

Report of the Director-General

# Tackling the global jobs crisis

Recovery through decent work policies

INTERNATIONAL LABOUR CONFERENCE

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## Introduction

1. The International Labour Organization shoulders at least three immediate responsibilities in addressing the global economic and social crisis that is upon us.
2. Our first duty is towards the tripartite constituency of our Organization – governments, employers and workers: to assist them, when requested, in ways adapted to their specific circumstances. The follow-up to the ILO Declaration on Social Justice for a Fair Globalization, the Strategic Policy Framework 2010–15 and the Programme and Budget proposals for 2010–11 have dealt extensively with ways and means to support constituents in accordance with the ILO Decent Work Agenda. ILO programmes are being adapted to crisis needs, as demands from constituents come in and the evolving circumstances warrant, in close consultation with the Governing Body. I welcome your comments on how the Office can best respond to your needs in the context of the evolving crisis.
3. Our second responsibility is to draw the conclusions from a pattern of globalization that is coming to a stop in order to build the foundations of a new globalization based on sustainable, fair and environmentally sound economic growth and social development in open economies and open societies. This crisis was preceded by growing imbalances in the way globalization unfolded, notably a protracted aggravation of income inequalities within countries alongside the benefits it produced. Moreover, the crisis occurred in a context of a dominant policy vision that overvalued the capacity of markets to regulate themselves, undervalued the role of the State and devalued the dignity of work, respect for the environment and the delivery of public goods and social protection.
4. From the beginning, the ILO has expressed many concerns with the values and ideological bias underpinning the Washington Consensus and questioned its foreseeable outcomes. Decades later, in the report, *A fair globalization: Creating opportunities for all*, the World Commission on the Social Dimension of Globalization stated that “the current process of globalization is generating unbalanced outcomes, both between and within countries. Wealth is being created but too many countries and people are not sharing in its benefits ... these global imbalances are morally unacceptable and politically unsustainable”. Having been critics, we must now help to put things right. The ILO Declaration on Social Justice for a Fair Globalization commits us to make social justice and fair globalization key drivers of the future. This is a good point of departure for what can be a defining moment in the history of the ILO. I believe the Governing Body should address these questions as soon as possible in order to prepare a substantive discussion at a forthcoming International Labour Conference. Again, your guidance is welcome.
5. The third responsibility is what this report is about: the crisis here and now and what to do about it. In all regions and countries, in very large numbers, people are suffering, and feel uncertain, threatened, sometimes angry, surely frustrated.
6. This report sounds the alarm bell at a time when the global economic downturn has unleashed a deep and broad jobs crisis leading to a growing social recession worldwide.
7. My concern and conclusions combine the following elements:
  - Millions of women and men have lost their jobs; business bankruptcies are growing exponentially, particularly among smaller enterprises.
  - Unemployment is expected to continue rising at least until end 2010, probably 2011.
  - Poverty and informal employment will continue to rise as well, reversing recent gains, while middle classes are weakened.
  - Meanwhile 45 million persons, mostly young women and men, will enter the labour market in 2009 and following years looking for their first job.
  - The International Monetary Fund (IMF) forecasts some recovery in global growth as of mid-2010, but this is conditional on the success of stimulus packages adopted by countries and on re-establishing a functioning financial sector. Both results are as yet uncertain.
  - Evidence of past crises indicates that, even after economic growth returns, employment only recovers to pre-crisis levels with a lag of four to five years, on average. And we already had a decent work deficit before the crisis.
  - When jobs are not available, demand for social protection increases significantly.
  - Prolonged employment crises carry major risks for social and political stability.
8. The origins of the crisis lie in the weak governance and inadequate regulation of the finance markets of several industrialized countries. The effects of the crisis are hitting developing countries hard, however, especially those with the least resources to cushion the most vulnerable. Investment flows are drastically lower, trade is falling and worker remittances are much reduced. This in turn is

leading to a weakening of the balance of payments, an outflow of foreign currency reserves, resumed difficulties in meeting foreign debt servicing, currency depreciation and a downturn in the domestic economy of many developing countries.

9. Put together, this is a wake-up call. The world may be looking at a jobs and social protection crisis of six to eight years' duration. The consequences for personal and family well-being, the welfare of societies, the stability of nations, and the credibility of national and multilateral governance are incalculable. Not enough attention has been paid to this human reality in policy-making. We must approach the crisis with a basic sense of solidarity within and among countries.

10. This report is about action today – to respond to people's concerns; to abate the fears and looming threats of tomorrow. It is about what the ILO tripartite community can do to respond with the urgency and commitment required by the depth and duration of the global jobs crisis. Since September 2008, the Governing Body and the Office have been very active in identifying the impact of the crisis on workers and enterprises, setting policy priorities for the ILO and making our voice heard in the United Nations system, the Bretton Woods institutions and the G20 process. It is now up to the world constituency of the ILO, governments, employers' and workers' representatives at the International Labour Conference – all actors of the real economy – to make a statement of purpose and conviction on the policies to be pursued.

11. I welcome the G20 leaders' statement of 2 April 2009. It laid out the elements of a global plan for recovery with "... at its heart the needs and jobs of hard-working families ..." in developed, emerging and poor countries expressing their "... unshakeable commitment to work together ... to take whatever action is necessary to secure that outcome ...". This is an important beginning, and many countries are putting in place stimulus packages and recovery plans. Although action is under way, more needs to be done to target employment and social protection outcomes, protect rights at work and use social dialogue.

12. The synchronized global downturn makes it impossible in the short term for any country to export its way out of the crisis. On the contrary, if all countries stimulate their domestic activity, primarily through employment and social protection, two direct ways to support aggregate demand, then global growth and trade will recover sooner. Both should be more explicitly targeted in short-term fiscal and monetary policies as well as in the overall macroeconomic approach.

13. In the conclusions of the Tripartite High-level Meeting on the Current Global Financial and Economic Crisis (March 2009), the Chairperson of the Governing Body noted: "The ILO will make response to the crisis the main theme of its 2009 International Labour Conference and further develop the concept of a global jobs pact for discussion with its worldwide tripartite constituency".

14. This report responds to the Governing Body decisions. It proposes elements of a Global Jobs Pact as the ILO's contribution to recovery, for national and multilateral decision-making.<sup>1</sup> It proposes to accelerate action to shorten the predictable time lag between recovery of growth and stock markets and recovery for people through productive employment and decent work. I believe this is an urgent demand on the political leadership today. Provided it is put into motion swiftly and decisively (and we have seen many examples of swift and decisive action in recent months), we hold within our hands the power to define policies that can help stop and reverse current trends and give the lie to gloomy forecasts.

15. A Global Jobs Pact addresses the immediate needs of formal and informal economy workers, families and enterprises, while at the same time laying the foundations for a fair globalization sustained by a socially, environmentally and economically balanced pattern of growth.

16. The International Labour Conference is the world's forum to develop the approaches, elements and application modalities of a Global Jobs Pact mobilizing the tripartite constituents in all member States.

17. This report proposes the initial elements of a Global Jobs Pact based on the policy orientations provided by the Governing Body in November 2008 and March 2009 and by recent regional and sectoral tripartite ILO meetings on responses to the crisis. It also reflects the G20 London Jobs Conference and the meeting of the G8+6 Labour and Employment Ministers in Rome (March 2009), which welcomed with interest the International Labour Conference discussion on a Global Jobs Pact.

18. These elements are guided by the ILO's international labour standards and the resolutions and policy instruments adopted by its governing organs. They are further informed by the knowledge and

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<sup>1</sup> This report should be read in conjunction with GB.304/ESP/2, "The financial and economic crisis: A decent work approach", which contains much complementary data and analysis.

experience available in the ILO on tried and tested national employment, social protection and social policies.<sup>2</sup>

19. The proposed Global Jobs Pact would help frame national crisis responses developed by governments in consultation with social partners. If adopted by a large number of countries in a coordinated way, the synergies and interactions between national job pacts would increasingly acquire global significance with reinforcing effects across countries.

20. A Global Jobs Pact would inform and underpin international cooperation and exchanges within and across regions. In that sense it is also a horizontal pact to stimulate South–South technical cooperation as well as the ILO’s capacity to monitor crisis policies in order to facilitate access of countries to the experience of others. It would also inform and underpin strong international cooperation and collaboration, particularly among United Nations agencies and Bretton Woods institutions, as called for by the G20 leaders. It would be supported by an inter-agency joint initiative in response to the crisis as provided for by the United Nations Chief Executives Board.

21. I call on the tripartite International Labour Conference to consider the proposal for a Global Jobs Pact as a national, regional and global initiative to help workers, families and enterprises whether the first systemic crisis of globalization and build the foundations of a decent work path to recovery and sustainable growth.

**Box 1**  
**The Global Jobs Pact**

The Global Jobs Pact is the decent work response to the crisis agreed to by the ILO’s tripartite constituency. It is envisaged as a policy contribution by the ILO to mitigate the impact of the crisis on working families and enterprises, including the informal and rural sectors, and to help shape a productive and sustainable recovery.

The strategic objective of the Global Jobs Pact is to place employment and labour market issues, together with social protection and respect for workers’ rights, at the heart of stimulus packages and other relevant national policies to confront the crisis. The use of social dialogue to define and implement policies is seen as a key consensus-building tool.

This report suggests 14 converging policy areas to be analysed, complemented and decided upon at the International Labour Conference.

The Global Jobs Pact is conceived as an open and evolving portfolio of policy options for use by governments, employers and workers in national decision-making, in international coordination and in development cooperation. It is not a “one-size-fit- all” approach.

It is global because the crisis affects all countries and requires global solutions, and the ILO has the most global and extended constituency in the multilateral system. It is also global because it seeks to promote better policy coherence among governments and between international organizations on a decent work approach to the crisis. At the same time it is local because it is adaptable to diverse national realities, needs and priorities.

It is a pact because it is a joint commitment to act on the policies agreed to by the ILO’s tripartite constituency, the main actors of the real economy, in the ILO Declaration on Social Justice for a Fair Globalization adopted by the International Labour Conference in 2008 and based on the institutional policy tools developed by the ILO.

The areas of work proposed reflect the priorities identified in recent ILO crisis-related activities in all regions and by the preparatory work following recent Governing Body discussions, in particular the statement of the Officers of the Governing Body in November 2008 and the Chairperson’s conclusions of the High-level Tripartite Meeting on the Current Global Financial and Economic Crisis in March 2009.

The Global Jobs Pact would be an operational product to guide the work of the Office in assisting constituents in their own crisis responses through Decent Work Country Programmes and in discharging the ILO’s regional and global responsibilities.

It also constitutes the ILO’s contribution to the G20 leaders process and the United Nations heads of agencies’ decisions on joint activities to confront the crisis taken at the Chief Executives Board meeting in April.

The G20 leaders asked the ILO, in cooperation with other international organizations, “to assess the actions taken and those required in the future” in the field of employment, labour market and protection of the most vulnerable. The Chief Executives Board asked the ILO to lead a cluster of interested international organizations on a Global Jobs Pact and to co-lead with WHO another initiative on a social protection floor.

<sup>2</sup> See *An operational decent work response to the crisis: Emergency services for constituents*, available at: [www.ilo.org/public/english/support/lib/financialcrisis/](http://www.ilo.org/public/english/support/lib/financialcrisis/).

