The Global Jobs Pact and Prospects

Introduction by Juan Somavia
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to the discussion of the
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Thank you, Chair. Good morning dear friends.

This discussion is an opportunity for the Governing Body to reflect on what we have achieved over the past year or so, and particularly since the adoption of the Global Jobs Pact. More importantly, it is a chance to look forward to the continuing immense challenges of the global jobs crisis and how we can respond effectively.

Last week's Committee meetings and Monday's Working Party on the Social Dimension of Globalization all focussed on various aspects of follow-up to the Global Jobs Pact.

An important dimension of that has been work with the multilateral system. Your regular report for this session is almost entirely focussed on crisis-related work with the multilateral system.

You have an information document highlighting the generalized support for the Global Jobs Pact in all regions, at all development levels.

Today I think we should try to build on those discussions and backing, to analyze the key components of an employment-oriented framework for balanced growth. I would like to concentrate on these issues and I am looking for your guidance, advice and ideas.

I think the ILO has responded well to the global jobs crisis but we certainly cannot be complacent.

The jobs crisis is still growing in many countries even as signs of a highly differentiated output recovery are visible. We identified the challenge as accelerating a jobs rich recovery. And we were right.

But it has not yet happened. The jobs crisis is still there and affecting all our countries, even those that are better placed. We cannot exit from a policy drive to generate more jobs and protect people.

We have seen, and many of you have highlighted that precariousness and uncertainty are still very much present and have increased for many.

We have said that there is no recovery without jobs recovery.

Having said that we still face a global jobs crisis, we must not conclude that measures, of which the Pact approach is part, have not worked. The ILO has estimated that unemployment could have been about one third higher without the effect of stimulus measures and the action of automatic stabilizers. So the negative tide seems to be weakening, maybe even turning, although there are clearly serious risks that recovery may turn out weaker in many countries than the more optimistic forecasts.

We must have the ambition to show that good policies, implemented in an integrated way nationally and coordinated internationally can accelerate a jobs-rich recovery.

Governments have been very active over the last year with policies along the lines of those contained in the Pact. Experience is accumulating of their effects. We can see some common features across countries but we also see a great deal of national and regional specificity.

The ILO is your vehicle for sharing that experience and we have a range of reports and studies in preparation to help your policy dialogue.

Monday evening's Conference [on "Overcoming the jobs crisis: What do we know about experiences that work?"] was a great example of that knowledge sharing and I want to thank again the Governments of Brazil and France for taking the initiative to organize it with our Institute.

We also have a Pact website which I invite you to use as a knowledge sharing platform.

If I were to make a preliminary stab at summing up medium and long-term issues that are pointers to the future based on our experience, it would be that:

We absolutely need an employment-oriented framework for balanced and stable growth.

This imperative must be built in to crisis response and longer – we will not get there with a short-term vision. It calls for the creation of a policy environment conducive to the generation of decent work opportunities, sustainable enterprise and the eradication of poverty.

Large scale unemployment and underemployment are part of the unbalanced growth patterns of the past, and have long lasting and severe social consequences. I believe that they must be prevented through the same high-level political focus, extraordinary efforts, and policy creativity that were applied to rescuing financial institutions and to stopping a deeper recession.

In my conversations with actors in the ILO and beyond, I find that there is a real sentiment that everything is being done to save banks and support economies but that there has been a certain complacency in some quarters when it comes to jobs – that you can't have the same focus and that things need to run their course for four or five years before the jobs will come.

We now need to apply the same policy decisiveness that saved banks to supporting sustainable enterprises and saving and creating jobs. We need the policies that will produce these results. There is the expectation that governments will act with policy decisiveness to do this – and indeed, many are indeed trying to do so.

Getting those who have lost jobs back to work and ensuring that the 45 million young women and men who start looking for work each year get a good start in their working lives is vital.

If we don't, a social and political backlash is looming on the horizon in many countries – and we can already see signs of this.

