuts to boost sales in certain sectors, such as automobiles in Brazil, Germany and Turkey.

- Australia, Italy, Mexico and the United States have put in place measures to help home buyers. In some cases, this includes incentives for consumers to purchase energy efficient homes and "greening" existing homes by providing subsidies and tax exemptions.

- Australia, China, France, Indonesia, Italy, Japan, Mexico, Philippines, Spain, and the United States have announced increases in social transfers aimed at poor and low-income households. Social transfers include direct cash transfers, conditional cash transfers, and social welfare programmes.

80. In terms of *fiscal stimulus aimed at firms:*

- Several stimulus packages have placed emphasis on the viability of large firms, especially in the financial and automotive sectors.

- In some cases, measures have been explicitly targeted at SMEs (e.g. Japan, the Republic of Korea, and Mexico). In addition, public investments in infrastructure, construction and housing will also provide new market opportunities for SMEs. Other measures to firms have been specifically targeted to mitigate the impact on employment.

... and varying degrees of direct support for employment and social protection …

81. Some countries have announced explicit measures to help workers and employers as part of their fiscal rescue efforts (see some country examples in table 4):

- Japan and the United States have put in place extension of unemployment benefits. France and Switzerland have also put in place more generous systems of unemployment benefits for temporarily laid-off workers. Meanwhile, Canada, China, and Turkey are in the process of extending unemployment benefits. Other countries like the Republic of Korea, Philippines, and Thailand have announced country-specific measures to assist vulnerable workers.

- Some countries are making greater use of in-work benefits in conjunction with reduced working hours to curtail layoffs. For example, in Germany, the government extended the possibility for workers who continue to be employed – but at reduced working hours – to receive income supplements, and companies are reimbursed 100 per cent of their social security contributions on behalf of employees when the down time (i.e. reduced working hours) is used for training.

- To encourage hiring, some countries have announced subsidies and exemptions. For example, the United Kingdom has announced subsidies for employers (up to £2,500) who hire workers who have been unemployed for more than six months, and Japan has announced subsidies for employers who hire temporary workers as regular employees. Other countries that have announced some sort of hiring incentives include Australia, Chile, China, France, Germany, the Republic of Korea, the Netherlands, and the United States.

- Australia, Canada, Chile, China, France, Germany, Indonesia, Japan, the Republic of Korea, Portugal, Thailand, the United Kingdom and the United States have announced training programmes for laid-off workers as part of their labour market initiatives. Training programmes include, among others, vocational workshops for laid-off migrant workers, and expanded opportunities for apprentices in trades.

- It is also likely that the new infrastructure projects, discussed briefly above, and increased funding for local governments will result in more public sector jobs. As of February 2009, some 20 countries of the 40 have made such announcements.

82. A few countries have announced *explicit goals for job creation*. These include Chile (100,000), France (80,000 to 110,000), Hungary (20,000), Indonesia (2.6 million), Spain (300,000) and the United States (3.5 million). In France, Spain and the United States, job goals include the creation of green jobs. However, the goals for job creation do not include plans to save existing jobs.

Table 4. Examples of labour market initiatives in response to the crisis [1]

	I. Extension of unemployment benefits	II. Activation measures		II. Increase in public sector jobs [3]
		A. Hiring incentives for employers [2]	B. Other activation measures (job-search help, training, measures targeted at disadvantaged group, etc.)	
Argentina				X
Australia		Funds to employers for staff development and training programs	Increase in productivity training places from 57,000 to 113,000	X
Brazil	Increase in minimum wage by 12 per cent as of February 2009, which will affect 45 million workers; expansion of UE benefits from 3 to 5 months to 5 to 7 months			
Canada	X (ongoing discussions but not approved)		$1.5 billion in training fund for laid-off workers	
Chile		X		X
China	X (ongoing discussions at the local and regional level; recommended by the central government)	Reduction in medical and accident insurance premiums; flexible working hours and pay for service sector firms	Nationwide vocational training program for migrant workers returning home after losing jobs	A temporary moratorium on firing in state owned enterprises
France		Employers with less than 10 employees will not pay social taxes for each new employee they hire in 2009.	X	X
Germany	X	Reduction in health insurance contribution	X	
India				X
Indonesia			Job training; voluntary transmigration programs for laid off workers to areas less affected by the crisis	X
Italy				X
Japan	X	Increased subsidies for SME employers; subsidies for employers who hire temporary workers as regular employees	Support for non-regular workers in job-placement	Financial support to local governments that hire job-seekers
Republic of Korea	Support vulnerable workers (outside the boundaries of a social safety net) who are put on unpaid temporarily leave	Tax exemption and extension on tax submission periods for employers that maintain their workforce	X	X

	I. Extension of unemployment benefits	II. Activation measures		II. Increase in public sector jobs [3]
		A. Hiring incentives for employers [2]	B. Other activation measures (job-search help, training, measures targeted at disadvantaged group, etc.)	
Malaysia			Training for retrenched workers; re-training unemployed graduates over the next 2 to 3 years	
Mexico			Increase in seasonal employment programme	
Netherlands		Subsidies for company payrolls		X
Philippines	Increase in conditional cash transfers			
Portugal			€580 million in employment programmes	X
Saudi Arabia				X
Spain				X
Thailand	Cost of living alleviation projects and sustenance allowance		Capacity building for the unemployed	X
Turkey	X (proposed but not approved)			
United Kingdom			X	X
United States	Extension of unemployment benefits; health insurance for those who lost their job; increase in food stamps; increase in social security benefits	Subsidies for employers (up to £2,500) who hire workers that have been unemployed for more than 6 months	X	
Viet Nam	New unemployment insurance started in January 2009	X		X

[1] This table includes only the explicitly announced measures. An "X" denotes some action taken by a country. [2] Corporate tax cuts are not counted as an incentive for employers to hire, nor are sectoral subsidies. [3] All the countries with increased spending in infrastructure projects are counted, as they increase public sector employment.

Source: IILS, based on national sources.

… with some efforts to engage social partners

83. In the early stages of the crisis, social partners in many countries had limited involvement in the design and implementation of government anti-crisis measures. [34] More recently, in some cases, social dialogue has been at the heart of governments' plan to address the economic slowdown. These include:

[34] L. Rychly: *Social dialogue on the design and implementation of measures in times of global financial and economic crisis*, ILO, forthcoming 2009.

- In Ireland, an agreement was signed between the government and the social partners, following a discussion of the government s recommendations for sustainable economic renewal. The agreement covers issues of pay growth, employment rights of temporary workers, and voluntary arbitration, among others.

- In Pakistan, the tripartite Labour Conference was addressed by the Prime Minister, who announced a new era of consultations with social partners, and modernization of the country s labour law in cooperation with the ILO and the WTO.

84. In some cases, agreements arising from social dialogue initiatives have been embodied into law, such as the decree on partial unemployment benefits in France. Other countries such as Germany have passed a second economic stimulus package following extended consultations with national employers and workers organizations. In the Russian Federation, the national tripartite commission dealt with the social impact of the crisis several times since October 2008. In some countries, these bipartite or tripartite consultations and negotiations went beyond the scope of narrowly defined labour issues, but also dealt with state budgets and larger economic and policy matters.

In sum, action has been swift, but relatively misaligned

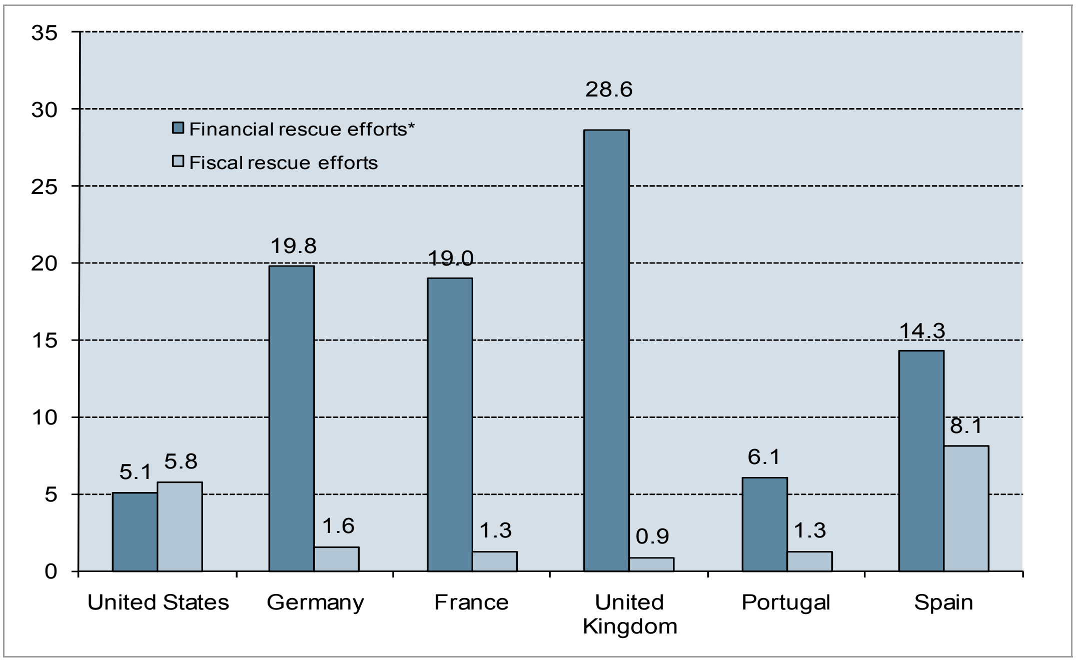
85. There has been considerable emphasis on rescuing the financial sector. As figure 10 shows, the amount spent on financial rescue efforts far surpasses fiscal rescue efforts for all countries except the United States. [35] Indeed, protecting banks' solvency and restoring the availability of credit to enterprises and households was rightly regarded as a pre-condition to avoid a total collapse of the financial system, with unpredictable consequences for the real economy. Governments have also announced fiscal stimulus measures – an important step in the right direction.