## I. A looming social recession

### Job losses are mounting

22. The last quarter of 2008 and the first quarter of 2009 have seen rapid and synchronized falls in investment, consumption, output and trade worldwide, leading to massive employment losses in very many countries.

23. In 2008 global unemployment increased by 14 million,<sup>1</sup> and current trends point to an ongoing severe deterioration. In member States of the Organisation for Economic Co-operation and Development (OECD), over 7 million persons became unemployed between January 2008 and January 2009.<sup>2</sup> In the United States, 5.4 million jobs were lost between July 2008 and February 2009.<sup>3</sup> Unemployment reached 8.5 per cent of the labour force in March 2009, but over 14 per cent if one adds those involuntarily working part time.<sup>4</sup> Spain lost 766,000 jobs in the first quarter of 2009 and unemployment jumped to 17.4 per cent or over 4 million persons.<sup>5</sup> Unemployment reached 10 per cent in Ireland in February 2009, up from 4.9 per cent in the first quarter of 2008.<sup>6</sup> Sweden and Turkey have also registered rapid job losses. In the Russian Federation, the number of unemployed leapt by 2 million persons between May 2008 and January 2009. In the Republic of Korea, 1.2 million jobs were lost between June 2008 and February 2009. Sadly, these trends continue in most OECD countries.

24. Developing countries have been particularly hit by job losses in formal, mostly export-oriented, industries. These job losses will tend to further inflate the ranks of informal workers, including in agriculture, thereby raising the competition among low-income occupations. In South Africa, total unemployment increased only marginally in the fourth quarter of 2008 (0.3 per cent) but 39,000 paid jobs were lost in mining, manufacturing and financial services. Unemployment stood at 21.3 per cent in the fourth quarter, but the number of discouraged jobseekers, at over 1 million persons, increased by 9.1 per cent against the third quarter of 2008.<sup>7</sup> In China, large-scale migration of workers from the coastal export industries to the rural western provinces is estimated at 20 million workers.<sup>8</sup> Labour-sending countries such as India, Pakistan and the Philippines, as well as Ecuador, El Salvador and East European countries, are hard hit by the return of thousands of migrant workers. In Latin America, unemployment edged up to 8.5 per cent in the first quarter of 2009 from an average of 7.5 per cent in 2008.

25. The crisis is impacting industries and economic sectors in different ways. Export industries, manufacturing and construction were the first to be exposed. In the United States, the employment contraction of 2.2 per cent (3.1 million jobs) between December 2007 and December 2008 resulted almost entirely (over 92 per cent) from job losses in four sectors (in decreasing order): manufacturing, professional and business services, construction and the retail trade.<sup>9</sup> Similar patterns are observed in other countries.

26. Job losses follow falling demand for products and services of enterprises. Bankruptcies are on the increase in all regions. The IMF notes that balance sheets of non-financial firms across the world deteriorated sharply after September 2008 and are set to weaken further amid the deepening global recession.<sup>10</sup>

### Current forecasts point to persistent high unemployment and poverty

27. In January 2009, the ILO estimated three possible scenarios for the growth in unemployment and working poverty as a result of the economic crisis. The worst case scenario suggested that, compared to 2007, by the end of 2009 there could be an increase in global unemployment of more than 50 million and that some 200 million workers could be pushed back into extreme poverty. Recent

<sup>1</sup> See [www.ilo.org/trends](http://www.ilo.org/trends).

<sup>2</sup> OECD: "The jobs crisis. What are the implications for employment and social policy?", DELSA/ELSA/WP5 (20 Mar. 2009).

<sup>3</sup> These and subsequent data from ILO labour force statistics, at [www.laborsta.ilo.org](http://www.laborsta.ilo.org).

<sup>4</sup> Bureau of Labour Statistics, Apr. 2009, at [www.bls.gov](http://www.bls.gov).

<sup>5</sup> *Instituto Nacional de Estadística, 2009, Notas de prensa, Encuesta de Población Activa, 24 de abril*, at [www.ine.es](http://www.ine.es).

<sup>6</sup> OECD: "Harmonised unemployment rates", News release, 10 Apr. 2009, at [www.oecd.org](http://www.oecd.org).

<sup>7</sup> Statistics South Africa, 2009, Quarterly Labour Force Survey, at [www.statssa.gov.za](http://www.statssa.gov.za).

<sup>8</sup> S. LaFraniere: "20 million migrants have lost jobs, China says", in *International Herald Tribune*, 2 Feb. 2009.

<sup>9</sup> L. Kelter: "Substantial job losses in 2008: Weakness broadens and deepens across industries", in *Monthly Labour Review*, Mar. 2009.

<sup>10</sup> IMF: *World Economic Outlook*, Apr. 2009, box 1.2, "How vulnerable are nonfinancial firms?"

developments and the continuous monitoring of labour markets suggest that current trends are in the range of the worst case scenario.

28. At the end of March 2009, the OECD forecast double-digit unemployment in the OECD area for end 2010, at 10.1 per cent in the fourth quarter.<sup>11</sup> Workers on temporary and other non-standard contracts and those without any contract at all are the first to suffer the effects of the crisis.

29. The G8 Ministers of Agriculture, together with the Food and Agriculture Organization of the United Nations (FAO), recalled in April 2009 how far the world is from reaching the goal of halving, by 2015, the proportion of malnourished persons, with the economic downturn exacerbating the effects of the food crisis, which brought the total number of hungry close to 1 billion.<sup>12</sup>

30. Per capita income is projected to decline in countries representing three-quarters of the global economy.<sup>13</sup> The World Bank estimates that an additional 53 million people will be pushed into poverty (at less than \$1.25 a day) as a result of the crisis in 2009 alone, representing a major setback to global efforts to reduce poverty.<sup>14</sup>

### **Meanwhile the labour force continues to grow ...**

31. Worldwide, the labour force or economically active population of 3.3 billion is growing by some 45 million new entrants each year.

32. Tens of millions of young people are about to leave school and enter a depressed labour market. A lack of decent work opportunities at an early age may permanently compromise the future employment prospects of youth.

### **... and may lead to a prolonged jobs deficit, well after the economy recovers**

33. In past financial crises, employment returned to pre-crisis levels only four to five years after economic recovery, on average. Four years after the Asian crisis of 1997–98, unemployment rates were still above their pre-crisis level. In Thailand, real manufacturing wages remained depressed for several years after the August 1997 crisis. Wage inequality increased in several Asian countries and member States of the Commonwealth of Independent States following the 1997–98 crisis. In the United States, 35 months elapsed before employment returned to its previous level. Following the 1990–91 recession in Finland, it took 18 years for employment to return to its pre-crisis level.

34. The IMF announced in April 2009 that the global recession would be long and deep, with a slow recovery. The financial origin of the crisis and its highly synchronized nature suggest that this recession “is likely to be unusually severe and followed by a slow recovery”.<sup>15</sup> The IMF forecasts positive global growth at 1.9 per cent in 2010 (an average of 4 per cent in emerging and developing countries and 0 per cent in advanced economies), although with considerable uncertainty as to the timing and strength of a recovery. In particular, the recovery is conditional on the combined effectiveness of fiscal and monetary stimuli and measures taken to restructure the financial sector. Several observers forecast that unemployment will continue to rise globally well into 2011.<sup>16</sup>

35. The IMF writes that: “Without a thorough cleansing of banks’ balance sheets of impaired assets, accompanied by restructuring and, where needed, recapitalization, risks remain that banks’ problems will continue to exert downward pressure on economic activity”.<sup>17</sup> Total write-downs are estimated at “around \$4 trillion”, with an estimated two-thirds incurred by banks.

36. Taken together, these elements point to a persistent global jobs crisis for the next six to eight years. This accounts for the uncertainty surrounding the forecast on the strength of a future recovery, the average lag of four to five years in the recovery of employment relative to output documented in previous crises, the depths of jobs losses registered so far and the growth in the labour force. In short, the world is looking at a deep and prolonged global jobs crisis.

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<sup>11</sup> OECD: *Economic outlook, Interim report*. Mar. 2009.

<sup>12</sup> See [www.g8italia2009.it/](http://www.g8italia2009.it/).

<sup>13</sup> IMF, *op. cit.*

<sup>14</sup> World Bank, President Zoelick, press conference, 31 Mar. 2009, Press release No. 2009/286/EXC.

<sup>15</sup> M. Terrones et. al., “Global recession to be long, deep with slow recovery”, in *IMF Survey Magazine*, 16 Apr. 2009.

<sup>16</sup> See, for instance, H. Timmer: World Bank’s Development Prospects Group, 31 Mar. 2009, Press release No. 2009/285/DEC.

<sup>17</sup> IMF: *Global Financial Stability Report*, Apr. 2009.

## **From a jobs crisis to a social recession**

37. People are hurting. Every job lost is a personal drama, a family hardship and a social crisis. Insecurity breeds on uncertainty and declining incomes. Persons lose their skills the longer they are out of a job. Unemployment increases stress, illness and loss of self-esteem, leading to personal distress. Rising unemployment is associated with higher suicide rates. The longer people who want to work are out of employment, the heavier the strain and the lower the probability of moving back into employment.<sup>18</sup> Skilled formal sector workers are moving into informal makeshift activities and facing more constrained working conditions.

38. Recessions affect women and men differently. Particularly in lower income households, the loss of women's income may have greater long-term negative implications than a similar loss in men's income.<sup>19</sup> And for children, the negative impact on their future health and education can be dramatic – trapping families into persistent poverty.<sup>20</sup> With fiscal austerity measures tending to affect the quality and availability of public services, families, and especially women and girls, shoulder greater care responsibilities.

39. The crisis is itself the product of growing social imbalances that have led to rising inequality in the distribution of the benefits of growth across and within countries. In particular, middle classes – the bedrock of social and political stability – have been weakened, with declining shares in total income and increasing polarization.

40. The crisis threatens to undermine the rights of workers and their families through large-scale retrenchments, scarce opportunities for first-time jobseekers, and the further deterioration of conditions in the informal economy.

41. Fundamental rights at work are shaken when redundancies have a discriminatory impact affecting the most vulnerable first – migrant workers, women and the young. Freely negotiated collective agreements are no longer respected, and workers have to concede hard-won wage levels and benefits in order to retain any credible prospects of future employment and income. The risk of clandestine labour or illegal child labour as cheap alternatives is growing in many countries, as is the recourse to forced or compulsory labour. The potential knock-on effects of fuelling xenophobia and social divisiveness are as yet unknown.

42. The different elements of the way forward are to be found in the international labour standards adopted, promoted and supervised by the ILO. They cover fundamental aspects of decent work, such as full, productive and freely chosen employment; tripartite consultations; the rights of employers and workers; the means of settling disputes between them freely through their representatives; the basic rights to non-discrimination and freedom from forced and child labour; and social protection.

## **The majority of job losers, including in many advanced economies, do not get unemployment benefits ...**

43. The number of people receiving unemployment benefits increased on average by 53 per cent between May 2008 and February 2009 for a sample of 19 emerging and industrialized countries.<sup>21</sup> Yet many emerging and developing countries lack basic unemployment benefits. Advanced economies too have significant holes in their safety nets, with far from complete coverage of benefits for the unemployed.

