World of Work Report 2009

The Global Jobs Crisis and Beyond

EXECUTIVE SUMMARY:
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Executive Summary

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The world economy is rebounding from the financial crisis, aided by stimulus measures...

The world economy is exhibiting encouraging signs of a recovery. The IMF now predicts over 3 per cent economic growth for 2010, with Brazil, China and India leading the economic rebound. In addition, this Report shows that job losses have been less than would have been predicted on the basis of earlier crises. Indeed, another Great Depression has probably been avoided, aided by stimulus measures implemented by governments since the onset of the crisis.

... but the jobs crisis is far from over...

Despite these major achievements, the global jobs crisis is not over and it could even worsen unless adequate action is taken.

First, the jobs crisis is much larger in size than unemployment figures suggest. As shown in Chapter 1, in the 51 countries for which data are available, at least 20 million jobs have been lost since October 2008 when the financial crisis started. But unemployment is only one dimension of the jobs crisis: about 5 million workers are at risk of losing jobs now. Though demand and output fell steeply, enterprises have kept millions of workers, often through the support of governments. These workers are currently on shorter hours, partial unemployment or involuntarily part time. They are at risk of losing their job if firms become unviable, governments withdraw their support, or the economic rebound is not strong enough.

Given job retention and usual lags in hiring decisions, the initial stages of the economic rebound will entail little job creation. Employment in high GDP per-capita countries will not return to pre-crisis levels before 2013. In emerging and developing countries, employment levels could start recovering from 2010, but will not reach pre-crisis levels before 2011.

Second, and more fundamentally, there is a significant risk that the jobs crisis will have long-lasting negative social and economic implications. The Report estimates that almost 43 million workers are at-risk of exclusion from the labour market – because, if the right programmes are not put in place or existing ones are phased out, individuals could shift to long-term joblessness or drop out of the labour market entirely. Experience from earlier crises suggests that this risk is especially acute for the low-skilled, migrant and older workers. New entrants, including youth and women, will face major difficulties obtaining employment.

There are already some indications that the proportion of people of working age who do not participate in the labour market has started to increase. In developing countries, high-quality jobs have been lost and affected workers are likely to move to the informal economy.

For the workers concerned and their families, hardship is aggravated by gaps in the social protection system. Two-thirds of the countries for which data are available do not have unemployment benefits. Only one third of developing countries provide some form of social protection to informal sector workers and the self-employed. Everywhere, perceptions of job precariousness are on the rise.

… threatening economic recovery.

The prospect of greater long-term joblessness also undermines confidence, thereby affecting consumption and investment decisions. It therefore represents a major threat to economic recovery itself. Also, perceptions of job precariousness will exert further downward pressure on wages, aggravating the risk of depressed aggregate demand.

In short, economic recovery will remain both fragile and incomplete as long as the jobs crisis continues.

So a premature exit from stimulus measures would be counterproductive and expensive for budgets in the long run...

It is therefore crucial to avoid premature or ill-conceived exit strategies. Public debts have increased significantly – reflecting both the bail out of the financial system and fiscal stimulus measures. So governments and social partners face the twin challenge of addressing the jobs crisis while avoiding an unsustainable aggravation of fiscal goals. However, the Report shows that badly shaped spending cuts now would hit many existing jobs which were saved thanks to earlier stimulus measures but are still at risk. Such an early exit would also postpone employment recovery and would aggravate the risk of long-term joblessness, labour market exclusion and employment informality.

Importantly, bringing outsiders back into productive employment has proven very difficult and exorbitantly costly for the public purse in past crises. Taking preventive action now would therefore be cost-effective in the long run. Public deficits would be temporarily impacted by the expenditure outlays required to reinforce employment-related measures. But such policies would effectively address the needs of firms and workers – the real economy. Indeed, the boost in economic activity resulting from the job gains would auger well for a return to pre-crisis debt levels in the medium-term.

... underlining the need for, first, continued job-centred stimulus to promote economic recovery as stressed in the Global Jobs Pact...