The agenda for policy dialogue and action on an employment-oriented framework for strong, sustainable and balanced growth can include the following objectives:

First, make employment creation a priority macro-economic goal in the same way as low inflation and sustainable public finances. Let's remember that the charters of the US Federal Reserve System, the International Monetary Fund (IMF) and the World Trade Organization (WTO) all refer to full employment.

Given the huge fiscal challenge that many countries face, we must formulate an employment strategy that is also a sound fiscal strategy.

Second, develop an income-led growth pattern. Aggregate demand should be firmly anchored in earned income and broad access to employment, not increasing debts, thus progressively raising the real purchasing power of middle- and low-income households. To do so, the link between productivity gains and wages needs to be strengthened. Skills development is also a crucial investment in the workers of the future. Strengthened labour institutions, such as regularly reviewed minimum wages and an effective labour inspection system, and more widespread collective bargaining can play a key role. So development should be based on an income-led approach, not the debt-led approach that brought on the crisis.

Third, working out of poverty. National development strategies and international development cooperation should focus on policies to increase productive employment and decent work as the primary route out of poverty, particularly in the informal economies of most developing countries. The 2010 Review of the Millennium Development Goals (MDGs) should concentrate on this issue. Anyone with experience of poverty issues will know that the first demand is for the dignity of work.

Fourth, establishing a basic floor of social protection for the most vulnerable. As many are learning in their crisis responses, social protection brings a triple benefit. It protects people from becoming trapped in debilitating poverty, empowers them to seize market opportunities and contributes to aggregate demand. The crisis has showed very clearly the impact of social protection on demand, and for the first time, social protection has been seen by many financial sector analysts not as public spending, but as investment.

Fifth, linking more directly trade, employment and social protection policies, as ILO/WTO joint research concluded [Trade and employment: Challenges for policy research]. Trade implies adjustments in both importing and exporting countries, which have labour market consequences.

Furthermore, many countries are turning to exports as a way to faster growth. But export-led growth cannot be a global strategy. It must have a counterpart; an import-led growth strategy. If not, it simply does not add up. All countries pursuing the same export-led strategy does not work.

Sixth, preparing for the global transition to clean energy. It will affect a large number of enterprises, jobs and workplaces. New skills will be needed. New green jobs will emerge. A proper system of incentives would greatly help such a transition. And public-private partnerships are ideally suited for this task.

As you know, the ILO is collaborating with the global networks of unions and employers and the United Nations Environment Programme (UNEP) on policies for greening the economy. Our role is to facilitate the dialogue between employers' and workers' organizations and governments which is essential to address the changes called for in technology, production, consumption and employment and to ensure a fair and smooth transition process to the green economy.

Seventh, promoting integrated packages of financial, investment, social protection, and active labour market policies have an added impact – the whole becomes more than the sum of the parts. Integration creates synergy – disaggregation has less impact.

Eighth, increasing the employment intensity of growth through national strategies for productive investment and decent work and targeting a significant expansion of overall employment through a good balance between labour-intensive sectors and high-growth, high-productivity sectors. In order to do that, more refined methodologies to assess the employment content of different investment options and growth patterns are needed.

Ninth, supporting increased investments and employment creation by sustainable enterprises in particular through measures to ease the continuing squeeze on credit to the real economy and smaller enterprises in particular, as well as improving enabling environments in the longer term. We will need a much closer linkage between labour market developments and other aspects of macro-economic policy than we have had in the recent past. For example, high levels of job creation should become a targeted macro-economic goal as important as low inflation, and a sustainable fiscal situation, as I said before. The promotion of decent work and the implementation of international labour standards is part of this outlook.

Tenth, ensuring that financial markets service the real economy. The finance sector should meet the need for investment, innovation, trade and consumption in the mainstream economy. New financial policies and regulations should encourage resource flows and allocations towards longer-term productive investment by sustainable enterprises that raise output and employment growth. They should discourage the formation of damaging asset bubbles through short-term speculation and other distortions in the financial sector.