## **... and eight persons in ten are not covered by social protection**

44. Social hardship and family vulnerability will be heightened, with only one fifth of the world's population having access to support through social security schemes.<sup>22</sup> The problem is particularly acute in developing countries, where social protection is often minimal, but, even in emerging economies and a number of developed countries, coverage is limited in several areas.

45. The spread of private pension funds over the last three decades has introduced more insecurity in retirement income. Private pension funds in the OECD have, on average, lost more than 20 per cent

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<sup>18</sup> D. Bell and D. Blanchflower: "What should be done about rising unemployment in the UK?" IZA Discussion Paper No. 4040, Feb. 2009.

<sup>19</sup> World Bank Policy Brief, Mar. 2009: "The global financial crisis: Assessing vulnerability for women and children".

<sup>20</sup> J. Darby and J. Melitz: "Social spending and automatic stabilizers in the OECD", in *Economic Policy*, Vol. 23 (2008), No. 56, pp. 715–756; F.H.G. Ferreira and N. Schady: "Aggregate economic shocks, child schooling and child health", Policy Research Working Paper 4701, 2008 (World Bank Poverty and Human Development and Public Services Teams).

<sup>21</sup> ILO social protection database.

<sup>22</sup> ILO: "Investing in social justice and economic development", Social Security Policy Briefings (Social Security Department, 2009).

of their value in 2008.<sup>23</sup> Similar figures are reported from Latin America. It may take years for private pension funds to recover their pre-crisis asset values. This will negatively affect the pension entitlements of people who are within a decade of retirement. The loss in pension savings is on average equivalent to 2.6 years in contributions. More fundamentally, private pension funds have introduced more insecurity in retirement income, entirely attributable to volatility in the stock market value of pension funds.

46. Well-designed defined-benefit public pension schemes are less affected by stock market volatility, although the crisis may affect their contribution base in the future. Defined-benefit systems need to be made consistent with labour market realities and demographic change. This is not an easy task, but reforms carried out by certain European countries show that it can be done.

### **A looming social crisis heightens risks of instability**

47. Perceptions of unfairness are mounting, breeding social tensions. According to an index of political instability developed by the Economist Intelligence Unit, 95 out of the 165 countries covered face a high or very high risk of instability. For 53 countries, the risk of instability is rated as moderate, and only 17 countries, almost all highly developed States, are rated as low risk.<sup>24</sup> Political crises and large-scale protests have already been recorded in several countries.

48. The United States Director of National Intelligence has stated: "The primary near-term security concern of the United States is the global economic crisis and its geopolitical implications".<sup>25</sup> He further explained that economic crises persisting over one to two years increased the risk of regime-threatening instability.

49. If left unchecked, the global jobs and social protection crisis affecting working families and local communities will become a much larger political crisis. The simmering ferment of a social recession is there. These tensions add to the existing anxieties caused by persistently high food prices, wide income gaps between rich and poor and weakened middle classes.

### **An urgent call for action to protect and support people, families and enterprises**

50. Taken together, these trends depict a situation fraught with dangers. As forecast by the IMF, the World Bank and the OECD, global job losses will continue to rise until at least end 2010, and probably into 2011, swelling the ranks of informality, unemployment and poverty.

51. Unless swift and bold action is taken, employment will remain depressed well after stock markets recover, the world economy resumes positive growth, and media attention shifts to other issues. There is a real danger that, once some growth returns, victory will be declared prematurely, turning a blind eye to the lingering jobs crisis.

52. The global synchronized character of this crisis means that no country can hope to export its way out of the crisis. Measures to rekindle growth must start at home, through fiscal and monetary policies to arrest falling demand. Only through the combined effect of domestic policies will trade resume its role as a force of growth.

53. I call on the International Labour Conference to assess the full dimensions and potential duration of the global jobs and social protection crisis the world is confronting, including the risks to stability and security, and to consider whatever action is necessary, including unconventional measures, to protect workers and families, in the formal and informal economies, and to support enterprises, and those in need of employment, in order to hasten recovery and build the foundations of a sustainable pattern of environmentally sound economic and social development.

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<sup>23</sup> OECD: *Private Pensions Outlook 2008* (2009).

<sup>24</sup> Economist Intelligence Unit: "Manning the barricades: Who's at risk as deepening economic distress foments social unrest, Special Report", 2009.

<sup>25</sup> D.C. Blair: Testimony to Senate Select Committee on Intelligence, 12 Feb. 2009, at [www.dni.gov/testimonies/20090212\\_testimony.pdf](http://www.dni.gov/testimonies/20090212_testimony.pdf).

## II. Building an ILO response to the crisis

54. We cannot ignore that before the current crisis, when global growth was high, there was already a crisis, reflected in many leading indicators on access to food and public goods, persistent high poverty and informality, worsening income inequality and weakening middle classes, in a context of major social and economic imbalances.

55. Many voices have been pointing to the unsustainable way in which globalization was taking place, from a political, social and economic standpoint. The ILO is one of these voices, urging to build the foundations of a fair and sustainable world economy. The ILO's arguments have been articulated over several years.

56. At the Global Employment Forum held at the ILO in November 2001, when world growth dipped after the dot-com bubble, I spoke of a crisis of human security, of the legitimacy of the prevailing model of globalization being questioned, and called for a coordinated global stimulus package for the world economy.<sup>1</sup>

57. In its 2004 report, "A fair globalization: Creating opportunities for all",<sup>2</sup> the ILO-sponsored World Commission on the Social Dimension of Globalization, while recognizing the benefits of globalization, summed up a growing consensus that "the current process of globalization is generating unbalanced outcomes, both between and within countries. Wealth is being created, but too many countries and people are not sharing in its benefits ... These global imbalances are morally unacceptable and politically unsustainable".

58. Heeding the proposals of the World Commission, the United Nations General Assembly stated in its Outcome Summit Declaration of 2005: "We strongly support fair globalization and resolve to make the goals of full and productive employment and decent work for all, including women and young people, a central objective of our relevant national and international policies as well as our national development strategies, including poverty reduction strategies, as part of our efforts to achieve the Millennium Development Goals. These measures should also encompass the elimination of the worst forms of child labour, as defined in International Labour Organization Convention No. 182, and forced labour. We also resolve to ensure full respect for the fundamental principles and rights at work".<sup>3</sup>

59. The 2007 International Labour Conference conclusions on sustainable enterprises set the objectives very clearly: "A well-functioning financial system provides the lubricant for a growing and dynamic private sector. Making it easier for small and medium-sized enterprises, including cooperatives and start-ups, to access financing, for example 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".

60. In my statement to the IMF and the World Bank in October 2007, I called for "a balanced policy to regulate the impact on the productive economy and sustainable enterprises of highly leveraged debt instruments and non-transparent vehicles".<sup>4</sup>

61. In March 2008, the ILO Governing Body's Working Party on the Social Dimension of Globalization discussed with World Bank President Zoellick the challenges facing multilateral cooperation and policy coherence to ensure an inclusive and sustainable globalization.<sup>5</sup>

62. Conveying the Governing Body's concerns to the IMF and the World Bank in April 2008, I argued that "averting the risk of a major global slowdown and ensuring recovery to a sustainable global development path thus requires coherent policy action within and between countries across several policy fields, including finance and investment, trade, employment and social affairs and environment".<sup>6</sup>

63. In June 2008, my report to the International Labour Conference spoke of the "real disquiet about the impact of the 'financialization' of the economy on the real, productive economy, and consequently on enterprises and jobs".<sup>7</sup> The plenary debate was dominated by growing concern for jobs, incomes

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<sup>1</sup> See [www.ilo.org/public/english/bureau/dgo/speeches/somavia/2001/gef.htm](http://www.ilo.org/public/english/bureau/dgo/speeches/somavia/2001/gef.htm).

<sup>2</sup> See [www.ilo.org/public/english/wcsdg/docs/report.pdf](http://www.ilo.org/public/english/wcsdg/docs/report.pdf).

<sup>3</sup> A/RES/60/1, 24 Oct. 2005.

<sup>4</sup> See [www.ilo.org/public/english/bureau/dgo/speeches/somavia/2007/index.htm](http://www.ilo.org/public/english/bureau/dgo/speeches/somavia/2007/index.htm).

<sup>5</sup> See GB.301/16(Rev.), Report of the Working Party on the Social Dimension of Globalization, Mar. 2008.

<sup>6</sup> See [www.ilo.org/public/english/bureau/dgo/speeches/somavia/2008/index.htm](http://www.ilo.org/public/english/bureau/dgo/speeches/somavia/2008/index.htm).

<sup>7</sup> *Decent work: Some strategic challenges ahead*, Report of the Director-General, International Labour Conference, 97th Session, Geneva 2008.

and sustainable enterprises on the one hand and the importance of the Decent Work Agenda to crisis response policies on the other.

64. Also in June 2008, the International Labour Conference adopted the ILO Declaration on Social Justice for a Fair Globalization, which sets out the vision of the ILO constituents of the way in which the ILO can contribute to laying the foundations for a fair and sustainable world economy.

65. The Decent Work Agenda is the main means of action, but to achieve its goals the ILO must work more closely with other international organizations within the framework of the United Nations system.

66. As the Social Justice Declaration states: "Other international and regional organizations with mandates in closely related fields can have an important contribution to make to the implementation of the integrated approach. The ILO should invite them to promote decent work, bearing in mind that each agency will have full control of its mandate. As trade and financial market 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".

67. In my October 2008 statement to the IMF International Monetary and Financial and Development Committee, I stressed the need to put a floor under the slide into recession by maintaining and enhancing social protection systems to support working women and men and their families, ensuring that productive enterprises, and in particular small businesses, are able to access affordable credit lines, avoid lay-offs and wage cuts and prepare for recovery.<sup>8</sup>

68. In November 2008, following discussions with the Secretary-General of the OECD, Angel Gurría, and an extensive exchange of views in the Governing Body on the unfolding global economic crisis, the Officers of the Governing Body proposed six measures to address the impact of the crisis on the real economy to protect people, support productive enterprises and safeguard jobs.<sup>9</sup> These are:

69. First, ensuring the flow of credit to consumption, trade and investment and stimulating additional demand through public and private expenditure and investment, by the use of fiscal and wage measures to stimulate domestic demand.

70. Second, protecting persons most exposed. Measures should comprise extending social protection and unemployment benefits, facilitating additional training and retraining opportunities, strengthening placement services, enlarging or putting in place emergency employment schemes and targeted safety nets.

71. Third, supporting productive profitable and sustainable enterprises together with a strong social economy and a viable public sector so as to maximize employment and decent work. Raising infrastructure investment tailored to small enterprises and cooperatives is one such measure as is using the ILO's "Green Jobs" Initiative to facilitate a sustainable recovery.

72. Fourth, to ensure that social progress is not undermined in the current crisis, we draw on and reaffirm the ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up (1998).

73. Fifth, strong cooperation between the ILO and its tripartite constituents with the multilateral system will be essential to assist efforts of countries in implementing these measures. Social dialogue and the practice of tripartism between governments and the representative organizations of workers and employers within and across borders are now more relevant to achieving solutions and to building up social cohesion.

74. Sixth, maintain development aid as a minimum at current levels and provide additional credit lines and support to enable low-income countries to cushion the crisis.