86. But there is much debate regarding the desirable content of the packages, their timing, and whether some of the measures should be merely temporary – as championed by the "3 t" approach – or rather, more enduring. [36] The next section addresses these issues.

[35] True, from an accounting point of view, financial rescue packages may not have any impact on the current net debt or budget balance. Measures like capital injection, if treated like a financial transaction, where the government receives in return a financial asset of equal value to the payment, would not affect the budget balance. In fact, the government could theoretically earn income once the markets return to normalcy. Furthermore, buying troubled assets could also prove to be profitable if the government manages to sell them at a higher value. And finally, loan guarantees are not exactly fiscal costs because they might never be exercised or used. Nevertheless, while it is true that comparison between financial and fiscal rescue efforts as a percentage of GDP should not be taken literally, it is very likely that governments will incur costs in rescuing the financial sector which will be far greater than the costs of the fiscal rescue efforts.

[36] According to the "3t" approach, governments should intervene to address the crisis. But interventions should be timely, targeted and – in particular – temporary. The latter means that deviation from market principles should be provisional. Once the economy recovers from the crisis, the state should phase out the measures as quickly as possible.

Figure 10. Comparison between fiscal and financial rescue efforts as a percentage of GDP



Source: IILS, based on ILO, OECD & Bloomberg.

III. Decent Work as cornerstone of the recovery: A global jobs pact

87. A global jobs pact would be instrumental in overcoming the crisis and paving the way for a more sustainable economy. A *global* approach is needed because the measures, to be effective, need to be coordinated across countries. The emphasis on *jobs* comes from the realization that decent work is central to reactivating the economy in a sustainable manner. This builds on ILO experience with the Global Employment Agenda. [37] Measures are best implemented through social dialogue at the national level, but greater cooperation at the international level can also have mutually reinforcing benefits – thus the need for a *pact*. In this respect, building upon the lessons of the past and avoiding counterproductive measures, such as trade protectionism and generalized wage deflation, will also prove invaluable.

88. More specifically, by putting the Decent Work Agenda at the forefront, a global jobs pact could ensure that stimulus measures more effectively tackle the transmission mechanisms of the crisis, namely the credit crunch, the rapid deterioration in domestic demand conditions and the recession in external markets. A global jobs pact could also address the key factors that nurtured the crisis and lay the foundation for a more sustainable economy.

[37] See GB.286/ESP/1(Rev.) and GB.300/ESP/2. Moreover, since 2000, the International Labour Conference has adopted conclusions concerning the following employment themes: decent work and the informal economy (2002); youth employment (2005); the promotion of sustainable enterprises (2007); skills for improved productivity, employment growth and development (2008); and promotion of rural employment for poverty reduction (2008).

Reviving the credit system and providing targeted support to sustainable enterprises

89. Experience from previous financial crises suggests that adopting stimulus packages without reviving the credit system may end up raising public debt without stimulating the economy and creating jobs. [38] Furthermore, it has been shown that countries can incur significant fiscal costs because of their failure to tackle problems in the financial system in a timely manner. [39] In light of these lessons, successfully stimulating economic activity will require reactivating credit markets, thus helping businesses to remain viable and be in a position to respond to well-designed fiscal stimulus programmes. A well-functioning financial system is essential for a growing and dynamic private sector. Easier access for SMEs, including cooperatives and start-ups, to financing (such as credit, leasing, venture capital funds or similar or new types of instruments), creates appropriate conditions for a more inclusive process of enterprise development. Financial institutions, particularly multilateral and international ones, should be encouraged to include decent work in their lending practices. [40]

Re-activating credit to stimulate the real economy …

90. Despite the large-scale financial rescue measures, there are indications that banks are reluctant to lend. In the EU and the United States, lending standards have tightened considerably (figure 11). As a result, individuals and firms have delayed investment decisions, constraining future economic growth and job creation. [41]

91. One factor is that government conditions for support to banks have thus far been weak. Even in countries where banks receiving government support are required to make credit available to businesses, there are no sanctions or penalties for institutions that fail to comply. Banks continue to undergo the process of “deleveraging”, i.e. the amount of capital available to the real economy is restricted by banks efforts to improve their balance sheets and reduce the burden of “toxic assets”. [42]

92. Interestingly, in the United States, state-owned banks have shown greater readiness to lend to businesses and consumers than their private-sector counterparts. This might reflect more limited exposure to risky financial operations among state-owned banks. But the fact that these banks are directly accountable to the government may have contributed as well. [43]

[38] The Japanese financial crisis during the 1990s, and the debate about the “lost decade”, is a case in point.

[39] C. Reinhart; K. Rogoff: T*he Aftermath of Financial Crises*, paper prepared for presentation at the American Economic Association, 2008.

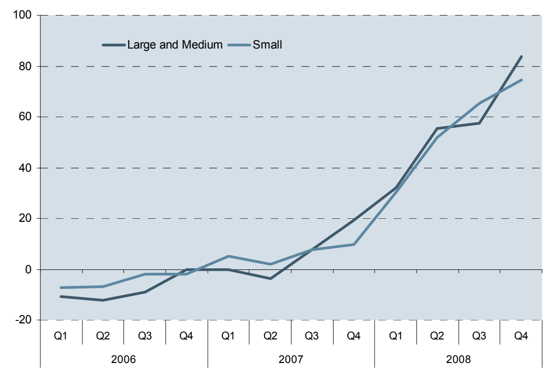
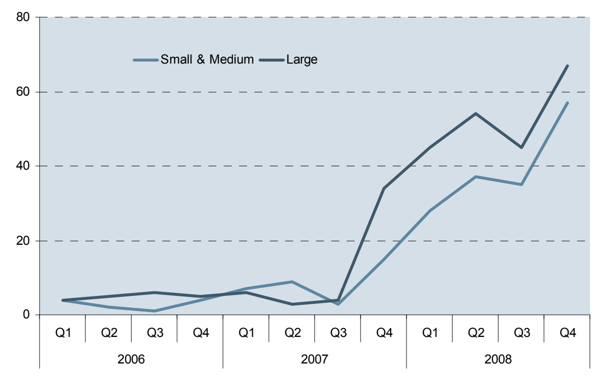
[40] ILO: Conclusions concerning the promotion of sustainable enterprises, International Labour Conference, Geneva, June 2007, para. 11.

[41] A prolonged investment slump would entail lower capital accumulation, thus reducing productivity gains and limiting the scope for improved living standards in the long-run.

[42] As illustrated in section II, some government efforts have attempted to address this directly by purchasing or insuring toxic assets in the hopes of improving the lending situation.

[43] Cooperative banks have reportedly pursued their regular lending operations as well (see H. Hagen, ILO, 2009, forthcoming).

Figure 11. Percentage of lenders tightening standards, by size of enterprise seeking loans

Panel A: United States	Panel B: European Union
	

Source: US Federal Reserve; ECB.

… with targeted support to SMEs …

93. Tighter lending standards present particular challenges for SMEs given their reliance on bank credits – they do not have access to capital markets in the same way larger firms do. This is why restoring credit conditions in general will have especially favourable effects on small businesses. In the meantime, measures such as special credit lines and direct access to government loans could be envisioned for SMEs to assist them in gaining access to capital.

94. This will be key if SMEs, which account for up to 95 per cent of enterprises and are responsible for most existing and new jobs, are to take advantage of new opportunities that arise from the public investments in infrastructure, construction and housing. The ILO s Small Enterprise Development Programme can play a helpful role in this respect (box 5).