Eleventh, raising labour productivity through a conducive environment for innovation, entrepreneurship and enterprise development that combines sound regulations, improved infrastructure, and business services, as well as sound complementary skills for development strategies, is essential.

Twelfth, holding and reversing downward pressures on wages so that household consumption is able to recover and sustain income-led recovery and long-term sustainable development. Policies to progressively counteract downward trends in the wage share of national income and the falling return to workers from increased productivity are needed to rebalance growth and progressively expand sustainable demand.

Thirteenth, extending coverage of efficient and affordable social security systems that can be accessible to all. Gradual expansion of fiscally sustainable coverage to protect the most vulnerable should be pursued. Least developed countries wishing to invest in a basic social protection floor should receive international development cooperation assistance.

Fourteenth, increasing international cooperation to prevent tax competition undermining the revenue base countries need to ensure the provision of vital public goods. Experience has shown that tax cuts are more likely to have an impact on aggregate demand through increased consumption if the poor are targeted. In periods of uncertainty, tax cuts for middle- and high-income classes will probably be converted into an increase in savings, without having the desired impact on demand.

Fifteenth, increasing international support to fiscally constrained countries for crisis response and to recovery promotion policies, as part of a reinforced effort to increase the volume and quality of finance for development. Much more vigorous and innovative means of international support is needed as part of the new framework to ensure that they are able to adjust through growth and that recovery is globally inclusive.

Sixteenth, maintaining extraordinary fiscal stimulus measures until the real economy is generating quality work. In preparing the sequencing of their eventual unwinding, priority should be given to retain as long as necessary those related to productive investments, sustainable enterprises, employment and social protection. Layoffs should be the last resort. Social dialogue can be and has proven to be a useful tool in this exercise.

Recent developments on international capital markets suggest that even advanced countries face increasing difficulties to raise the funds necessary for further action. This makes additional fiscal stimulus more expensive and threatens to force countries to scale back pre-emptively on their policy measures.

Seventeenth, fashioning exit strategies by all countries connected to progressive expansion of private demand and productive investments to counter the danger of excessive debt ratios to GDP and pressures by financial markets for premature exit of stimulus packages. An exit strategy that leads to job-weak growth and a contraction of social protection can lead to a double-dip recession.

Finally, promoting strong policy convergence to support and promote entrepreneurship and productive investment in micro, small and medium enterprises is essential. Sustaining the “small” economy to generate quality work, where 60 to 90 per cent of employment is created, is central to the lesson of how we link emergency and long-term recovery and how we secure a job-rich recovery.

International coordination is vital. I do think the effort led by the G20 averted what could have become a global depression. Nevertheless, we have a long way to go to improve our policy coordination mechanisms. Monday’s discussion in the Working Party showed that a rather large number of countries are not able to participate in coordinated stimulus measures and that our international support mechanisms are not providing them with the scale of countercyclical finance they need, on terms they can afford. This is holding back more vigorous action along the lines envisaged in the Global Jobs Pact.

Mr José Manuel Salazar-Xirinachs will briefly sum up the very thorough discussions you had on the Global Jobs Pact in the Committee on Employment and Social Policy (ESP) last week so I will conclude with a few thoughts about what the experience of the last year or so means for our Organization.

The Pact was founded on the policy knowledge of our members. It captured well the responses that by June last year were already being put in place. But it also was a call to action to do more, to work together and to use the “integrated approach” that we have developed in the 2008 ILO Declaration on Social Justice for a Fair Globalization.

It has required a very close interaction between the Office and constituents and within the Office. The knowledge flow is definitely two-way.

I tend to talk about the Pact approach because of course no country just downloads it from the Internet, checks the boxes and applies it. Each country’s approach is tailored to its situation and possibilities. You adapt it to your own realities.

But most do fall within the framework of the Pact. This is I think a tremendous strength as we move into the next phase of action. We can facilitate coordination without requiring conformity.

So we look forward to your guidance as we prepare for the Spring Meetings of G20 Ministers, the IMF and the World Bank and then our own June Conference.

Thank you very much for your attention.

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