75. On 23 March 2009, a High-level Tripartite Meeting on the Current Global Financial and Economic Crisis, held during the Governing Body session, discussed with the Managing Director of the IMF, Dominique Strauss-Kahn, the adequacy of crisis response measures.<sup>10</sup> A report submitted by the Office, "The financial and economic crisis: A decent work response", analysed some 40 fiscal stimulus packages announced and implemented by governments as of early 2009.<sup>11</sup> A major conclusion, also noted in several Regional Meetings of ILO constituents on responding to the crisis in January and February 2009, is that the composition of fiscal stimulus packages should focus more on supporting employment and social protection. On average, direct transfers to low-income households and employment measures constitute the two smallest components of stimulus packages, at 9.2 per cent

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<sup>8</sup> See [www.ilo.org/public/english/bureau/dgo/speeches/somavia/2008/index.htm](http://www.ilo.org/public/english/bureau/dgo/speeches/somavia/2008/index.htm).

<sup>9</sup> See [www.ilo.org/global/What\\_we\\_do/Officialmeetings/gb/GBSessions/lang-en/docName--WCMS\\_100689/index.htm](http://www.ilo.org/global/What_we_do/Officialmeetings/gb/GBSessions/lang-en/docName--WCMS_100689/index.htm).

<sup>10</sup> See GB.304/4, Report of the High-level Tripartite Meeting on the Current Global Financial and Economic Crisis, Mar. 2009.

<sup>11</sup> See GB.304/HTM/1, "The financial and economic crisis: A decent work response", Mar. 2009.

and 1.8 per cent respectively. Half or less of the countries have announced transfers to low-income groups or employment measures.

76. The High-level Tripartite Meeting identified a number of points of convergence on crisis response measures and supported the proposal of a Global Jobs Pact (see box 2).

**Box 2.**  
**High-level Tripartite Meeting on the Current Global Financial and Economic Crisis**  
**(March 2009) highlights key policy instruments**

- Strengthened income maintenance measures for the unemployed such as boosting unemployment benefits (duration, coverage), incentives for employers for work sharing and temporary worker retention, and complementary cash transfer programmes.
- Expanding social protection measures and protecting pension levels from the devastating decline of financial markets.
- Targeted support to vulnerable groups and sectors, such as introducing temporary youth employment programmes.
- Stronger active labour market policies to support employment and earnings, such as introducing temporary payroll tax holidays or wage subsidies and expanding training programmes to the unemployed.
- Investment in the development of workers' skills to prepare for recovery during periods of slack labour demand.
- Strengthening of employment services, to facilitate the adjustment of firms and individuals to changing labour market conditions. Employment services are more important than ever in times of crisis as workforce mobility increases.
- Support to enterprises, particularly small and medium-sized enterprises, to access credit and overcome cash-flow problems.
- Public investment in infrastructure, through emergency public works with employment-intensive techniques, including measures that contribute to adapting to and mitigating the effects of climate change. Incentives and investments in energy-efficient technologies and "green jobs" can be an important contribution to job creation and recovery.
- Socially responsible restructuring of enterprises and sectors.
- Strengthened collective bargaining arrangements to facilitate negotiated wage settlements, especially regarding low-paid workers, aimed at sustaining real incomes and thus consumer demand.

77. To underpin these measures, increased efforts are required to facilitate social dialogue at international, national and sectoral levels and in public and private workplaces, as well as greater vigilance in respect of fundamental principles and rights at work during the recession and improved monitoring of labour markets and policy impacts.

78. On 24 March 2009, as part of the preparations for the G20 London Summit on Stability, Growth and Jobs, the United Kingdom Secretary of State for Work and Pensions convened a Jobs Conference of experts from across the G20 countries. The Conference, which received background presentations from the ILO and the OECD, proposed the following three priorities for G20 governments:

- helping people back into work to avoid the scars of long-term unemployment. Governments can help with active labour market policies and through policies to maintain or increase labour demand;
- supporting disadvantaged and vulnerable groups through social protection policies, linked to employment measures and, where appropriate, development assistance;
- developing effective and targeted education and skills policies to support employability for existing labour market conditions as well as jobs for the future, including green jobs and new technology services.

79. On 29 March 2009, I submitted a document on the global crisis to the meeting of the G8 Employment and Labour Ministers in Rome with their counterparts from Brazil, China, Egypt, India, Mexico and South Africa. In their comprehensive conclusions, "People first: Tackling together the human dimension of the crisis", the G8 Ministers stated:

We are committed to promoting dialogue and cooperation with governments of emerging and developing countries and international institutions, to preserve and develop human capital, to contribute to addressing employment and social challenges arising from the current financial crisis at global level, to enhance and ensure a more sustainable development and to promote social cohesion. The ILO's

Decent Work Agenda and its further development also represent an effective means in order to achieve these goals.<sup>12</sup>

80. The Ministers also noted “with interest that the 2009 International Labour Conference will consider proposals for a Global Jobs Pact”.

81. On 2 April 2009, the G20 leaders adopted a Global Plan for Recovery and Reform<sup>13</sup> which included in the section on “Ensuring a fair and sustainable recovery for all” the following request to the ILO:

We recognise the human dimension to the crisis. We commit to support those affected by the crisis by creating employment opportunities and through income support measures. We will build a fair and family-friendly labour market for both women and men. We therefore welcome the reports of the London Jobs Conference and the Rome Social Summit and the key principles they proposed. We will support employment by stimulating growth, investing in education and training, and through active labour market policies, focusing on the most vulnerable. We call upon the ILO, working with other relevant organisations, to assess the actions taken and those required for the future. (paragraph 26)

82. On 5 April 2009, the United Nations Chief Executives Board, comprising the heads of multilateral agencies and chaired by the Secretary-General, decided to pool their knowledge, expertise and means of action to respond to the crisis across the following nine areas: additional financing for the most vulnerable (joint World Bank–UN mechanism); food security; trade; a green economy initiative; a Global Jobs Pact; a social protection floor; humanitarian, security and social stability; technology and innovation; and monitoring and analysis. The ILO was asked to lead on a Global Jobs Pact and to co-lead with the WHO on a social protection floor.<sup>14</sup>

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<sup>12</sup> See [www.g8italia2009.it/G8/G8\\_Allegato/Conclusioni\\_ENG](http://www.g8italia2009.it/G8/G8_Allegato/Conclusioni_ENG), para. 16.

<sup>13</sup> See [www.londonsummit.gov.uk/en/](http://www.londonsummit.gov.uk/en/).

<sup>14</sup> CEB communiqué, 5 Apr. 2009, Paris.

### III. Components of an ILO Global Jobs Pact

83. I want to emphasize again that now is the time to implement a Global Jobs Pact. The risks entailed by the crisis for social cohesion and stability are too great to be left unattended. A Global Jobs Pact would stimulate the real economy and sustain working families through employment-oriented measures. It would reduce the time to recovery. It would activate the recovery of employment as quickly as possible after resumption of growth of output.

84. Should the national policies of all ILO member States converge on employment and enterprise policies, a basic floor of social protection, wide application of fundamental principles and rights at work and other relevant international labour standards, then economic, employment and social recovery could be substantially accelerated.

85. I invite the International Labour Conference to consider these proposals with a sense of urgency and decision-making capacity. Workers, families and enterprises expect no less from us. Now is the time for the tripartite ILO to show its consensus-building capacity in dealing with the devastating reversals affecting so many.

86. The synchronized global downturn makes it impossible in the short term for any country to export its way out of the crisis. If all countries stimulate their domestic activity, primarily through employment and social protection, two direct ways to support aggregate demand, then global growth and trade will recover. This implies a central focus on employment and social protection in short-term fiscal and monetary policies. And macroeconomic policy should explicitly target employment and social protection objectives in order to accelerate a recovery.

87. The following elements are submitted as a contribution to that discussion. They are based on selected tested policies applied in some countries, although not necessarily in a comprehensive manner, and on the policy orientations developed throughout the ILO's history and in past crises. They also reflect recent discussions and pronouncements by the Governing Body in November 2008 and March 2009, the G20 London Jobs Conference of March 2009, and the G8+6 Ministers of Labour and Employment in Rome in March 2009, as well as the proposals made by the United Nations Chief Executive Board in April 2009. The elements of a Global Jobs Pact are fully in line with the ILO Declaration on Social Justice for a Fair Globalization and the Strategic Policy Framework 2010–15, approved in March 2009.

#### **Putting employment and social protection at the core of recovery policies**

88. A Global Jobs Pact is aimed at placing employment and social protection at the centre of recovery policies in order to accelerate employment recovery, ensure inclusive access to employment through specific measures for disadvantaged groups, broaden the coverage of social protection and enhance security. Implemented in a comprehensive fashion, such measures could cushion the effects of the recession on people, support enterprises, counter the dangers of discrimination and deprivation, accelerate recovery and lay the basis for a more balanced and sustainable growth.

89. Application of a Global Jobs Pact requires adaptability to the diversity of national situations, needs and resources. It is not a "one-size-fits-all" solution, but rather a comprehensive and integrated policy portfolio of options for national decision-making and for policy coherence among international organizations. Its key objective is to ensure better employment and social protection outcomes in dealing with the crisis.

#### **Box 3**

##### **Two examples of earlier crisis recovery policies**

Financial crises tend to have long-lasting effects on employment. It takes, on average, almost five years for the unemployment rate to return to its pre-crisis level. There is, however, significant country variation in the timing of labour market recovery. Argentina and the Republic of Korea are two countries that initiated sizeable employment programmes during a crisis and reduced to approximately three years the recovery to pre-crisis employment levels. Crisis responses focused on:

*Comprehensive employment measures:* Argentina's *Jefes* programme provided work-tested income support to families whose heads of household were unemployed as a result of the crisis. The programme reached up to 11 per cent of the active population and helped reduce unemployment by an estimated 2.5 percentage points. The cost, at around 0.5-1 per cent of GDP, was relatively limited. The Republic of Korea's active labour market programmes helped improve skills and work opportunities for the majority of jobseekers. The programmes were implemented quickly after the start of the crisis – thereby

reducing the risk of long-term unemployment and social exclusion. The national public works programme provided work for roughly 70 per cent of the country's 1.7 million unemployed, representing a two percentage point reduction in the unemployment rate. However, non-regular employment, which had grown during the crisis, remains one of the main sources of wage inequality today.

*Support for small and medium-sized enterprises:* The Republic of Korea prioritized credit for small and medium-sized enterprise investment in technology and competitiveness as an important part of the recovery strategy. In addition, the Government encouraged banks to direct loans towards smaller firms.

*Social protection:* Argentina increased coverage of minimum pensions to an additional 1.7 million people, in particular to persons whose social security entitlements were phased out. The Republic of Korea significantly expanded employment insurance coverage and duration of benefits. The costs were relatively low, and largely financed by employer and employee contributions, amounting to around 1.4 per cent of GDP at its peak in 1999, and declining to 0.3 per cent as of 2001.

