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Priority Number One: Tackling Massive Global Jobs Deficit

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

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Global cooperation for productive investment and jobs in the real economy

1. The world economy is again facing the dangers of a deepening of the financial crisis and the risk of moving into recession. This could further strain an already critical employment situation.
2. One year ago the IMFC stated: "Our priorities are to address remaining financial sector fragilities; ensure strong growth in private sector demand and job creation; secure sound public finances and debt sustainability; work toward a more balanced pattern of global growth, recognizing the responsibilities of surplus and deficit countries; and address the challenges of large and volatile capital movements, which can be disruptive."
3. One year later, with the renewed uncertainties around sovereign debt and weaker global growth prospects, these challenges loom even larger, especially in advanced economies.
4. Emerging and developing countries have weathered the crisis better. Most resisted the advice to lighten regulation of the finance sector and kept in place rules that prevented some of the worst excesses experienced in advanced economies. The absence of a debilitating private and public debt hangover in most of the largest developing countries has enabled recovery to take hold more strongly. The slowdown in the developed world will inevitably spill over and affect the pace of this pick up, together with inflationary and exchange rate pressures.
5. Under these conditions, decisive global cooperation is urgently required in order to agree on a convergence of macroeconomic, employment and labour market policies that promote, in the near term, high levels of productive investment and job creation in sustainable enterprises of the real economy. This is necessary to avoid sliding into a possible recession.
6. Multilateral agreement to reform and repair the financial sector, as called for by the IMFC and the G20 three years ago, is badly behind schedule. It must be accelerated and deepened in order to restore stability and confidence in financial markets whose speculative fluctuations are damaging real economy growth prospects. It is urgent to put the financial system at the service of the real economy.
7. Addressing the fallout from the sovereign debt crisis in some countries requires socially responsible fiscal consolidation within a medium term outlook. Abrupt and socially costly austerity measures are hurting people with no responsibility for the crisis and endangering growth of the real economy, the only foundation for future solvency.

The voice of the ILO

8. This statement is rooted in the values of the ILO: that social justice is a foundation of peace; that labour is not a commodity; that social dialogue delivers balanced approaches. Our tripartite composition, combining the voices of government, business and labour, delivers policies grounded in the realities of the real economy.

Regaining people's trust in public policy

9. It would be a serious mistake to misread the critical moments we are living through as primarily a crisis of confidence of financial markets. On the contrary, there is a growing feeling in many quarters that our multilateral governance frameworks and even many national political systems are not coping well with the power of financial operators.

10. It is urgent to maintain and regain the trust of people in the ability of governments to make public policies for the benefit of working families and their communities, and of businesses and entrepreneurs of the real economy. Public trust in the ability of many governments to put right economies gravely destabilized by the excesses of financial operators is rapidly waning.

11. Too many people are thinking that "some banks are too big to fail, and we are too small to matter." Understandably, there is anxiety, anguish, and anger.

12. Popular uprisings as in the "Arab Spring", mass protests, demonstrations, riots and other expressions of anxiety and anger are on the rise. Young women and men have led many such actions expressing frustration and anger over economic exclusion and lack of genuine opportunity. Some are combined with regime change and democratic aspirations. Others are in reaction to exceptionally harsh austerity measures or continuously rising inequality and social fairness issues.

13. In all countries greater opportunities for decent work is a widespread demand.

A massive jobs deficit

14. Second quarter 2011 economic output has weakened considerably, pointing to a serious slowing in the world economy, reflected in downward revisions to IMF projections for growth in 2011 and 2012. This will further strain an already precarious jobs situation.

15. End 2010 and early 2011 the world economy was growing at a pace sustaining a rate of growth of employment of one per cent, roughly the growth in the working age population. Such a rate of employment growth halted the increase in the number of unemployed, estimated at some 200 million in 2011, near the highest ever recorded; but was not sufficient to reverse the trend and bring unemployment down by ny significant measure. It was also insufficient to recover the average employment to working age population ratio of before the crisis, ie around 65 per cent.

16. A rate of growth of world employment of 1.3 per cent would be required to recover by 2015 the pre-crisis employment to working age population ratio, closing the current jobs gap and absorbing new entrants into the labour market.