Box 5
ILO’s Small Enterprise Development Programme

The ILO s Small Enterprise Development Programme provides policy advice and support to SMEs in clusters and value chains, particularly those with job creation potential, to improve quality and productivity by enhancing good workplace practices and management-labour collaboration.

The programme also aims to maximize SME involvement in public procurement programmes. For instance, the programme has been assisting governments to administer and supervise contracts for local contractors and training local contractors to tender and deliver such contracts. Such activities are helpful complements to infrastructure programmes carried out as part of the response to the crisis.

Another role of the programme is to assist national and local governments in reviewing and improving the regulatory environment for SMEs. This too can be instrumental in times of crisis.

... and viable sectors through social and “green” investments, not protectionism

95. As noted in the first section of this paper, the crisis is hitting certain sectors harder than others. Export-oriented sectors are particularly vulnerable to both the credit squeeze, given their reliance on trade finance, and the spectacular fall in world demand and commodity prices.

96. Governments are thus under growing pressure to provide assistance to these sectors. Some countries have already increased import duties on automobile parts or steel. Others have imposed caps on imports of certain products, like chemicals or wood. Yet others have added "buy national" provisions in their fiscal stimulus plans. These types of measures can incite other countries to retaliate, or adopt counterbalance measures. Moreover, history shows that in the long-run protectionist measures are likely to create more substantial employment and income losses.

97. Instead, there are ways to support the long-run viability of industries by, for example, re-orienting them towards greener technologies that would: help stimulate economic activity by facilitating industrial restructuring; support sustainable employment creation; and prepare for the transition to a less CO2-intensive economy. One way to achieve this would be to provide assistance to certain sectors subject to social and environmental objectives. [44] The importance of synergies between investments in clean technologies and job creation has been recognized at the international level through the creation of the Green Jobs Initiative. The ILO has an important role to play in this initiative, along with its partners (United Nations Environment Programme, the International Trade Union Confederation and the International Organisation of Employers) to ensure that green jobs become a positive driver of development in an environmentally, socially, and economically sustainable future (see also the last section of this paper). [45]

Boosting the economy through employment-oriented, coordinated actions

98. Despite the numerous stimulus packages introduced to date, aggregate demand continues to worsen. As noted above, part of the problem may be that efforts to address the challenges have been insufficient in magnitude. In fact, some of the "new" public spending is a repackaging of previously committed funds. Countries are reluctant to announce bold measures however because they are worried they will "leak" into the economies of their trading partners – a situation that is exacerbated, in some cases, by already deteriorating fiscal positions. This underlines the importance of measures that are coordinated across countries.

Stimulus packages need to be timely and better coordinated …

99. The complexities of the decision-making process may delay the adoption of stimulus packages. However, if unduly delayed, measures may come at a time when the recession is well under way and packages may prove insufficient or ill-adapted to the evolving circumstances. Success in overcoming earlier financial crises in Korea and Sweden is associated with the prompt adoption of a stimulus package. According to a simulation developed for the purpose of this paper, and assuming that credit markets were restored, it would take one year for the United States economy to recover if the "Obama package" was

[44] For example, France's plan to support its auto industry includes requirements that funding be used to invest in green technologies and that no layoffs would occur in 2009.

[45] ILO: "Green Jobs Initiative", available at http://www.ilo.org/integration/greenjobs.

implemented now. And, according to the estimates, it would take almost two years if implementation of the package were delayed by three months. [46]

100. Better coordination of fiscal stimulus packages could also enhance the impact on global demand. There are cross-border externalities to the financial and fiscal rescue packages. Capital injections by the United States authorities would help alleviate the European financial crisis and vice versa. Likewise, a fiscal stimulus put forward by the Chinese government helps its trading partners and vice versa. Coordination is especially important in countries where fiscal space is limited as in the case of many African countries. In the absence of coordination in their response, these countries may be tempted to engage in a process of competitive devaluations or, worse, wage deflation. Coordinated action will also help boost world demand, hence cushioning the effects of a global recession.

... with a strong focus on employment …

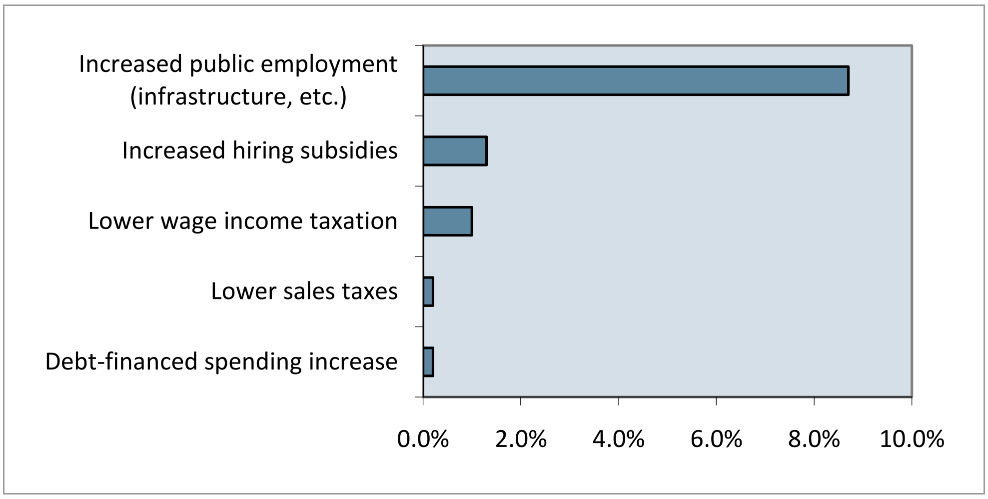
101. One of the lessons of the analysis carried out for this paper is that the greater the employment orientation of the measures, the stronger the stimulus for the real economy. As shown in figure 12, measures that have a direct impact on employment have a stronger effect than relatively untargeted measures (such as VAT cuts, or across-the-board spending increases).

102. In particular, the multiplier effects of investments in employment-intensive areas will be higher than is the case with alternate measures such as tax cuts. [47] At times of crisis, when there is considerable labour market slack, job-rich investment can crowd-in private sector activities and, more fundamentally, unlock development potential and pave the way for higher long-term growth. In this regard, public investments in infrastructure and agricultural development represent a major opportunity to address both employment and development challenges. These can include, among other things, investments in roads and communication, flood control and public buildings for education. To effectively lead to higher employment however, infrastructure projects need to meet existing domestic supply and skills.

[46] E. Ernst; M. Charpe: *Global economic linkages: Labour market implications of macroeconomic and social policies in open economies*, IILS, ILO, forthcoming 2009.

[47] A. Spilimbergo; S. Symansky; O. Blanchard; C. Cottarelli: *Fiscal Policy for the Crisis*, IMF Staff Position Note, IMF, 29 December 2008 (SPN/08/01). Stimulus aimed at consumers is potentially uncertain and limited, and direct subsidies to domestic firms have international trade law consequences and could lead to an uneven playing field and even trade wars.

Figure 12. Estimated employment effects of different fiscal measures[*]



[*] The figure shows the estimated employment effects of different fiscal measures. Each measure represents the equivalent of 5.7 per cent of GDP – the size of the stimulus package recently-adopted in the United States. For instance, it shows that employment would increase by up to 8 per cent in the long-run, if the entire package focused on public employment programmes such as infrastructure spending. Importantly, the estimates assume that new hires have the skills to perform the jobs created by the programmes. They also assume that sufficient domestic supply is available to respond to government incentives.

Source: IILS estimates.

103. Employment guarantees are another employment-intensive measure which, as experience from earlier crises shows, can be especially cost-effective in the face of the crisis – if well-designed and targeted: [48]

- Argentina's *Jefes y Jefas de Hogar Desocupados* programme, introduced during the 2001 crisis, reduced aggregate unemployment by an estimated 2.5 percentage points, increased labour force participation and reduced extreme poverty. [49]

- Similar public works programmes in Indonesia, Republic of Korea and Thailand adopted after the East Asian financial crisis, proved to be relatively successful in employing large numbers of individuals. However, studies suggest that programmes could have been more effective if better designed and monitored. [50]

- The National Rural Employment Guarantee (NREG) of India provides an important safety net for many rural households. The programme aims to provide additional

[48] G. Márquez: *Labor Markets and Income Support: What Did We Learn From the Crises?,* Working Paper No. 425, Inter-American Development Bank, 2000; B. *Cook: Active Labour Market Policies in the Neo-Liberal Era*, Working Paper No. 08-03, Centre of Full Employment and Equity, 2008. Wage levels are very important in ensuring successful employment guarantees and public works. If wages are too high, they will distort the labour market and pull individuals (particularly the non-poor) from employment. High wages will also put pressure on programme funding and likely result in the rationing of jobs. On the other hand, if wages are too low, programmes will not be an effective safety net for participants and may become stigmatizing.