### ***Ensuring support and credit flows to enterprises, foremost to small and medium-sized enterprises***

90. Large numbers of enterprises are threatened by falling global demand and restricted access to finance. Surveys show persistently tight access to credit, while developing and emerging economies have been hit by restrictions on trade financing.<sup>1</sup> A recent survey by the IMF indicates a widespread increase in the pricing of all trade-financing instruments and that the amount of trade credit is shrinking, especially in emerging markets. This is severely affecting small and medium-sized enterprises, the backbone of employment but compared to larger firms typically less able to finance operations on their own or to have recourse to capital markets. Facilitating access to financing by measures such as guarantee and risk-sharing funds, relaxing collateral requirements, speeding up loan appraisal, establishing revolving credit lines, leasing, venture capital funds or new types of instruments for small and medium-sized enterprises, including start-ups, can help cushion the effects of the crisis and support diversified enterprise and employment development (see box 4).

#### **Box 4**

##### **Support for small and medium-sized enterprises**

India has expanded its subsidized credit guarantee scheme for small and medium-sized enterprises. The Republic of Korea increased financial support for small and medium-sized enterprises in the form of loans and credit guarantees channelled through state-owned banks and national and regional credit guarantee funds. Likewise, in Viet Nam, the \$1 billion stimulus package includes covering preferential interest rates on loans taken from local commercial banks by small and medium-sized enterprises, in addition to credit guarantees.

In Singapore, the Government enhanced business financing measures and introduced a new Special Risk-sharing Initiative in 2009 to encourage bank lending and increase small and medium-sized enterprises' access to credit. Part of this effort is the Financial Facilitator Programme, which provides free advice to small enterprises on finance and loans. The advice will be provided through six business membership organizations, including the Association of Small and Medium Enterprises.

Some European countries also provide examples of enhanced support to small and medium-sized enterprises as part of their stimulus packages. Belgium and Germany, for example, expanded the credit provided for small and medium-sized enterprises, while France created new loans and loan guarantees, and Austria increased credit guarantees.

91. Support to small and medium-sized enterprises should be seen in the wider context of the promotion of sustainable enterprises. If the credit crunch continues, it will be necessary to expand the use of alternative mechanisms to provide financing.

92. Micro-enterprises commonly rely on remittances, microfinance institutions and informal lenders. While microfinance institutions have proven to be an effective way of reaching the smallest businesses, many of them owned by women, it is crucial to maintain their liquidity so that they can continue to lend to micro-enterprises.

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<sup>1</sup> According to a recent IMF study (Jan. 2009), the amount of credit available in emerging market banks is shrinking, with East Asia seeing the sharpest decline in volume. Furthermore, the study shows that severe disruption in global financial intermediation has led to a sharp decline in world trade. While attempts to thaw credit markets are taking effect, the latest evidence (January for emerging economies and March/April for developed ones) shows that the credit crunch persists.

### *Safeguard viable jobs through support for shorter hours combined with skills development, to limit wasteful lay-offs*

93. Reorienting crisis solutions towards employment also means safeguarding existing jobs. This can include greater emphasis on measures to allow workers to combine employment with partial unemployment benefits, work sharing and temporary and targeted reductions in social security contributions. Several European countries have adopted this type of approach, including Germany. Some countries are also upgrading the skills of at-risk workers. Social dialogue plays an essential role to ensure fair and inclusive arrangements.

94. These measures not only help avoid mass lay-offs, but they also minimize firing and (re)hiring costs for businesses. Consequently, such measures simultaneously mitigate the labour market and social impact of the crisis on individual workers, facilitate adjustment at the firm level, and prevent loss of firm-specific skills in the medium term, while investing in human capital for the longer term.

#### **Box 5**

##### **Limiting lay-offs: Shorter hours, partial unemployment and skills development**

*Canada:* A Can\$1.5 billion training fund for laid-off workers; additional funding for enhanced training for the unemployed; improved support for older workers in vulnerable communities; measures for youth employment; and aboriginal training and employment projects.

*China:* Nationwide vocational training programmes for migrant workers returning home after being laid off in factories (20 million migrant workers have lost their jobs because of the decline in exports); the Chinese Government is in the process of developing programmes to help 6 million university graduates this year.

*France:* Government-backed partial unemployment schemes to ease the financial pressures on workers for a defined period; the scheme ensures that workers who are sent home for all or part of the week receive a percentage of their salary from the State until they can work full time again.

*Germany:* Measures to avoid lay-offs through in-work benefits during short-time work provisions extended from 12 to 18 months; firms 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; the Government of North Rhine Westphalia agreed with local employers' and workers' organizations on a "Future Pact on Economic Growth and Employment".

*Indonesia:* Intensification of voluntary transmigration programmes for laid-off workers to areas with potential jobs and less affected by the crisis; and job training and networking programmes.

*United Kingdom:* Establishment of a National Employment Partnership and targeting successful Local Employment Partnerships; strengthening of pre-redundancy retraining support through Train to Gain and Skills Hubs; expansion of the Rapid Response Service; and additional funding for Jobcentre Plus and the New Deal.

### *Support jobseekers through well-designed unemployment benefits*

95. For job losers and new entrants who do not find jobs, putting in place at least minimal unemployment benefits has proved useful in earlier crises. Unemployment insurance should be introduced and, where it already exists, benefits can be expanded in length and coverage on a temporary basis during unemployment peaks.

96. Unemployment benefit schemes exist in most high-income countries, although the entitlement and duration of benefits vary considerably and is often a function of factors such as age, previous wages and amount of time recently worked. Nevertheless, even in developed countries, many unemployed are not covered. In half of the OECD member countries, 50 per cent or more of the unemployed do not receive unemployment benefits but may benefit from a range of other measures that might be available to jobseekers, such as training and social assistance.<sup>2</sup> Too many workers are thus left without assistance. Unemployment assistance benefits are needed for those who are not or no longer eligible for unemployment insurance.

97. In the wake of the 1997–98 Asian crisis several countries, including the Republic of Korea and Thailand, partly overcame the long-term unemployment consequences of the crisis through the rapid introduction and expansion of unemployment benefits. Similarly, Japan has recently introduced new benefits for jobseekers not eligible for regular unemployment insurance.

<sup>2</sup> OECD: *Employment Outlook 2008*; C. Stone, R. Greenstein and M. Coven, 2007: "Addressing longstanding gaps in unemployment insurance coverage", Center on Budget and Policy Priority; and OECD database on benefits and wages.

#### **Box 6**

##### **Creating an unemployment benefit system: The case of Bahrain**

In 2006, Bahrain became the first country in the Middle East to implement an unemployment insurance scheme, within the context of broader labour market reform. It provides income support to the unemployed, including first-time jobseekers, and facilitates their reintegration into productive employment, and thus provides an essential safeguard against the repercussions of economic shocks. The scheme covers all workers, national and foreign alike, and is financed by contributions of 1 per cent of the wage, paid each by the worker, the employer and the Government.

Owing to the low number of terminations until late 2008, the scheme has had to deal with few cases of unemployment compensation so far. However, if the number of terminations should increase in the future as a result of the crisis, a system is in place which provides income security for jobseekers while actively supporting their return to employment by linking cash benefits to participation in training, job matching and career guidance through employment offices. The Bahraini experience has provided a noteworthy model for the region, and some other countries are considering following this example.

The ILO provided technical assistance to assess the feasibility of the scheme, draft the legislation and support its implementation.

#### ***Reinforce active labour market programmes to avoid the risk of long-term unemployment and social exclusion***

98. In conjunction with unemployment benefits, active labour market programmes play an important role helping individuals adjust to changing labour market conditions. Such programmes can take many forms, including job-search assistance and monitoring, personalized action plans for jobseekers, skills development and training, and targeted programmes for disadvantaged groups. If properly designed, they can enhance employability and improve employment prospects. And they can facilitate matches between the skills of workers who lose their jobs and the skills required in the jobs created by new public investment (for example in construction, infrastructure and alternative energy).

99. The effectiveness of income support and active measures for unemployed workers depends on efficient, well-resourced employment services. Adequate staff/client ratios are needed, and consideration must be given to the fact that some client groups may require more support than others. Evidence shows that public employment services, if well functioning, are crucial at times of crisis and are cost effective compared to other measures. Public policies can also provide a conducive environment for private employment services.

#### ***Employment guarantee programmes are effective, especially in developing countries***

100. Employment guarantees, if well-designed and targeted, can be especially cost effective in the face of a crisis. Programmes of this nature have proven successful in a number of countries, including Argentina and Indonesia. The case of India is particularly interesting as the elements of employment, rural development and social protection are brought together to compound the gains and combat poverty (see box 7). Employment guarantees place heavy demands on effective administrative implementation capacity. They cannot be easily transplanted in countries with limited capacity.

#### **Box 7**

##### **India's extension of the National Rural Employment Guarantee Scheme**

The National Rural Employment Guarantee Act introduced in 2005 provides each participant with 100 days of work per year on rural public works projects. In its first phase, the Act covered 200 of India's 600 districts. During 2007–08 it was extended to 330 additional districts.

The programme is targeted on labour-intensive projects with a strong environment component so as to address chronic poverty. Although there are no evaluations yet, it seems that the programme is cost effective. In 2007–08, it provided jobs to nearly 34 million households for a budget cost of about 0.3 per cent of GDP. The programme has helped a large number of women enter employment and has also improved the situation of small farmers – both factors likely to have strong poverty-reducing multiplier effects.

*Young people, and in particular disadvantaged youth, require special support measures*

101. In spite of the crisis, large numbers of young persons will enter the labour market in search of their first job. The crisis will make their efforts more arduous. Targeted measures are required to help young women and men overcome the difficulties they are likely to face. Such measures include job-search skills and career counselling towards growth areas and regions, additional training and skills development, support for enterprise creation and self-employment initiatives, microcredit, partial subsidies and facilities for work-experience and apprenticeship schemes. Disadvantaged young people face particular employment challenges that require additional special measures. Some labour market specialists have argued in favour of a “job guarantee” for unemployed youth in the form of government-funded employment.<sup>3</sup>

**Box 8**  
**Youth employment**

*France:* The Government announced measures in April 2009 to support young people with in-class and in-enterprise training for a period of two years. Another option is subsidized public and private employment. The unemployment rate for youth in the last quarter of 2008 was 21.2 per cent, while the national rate was 8.2 per cent.

*Philippines:* At the end of 2008, the Government of the Philippines introduced the youth education–youth employability project (YE–YE project) in partnership with the Jollibee fast food chain. The objective of the partnership is to provide opportunities for the children of informal sector workers and child labourers to pursue a post-secondary course through tuition fee advances while obtaining practical training at the workplace. The project aims to assist some 100,000 young people in the next two years.

*Increase investment in employment-intensive infrastructure and public goods*

102. A large number of countries are expending additional resources on upgrading and expanding infrastructure. In a sample of 40 countries having adopted fiscal stimulus packages, half of them included additional spending on infrastructure. Such spending will stimulate the real economy more than many other measures. The multiplier effects of investments in employment-intensive areas will be higher than is the case with alternate measures, such as temporary tax cuts, that may just lead to higher savings.

103. Public and private investments in infrastructure will not only create short-term jobs but pave the way for higher long-term growth. This includes investments in roads and communication, water supply and sanitation, public transportation, housing and facilities for education and health services – public goods which are needed in any case. Projects of this nature often have a strong employment component, which can be enhanced when specific measures are taken to implement them through small enterprises (in particular by facilitating their access to tenders), to decentralize expenditure to local authorities, and to select more employment-intensive projects per unit of expenditure.

