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Jobs, growth and social justice



International
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Background paper for the Heads of State or Government/Heads of Agencies' Panel: "How to tackle the consequences of the financial crisis"

This panel is dedicated to discussing possible ways out of the crisis. Given the seriousness of the employment situation Europe is facing it is urgent to explore the space for a job-rich recovery strategy.

The different phases of crisis response

In the immediate aftermath of the global financial crisis in 2008-2009, a coordinated response strategy was successfully launched. It involved fiscal stimulus packages, frequently supported by social dialogue with social partners. This prevented growth rates from falling too dramatically and contributed to limiting job losses.

However, the bailouts of financial institutions together with the allocations for the stimulus packages led to a sharp increase in public finance deficits in many countries that triggered insecurity in the financial markets, with a negative impact on borrowing costs and sovereign debt.

The fiscal consolidation policies subsequently adopted, with little or no social dialogue in response to this challenge, included sharp cuts in public investment and wages and in allocations for labour market policies and social benefits.

This approach was expected to stabilize financial markets, restore the flow of credit to the enterprise sector and boost private investment and job creation. However, this did not materialize and the already weak aggregate demand in domestic markets was further depressed. On top of that, many enterprises were - due to disproportionately high interest rates for loans - not only discouraged but also impeded from investing, improving their competitiveness and creating jobs. This resulted in a collapse of aggregate demand and did not contribute to reducing fiscal deficits and public debts, rather triggering new fiscal consolidation measures ending up in a vicious circle of more fiscal measures that further depressed the economy. In addition, the strategy did not tackle pre-crisis structural imbalances - such as financial market inefficiencies or, in some countries, a weak

export base - and widening labour market and income inequalities more generally.

The impact in Europe and Central Asia

Economic growth in the Eurozone shrank by 0.6% in the last quarter of 2012, with a significant impact on other countries of the region. Crisis-hit Southern Europe is facing deep protracted recession and unemployment has reached unprecedented levels in the EU and South-Eastern Europe. By November 2012 unemployment had risen by over two million people in the EU-27 compared with one year previously. The plight of youth is particularly dramatic as almost one in four young people are jobless at present while in some Southern European countries this figure has climbed to more than one in two. In all the crisis-hit countries high joblessness coupled with mounting job insecurity and wage and social benefit cuts imposed by austerity measures have raised people's perception of injustice and fuelled both peaceful demonstrations and less peaceful outbreaks of social unrest. Under such circumstances, contagion effects in other European countries are merely a matter of time.

Addressing the challenges: Ways out of the crisis

There seems to be a growing consensus that social dialogue and a social dimension are imperative in order to shape responses to overcome the current crisis and prevent its recurrence. One example is provided by the "Social Investment Package" launched by the EC on 20 February, which represents a paradigm change by underlining that social investment is an indispensable element of generating growth and employment. In this respect, tripartite social dialogue is instrumental for finding and formulating suitable strategies for increasing investment in the real economy and achieving job-rich growth. These are a pre-condition for sustainable economic growth building on strong coordination of economic, employment and social policies. Fiscal consolidation needs to be carefully balanced with the

promotion of sustainable growth, investment into the real economy, and structural and technological transformation to rectify structural distortions, upgrade productivity and competitiveness, and encourage productive job creation while gradually abolishing labour market segmentation.

However, such a policy approach implies certain costs and the question arises of where to find or generate the fiscal space for them. This also relates to the orientation of states' investment and tax policies.

Panellists may wish to discuss the following questions:

- How should responses to the crisis be modified in order to overcome negative social and employment effects? How can adequate fiscal space for such a policy shift be ensured?
- Do we need a new economic governance that reconciles the goals of economic growth and competitiveness with sustainable employment and social policies? What would such a model look like and what could be the role of social dialogue in this regard?
- How can the ILO contribute to regional and national policies boosting job creation and sustainable growth while mitigating inequalities in the world of work?