[49] E. Galasso; M. Ravallion: "Social protection in a crisis: Argentina's plan *Jefes y Jefas*", in *The World Bank Economic Review*, Vol. 18, No. 3, 2004, pp. 367–399.

[50] G. Betcherman; R. Islam, *East Asian labor markets and the economic crisis: Impacts, responses and lessons*, World Bank and ILO, 2001.

employment to the underemployed and the unemployed by entitling every rural Indian household to 100 days of work per year. The budget for the NREG in 2006-07 was 0.33 per cent of GDP. [51]

104. In developed countries where most of the jobs are formal, supporting employment through partial unemployment benefits or subsidies for shorter working hours can prove effective. Such measures are being used extensively in some European countries. (see also box 10 below for examples of experiences during the Asian financial crisis).

… supported by efforts to promote workers' skills ...

105. To be successful, employment-intensive investments need to go hand-in-hand with efforts to promote skills development. In many cases, new skills will be needed in order to match the requirements of new infrastructure spending and programmes designed to support sectoral transition, e.g. towards greener technologies. In this regard, the design of such programmes is fundamental to ensure success due to the time required to adjust training provisions accordingly. Implementing time- and cost-efficient methods to identify current and future skills demands becomes crucial. The conclusions of the 2008 International Labour Conference discussion on Skills for improved productivity, employment growth and development can help in this regard.

… and help jobseekers through effective public employment services and active labour market programmes

106. Active labour market programmes play an important role in skills development and more broadly in facilitating the adjustment of individuals to changing labour market conditions. Such programmes can take many forms, including: job-search assistance and monitoring, personalized action plans for jobseekers, training, and targeted programs for disadvantaged groups. They can also provide much needed income support. If properly designed, they can enhance employability and improve labour market mobility in the short term. They can further facilitate matches between the skills of displaced workers and the skills required in the jobs created by new public investment (e.g. in construction, infrastructure and alternative energy).

107. Some lessons learned to date about enhancing the effectiveness of active labour market programmes include: an obligation on the part of the benefit recipient to undertake an activity and enforcement of this obligation by the programme; making participation in programmes compulsory; targeting increased effectiveness of outcomes, programmes and services (e.g. combining training and job-search assistance); and in-work benefits help facilitate a return to work. [52]

108. During a crisis, special programmes to assist displaced or retrenched workers should be intensified. The ILO *Guide to Worker Displacement: Some tools for reducing the impact*

[51] P. Chakraborty: *Implementation of the National Rural Employment Guarantee Act in India: Spatial Dimensions and Fiscal Implications*, The Levy Economics Institute of Bard College, Working Paper No.505, 2007.

[52] See for example, OECD: *Employment Outlook*, Paris, 2005; M. Rosholm; M. Svarer: *Estimating the threat effect of active labour market programs*, Discussion Paper No. 1300, Institute for the Study of Labor, 2004; M. White; R. Riley: *Findings from the macro evaluation of the new deal for young people*, DWP Research Report No. 166, Centre for Development Studies, University of Leeds, 2002.

on workers, communities and enterprises demonstrates the wide range of possible responses by enterprises, communities and workers to economic downturns and how to reduce potential job losses. Schemes targeting temporarily laid-off workers can be very efficient, since workers with firm-specific training are often expected to return to work at the same firm (or sector) when the business climate improves. This type of programme could complement the employment-intensive public investments and initiatives to extend, or enhance, unemployment benefit coverage. This may mean allocating additional resources to public employment services. Already, some national employment services have been mobilized to help address the global economic crisis (box 6).

Box 6
Enhancing public employment services and active labour market programmes

France: *Pôle Emploi*, the newly created agency that merges employment services and unemployment insurance, is increasing the resources available to enhance employment services, facilitate training for jobseekers and support the effort of social partners to coordinate measures to address the financial crisis.

Mexico: the *BÉCATE* programme of the National Employment Service is being expanded to provide various training programmes, including apprenticeships, which include monthly financial support for trainees and counselling on how to start a business.

Philippines: *Public Employment Service Offices* (PESOs) have been mobilized to intensify job placement, emergency employment and livelihood formation services, particularly for workers in commodity and export industries.

Democratic Republic of Congo: An anti-crisis strategy has been put in place, monitored by an inter-ministerial committee. It includes a programme to upgrade the skills of both employed and unemployed workers in a way that responds to labour market requirements.

109. Greater use of active labour market programmes could also be foreseen for some developing and emerging countries. A recent study shows that some 12 out of 31 economies in Latin America and the Caribbean are indeed already using active and passive labour market policies in response to current economic circumstances. [53] The cost of new programmes is relatively low. For example, Argentina s spending peaked at about 1 per cent of GDP. Based on this cost level, such programmes could be an appropriate tool if there is political will by policy-makers.

Leveraging local partnerships to enhance effectiveness

110. The effectiveness of employment-intensive investments, skills development and active labour market programmes can be improved by leveraging capacity among local partners – the foundation upon which the ILO s employment-intensive investment programme is built (box 7).

[53] Economic Commission for Latin America and the Caribbean, 2008.

Box 7
The ILO's Employment-intensive Investment Programme

The ILO's Employment-intensive Investment Programme works with governments, employers' and workers' organizations, the private sector and community associations in orienting infrastructure investments towards the creation of higher levels of productive employment, as well as towards the improvement of access to basic goods and services for the poor. Many of the programme's projects rely on labour-based technologies, in order to generate local employment and incomes and develop skills.

Labour-based technologies have several benefits: they are between 10 and 30 per cent less costly than more equipment-intensive options; foreign exchange requirements are reduced by about 50 to 60 per cent; between 2 and 4 times more direct employment opportunities are created for the same investment; indirect employment ranges between 1.5 and 3 times the numbers of direct jobs stemming from the initial investment. Over the last 30 years the programme has played a vital role in over 60 countries in Africa, Asia and Latin America in dealing with job creation and poverty reduction in rural and urban areas. It has also developed methodologies to ensure cost effectiveness of the measures.

Enhancing social protection, especially among low-income groups

111. As earlier sections illustrated, as the crisis unfolds, the risks that individuals around the world are facing are exacerbated by limited access to social security schemes and social safety nets. At the same time, in countries where such schemes do exist, pressures on their finances, e.g. pension systems, are intensifying as countries experience the double burden of declining tax contributions and increasing expenditures due to rising claims.

Well-designed social policies can alleviate the consequences of the crisis in the short run …

112. Supporting workers and their families through well-designed social policies – a core ILO competency – is a key component to averting a social crisis and stimulating the economy more broadly. [54] Neglecting victims of the crisis, and of the interconnecting food, energy and poverty crises, would be unfair and could undermine support for government rescue plans. Moreover, supporting low-income groups, which typically have a high propensity to consume, would help stimulate aggregate demand and restore confidence.

… by helping low-income and other vulnerable groups while supporting the recovery …

113. One way to provide assistance to individuals is to widen eligibility conditions and increase benefit amounts of existing social security schemes, e.g. by extending the duration or increasing the generosity of unemployment benefits (see table 4 for examples of countries that have already done this). In the absence of existing schemes, however, it may be necessary to introduce new measures to help low-income and other vulnerable groups.

114. For example, income support measures such as conditional cash transfers could be further strengthened (or introduced) to enhance human capital and access to education and health services, especially for the poor (see box 8). This is particularly relevant given that in many low-income countries, crises are associated with poorer health and education outcomes for children, while in middle-income countries, they are associated with poorer

[54] See for example E. Lee: *The Asian financial crisis: The challenge for social policy*, ILO, 1998.

health outcomes. [55] Investments in children's education and health services also have a long-term systemic impact on poverty levels. Social and care services also provide job opportunities for women who may not be able to take up construction work on infrastructure projects.

Box 8
Conditional cash transfers

Conditional cash transfers provide cash to poor families linked to certain educational and health-related conditions. The most common conditions focus on children s school attendance, health care check-ups and nutrition. Recent studies show that one-third of developing countries have implemented some kind of cash transfer programmes.

Conditional cash transfers have been effective at smoothing recipients consumption during times of crisis. For example:

- In Nicaragua, during the Central American coffee crisis, they smoothed consumption, protected children s school enrolment, reduced child labour and improved health outcomes.
- Similarly, in Honduras, they allowed families to keep their children in school during the crisis.
- They were also successfully introduced as part of earlier crisis responses in Colombia and Turkey.
- Indonesia's scholarship and school subsidy programme was introduced in 1998 as a part of the Government's crisis response. [1]

[1] For some evaluations of these programmes, see van W. Ginneken: *Managing risk and minimizing vulnerability: The role of social protection in pro-poor growth*, ILO, 2005; S. Handa; B. Davis: "The experience of conditional cash transfers in Latin America and the Caribbean", in *Development Policy Review*, Vol. 24, No. 5, 2006, pp. 513-536; L. Rawlings; G. Rubio: "Evaluating the impact of conditional cash transfer programs", in *The World Bank Research Observer*, Vol. 20, No. 1, 2005, pp. 29-55; and R. Sparrow: "Protecting education for the poor in times of crisis: An evaluation of a scholarship programme in Indonesia", in *Oxford Bulletin of Economics and Statistics*, Vol. 69, No. 1, 2007, pp. 99-122.