104. Crucially, to be effective, planned infrastructure projects need to take into account the existing pool of domestic labour and skills as well as government and private sector capacity to design and implement them.

105. Investments in public goods can also be carried out through private investors, provided the right conditions are in place to attract them. Many countries have encouraged private investments in public infrastructure through public–private partnerships. Such initiatives should be encouraged. The size of public tenders matters hugely for small and medium-sized enterprises. Common measures to enhance their participation include decentralizing expenditures, packaging bids into smaller components and payment of suppliers within 30 days or less. In Mexico at least 20 per cent of government purchases are made from small and medium-sized enterprises. In the United Kingdom, the Government has launched a campaign urging small businesses to register with its online procurement portal.<sup>4</sup>

<sup>3</sup> See B. Groom: “A fragile flexibility”, in *The Financial Times*, 14 Apr. 2009.

<sup>4</sup> See Supply2.gov.uk.

**Box 9**  
**Expanded Public Works Programme in South Africa**

The Expanded Public Works Programme, launched in 2005, promotes employment-intensive methods of work for infrastructure investments as a tool for employment generation. It has been instrumental in introducing a new cadre of entrepreneurs who provide services in the construction sector using employment-intensive methods. The programme provides entrepreneurship training to qualified and selected candidates from disadvantaged groups. The training includes both technical and business skills and is accredited by the Construction Education Training Authority. After completion of their training and coaching period, qualified entrepreneurs can tender for work. Entrepreneurs are trained on procurement document and bidding procedures.

At the end of September 2008, the programme had created over 1.3 million job opportunities and close to 6 million person-days of training.

*Invest in tomorrow's green economy*

106. Reducing carbon emissions and switching to clean sources of energy makes eminent sense in the present context. Needed jobs are generated through public and private investments in new, often employment-intensive, technologies, infrastructure and resource management. Such investments prepare for the future green economy of tomorrow, which is likely to be a major source of growth. A number of countries, including China, Japan, Portugal and the United States, have included energy efficiency and green technologies as part of their fiscal stimulus investment programmes. Many more countries already invest in green technologies.

107. A recent report prepared under the Green Jobs Initiative of UNEP, the ILO, the International Organisation of Employers (IOE) and the International Trade Union Confederation (ITUC) illustrates the tremendous potential for job creation and transformation of existing jobs, as well as some destruction of jobs across virtually all economic sectors in low- and high-income countries. It sets out a policy framework to harness this potential.<sup>5</sup>

**Box 10**  
**Towards a green economy**

- The United Nations Environment Programme (UNEP) and a wide range of partners have launched the Green Economy initiative. The aim is to communicate a global plan for a green industrial revolution supported by strong empirical evidence of the potential for income generation, decent work and poverty reduction. The Green Economy initiative promotes investments in a new generation of assets in the following six areas: ecosystems and environmental infrastructure; clean and efficient technology; renewable energy; bio-diversity products and services; chemical waste management and mitigation technologies; and "green cities" – ecologically friendly buildings, construction and transport systems.
- The Green Economy Initiative is inspired by and promoting investments anchored in assets that promise tangible and increasing values for societies and individuals over the next few decades. UNEP is leading this initiative within the United Nations and is engaged in a large number of public and private partnerships. Green jobs are a central part of the Green Economy Initiative.

See [www.unep.org](http://www.unep.org) for more details.

*Invest in food security and rural development*

108. Investment in agriculture, and rural development more broadly, is labour intensive, generates employment, including in rural non-farm activities, reduces poverty and sustains long-term growth. Raising investment in rural areas for agriculture, infrastructure, health and education is urgent, combining public, private and household investment.

109. Further investment in agriculture, infrastructure and rural non-farm development must be encouraged as a matter of urgency. In low-income countries, external financing is needed. Raising the share of agriculture and rural development in concessional and international grant financing is a long-term goal. In the context of the prevailing recession, accelerating such investment is one sure way of generating lasting employment and lifting long-term growth prospects.

<sup>5</sup> Green Jobs: Towards sustainable work in a low-carbon world, UNEP, ILO, IOE, ITUC, 2008.

110. In June 2008, the International Labour Conference adopted a resolution which provides useful guidelines concerning the promotion of rural employment for poverty reduction. The UN High-Level Task Force on the Global Food Security Crisis is implementing a Comprehensive Programme of Action.<sup>6</sup> In March 2009, the ILO held a tripartite technical workshop on the impact of the food price crisis on decent work which adopted a broad-ranging set of conclusions centred on employment and productive investment and employment in rural areas.<sup>7</sup>

*Introduce or extend social protection to low-income groups and informal workers*

**Box 11**

**Examples of recent employment and social protection measures**

*Australia* is spending one third of its economic stimulus on cash payments to low- and middle-income families. It has increased nationwide training and education programmes for the unemployed. The Government is also investing in greening the economy by making homes energy efficient.

*China* is spending close to 10 per cent of its stimulus on environmental protection projects. The Government is also increasing the number of pension funds, expanding low-rent housing programmes, and extending nationwide vocational training programmes for migrant workers.

*The Republic of Korea* is spending close to 25 per cent on assistance to small businesses and 7 per cent on low-income households. The Government has implemented support for vulnerable workers not covered by the existing social safety net and has put in place training and internship programmes to increase employability.

*South Africa* is spending more than 20 per cent on social security measures: 12 per cent on welfare grants and 10 per cent on school feeding programmes. The Government has implemented policies to promote energy efficiency in electricity and transportation.

*Thailand* is spending 35 per cent of its economic stimulus package on cost of living alleviation and sustenance allowance. The Government has also allocated a significant amount for training and education programmes for the unemployed.

*The United States* is spending more than 10 per cent of its economic stimulus on aid for the unemployed and low-income households, and another 14 per cent on aid to states for health care. In general, close to 13 per cent of the spending is on employment measures. Investments geared towards greening the economy constitute a significant part of stimulus efforts.

111. Social protection schemes in developing countries typically only cover those in formal employment, while the vast majority of the population works in the informal sector. As a result of the global recession, informal employment is increasing in many parts of the world. In order to offset declining incomes, additional measures are justified to provide income support and social protection to workers and families excluded from social security benefits.

112. At the same time social transfers act as stabilizers of aggregate demand at times when savings tend to increase. Additional support to social assistance schemes aimed at poverty relief, as initial investments in extending basic social protection, as well as expanding existing social protection schemes to gradually incorporate all women and men, should be part of the stimulus measures and more fundamentally a key component of the development agenda. Within the United Nations system, the ILO and WHO are jointly developing the concept of a “social protection floor”, consisting of an essential body of rights, transfers and services that all countries should progressively establish, according to their means and available external support. This should form a central objective of national development policies and a key component of development cooperation for least developed countries.

113. In order to provide assistance and income support to poor households in the informal sector, various innovative schemes have been developed, such as conditional cash transfers and social safety nets, which are already providing the elements of a social protection floor. These programmes are growing. Led by flagship programmes like *Oportunidades* in Mexico, *Bolsa Familia* in Brazil, the child, old-age, invalidity grant system in South Africa and the 100-day employment guarantee scheme in India, about 70 programmes are in operation worldwide. They already reach between 150 and 200 million beneficiaries. These grant systems have a positive impact on poverty, health and nutrition, social status of recipients (notably women), economic activity and entrepreneurial small-scale investments, in agriculture in particular. Importantly, the schemes do not have marked negative effects

<sup>6</sup> See [www.un.org/issues/food/taskforce/Documentation/CFA%20Web.pdf](http://www.un.org/issues/food/taskforce/Documentation/CFA%20Web.pdf).

<sup>7</sup> See [www.ilo.org/public/english/dialogue/sector/techmeet/twtfpc09/index.htm](http://www.ilo.org/public/english/dialogue/sector/techmeet/twtfpc09/index.htm).

on labour market participation of the poor population they serve. Such schemes have been introduced or reinforced as part of crisis responses in Colombia, Mexico and Turkey. Similarly, Indonesia's scholarship and school subsidy programme was introduced in 1998 as a part of the Government's crisis response. Conditional cash transfers have also been expanded during the current crisis, but greater efforts are needed to ensure that informal economy workers have access to social assistance. The cost to the taxpayer is modest, as the example of Brazil shows (see box 12). Chile introduced a new law on pension reform in March 2008 which aims to supplement the individual account pension with a guaranteed basic retirement income for the poorest 60 per cent of people aged 65 and older. The benefit is being phased in since mid-2008.

**Box 12**  
**Conditional cash transfers: The case of Brazil**

The *Bolsa Familia* programme is the largest conditional cash transfer programme in the world. The programme, launched in October 2003, provides income support to poor families subject to certain requirements, such as child school attendance, including participation in supplementary socio-educational activities, vaccinations, nutritional monitoring, and prenatal and post-natal tests. By the end of 2008, it had reached around 11.3 million families (accounting for about 25 per cent of the population) at an annual cost of \$4.5 billion, or 0.4 per cent of GDP.

The programme has overcome a common stumbling block of targeting, with 73 per cent of its transfers reaching the poorest quintile and 94 per cent reaching the two poorest quintiles. It has contributed strongly to the improvement of income distribution, and to reducing child labour and poverty. The Gini coefficient has declined steadily from 0.61 in the 1990s to 0.55 in 2007, the lowest rate in the country's recent history; 20 to 25 per cent of this fall is credited to the programme. It has also decreased the poverty gap from 13.2 per cent to 11.9 per cent.

Recently, the Government announced further extension of the programme as one of the core measures in response to the ongoing crisis. This counter-cyclical initiative is expected to include 1.3 million additional families and contribute to mitigating the impact of crisis among those more vulnerable and stimulate consumption. This measure can help boost demand for food and basic consumer goods, since low-income families have a high propensity to consume.

The programme is noted for being very well administered despite its size and complexity. Indeed, its success has garnered international attention and Brazil is sharing the experience with 23 countries (16 in Africa and seven in Latin America). The experience suggests that it is possible for developing countries to build appropriate and relatively comprehensive, even if basic, social protection packages to address the social security needs of the population.

### *Support for migrant workers*

114. In times of crisis the precarious situation of migrant workers and families is more acute. They require special attention to ensure the full application of the principle of equal treatment and non-discrimination. Measures include protection of their rights as workers, including social security rights and special attention to cases of discrimination in treatment, for instance in access to unemployment benefits or training programmes. Cases of trafficking may also be on the increase. Several countries, such as the Czech Republic, Japan and Spain, have recently introduced measures to facilitate the voluntary return of migrants to countries of origin. Advance payment of unemployment benefits to returning migrants is proposed in Spain.<sup>8</sup>

115. Countries experiencing large-scale return migration may need to rethink their employment policies and rely on outside funding and advice to support domestic employment opportunities. Similarly, employment and social protection measures are needed to assist families hit by declining remittances. Social partners can play an important role in fine-tuning policies on labour migration.

### **Supporting recovery policies through social dialogue and respect for workers' rights**

116. Ensuring respect for workers' rights and the rule of law is both socially desirable and economically efficient, since it results not only in the protection of workers but also in securing the viability of enterprises. Avoiding wage deflation and providing a proper anchor, in the form of effective minimum wages, will support global demand and reduce trade tensions. Engaging the social partners in the design and implementation of policies to implement the objectives of a Global Jobs Pact will increase the likelihood of success.

