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Executive Summary

From the Great Recession to labour market recovery: Issues, evidence and policy options

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The Great Recession of 2008–09 was the worst since the Second World War. The financial crisis that emerged in the United States in mid-2007 quickly transformed into a credit crunch and a dramatic collapse in trade flows. The result was a loss of jobs and livelihoods for millions around the world. The tragic consequences at the aggregate level, however, were juxtaposed with incredible diversity across regions and countries.

This book provides new insights into this complex episode by drawing on research by current and former ILO staff on the macroeconomic and labour market dimensions of the Great Recession. It offers a global overview, interpreting the causes, consequences and policy responses from the perspective of both developing and developed countries. In their in-depth review, the volume's contributors identify several key messages.

- There were different interpretations of the pre-crisis period, delineated by an optimistic view of the global economy (the “Great Moderation”, the “platinum” age) and a more pessimistic analysis drawn from the situation in developing countries (the “Lost Decades”, the “crisis-before-the-crisis”). From any vantage point, the overwhelming (mis-)perception in the boom period (2002–07) was of continuing low risk and volatility, a major factor behind the crisis that began in mid-2007. However, the crisis quickly revealed that the global economy was far less robust or stable in 2007 than many academics, investors and policy-makers believed.
- In the severe recession that followed, some countries were dramatically affected, suffering from depression-like contractions of more than 10 per cent in 2009. Millions have lost jobs, leading to increasing discouragement, informality and working poverty. The hardest-hit

have been young people, men, temporary workers, the unskilled and migrant workers, which can be mostly explained by the sectoral composition of the economic contraction.

- At the same time, a range of countries have emerged relatively unscathed, notably the large developing Asian countries (China and India). Even some countries that experienced large economic contractions have avoided major deteriorations of their labour markets. Developing countries in general have experienced growth deceleration rather than outright recession, but even this has had adverse implications for progress in poverty reduction. The evidence suggests that some transmission channels (such as trade flows) have been more important than others (such as remittances) in causing growth decelerations.
- Indeed, a key theme of this volume is the diversity of the crisis with respect to the large variation in its impact on the economy and its consequences for the labour market. This diversity can be explained by a number of factors including differences in initial conditions such as the stage of the business cycle, presence of a housing bubble, strength of the labour market and degree of fiscal space.
- The aggressive stance in terms of macroeconomic stimulus and labour market policies taken by most governments of countries with advanced economies and of some developing ones has helped avoid a deeper recession. An important lesson is therefore that countries cannot remain passive in the presence of such crises, though this depends on their political resolve and their technical and financial capacity to intervene. In this respect, the long-standing issue of lack of policy and fiscal space in the case of developing countries has gained prominence. Surveys show that more than 70 per cent of developing countries are fiscally constrained and cannot engage in adequate countercyclical policies to offset the deleterious consequences of external shocks. Enhancing fiscal and policy space will require a combination of national initiatives and international cooperation.
- A number of countries have successfully staved off a surge in unemployment through labour market policies, particularly work-sharing schemes, which have kept workers employed who were threatened by layoff in their jobs. A range of middle-income (and some low-income) countries have implemented different labour market policies to help with the adjustment process.

- At least in the early stages of the crisis (2008), the social partners' involvement in the design and implementation of national measures in response to the crisis was rather limited. Nevertheless, there are clear signs that crisis-related measures were increasingly on the agenda of national tripartite bodies or ad hoc meetings organized with the participation of social partners over 2009. Overall, countries that have relied on dialogue between social partners as part of their responses to the downturn have been able to more rapidly formulate effective policy packages.
- As the global economy entered the recovery phase late in 2009, the choice for policy-makers quickly turned to the competing priorities of maintaining the stimulus and starting to tackle the mountain of debt incurred since 2007. At the time of writing, two main risks remain: the premature withdrawal of stimulus, resulting in a further economic slump (or even a “double-dip” recession), and the threat of a jobless recovery, which is likely unless policies remain in place to encourage hiring and investment. The path to recovery will be protracted and uncertain, and ultimately will hinge on whether China (and to some extent, India) can continue to drive global growth. Whether employment will recover quickly in the recovery phase depends significantly on whether the job losses are cyclical or structural in nature. Past experience shows that when recessions coincide with structural shifts in the economy, the lag between labour market recovery and resumption in GDP growth can be quite long.
- The Great Recession has also engendered a much-needed debate on the core issues of macroeconomic management. The ascendancy of macroeconomic conservatism entailing a preoccupation with inflation targeting and fiscal consolidation might now give way to a policy framework that can accommodate a renewed commitment to full employment.

These key findings serve as a prelude to the case for moving away from a crisis-management mode to a long-term strategic approach. The authors explore a range of policy options for a post-crisis future. Such an approach will entail a portfolio of policies closely aligned with the ILO's Decent Work Agenda and Global Jobs Pact.

At the macroeconomic level, monetary, financial and fiscal policies, exchange rate regimes and capital account management need to support sustainable employment creation, including that of “green jobs”. There has to be greater commitment to investments in social protection, to the

upholding of core labour standards in times of crisis and to a more inclusive approach to policy-making through social dialogue. Greater preparedness for economic volatility is warranted. To this end, policy-makers around the world might wish to consider the notion of implementing periodic “stress tests” to assess the vulnerability and degree of preparedness of national economies to future crises.

These national initiatives have to be complemented by efforts to enact a new era of international and regional cooperation. This will necessitate: (a) greater policy autonomy in the case of developing countries; (b) fair and transparent rules to regulate the cross-border movement of people and flows of foreign capital; (c) upholding core labour standards; (d) reducing unfair barriers to trade in goods and services that affect developing countries; (e) global macroeconomic coordination to sustain full employment; (f) a “socio-economic floor” for the global community through the implementation of minimum social protection for all in all nations; (g) regulating short-term capital flows by reforming the global financial architecture; (h) mobilizing additional resources for development assistance; and (i) making institutions of global governance more democratic, accountable and transparent. These elements form an agenda of fair globalization – an agenda that resonates with the mood and spirit of the post-crisis era. Other multilateral agencies – such as the World Bank through its notion of “responsible globalization” and the Asian Development Bank through its advocacy of “rebalancing” the export-oriented growth model to rectify global imbalances – are helping to create the intellectual momentum for a new consensus on an appropriate new policy model for dealing with the employment and labour market challenges. The findings of this volume’s various chapters fully endorse this emerging policy paradigm.

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