115. In cases where conditional cash transfers do not exist, establishing a new programme can be a complicated, time-consuming and administratively challenging process, entailing considerable data-collection and monitoring capacity which may be difficult to mobilize in times of crisis. Consequently, in low-income countries where poverty is widespread and administrative capacity limited, unconditional transfers could be considered as a way to enhance universal social protection.

116. A wide range of other tools and targeted intervention programmes could be envisioned to support vulnerable groups such as workers in the informal sector and rural areas, e.g. the labour-intensive public works programmes as undertaken by many governments during crises (Argentina, Indonesia, the Republic of Korea and Thailand). As discussed above, employment guarantee programmes of this nature can potentially combat both poverty and unemployment with positive secondary effects on, among other things, health, crime and political stability. Other types of income and employment entitlement programmes, such as those offered by the Self Employed Women s Association in India or the Grameen Bank in Bangladesh, could also help provide much needed social protection to vulnerable groups in

[55] Children's human capital outcomes are not uniformly affected in a crisis. For instance, during economic or environmental crises, health outcomes suffered in the Philippines and Uganda, while education outcomes were not dramatically affected in Brazil, Indonesia and Uganda (see E. Skoufias: "Economic crises and natural disasters: Coping strategies and policy implications", in *World Development*, Vol. 31, No. 7, 2003, pp. 1087–1102). World Bank: *Lessons from World Bank research on financial crises*, Policy Research Working Paper No. 4779, 2008

times of crises. For programmes targeting informal workers, particular attention to the gender dimension will be crucial. [56]

… and protecting pensions from the volatility of stock markets

117. In order to avoid losing ground both against existing poverty thresholds and the rates of replacement income provided, it is necessary to restore solidarity-based minimum guarantees of pension amounts underwritten by the State, and protect the pension levels of individuals who are close to retirement. In certain countries (such as India), the elderly rely heavily on income from savings, which is likely to be severely curtailed with current interest rate drops. In addition, in countries that rely on annuitization of individual savings accounts, any prolonged suppression of interest rates is likely to lead to serious difficulties because of increased volatility in annuity rates (prices).

118. As a transition measure, a minimum pension based on a reasonable minimum rate of return ought to be financed or guaranteed by the State. Governments could also authorize pension schemes to reduce their levels of capitalization. One possible approach is to allow schemes to go into temporary actuarial deficit. If asset prices rebound in due course, then the ultimate net cost of such guarantees would be only a fraction of the momentary losses of pension assets.

119. The OECD has suggested that governments could play a more active role in managing the risks associated with the payout phase of pensions and annuities. In particular, governments could encourage the development of longevity-hedging products by producing an official longevity index. Other proposals include suggestions for governments to issue longevity bonds that "would set a benchmark for private issuers", while also giving consideration to issuing more long-term and inflation-indexed bonds – a move already taken by a small number of countries, most recently the Danish government, which released a 30-year bond that was primarily bought by domestic pension funds and insurance companies.

But these measures should form the basis of a broad-based social protection for all …

120. While the above measures to protect the most vulnerable are important steps to addressing current challenges, they should form part of a systematic effort to develop a broad-based social security system (covering social assistance, education, health, unemployment benefits, etc.) and an overall poverty reduction strategy.

… which can help mitigate the impacts of future crises …

121. Experience in several European and, more recently, some Asian countries has shown that a system of basic social security can mitigate the impacts of crises by means of automatic stabilizers – measures of support that automatically increase during times of crises or increased household vulnerability.

[56] A. King-Desjardin; *Gender dimensions of globalization*, discussion paper presented at the Oslo Conference on Decent Work: A key to Social Justice for a Fair Globalization, 4 September 2008.

… and, if consistent with employment goals, support development objectives

122. Moreover, increases in social spending do not impede growth. On the contrary, if social protection is designed in a way that takes into account work incentives, it can boost the quality of growth through its pro-poor elements. For example, countries that have high social spending also tend to have lower levels of poverty and inequality. [57] In other words, social security measures should, and can, be designed in such a way as to go hand in hand with economic policy to increase production, social protection and redistribution while addressing broader social issues such as family, care and poverty.

123. Just as the Great Depression was a defining moment in the United States in creating the Social Security Act (1935) and the financial and economic crises of the 1990s were defining moments in Asian and Latin American social policy innovation, this current crisis should be taken as an opportunity to enact much-needed reforms to social security systems. In this respect the Social Security (Minimum Standards) Convention, 1952 (No. 102) can guide efforts to strengthen social security systems.

Protecting the rights of workers

124. In attempting to address the challenges associated with the crisis, it is crucial to ensure that workers rights and international labour standards are not compromised in the process. In fact, the observance of fundamental principles and rights at work must be part of the solution to the crisis. Moreover, respect for fundamental principles and rights at work is necessary to maintain social justice and peace, and to avoid political unrest which could create even greater delays in terms of a recovery.

Reduced labour standards would be both unfair and counter-productive …

125. Some argue that labour market rigidity and overly stringent labour standards restrict the capacity of an economy to cope with economic shocks and that labour market flexibility can temper both the depth and duration of unemployment in the current crisis. [58] However, there is considerable evidence drawn from cross-country studies that illustrates that there is no clear relationship between fewer labour regulations and faster economic and employment growth. [59] Efforts that are focused exclusively on speeding up the labour market adjustment process to cope with the global economic crisis run the risk of impairing long-term growth potential.

[57] ILO: *World of Work Report 2008. Income inequalities in the age of financial globalization*, IILS, Geneva, 2008.

[58] This is under the assumption that in rigid labour markets, relative prices (wages in this case) are sticky, and therefore the brunt of the adjustment process is borne via the depth and duration of unemployment.

[59] J. Berg; D. Kucera: *In defence of labour market institutions. Cultivating justice in the developing world*, ILO, Geneva, 2008; A. Ghose; N. Majid; C. Ernst: *The global employment challenge*, ILO, Geneva, 2008; Baker et al.: *Labour market institutions and unemployment : A critical assessment of the cross-country evidence*, 2005.

126. Maintaining labour standards helps support confidence and thus contributes to activating the economy. Moreover such measures would be equitable and enable vulnerable workers to deal with labour market risks, thus enhancing popular support for recovery packages. The different national situations now arising in the context of the crisis highlight the relevance of the ILO s full complement of instruments to protect workers' rights (see box 9).

Box 9
Relevance of ILO instruments in the crisis context

The ILO has a comprehensive set of instruments to protect workers rights. The following are examples of the relevance of these instruments in the context of the crisis:

- As pressures on firms mount, the Protection of Wages Convention, 1949 (No. 95) and the Protection of Workers Claims (Employer s Insolvency) Convention, 1992 (No. 173), along with their associated Recommendations, lay out constructive measures for protecting workers wages and proceeding fairly in cases of an employer s insolvency. Where lay-offs arise, it is important to ensure that terminations are not discriminatory on any of the grounds provided in the fundamental Conventions. The Termination of Employment Convention, 1982 (No. 158), and Recommendation (No. 166), shed light on how terminations can take place in a balanced manner. The provisions of the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) could be particularly useful in managing the effects of the recession along global supply chains. To protect the employment security of workers in atypical employment situations, the Employment Relationship Recommendation, 2006 (No. 198) is salient.
- Instruments concerning migrant workers (the Migration for Employment Convention (Revised), 1949 (No. 97) and the Migrant Workers (Supplementary Provisions) Convention, 1975 (No. 143)) are also highly relevant, given that this group is particularly vulnerable in the context of the downturn in labour markets.
- The Labour Clauses (Public Contracts) Convention, 1949 (No. 94) can help ensure that investments financed by public stimulus packages generate jobs with decent pay and working conditions.
- In the context of enhancing social protection, the eight fundamental Conventions (Forced Labour Convention, 1930 (No. 29); Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87); Right to Organise and Collective Bargaining Convention, 1949 (No. 98); Abolition of Forced Labour Convention, 1957 (No. 105); Equal Remuneration Convention, 1951 (No. 100); Discrimination (Employment and Occupation) Convention, 1958 (No. 111); Minimum Age Convention, 1973 (No. 138) and Worst Forms of Child Labour Convention, 1999 (No.182)) can guide poverty alleviation efforts and, along with Convention No. 102, efforts to strengthen social security systems. Fundamental Conventions are crucial to ensuring a more balanced distribution of the gains from economic growth and reducing excessive inequalities –a key factor behind the crisis.
- Social dialogue mechanisms and processes, as outlined in the Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144), and the Tripartite Consultation (Activities of the International Labour Organisation) Recommendation, 1976 (No. 152), as well as in the Consultation (Industrial and National Levels) Recommendation, 1960 (No. 113) and the MNE Declaration, need to be part of the strategy.
- Overall, the Employment Policy Convention, 1964 (No. 122) – based on policies for full, productive, and freely chosen employment – can provide a useful overarching framework for international action.

