

International Labour Organization/World Bank Inventory of Policy Responses to the Financial and Economic Crisis

The global financial crisis continues to have a significant impact on the world economy. The ILO has downgraded its Global Employment Outlook forecast for 2012 and 2013, raising upwards global unemployment rates to 6.1% for this year, and further to 6.2% for 2013. Following a short recovery in 2010, global prospects have weakened and global policy, after an initial coordinated stimulus, appears adrift.

Governments everywhere have been searching for viable responses to limit the economic and social costs of the crisis.

In response to these knowledge gaps, at its Summit in London in April 2009, the G20 requested the International Labour Organization (ILO), “working with other relevant organizations, to assess the actions taken and those required for the future.”¹ The ILO responded to this request by preparing an inventory and initial assessment of employment and social protection measures taken in 54 countries across all regions and income groups.² This survey was presented at the G20 Leaders’ Summit in Pittsburgh in September 2009.

The ILO and the World Bank (WB) have joined forces over the past two years to expand the questionnaire and the range of countries included in the inventory to low-and middle-income countries. This has resulted in a data base of an Inventory of Policy Responses to the Financial and Economic Crisis, and a joint ILO-WB synthesis report containing early policy insights that can be drawn from this unique database to help policymakers identify effective approaches to maintain and promote employment during times of crisis.³

This Policy Inventory has been conceived as both a learning exercise and a didactic one. The prolonged nature of the current crisis implies that all policy lessons are not known; there are myriad unknowns about macro policy, labour demand, active labour market policy, social protection, job matching programs, the practice of social dialogue, and the implementation of international labour standards. In this environment of uncertainty, a database with an inventory of policies enacted during the height of the crisis, the years 2008-2010, offers a tremendous analytic tool to learn more about what policies countries relied on, what policies were most successful, and what light can be shed on the logic of policy choices. It is a didactic exercise, in the sense of being a cross-country comparative exercise on a large scale, with a sample of 77 countries significantly affected by the crisis, representing 89% of global GDP and 86% of the global labor

¹ G20 Leaders’ Statement (London), April 2009.

² Protecting people, promoting jobs: An ILO report to the G20 Leaders’ Summit, Pittsburgh, 24-25 September 2009, International Labour Office, Geneva, September 2009.

³ ILO/World Bank Inventory of Policy Responses to the Financial and Economic Crisis: Joint Synthesis Report, Washington, 2012.

force. The database therefore captures the most significant policies, in breadth, often in complexity, budgets, and, where discernable, coverage. The large country sample permits derivation of policy comparisons across a large and diverse set of economic, social, and policy settings.

The web-based ILO-WB-policy inventory has been built as a user-focused platform to facilitate interaction between interested stakeholders, including ministries, NGOs, the private sector, implementing agencies, private corporate partnerships, and individuals. It can be accessed at www.ilo.org/crisis-inventory as well as through the Jobs Knowledge Platform at www.jobsknowledge.org

The report that accompanies the database reviews 62 distinct policies pertaining to employment and social protection, social dialogue, and labour standards in 55 low- and middle- income countries and 22 high-income countries.⁴ Its objective is to present the database and to provide an initial and general overview of the policy responses to the crisis in the sample of countries.

Early findings from the report show interesting country aspirations in terms of policy adoption, and equally revealing country constraints in terms of budgets and policy space.

A majority of countries undertook fiscal stimulus and monetary easing to prop up aggregate demand. But lack of fiscal space sent some countries into austerity. Policy sequencing proved important, as the limits of conventional monetary policy were reached through lowered interest rates, unconventional monetary policy was used with state banks buying bonds to increase liquidity further and lower the costs of borrowing.

The importance of targeting and better balancing of the policy mix was brought out by the patterns of sectoral support. Since the crisis originated in the financial sectors in the high income countries, that sector required and received much support in the high income countries. However since the crisis was transmitted to the real economy of middle and low income countries through declining exports and inflows, they focused support on their real sectors.

The role of wages in generating labour demand was particularly nuanced. Few countries, high income or middle and low income, cut wages to raise demand for labour. More countries maintained the existing wage, while some countries used wage subsidies to maintain employment and aggregate demand.

On the supply side, Active Labour Market Policies to improve job matching, focused in large part on training in high income countries, and public employment services in middle and low income countries.

The pattern of responses in social protection also varied across income groups. High income countries with established social insurance programs expanded their unemployment benefits to meet the increased need. Whereas middle and low income countries, lacking established unemployment schemes, extended cash transfers and public works schemes.

⁴ Information for the database and this report was collected both on policies that were already implemented and those in the process of being implemented.

Some of these policy measures were undertaken through social dialogue, but with a periodicity to the pattern. In the initial phase of the crisis, there were more fora and possibilities for dialogue on crisis response, which led to the adoption of social pacts or collective agreements at the sector level. In the second phase of the crisis, the possibilities for social dialogue were reduced as there was less fiscal space for such agreements.

Several of the measures taken during the crisis were linked to rights at work and international labour standards such as working conditions, social protection, social dialogue mechanisms and other compliance mechanisms. However increased vigilance to avoid violation of fundamental principles and rights work is clearly called for especially in such times of crisis.