17. The slowing down of the world economy now implies employment is growing at only 0.8 per cent, less than the increase in the labour force. This will lead to an increase in the number of unemployed, underemployed persons and persons living in hardship.
18. Worldwide, youth unemployment is 20 per cent, two to three times the adult rate. And the numbers of young people neither in employment, nor in education or training is rising.
19. Wages of working people in many countries have been stagnant for several years, and median household income has fallen. Long term unemployment is rising in many advanced economies. Vulnerable employment and informality have expanded. Poverty reduction has been arrested or set back in many developing countries. In many developed countries, poverty is rising.
20. The world is not on track to generate the 400 million new jobs needed in the next decade just to keep up with the increase in the working age population.
21. The massive and prolonged global jobs deficit, quantity and quality-wise, is gravely damaging for families and communities unable to secure a decent job; it is undermining social cohesion; and putting to waste the skills and talents of the younger generation. These economic and social scars are long lasting. Long duration unemployment, underemployment and working poverty are a structural constraint on future growth.
22. Income inequalities are continuing to widen and have reached indecent levels in many countries. This is weakening aggregate demand and the financing of growth. It is also leading countries to an over-reliance on export-led development further widening internal imbalances.

The real economy in the driver' seat of the global economy

23. Putting the real economy in the driver's seat is the priority. With a financial sector at the service of the real economy. Global policy makers need to reconnect to the needs of working families and tackle the global jobs crisis at its roots.
24. It is vital to put in place policies and measures that stimulate investment in the real economy by productive enterprises that generate decent jobs, absorb informality and significantly reduce the space for unproductive financial operations. Reforms to the global financial services industry are essential to reverse the dysfunctional policies that led to unsustainable debt-financed operations by governments, households and enterprises.

25. Full employment should be a central target of economic policies, as also called for by the latest Global Unions statement. Today we target inflation rates, balanced budgets, public debt levels but not job creation. Yet, employment targets frequently feature in electoral campaigns. We should mobilize to achieve high levels of employment as effectively as we have done to keep inflation low. Having a measurable jobs and investment target alongside an inflation target would send a strong signal.

Raising investment in the real economy

26. Productive investment in the real economy, to start and grow businesses and to develop and maintain the supportive infrastructure is fundamental to generating the decent jobs needed to confront the crisis, recover growth and raise living standards.

27. Productive investment is a casualty of financial sector excesses. Private sector investment among non-financial corporations in advanced countries has actually fallen, as has total investment relative to GDP.

28. Investment in the real economy to grow enterprises and employment is the policy priority of today. GDP numbers inflated by financial excesses do not translate into commensurate employment generation. Infrastructure investment, investment in green energy and in greening of production and transport are needed to create and sustain jobs in enterprises.

Supporting small enterprises

29. Entrepreneurship in small and medium-sized enterprises, including cooperatives and social economy initiatives, are the most dynamic source of employment. Investment and employment in SMEs should be a central focus of policies. Access to bank credit by small enterprises should be closely monitored as a key indicator of the health of the real economy.

30. Easing of credit conditions for small enterprises is an urgent requirement and a direct way to sustain investment and jobs. Credit facilities can take the form of guarantees with some or all of a loan backed by government support. Part of the liquidity provided to banks could be earmarked for support to small businesses. Credit mediators examining requests of small businesses could be introduced. These three approaches, applied in some countries, could be widely replicated.

Sustaining incomes of working families

31. Productivity increases have outstripped wages in many countries contributing to income inequality and a falling wage share. It is particularly important that surplus countries do not allow such a wage gap to widen, thus contributing to internal and external rebalancing. Such action will also ease the adjustment challenges of countries where labour costs have become uncompetitive.

32. The trend towards a reduced coverage of collective agreements should be reversed and minimum wage systems reinforced to ensure that wages keep pace with productivity, helping to restore consumer demand and investor confidence.

33. The crisis should not be used as an excuse to undermine rights at work and international labour standards. Labour standards and institutions of social dialogue and collective bargaining should be strengthened in order better align wages with productivity gains and sustain demand and income-led growth.

34. Public policies are needed to increase decent work opportunities directly and help businesses to resume hiring or retain workers. Temporary reductions in payroll taxes paid by employers and workers have proven to be effective in encouraging new hires.