… and the crisis represents an opportunity to emphasise the role of workers' rights

127. The crisis should be taken as an opportunity to reinforce the value of protecting and respecting workers rights. [60] Measures should be taken to guarantee impartial and efficient judicial, as well as extra-judicial, proceedings dealing with individual and collective disputes. Labour inspection and administration systems should be reinforced to guarantee implementation of measures taken to combat the crisis and its social consequences and to

[60] L. Rychly: op. cit.

provide services to employers and workers. Public employment services and labour inspection have a special responsibility in this regard.

128. Better enforcement of workers' rights could help achieve more balanced income developments and thus reduce the risk of future crises. [61] A consistent finding is that countries that have labour-friendly regulations seem to be associated with lower wage inequality – a tangible social benefit – without imposing any significant loss in terms of output and employment. [62] A rights-based approach to the crisis can thus anchor the discussion of policy options, to enhance social justice in the immediate and longer term.

The role of social dialogue and wage determination

Social dialogue plays an essential role in protecting rights and achieving employment objectives …

129. The Declaration of Philadelphia established the ILO s commitment to social dialogue, tripartism and participation. Its central importance has been sustained over the decades. More recently, in 2002, the International Labour Conference adopted a resolution concerning tripartism and social dialogue, recognizing that social dialogue plays an essential role in the achievement of employment objectives and the improvement of social protection. Social dialogue can be instrumental in adopting effective, concrete policy responses by helping to improve the design of reforms, and it can help to bolster support for reforms in general. [63]

… social partners can be instrumental in designing and implementing reforms for overcoming the crises ...

130. At the Eighth European Regional Meeting of the ILO (Lisbon, February 2009) participants emphasized the significance of social dialogue as a key means of developing strategies to counter the recession and secure the commitment of governments, employers and unions for implementation of the strategies. [64] Indeed, examples from past crises can be identified which illustrate how national tripartite consultations have played an important role in overcoming severe economic difficulties. For example, in Singapore measures were introduced to mitigate excessive layoffs, whereas in the Republic of Korea, eventual agreement improved the government s crisis-management capacity, and was instrumental in reaching national consensus (box 10). [65] In addition, Argentina s post recovery process was based on a social pact bringing all the social partners together.

[61] J. Berg; D. Kucera: op. cit.

[62] See for example, R. Freeman: *Doing the right thing? Does fair share capitalism improve workplace performance?: Analyzing effects in Britain*, with Alex Bryson, presented at the Shared Capitalism Research Conference, NBER-Sage Foundation, 6–7 October 2006.

[63] See L. Rychly: op. cit.

[64] See GB.304/14/4.

[65] For a comprehensive discussion of social dialogue in the post-crisis context, see D. Campbell: "*Social dialogue and labour market adjustment in East Asia after the crisis*", in G. Betcherman, R. Islam, (eds): *East Asian labor markets and the economic crisis: Impacts, responses and lessons*, World Bank and ILO, 2001.

Box 10
Lessons from social dialogue in previous crises

Singapore: To counter the 1997-1998 financial crisis, the government introduced new labour policies. In particular, as a result of a tripartite agreement, employers received financial incentives if they avoided layoffs. Tripartite institutions as well as ad hoc tripartite agreements were very effective in articulating conflicting interests between the three parties, resulting in more effective formulation and implementation of social and economic policies.

Republic of Korea: To respond to the 1997-1998 financial crisis, a Tripartite Commission was created. The Commission had two major objectives: to contribute to economic restructuring and to involve social partners in the revision of Korean labour law, in line with ILO standards. A Social Agreement adopted by social partners in February 1998, accepted layoffs of redundant labour force as an economic reality, but it also significantly enlarged workers basic rights, substantially expanding freedom of association and the right to bargain collectively, both in the private and public sectors. This “Great Compromise” improved the government s crisis-management capacity, and was instrumental in reaching national consensus and helping the country overcome the credit crunch.

… and finding pro-decent work solutions to immediate and longer term challenges …

131. At the national level, the existing institutional framework, as well as newly established consultative bodies, should be used to identify and implement appropriate national policies. Where these bodies do not exist, ad-hoc high-level meetings should be held to exchange information and to consult or negotiate policy measures. In difficult times, it is of particular importance to build and maintain mutual trust between the State and the social partners and among the social partners themselves. The ILO can play an important role in this context. Social dialogue and collective bargaining are powerful tools to cope with immediate challenges of the crisis, such as preventing social unrest, avoiding damaging industrial actions, reducing income inequalities and maintaining social cohesion. Through improved governance social dialogue can also pave the way for shared prosperity and stability in the longer term. [66]

… especially as regards wage developments – a particularly contentious issue

132. One point of contention is wage-setting practices. In particular, some advocate wage moderation in an attempt to cut costs and prevent job loss in ailing firms. Others argue for maintaining purchasing power and aggregate demand.

Overall, to sustain the recovery, average real wages should grow in line with productivity and minimum wages should not fall …

133. Paradoxically, both views are probably valid. On the one hand, firms are facing significant financial difficulties and their viability, including that of the employees, may rely on significant cost reductions. Such reductions, which take the form of, among others, wage freezes or cuts – perhaps even in line with productivity declines – can help firms survive

[66] Countries with coordinated collective bargaining have been shown to have less wage dispersion compared to other countries. T. Aidt; Z. Tzannatos: *Unions and collective bargaining: Economic effects in a global environment*, World Bank, Washington, 2002.

and avoid lay-offs. [67] In addition, earlier experiences in Asia and Latin America show that lower wages played a strategic role in the response to the crisis. Lower wages, together with currency devaluations, resulted in massive improvements in external competitiveness. The latter, in turn, was instrumental in the recovery of these countries.

134. On the other hand, given the global nature of the current crisis, a generalization of wage restrictions in the name of competitiveness and better profitability would most likely push the world economy into further trouble. This is a real risk. Indeed, excessive wage developments are not the cause of the crisis. In fact, evidence suggests that real wages have tended to grow *below* productivity gains since the early 1990s. [68] On average, pre-crisis profit rates were high by all standards. So, unlike the crisis of the early 1980s, low profitability has not been the main problem for most enterprises. In addition, stagnant median wages and incomes were an enabling factor behind excessive debt accumulation.

135. Altogether, as a response to the crisis as well as from a longer term perspective, it would be economically desirable – as well as fair – if average wages would grow over the medium-term in line with productivity gains, taking into account firms viability in the short-run. In light of the evidence to date, this may mean that wages may need to rise faster during economic upswings and less rapidly during downswings.

136. In this respect, the role of collective bargaining and social dialogue will be critical to achieving a desirable outcome. Employers and workers need to be encouraged to participate in collectively negotiated wage-setting practices. Governments can help stimulate dialogue and facilitate concerned action to avoid socially undesirable, and potentially inefficient, generalized wage reductions. Moreover, collective bargaining can reduce overall wage inequality and ensures a stronger link between economic growth and average wages. [69]

137. Governments can support this process through minimum wage legislation, adjusted regularly to maintain the purchasing power and avoid sudden adjustments, which are detrimental to job creation. The Minimum Wage Fixing Labour Convention, 1970 (No. 131), provides an important benchmark in this regard.

IV. Improving global policy coherence for more balanced growth and development

138. The need for greater global policy coherence has been emphasized many times, and for good reasons. But it is especially important now. Unless greater international coordination is achieved in the responses to the crisis, the world economy will face the prospect of a protracted economic crisis, entailing an even deeper labour market crisis and significant social hardship. No international organization or country has the mandate for, or is equipped to treat, all facets of the crisis and its underlying challenges. This is why the G20 has emerged as a key forum to discuss the crisis.

[67] Other measures to avoid job loss were discussed throughout the report.

[68] ILO: *Global Wage Report*, November 2008; ILO: *World of Work Report 2008. Income inequalities in the age of financial globalization*, IILS, Geneva, 2008.

[69] ILO: *Global Wage Report*, Nov. 2008.