<sup>8</sup> See [www.boe.es](http://www.boe.es).

### *All countries should consult recovery policies with social partners*

117. A Global Jobs Pact is first and foremost a national matter, and this is the level at which implementation can optimally be consulted and discussed with representative organizations of employers and workers. The G8+6 labour ministers have underscored the importance of actively involving the social partners in the economic restructuring process. In some cases, tripartite agreements have been the basis of national responses to the crisis (see box 13). 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 trade unions for implementation of the strategies.

#### **Box 13**

##### **Tripartite agreements to respond to the crisis**

In *Japan*, the Government reached an agreement with employers and workers regarding labour market stability and employment creation, including a work-sharing programme, training, education and job placement and support to jobseekers.

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.

In *Pakistan*, the tripartite labour conference announced in February 2009 a new era of consultations with social partners and modernization of the country's labour law, in cooperation with the ILO and the WTO.

In *France*, social dialogue has led to an agreement to extend partial unemployment benefits.

In *Germany*, a second economic stimulus package was adopted following extended consultations with employers' and workers' organizations.

In the *Russian Federation*, the national tripartite commission has 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, and also dealt with state budgets and larger economic and policy matters.

### *Protect and promote workers' rights and international labour standards*

118. Fully respecting international labour standards helps support confidence and hence economic activity. International labour standards seek to ensure equitable outcomes, including in the case of enterprise adjustment and closures, thus enhancing popular support for recovery packages. An effective application of international labour standards is premised on strong social dialogue, which is particularly necessary during difficult economic times. The ILO has a full complement of instruments developed over time and fully relevant to addressing crisis situations and supporting sustainable enterprises (see box 14).

#### **Box 14**

##### **Relevant ILO instruments in the crisis context**

The following are examples of relevant ILO instruments in the context of the crisis:

The Protection of Wages Convention, 1949 (No. 95), and the Protection of Workers' Claims (Employer's Insolvency) Convention, 1992 (No. 173), along with their accompanying Recommendations, lay out constructive measures for protecting workers' wages and proceeding fairly in the event of an employer's insolvency. 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 are particularly useful in managing the effects of the crisis along global supply chains. To protect the employment security of workers in atypical employment situations, the Employment Relationship Recommendation, 2006 (No. 198), provides guidance.

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 the Social Security (Minimum Standards) Convention, 1952 (No. 102), measures to strengthen social security systems and provide income support.

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 Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, 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.

119. 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. 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. 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.

120. It is essential to avoid generalized wage deflation and protect worker rights. Wage deflation to protect individual economies would aggravate the crisis even more than a wave of competitive devaluations. The deflation of workers' wages would deprive national economies and the world economy of much-needed demand and would 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.

121. 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.

122. It is important to recall that the two recent ILO Declarations have touched on the relationship between labour standards and protectionism. In 1998 the ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up stated that "labour standards should not be used for protectionist trade purposes or questioning the comparative advantage of any country", and in 2008 the ILO Declaration on Social Justice for a Fair Globalization stated that "the violation of fundamental principles and rights at work cannot be invoked or otherwise used as a legitimate comparative advantage".

123. The twin objectives of maintaining wage policies supportive of the current economic environment and upholding international labour standards, while sustaining enterprises and avoiding job losses, require dialogue among the social partners.

124. The Office has recently launched a new service to help enterprises understand the principles contained in international labour standards and the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy and their implications for company practices. The service (available at [assistance@ilo.org](mailto:assistance@ilo.org)) can play an important role in supporting companies to respond in responsible ways to the crisis.

125. The Office has also developed experience in socially responsible restructuring of enterprises. The way enterprises confront the crisis now will be part of their image in the future. In many ways, these are times in which corporate social responsibility is put to the test.

## **Financing a Global Jobs Pact**

126. A Global Jobs Pact requires public and private, national and international funding. Re-establishing normal credit flows for investment, trade, sustainable consumption and innovation is essential for a productive recovery of the real economy. With a persisting credit crunch, significant declines in foreign direct investment flows and remittances, and capital flowing back to troubled banks, the pressure on public funding, national and international, is severe.

127. In the first instance, the implementation of a Global Jobs Pact by individual countries implies a review of current public expenditure and its reorientation, as necessary, to prioritize, on an emergency basis, employment, labour market and social protection objectives. A lot can be done within existing

budgets. This includes measures to support enterprises and workers in the private, public and social sectors, in particular small enterprises and the informal economy.

128. In addition, countries with sufficient fiscal space and access to capital markets have put in place diverse fiscal stimulus packages, on average in the order of 2 per cent of their GDP. Others may do so in the future. Analysis by the Office shows that these policies could be better aligned with the objectives of a Global Jobs Pact. This could be done in the course of implementation.

129. Countries which entered the crisis with reduced fiscal space and balance of payment problems are facing a complex situation, leading some to request the assistance of the IMF. This raises the issue of how IMF rescues can be built around counter-cyclical measures to stimulate growth and at the same time balance key macroeconomic variables in a reasonable timeframe. Putting in place policies oriented by the Global Jobs Pact objectives can help stimulate quicker recovery and at the same time improve the balance of payment and budget situation more rapidly.

130. Countries with sound macroeconomic and financial policies, which were not immediately affected by the financial crisis, are now hit by the crisis of the real economy. For them, the IMF has set up a new Flexible Credit Line with high entrance requirements but low conditionality in its use. Colombia, Mexico and Poland have already applied for such credit lines.

131. In the case of Africa and the least developed countries, the outstanding commitments for an increase in development cooperation resources must be implemented. Here the notion of “Delivering as One” developed by the United Nations should apply to the World Bank and bilateral donors as well. Countries must be able to count urgently on a coherent set of policies and mutually reinforcing actions by multilateral institutions and bilateral donors in order to access development cooperation support. This is not the time to leave the poorest countries behind. It must be a globally integrated effort.

132. The Office is committed to enhancing its cooperation with the Bretton Woods institutions and other development partners to help countries access international funding and implement measures of a Global Jobs Pact.

133. The leaders of the G20 have decided to provide substantial additional resources to the IMF and the multilateral development banks to support growth in emerging and developing countries and finance “counter-cyclical spending, bank recapitalization, infrastructure, trade finance, balance of payments support, debt roll-over and social support”.<sup>9</sup>

134. The World Bank has established a special Vulnerability Financing Facility, including a Rapid Social Response Fund, to be financed through voluntary bilateral contributions. The World Bank is accelerating spending on its International Development Association (IDA) and concessional lending programmes, as well as through the International Finance Corporation (IFC) (see box 15).

**Box 15**  
**World Bank assistance**

*Increasing financial support for the poorest countries:* Substantially increasing lending (\$100 billion over the next three years); fast-tracking IDA funds (\$42.5 billion over the next three years); and food crisis response.

*Shoring up the private sector:* \$30 billion over the next three years from the IFC; ensuring trade flows; bolstering distressed banking systems; and keeping infrastructure projects on track.

*Other support:* Creation of a Vulnerability Financing Facility to finance social safety nets, infrastructure and small and medium-sized enterprises; a trade facilitation facility (\$40 million as aid for trade); ensuring liquidity through the Multilateral Investment Guarantee Agency; and technical analysis, advice and diagnostic tools.

135. The United Nations Commission of Experts on Reforms of the International Monetary and Financial System has proposed a fund, amounting to 1 per cent of fiscal stimulus packages of the G20 countries, to help developing countries engage in counter-cyclical policies and provide a sustainable source of development finance, similar to the Global Jobs Fund discussed by the Governing Body in March.

136. Private foundations providing development aid also constitute potential sources of funding for measures taken under a Global Jobs Pact.

137. Decisions to finance the implementation of a Global Jobs Pact – how much and where – are national, and should be taken where possible in consultation with employers’ and workers’

<sup>9</sup> Leaders’ statement from the G20 Summit in London, 2 Apr. 2009.

organizations. The ILO can provide a useful platform to exchange and compare experiences, to facilitate dialogue and provide advice, on request.

138. In considering resources for a Global Jobs Pact, adequate attention should be given to its horizontal dimensions in order to promote and support international exchanges and analysis between countries. The Office will continue to monitor crisis-related policies in order to enable its tripartite constituents to keep abreast of the experience and activities of other countries.

### **Summing up**

139. Implementing a Global Jobs Pact along the lines of the measures described above in a large number of countries would have a global effect and contribute substantially to reversing the downturn and hastening recovery, since the key components of the Global Jobs Pact, employment promotion and social protection help reinforce global demand.

140. There are three reasons for this. First, coordinated measures have a stronger effect than isolated action, while reducing the risk of inward-looking solutions. Second, support to small enterprises and well-targeted job-rich infrastructure investments have a direct positive impact on total output and employment. The risk of displacing other private-sector activities is limited. On the contrary, employment-intensive investment during times of crisis can stimulate private sector activities and pave the way for higher long-term growth.

141. Third, well-designed social protection measures will support effective demand, and thus help put a floor under the crisis, given the high propensity to consume among low-income groups. Unemployment benefits combined with active labour market programmes, training and employment guarantees will also reduce the risks of long-term unemployment and prolonged informality.

142. A Global Jobs Pact would be a cost-effective way to stimulate the economy. The measures would improve employment responsiveness to the recovery – while also stimulating the latter. This in itself would reduce the budget costs over time and obviate the need for spending on support for the long-term unemployed or social protection.

## IV. Preparing a better future now

143. The crisis has prompted major policy rethinking everywhere. This is welcome, necessary and overdue. It is our collective responsibility to take a hard look at the failings of the recent past in order to build a better future. The G20 leaders' statement invites us to reflect more broadly on how to achieve their determination "not only to restore growth but to lay the foundation for a fair and sustainable world economy".

144. The communiqué of the United Nations Chief Executives Board of 5 April expresses a "common commitment to assist countries and the global community to confront the crisis, accelerate recovery and build a fair and inclusive globalization allowing for sustainable economic, social and environmental development for all, while facing the future in a spirit of conviction of the need to transformational changes".

145. A key question for the immediate future is the quality and composition of economic growth. The recovery cannot just be a return to "business as usual". The financial business model failed, with the outcomes of globalization benefiting some but being unfair for too many. The new globalization will require an integrated and coherent policy regime for a growth that is socially, economically, environmentally and politically sustainable. We need to design a policy mix for recovery that starts to shape a global development trajectory of high-quality economic growth, balancing economic, social and environmental goals. Let me highlight some issues we must address in the near future.

### **Developing strategies for decent work and poverty reduction**

146. The crisis has demonstrated the fragility of recent progress in reducing extreme poverty. Policies for recovery must shape a new more sustainable approach to poverty-reducing development. Over-reliance on exports to rich countries must be replaced by a more balanced growth in domestic consumption across the developing world, financed by broad-based increases in productivity, wages and savings. This will require medium- to long-term investment for growth, including in the supporting physical and social infrastructure. Infrastructure investment, especially when using labour-intensive techniques and local contractors, is an initial foundation. Family benefits and free school meals increase educational attainment and health status and underpin the productive capacity of tomorrow's workforce. Basic old age and disability pensions support those least able to work and ease the burden on family resources.