Global cooperation for the Global Jobs Pact

35. In response to the global jobs crisis ILO constituents adopted a Global Jobs Pact in 2009 aimed at rapid recovery of the real economy sustained by investment, enterprise development, social protection, rights at work and social dialogue. The Global Jobs Pact has received wide support in the United Nations and by the G20.

36. Many countries have applied the policy approaches contained in the Global Jobs Pact in their stimulus plans. The initial response, based on global cooperation, has boosted growth and jobs in 2009 and in 2010; yet the effort has not been sustained. In many

countries policies aimed at boosting the real economy, and jobs and incomes directly, have waned. It is urgent to redouble efforts at enhancing global cooperation to apply the range of policies proposed in the Global Jobs Pact.

Reforming the finance sector to better serve the real economy

37. A number of important measures to repair and reform the finance sector have been proposed, discussed and in some cases introduced. These need to be pursued diligently through a multilateral agreement. It is urgent to adopt measures to limit the space for risky operations; to involve financial institutions in the resolution of sovereign debt crises; to re-establish normal credit flows, in particular to small enterprises; to re-introduce the separation between commercial banking and investment banking; to deter "speculative" short-term capital flows; and to enhance supervision and monitoring capacity of public regulatory bodies.

38. For these measures to be fully effective they must be part of an overall coherent policy approach to guide banks back to their legitimate function of lending for innovation, productive investment, trade and consumption, ie a return to what has been called "boring banking".

39. In synthesis, more productive investment in the real economy; less space and availability of unproductive and risky financial products.

Socially responsible fiscal consolidation

40. The pace of fiscal consolidation has to be compatible with the state of the economy and be socially responsible. Measures to introduce more stability in financial markets cannot be at the cost of high social instability.

41. Choices need to be made. Social protection for the more vulnerable should be guaranteed; unemployed persons should have access to unemployment benefits, as well as orientation and training to facilitate job search. The autonomy of social partners and their negotiations should be fully respected. Public and private investments in job-generating activities should be promoted, including housing, infrastructure upgrading and greening, education and health services.

42. Tax reforms should ensure that the burdens of medium-term fiscal consolidation are fairly shared, in order to avoid having lower-paid workers paying more in proportion to their incomes than the very well off. Loopholes and boltholes to tax havens must be closed._Those who live and in invest in the real economy should not pay more taxes than those who live off unproductive financial operations. More fundamentally, governments should actively consider a financial activities or transactions tax.

Development and recovery through real economy investment and jobs

43. Emerging and developing countries will want to continue to rebalance their economies away from excessive reliance on exports and towards domestic consumption. Productivity gains should be allowed to be more evenly distributed so that wage earnings and household consumption play a stronger role in growth.

44. The debt crisis of the developed world must not damage the investment prospects of the least developed countries. Mobilizing domestic and international development finance is critical for increasing investment in the economic and social capital of the least developed countries.

45. The World Bank's decision to focus on good jobs as a hinge of development is welcome. There is great potential for synergies between the Bank and the ILO's working out of poverty approach to development. The Decent Work Agenda has been widely endorsed by the UN system and the new focus of the Bank on this comprehensive view of the economic and social role of work can only help to strengthen policy coherence in support of countries' own strategies.

46. Social protection floors are being extended in several countries in Asia, Latin America and Africa. The ILO is promoting a gradual establishment of a social protection floor in every society that protects and empowers the most vulnerable and contributes to sustaining demand. Michelle Bachelet, former President of Chile, is delivering a report to the United Nations and the G20 showing the feasibility of this approach. The International Labour Conference is developing an agreed international standard applicable to diverse national situations in 2012.

47. Multilateral institutions should step up their collaboration to assist countries wanting to introduce a social protection floor as part of their development strategy.

Conclusion

48. To counter the renewed downward pressures facing the world economy and consolidate recovery towards strong, sustainable and balanced growth, policies must give priority to the real economy, its capacity to sustain investment, savings and consumption based on high levels of productive employment and decent work. This also requires recovering the dignity of work and investing in institutions of dialogue to deliver balanced solutions strengthening the prospects of the real economy. Determined global cooperation is urgent to tackle the global jobs deficit.