139. The ILO has therefore committed itself to fostering greater cooperation among national governments, international organizations, and other stakeholders in support of a stronger, cleaner and fairer economy. [70] It is important to build on complementarities between the ILO and the different mandates of other international organizations – particularly the World Bank, the IMF, the WTO, and the United Nations Environment Programme, among others – to enhance coherence between economic, financial, trade, social, environmental and development goals.

Avoiding in-ward looking and protectionist solutions

140. The global crisis will not be solved by protectionist solutions. Rather, such solutions would depress world trade and investment, further aggravating the recession. Historical evidence from the Great Depression shows that attempts to restore economic stability by closing borders to trade are bound to fail and would generate even more substantial income and employment losses in the long-run. The repercussions for developing countries, which rely so heavily on world markets, would be especially acute.

141. The role of the multilateral system is critical and it will be important to remain vigilant vis-à-vis the mounting pressure to support strategic sectors like automobiles. Support should be temporary and tied to social and environmental conditions. To complement this, however, it is of paramount importance to help workers adjust, through a variety of training and re-employment measures as discussed earlier.

142. Likewise, attempts to overcome the crisis through competitive currency devaluations would be counterproductive. Some countries have already had recourse to strong devaluations. In some cases, this may be justified on the basis of economic fundamentals. However, currency devaluations with the aim of improving competitiveness will not help overcome the global crisis and may aggravate trade tensions. Here too, an orderly adjustment, through proper international cooperation is clearly desirable.

143. Generalized wage deflation to protect individual economies would aggravate the crisis even more than a wave of competitive devaluations. Indeed, wage deflation would deprive the world economy of much-needed demand and would also seriously affect confidence. Open market policies, which are so crucial to the recovery, would also face a risk of backlash if workers perceive the measures as unfair.

Reforming the financial architecture so that it serves the needs of the real economy …

144. Medium and long-term measures to overhaul the financial regulatory framework are required to move towards a more stable global financial system. Previously widespread practices – such as excessive leveraging, opaque financial instruments and executive compensation schemes – need to cease. [71] In a few cases, limits on executive pay and

[70] See the joint press release by Chancellor Angela Merkel, OECD Secretary General Angel Gurría, WTO Director-General Pascal Lamy, ILO Director-General Juan Somavia, IMF Managing Director Dominique Strauss-Kahn and World Bank President Robert B. Zoellick on the occasion of their meeting on 5 February 2009 in Berlin.

[71] For a recent analysis of executive pay, see F. Ebert, R. Torres, and K. Papadakis: *Executive compensations: Trends and policy issues*, IILS, Discussion Paper No. 190, ILO, Geneva, 2008.

bonuses have been instituted as a condition for government assistance. But a more profound change is clearly called for.

145. Indeed, despite the coordinated international responses in the short-run, the global financial system is likely to remain marked by volatility until significant structural adjustments are made. Therefore, in all countries, it will be crucial to reinforce prudential regulation to reduce excessive and irresponsible short-term risk-taking on the part of certain financial actors. For instance, lightly regulated markets for financing mechanisms such as private equity, hedge funds and non-bank financing have been held responsible, in part, for sudden herd-like in- and out-flows of funds in certain industries and sectors which may have magnified the effect of the current crisis. A cautious approach to regulation is especially important in countries where financial markets are not sufficiently developed and where supervision mechanisms are weak. The "de Larosière report" provides a rich menu of how to move forward in this regard. [72]

… and takes into account the social impacts of different reform options

146. The regulatory reforms made in the coming months and years must be assessed against their social impacts and implications for employment growth. As the International Labour Conference emphasized in 2007, financial services can indeed be used to promote decent work outcomes, if regulated appropriately. [73] Any new financial system should therefore give incentives for productive investments in sustainable enterprises and decent work, and disincentives to short-term speculation.

147. In this regard, the ILO has an important role in highlighting the social impacts of the reforms to strengthen the inclusiveness of a new financial architecture and help the international community strike the right balance between government regulation and corporate self-determination. The ILO's Social Finance Programme, supported by analytical work, [74] provides a major benchmark in this respect.

Promoting social sustainability of economic growth …

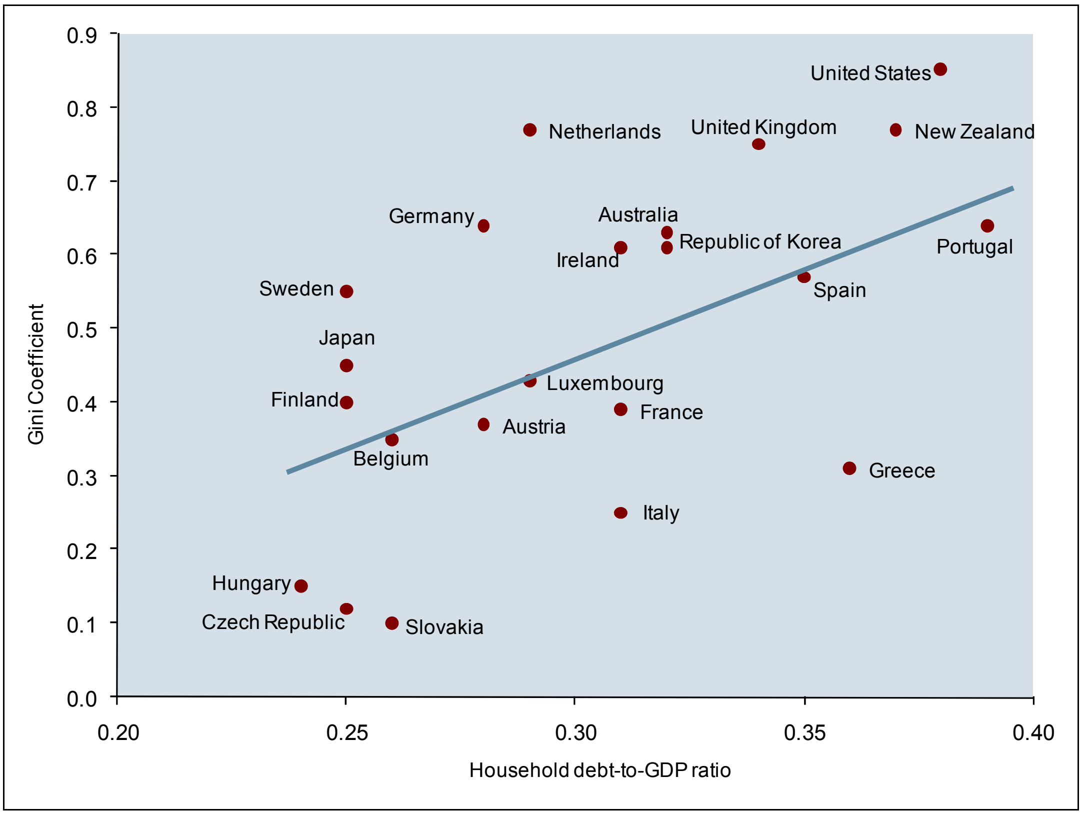
148. One of the most significant challenges will be to ensure a more equitable distribution of the gains from globalization, as highlighted in the Social Justice Declaration. This is important in and of its own. In addition, as noted in the first section of this paper, excessive inequalities are a key factor behind the financial crisis. Among advanced economies, high income inequalities tend go hand-in-hand with a greater burden of household debt (figure 13).

[72] Available at http://ec.europa.eu/ireland/press_office/news_of_the_day/pdf_files/global_report_-_final.pdf.

[73] ILO: *The promotion of sustainable enterprises*, Report VI, International Labour Conference, 96th Session, Geneva, 2007.

[74] See for instance B. Balkenhol: "Access to finance: the place of risk sharing mechanisms", in *Savings and Development* No.1, Vol. XXXI, 2007, pp. 69–90.

Figure 13. Household debt and income inequality in some OECD countries, 2005



Source: Estimates based on OECD data.

149. Moving forward, this means ensuring that tax policies are more progressive than hitherto – which requires international coordination so as to avoid harmful tax competition to attract high-income groups and businesses. Social protection reforms, as discussed in the third section of this paper, can be designed in such a way that they serve both equity and efficiency purposes. [75] Also, countries that have stronger tripartite institutions are better placed to ensure that the gains from globalization are distributed in a balanced manner. Finally, rising non-standard and informal employment – which tend to pay less than formal standard jobs – have contributed to rising income inequalities in developed and developing countries alike. More attention is therefore needed to the quality of employment created.

150. Financial globalization too, has reinforced the downward trend in the share of income going to labour and more fundamentally, has intensified economic instability. A new financial architecture, along the lines discussed above, must consider these social consequences in order to produce more stable and equitable employment and economic growth.