The Report shows that a continuation of fiscal stimulus measures, if better focused on jobs as recommended in the ILO Global Jobs Pact, would raise employment by 7 per cent compared to an early exit situation. Moreover, while this would raise public expenditures in the short run, the potential gains in terms of employment and output would allow public debt to return to its pre-crisis level in the medium-term.

There is evidence that measures focused around the principles of the ILO Global Jobs Pact are effective. For example, Australia, Brazil, Germany, Jordan and the Republic of Korea have successfully implemented measures consistent with the Global Jobs Pact, by (i) focusing crisis responses on employment, social protection and skills; (ii) avoiding counterproductive measures such as downward spiral of wages or downgrading labour standards; and, (iii) exploiting the potential for social dialogue in order to improve the design of crisis responses and their social acceptance. Importantly, most of these countries have acted quickly and in a targeted manner, explaining why the measures have been so cost-effective.

…and, second, reforms of the financial system to make recovery sustainable

The effectiveness of job-centered crisis responses will be constrained as long as the root causes of the crisis are not addressed. Rescue packages to financial institutions have reached unprecedented levels in countries where the crisis originated. The bill will be expensive for taxpayers and job losers. It is therefore essential to ensure that an end is put to those financial practices and irresponsible risk-taking that preceded the crisis.

This is a challenging task. The financial sector has developed beyond reasonable boundaries and its practices have spread through the non-financial economy (Chapter 2). It has long been claimed that today's profits would be tomorrow's investments and more jobs later on. But reality has not kept to the promise:

- A large share of the increase in profits has accrued to the financial sector – the financial sector's share of total corporate profit reached 42 per cent before the crisis, up from about 25 per cent in the early 1980s. And the profits of non-financial firms serve more to pay dividends rather than invest in the real economy. During the 2000s, less than 40 per cent of profits of non-financial firms in developed countries were used to invest in physical capacity, which is 8 percentage points lower than during the early 1980s.

- Ever growing pressures for more and better financial returns have adversely affected wages and job stability in the real economy. The global decline of wages as a per cent of GDP has been more pronounced in countries where risky financial practices were more pervasive.

Regrettably, as documented in the Report, financial reforms have been slow to materialize. True, the financial industry has undertaken steps to modify its practices through the adoption of codes of conduct and other non-bonding initiatives. In some countries, there is concern that new regulations will push the financial industry to other locations. The overall impression is that, unless action is taken soon, business-as-usual will prevail. In such an unreformed context, the practices that provoked the financial crisis will resume soon after economic recovery starts. This would aggravate weakness already present in the world of work, while raising the risk of future crises.

The crisis should be used as an opportunity to make globalization fairer...

The Global Jobs Pact goes far beyond designing policies to encourage a speedy recovery. It sets a framework for shaping a fair and sustainable globalization. As last year's *World of Work Report* showed, income inequalities grew in two thirds of the countries for which data exist. This has been a key facilitating factor for the financial crisis: faced with the prospect of stagnating relative incomes, and in the face of irresponsible lending practices, low-income households had growing recourse to debt in order to fund their investment plans.

As a first step into the analysis, the Report examines how existing international trade agreements address social issues (Chapter 3). The finding is that over 30 per cent of bilateral or regional trade agreements concluded since 2005 embody labour provisions, compared with only 4 such agreements in 1995. Further research is needed to assess whether such provisions are effective vis-à-vis the goal of making globalization fairer.

... and more sustainable for the environment

Investing in the environment is a potential source of new jobs. If a price on CO_2 emissions was imposed – at a level close to what is internationally suggested – and if the resulting revenues were used to cut labour taxes, then employment would rise by 0.5 per cent by 2014. This is equivalent to over 14.3 million net new jobs for the world economy as a whole (Chapter 4). These jobs will not come automatically, however. Indeed almost 38 per cent of all jobs are located in high-carbon intensive sectors. Therefore, programmes that support labour market transitions and skills are needed to make new jobs a reality. Green policies need to be implemented hand-in-hand with decent work policies.

Taking action to address the broader issues underlying the crisis will contribute to realizing the vision of a sustainable and fairer global economy.