147. Sustaining such policies into the future will require a new approach to financing for development in which foreign capital flows, both public and private, support and stimulate a domestically-led growth strategy. South-South cooperation to create larger "domestic" markets is a key part of a more robust and equitable development strategy that reduces poverty and is sustainable through the generation of decent work.

### **Reorienting financial systems towards productive investment and enterprises**

148. In many countries the financial system was failing to sustain viable productive enterprises before the crisis. Now the severe tightening of credit conditions is pushing viable businesses under at a huge cost to society's productive capacity for the future. The G20 Washington and London Summits have focused on a range of actions needed to cleanse the system, get it working again and build a new regulatory regime internationally that will prevent the excesses that have caused such catastrophic damage to people and communities all over the world.

149. The ILO's tripartite global constituency expects that the necessary measures will be taken to establish a fully working financial system that can get credit flowing for productive investment, sustainable consumption, trade and innovation. The Managing Director of the IMF has rightly emphasized the importance of establishing functioning credit markets as a foundation for a durable recovery. This is particularly important for the financing of the sustainable productive enterprises that are the leaders in generating decent work. The previous regulatory regime did not favour such firms. The first and most important tests for a new international regulatory regime for financial markets must be whether it creates incentives for productive investment in sustainable enterprises, large and small, that generate decent jobs and disincentives to speculative behaviour.

150. One important element in the origins of the crisis was the way in which pay incentives, especially at the top of the finance sector, rewarded short-term gains without considering that the long-run consequences could be devastating. The reward structure for executives and managers needs to be adapted to prevent excessive risk taking. This is part of a new corporate responsibility ethics.

151. A key question is for countries to find the right stimuli for private and public enterprises, including social economy firms such as cooperatives and similar institutional forms, as well as for foreign capital and domestic savings, so as to promote entrepreneurship and initiative in enterprises within a sustainable development framework.

### **Taxation and sustainable growth**

152. Broad agreement on taxation is an essential foundation of social cohesion. Building the capacity to collect taxes is a vital step in the development of the social infrastructure needed for poverty-reducing growth in an open world economy. This implies broad-based understandings of the size of the public sector and its basic functions, and assurances regarding sustainability and effective use of public resources. There has been a widespread trend towards lower taxation in recent decades and a shrinking of the State. In addition, competition among countries has exercised downward pressure on taxation levels. The present crisis is forcing a major rethink.

153. In designing the tax and benefit systems, more careful consideration should be given to their objectives and distributional impacts, while keeping in mind the need to promote investment and employment incentives. Tax and social policy need to support employment while ensuring that the gains from growth and productivity are more widely shared.

154. In earlier reports I have argued in favour of a basic social protection floor. It is essential to introduce into discussions on taxation policy and fiscal sustainability the viability of financing such a floor. Social policy can be used more actively without sacrificing growth or employment objectives. Governments should be expanding their expenditures on health care, education, public infrastructure, pensions and social safety nets. This means that existing spending decisions need to be reprioritized, especially in high-inequality countries. Indeed, higher-inequality countries tend to spend less on education and health.<sup>1</sup>

155. More broadly, levels of taxation need to be made compatible with the growth of private investment and enterprise, and with the recognized needs for investment in public goods and services.

### **Improving the quality of economic growth by enhancing the quality of jobs**

156. Even before the crisis, the quality of jobs generated raised concerns. Non-standard and informal employment have grown steadily. On average, such jobs pay less than standard jobs. This trend contributed to rising income inequalities in developed and developing countries alike. As we seek solutions to the current crisis, we must be careful to avoid too great a wage gap between standard and non-standard employment.

157. Formal employment must be made more attractive to enterprises in developing and emerging countries. Many countries are seeking new ways to ensure both security and adaptation to change for workers and enterprises. The terms of the balance, and balance there must be, vary from country to country. But more progress has been made to undo protection of jobs than to enhance protection of workers. Addressing this imbalance is crucial for the longer-term employment intensity of growth.

158. Targeted measures to increase the efficiency and productivity of the informal economy are an essential component of poverty reduction, personal empowerment and social and economic mobility into the formal economy.

### **Coordinated macroeconomic policies and employment and social protection**

159. In a large number of countries, evidence points to a decreasing share of labour in national income over the past few decades. This decline suggests that wages have lagged behind the growth in productivity. Such a trend is neither healthy nor sustainable. In some countries it has contributed to imbalanced growth that is over-reliant on exports, and in others it has led to housing and consumption loans being extended beyond the ability of wage earners to repay.

160. Restoring the link between productivity growth and wage increases is essential for economic and social sustainability. This requires a framework in which enterprises achieve competitive unit labour costs through rising productivity rather than through underpricing of labour. Ensuring that workers have sufficient bargaining positions in wage determination and protection will also go a long way towards addressing income inequalities and imbalances in the shares of wages and profits.

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<sup>1</sup> International Institute for Labour Studies: *World of Work Report 2008: Income inequalities in the age of financial globalization*, Geneva, 2008.

161. An important response to the crisis has been an unprecedented effort to coordinate fiscal stimulus packages on a sufficient scale to offset the deflationary effects of the financial crisis on output, consumption and employment. A number of governments have committed themselves to reaching a specific employment target or number of jobs saved or generated.

162. Macroeconomic policies usually focus on financial targets of stability and growth; but they should also take account of their social impact. A key objective of national economic policy should be to aim for a high level of employment. Central banks in particular should integrate employment and social objectives into their policy designs and assessments. We should remember that both the IMF and the WTO have full employment objectives in their constitutional documents.

163. For most countries there is limited scope for national action to promote employment and social protection, in the absence of better global coordination. First, because global economic interdependence implies that trade and investment have as much influence on employment levels as national decisions. Second, because action by one country could be quickly sanctioned by international capital markets.

164. The case for greater policy coordination is strong. The point is that such coordination should not only revolve around monetary, fiscal, trade and exchange rate policies, but should be extended to employment and social protection. What is necessary is global policy coordination across countries to achieve the goal of full employment and decent work. Simply put, greater macroeconomic interdependence calls for greater macroeconomic coordination.

### **Global governance for a fair globalization**

165. The global crisis has heightened awareness of the need for greater international cooperation in view of the strong linkages among countries. These range from trade to investment, tax and environment policies, which all have a significant bearing on other countries and influence how they, and the global economy, will rebound from the current crisis.

166. The expansion of the work of the G20 from its origins as a meeting place for finance ministers is an important step in the construction of more effective and inclusive decision-making forums. However, it is an ad hoc construct that in due course will need to find a firmer anchor in the United Nations system. Unless greater international coordination is achieved in response 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 deal with, all facets of the crisis and its underlying challenges.

167. The G20 leaders have expressed their support for a charter for sustainable economic activity initiated by Chancellor Merkel in consultations with the Executive Heads of the OECD, the ILO, the IMF, the World Bank and the WTO.<sup>2</sup> I believe that this is a major initiative for the future of balanced global governance. The ILO is committed to fostering greater cooperation with the United Nations and other international organizations in support of this charter.

168. The ILO is also an active and committed participant in the system of inter-agency coordination under the United Nations System Chief Executives Board chaired by the Secretary-General. The full engagement of the IMF, the World Bank and the WTO in this process is very welcome.

169. I believe that the ILO's ability to advise and inform policy decisions of countries will be greatly augmented by further enhancing this collaborative work with the Bretton Woods institutions and the United Nations. This would be essential for the success of a Global Jobs Pact.

170. The IMF has been given responsibility for monitoring and assessing global financial and macroeconomic risks. Similarly, the G20 has called on the ILO to assess and examine how countries are addressing the human dimensions of the crisis. Hence, to respond to the request by the G20 it is vital for the IMF and the ILO to strengthen their collaboration. To that end, the ILO will strengthen its capacity to monitor and assess crisis response policies, in close collaboration with other international organizations.

171. Working together with other multilateral organizations, and in particular the IMF, the World Bank, the UNDP, the UNEP and the WTO, the ILO has the capacity and the responsibility to play a key role in the post-crisis period to ensure that the global economy in the twenty-first century is not only integrated but also inclusive and equitable. A key requirement will be to achieve greater convergence and coherence among trade, financial, employment, social and environmental policies.

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<sup>2</sup> 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.

## **ILO action**

172. The ILO has already mobilized its resources and expertise to support its tripartite constituents at the national and regional levels, and through the Governing Body and now the International Labour Conference, to respond to the labour and enterprise, social and human dimensions of the crisis. More can and needs to be done.

173. On the basis of an agreement at the International Labour Conference on moving forward with a Global Jobs Pact, the ILO will organize its support to constituents as follows.

### *Monitoring crisis-response employment, labour and social policies and programmes*

174. In order to carry forward the work already under way, the Office will strengthen its capacity to monitor countries' crisis-response policies, programmes and measures. This would include: short-term monitoring of relevant data in order to track the development of the employment and social crisis; preparing and maintaining a database of policy responses, which will be used when giving advice to countries; country studies and studies of specific policies in one or several countries, examining what works best; and updates on the implementation of the Global Jobs Pact. In so doing, we will cooperate with other international organizations.

175. An important role of the ILO is to make available information on measures and actions taken by governments and by social partners in responding to the crisis. The ILO will use its network and services to facilitate the exchange of experience, good practices and knowledge across countries and regions. In particular, the ILO will facilitate South-South cooperation within and across regions.

### *Providing emergency services to constituents on request in the context of a Global Jobs Pact*

176. The Office intends to start a helpdesk to provide constituents with advice and guidance in addressing the crisis and implementing the Global Jobs Pact. It will use past and current experience in this area in order to develop a practical, easily accessible facility.

177. The Office can provide assistance, on request, to constituents wanting to implement a national Global Jobs Pact or reinforce policies already under way that promote the same objectives. This will be done through the framework of Decent Work Country Programmes.

### *Strengthening partnerships with multilateral organizations*

178. The crisis provides a strong rationale for further strengthening cooperation across multilateral organizations. Working together with other organizations, the ILO has the capacity to play a key role in the post-crisis period to ensure that in the twenty-first century the global economy moves towards a fair globalization and is economically, socially and environmentally sustainable.

179. The IMF and the ILO have both been entrusted with monitoring different dimensions of the crisis. There is scope to work together and take advantage of synergies.

180. Another avenue for cooperation is through the World Bank's proposed Vulnerability Financing Facility, which may provide resources to countries to invest in employment-generating infrastructure projects, social protection measures and financing for small and medium-sized enterprises and microfinance institutions. This approach is in line with the strategy advocated through the Global Jobs Pact.

181. As mentioned in earlier parts of this report, within the United Nations, the Chief Executives Board has called upon the multilateral system to play "a central role in articulating and delivering a global and coherent response to the crisis, and in translating it into action at the country level". Through the High-Level Committee on Programmes, the ILO will continue to work closely with a number of UN agencies, funds and programmes to develop joint initiatives in response to the crisis. It will cooperate with other agencies at the country level through the UNDAF process and at the (sub)regional and global levels through the United Nations Development Group.

182. The ILO will further strengthen its cooperation with regional institutions, including regional economic commissions and regional development banks, in designing and supporting crisis response strategies and policies adapted to the characteristics of each region.