… as well as environmental sustainability

151. Globally, increased emphasis has been placed on investing in energy efficient technology for greener and more sustainable growth, and several governments have announced stimulus programmes designed to make progress in that regard (see box 11). In some

[75] ILO: *World of Work Report 2008. Income inequalities in the age of financial globalization*, IILS, Geneva, 2008.

cases, the bulk of "greener" jobs created is likely, at least initially, to be in traditional sectors such as construction. Nevertheless, green investments should be viewed as an important step towards revitalizing the economy and generating more environmentally-friendly, decent work. And, in the medium to longer term, such investments can put countries on a path toward greener and more sustainable growth.

Box. 11
Green investments and job creation as a response to the crisis: Some examples

Japan: To strengthen growth potential and move to a low-carbon society, the government plans to invest 100 trillion yen in green projects by 2015 which would create more than 2 million jobs in environmental businesses. The "green" initiatives include: accelerating the introduction of energy-saving and new energy technologies; subsidies for the development of the next generation high-speed railway; tax incentives for investments in energy-saving and new-energy facilities and equipment; and greater resources for research and development on cutting-edge environment technologies, including carbon dioxide capture and storage.

Republic of Korea: The government recently announced new investments in the order of $38 billion for a series of "green" initiatives to be rolled out over 2009-2012. This "Green New Deal" provides for nine core projects and 27 subsidiary projects in areas such as the restoration of major rivers, renewable energy, energy conservation, green transportation, clean water, recycling, and carbon reduction. These projects are expected to create as many as 960,000 new green jobs.

United States: *The American Recovery and Reinvestment Act*, signed by the President of the United States on 17 February 2009, includes significant investments in clean energy programmes. $5 billion is allocated for programmes to help low-income households weatherize their homes, which is expected to create about 375,000 jobs. Grants for energy efficiency in residential and commercial buildings amount to over $6 billion. These may create more than a million jobs, particularly in the construction sector, which has been hard hit by the recession.[1] $500 million is allocated to help workers train for "green jobs", while $11 billion is allocated for "smart grid" investments, $3.4 billion for carbon capture and sequestration demonstration projects, and $2 billion for research into batteries for electric cars.

[1] D.J. Weiss, A. Kougentakis: *Recovery plan captures the energy opportunity*, Center for American Progress, 13 February 2009.

Addressing the development dimension …

152. Even before the onset of the current financial crisis, significant food, education, health, social and environmental challenges existed for many developing countries. And the crisis is likely to aggravate the situation.

… by building capacity, notably administrative and institutional in developing countries …

153. As outlined in the third section of this paper, the ILO has developed expertise to help promote development through decent-work-friendly policies. The following are important policy elements of the global jobs pact: the implementation of job-rich infrastructure and housing projects, the fight against child labour and in favour of schooling, the build-up of social protection systems as fiscal conditions permit, and the enlargement of the fiscal space through well-designed policies that facilitate transition to the formal economy. In this context it is to be kept in mind that respect for core labour standards is not only a key social goal, but also creates the conditions for balanced economic development, itself conducive to greater prosperity in the long-run.

154. It is crucial to build up administrative and institutional capacity to make these programmes effective and to engage social dialogue as part of the strategy. The recent Mexican anti-crisis reform *("Acuerdo nacional en favor de la economía familiar y el empleo")* provides an interesting example of what can be done.

… and creating a global jobs fund

155. Some countries are better-positioned than others. For example, those which took steps to better manage their economies and avoid excessive risk-taking and leverage are likely to be impacted less. Others are confronted with an array of challenges including limited fiscal space, a fragile current account, and potential runs on their currency. Indeed, countries inheriting large fiscal and current account deficits will be much more vulnerable, especially if these imbalances are driven by exogenous circumstances (most notably the need to cope with the terms of trade shock unleashed by the food and fuel price crisis of mid-2008).

156. Circumscribing policy options of particular developing countries with a framework of conditionalities by international financial institutions will compound the difficulties faced by such countries (see box 12). [76]

157. What is needed is a counter-cyclical global mechanism, as advocated by some analysts. [77] For instance, a global jobs fund would provide support to countries facing the global crisis. It would rely on a line of credit separate from that of the traditional IMF package. And it would provide the necessary stabilization credit needed to sustain the external crisis without aggravating social hardship. Indeed the credit would not be subject to the condition that social protection and minimum wages be cut. Instead, it would be used to help revitalize the economy through investments that strengthen development prospects. Importantly, the measures would be adopted as part of national dialogue, so as to improve social cohesion. Involvement of the ILO, side by side with IMF and World Bank, would be crucial. Indeed, as shown in the third section of this paper, ILO has the expertise to design programmes that help create decent work and sustainable enterprises.

158. The President of the UN General Assembly has established the Commission of Experts on Reforms of the International Monetary and Financial System (the so-called Stiglitz Commission) to draw attention to the asymmetries in the capacities of developed and developing nations to respond to the crisis, among a range of other important issues. Through its position in the UN system, the ILO can support the Commission s work by pointing to the employment and social consequences of existing and proposed solutions to crises in developing countries.

Box 12
Macroeconomic stabilization in the wake of financial/economic crisis

Pakistan: In November 2008 Pakistan entered a stand-by arrangement with the IMF for a $7.6 billion adjustment programme to cope with its rising fiscal and current account deficits and price inflation. The adjustment programme calls for a reduction of the fiscal deficit to 4.2 per cent in 2008-09, and to 3.3 per cent during 2009-10, and an interest rate hike of 200 basis points to 15 per cent. These measures would inevitably dampen aggregate demand and the government has already lowered its growth rate forecast from 5.8 per cent achieved in 2007-08 to 4.4 per cent in 2008-09, with official admissions of worsening of unemployment and poverty. They would also run counter to policies advocated in international forums to stimulate the global economy. Indeed, the above pro-cyclical measures are likely to dampen global demand even further, and exacerbate poverty and unemployment in both Pakistan and its trading partners.

[76] More details on these issues will be provided in a forthcoming ILO publication by Employment Sector specialist.

[77] See for instance UNDESA: *Massive, globally coordinated fiscal stimulus is needed: Going from the drawing board to swift action*, Policy Brief No. 11, January 2009. Also, the World Bank has called for the creation of a fund to help vulnerable countries.

Ukraine: Between 2000 and mid-2008 Ukraine s economy was buoyant, with average annual growth in excess of 7 per cent. The fiscal position of the country was generally sound and the level of public foreign debt was moderate. However, in November 2008 the country signed a standby agreement with the IMF for $16.4 billion. This move came as a result of Ukraine s faltering economy in the second half of 2008 when commodity prices declined sharply, export markets contracted, and a large bank was placed under receivership – events which sparked massive capital outflows, a crisis on the foreign exchange market, significant currency devaluation, a major credit crunch in the real economy, and a massive increase in unemployment.

The recapitalization of commercial banks is a high priority in the standby agreement with the IMF, but this is an extremely expensive undertaking. It is estimated that bank recapitalisation will cost at least 8 per cent of GDP, including 4.5 per cent of GDP for recapitalisation of foreign-owned banks. Given that a significant proportion of the recapitalisation costs will be borne by the government, at a time when tax revenues are declining dramatically, the government is required to significantly reduce other areas of public expenditure to produce a balanced budget in 2009 (as per IMF provisions).

Much of the fiscal tightening is expected to come through reduced expenditure on public sector wages and benefits, reductions in the overall level of social expenditure, revised indexation arrangements for social transfers, and a postponement of a planned increased in the minimum wage. These reforms imply a significant decline in the real value of pensions and other transfer payments, and a fall in real minimum wages. While it is important to restore the flow of credit to viable enterprises, the costly recapitalisation of the banks raises concerns, particularly when the opportunity cost is a substantial reduction in public expenditure on social security.

Source: Planning Commission: *Economic stabilization with a human face*, Report of the Panel of Economists, GOP, October 2008; Z.M. Nasir: *National policy responses to the financial and economic crisis*, 2009 (mimeo), (Pakistan); R. Kyloh and C. Saget: *A common crisis but contradictory responses: The European experience 2008/09*, (Ukraine), ILO Policy Integration Department, forthcoming 2009.

In sum, a global jobs pact with decent work principles at the fore can pave the way for a more sustainable economy in the longer term

159. It is imperative that responses to the crisis should not just be seen as piecemeal measures to be rolled out temporarily, only to revert back to "business as usual" as soon as possible. The challenge now is to respond to the current crisis through measures, which, as discussed above, pave the way for a better pattern of growth and development. Global coordination efforts currently underway could increase the propensity for multilateralism to tackle development challenges more creatively and effectively in the future.

160. In this way, international partners can contribute to a better global economy and society, which, together with a new financial system, can form the foundation for more sustainable development. In this respect, the ILO has an important role to play within the multilateral system, in cooperation with its partners at the national level, to advance opportunities for women and men around the globe to live and work in conditions of freedom, equity, security and dignity.

Geneva, 6 March 2009.