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Employment Implications of the Global Economic Slowdown 2001:

Responding with a Social Focus

by

Rizwanul Islam

Recovery and Reconstruction Department
International Labour Office, Geneva

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Preface

After several years of high growth, the United States economy started showing signs of fatigue towards the end of 2000 and the beginning of 2001. That, coupled with a recession in the Japanese economy and a decline in growth in the European Union region, produced widespread fears of a global recession. And then came the terrorist attack on America on 11th September which inflicted a severe shock on the already weak economy of that country. The direct and indirect effects of that shock quickly created ripple effects throughout the global economy. As a result, global recession now looks inevitable.

With recession come the associated adverse social effects in terms of rising unemployment, underemployment and poverty. Experience of economic crises in various parts of the world in recent years shows that unless timely action is taken, sharp economic downturns can cause a lot of suffering to the poor working population. It is, therefore, important to understand the employment effects of the current global economic slowdown, look at the measures that are being put in place from the point of view of job creation and preserving existing jobs, and come up with measures required to overcome the adverse social effects of the slowdown.

The present paper points out that even before the attack of 11 September, the global economy was slowing down substantially, with all three major engines of growth simultaneously showing signs of weakness, and other countries suffering due to linkage effects. The shock inflicted by the 11th September event has resulted in a further slowing down; and the growth of world output is now expected to be only 1.4 per cent in 2001, compared to 4.7 per cent in 2000. Amongst the developing countries, it is the export-oriented economies of Asia and Latin America which are being hardest hit, although countries of sub-Saharan Africa are also suffering due to declining commodity prices.

Projections made by the paper show that total employment in 2001 could be 61 million less than what it would have been had the global economy grown at the same rate as that of 2000 (i.e., 4.7 per cent). Out of this, a decline of 22 million could be ascribed to the shock of the 11th September events. The above figures, however, should not be taken to imply that unemployment in 2001 would have increased by such numbers. In fact, in many developing countries, labour markets will adjust not only by creating open unemployment, but by increasing underemployment and shifting to low-productivity informal sector jobs.

An overview of the measures announced so far to counter the slowdown shows the use of both monetary and fiscal measurers. In fact, the economic situation in many countries does permit the use of such instruments. However, the paper points out that in periods of sharp economic downturn, as now, it is fiscal stimulus which has a better chance of success, especially from the point of view of reviving growth with employment. And amongst fiscal measures, there are some which are likely to be more effective in this regard (for example, increased public spending as opposed to lowering of income and corporate taxes). The paper, therefore, argues the case for a balanced use of such instruments. It also warns against the dangers of a pro-cyclical policy at such a time.

The paper points out that a sharp economic downturn such as the present one not only leads to loss of employment and social protection for workers, but also to loss of profits for enterprises. Such periods can, therefore, be periods of tension and friction in societies in general, and work places in particular. In such a climate, the decent-work approach based on creation of employment opportunities, social protection, rights at work and social dialogue becomes highly relevant.

Rizwanul Islam
Director

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1. Introduction

The economic slowdown that the global economy is currently going through demonstrates that market economies continue to remain subject to periodic cycles of booms and busts. Moreover, the experience of recent years seems to indicate not only the frequency with which economic downturn occurs but also the speed at which the contagion effects spreads from one country to others. The latter, of course, is natural given the greater integration of various economies in the present day world. And the adverse social effects produced by such economic declines provide one with a reminder of the importance of monitoring such effects and of combining social policies with economic policies in responding to the downturns.

Growth of world output slowed down substantially in the first half of 2001, raising fears of a global recession. The terrorist attack on America on 11th September inflicted a severe shock on the already weak economy of the country, the direct and indirect effects of which reverberated quickly through the global economy. As a result, what was only a fear a few weeks ago now looks like a real possibility. And with recession come the associated adverse social effects in terms of rising unemployment, underemployment and poverty. While fears of recession were looming already and reports of worker lay-offs were appearing in the media even before the 11th September shock, the issue now deserves serious attention. The basic purpose of the present paper is to provide a picture of the possible impact on employment of the current global economic slowdown, so that it can be taken into account in formulating and implementing measures for reviving the global economy. In that context, the paper provides an overview of the stimulus measures being undertaken by various countries. While this overview is done with a particular focus on the potential ability of the announced measures to counter the adverse social effects of the economic slowdown, the paper also discusses the relevance of a decent work approach in that regard.

The present paper argues that only part of the economic downturn can be ascribed to the 11th September shock. It, therefore, tries to look at both the decline in output growth and the resulting employment losses separately for the economic slowdown that was already under way and the 11th September shock. The paper is organized as follows.

Section 2 provides on account of the global economic slowdown before 11 September while

[1]The author is Director, Recovery and Reconstruction Department, ILO, Geneva. Ms. Nina Torm provided valuable assistance in compiling the data. Comments received from Iftikhar Ahmed, Azizur Rahman Khan and Yasuyuki Nodera on an earlier version of the paper are gratefully acknowledged. The usual disclaimer applies, however.

section 3 provides a picture of the situation as it evolved after that date. The employment implications are examined in section 4. Section 5 looks at the instruments being used by various countries to fight the recession. Section 6 discusses how the approach of decent work can help minimize the adverse social effects of the recession.

2. Global Economic Slowdown before 11 September 2001

After having registered healthy growth rates during the second half of the 1990s, the world economy started showing signs of weakness at the beginning of 2001. This becomes evident if one contrasts IMF's May 2001 forecast, which envisaged a 3.2 per cent growth in world output in 2001, with the 4.7 per cent growth achieved in 2000. Later, the IMF further revised its forecast downwards - to 2.6 per cent (just before 11 September). This decline in the growth of world output reflects a weakening of the three major engines of growth of the global economy. The US economy, after growing at breakneck speed for five years, started showing signs of fatigue already towards the end of 2000 when growth in the manufacturing sector faltered. Japan's economy entered into another recession during the first half of 2001; and the outlook for the entire year was a contraction of the economy. Within the EU region, the major economies like Germany and France had initially thought that they could weather the storm and maintain their growth. But the IMF forecast in May 2001 already projected a growth of 2.4 per cent for the EU countries which was substantially lower than the 3.4 per cent growth attained in 2000. And a later projection (but made before 11 September) lowered the forecast further to 1.8 per cent.

The simultaneous weakening of the three major engines of world's output growth represents a distinguishing feature of the current global economic slowdown if one compares it with similar downturns in recent years. In 1998, for example, the decline in world output growth was caused mainly by the Asian economic crisis; and as the economies of USA as well as EU countries were continuing their strong growth, recovery of the Asian economies was easier. Similarly, when the US economy was in recession in the early 1990s, the EU countries and Japan were still growing. And so were the emerging economies of Asia. Thus, when certain parts of the world suffered declines in economic growth while others continued to grow, the former could ride out of the difficulties by utilizing the benefits of linkage with the latter.

Table 1: GDP Growth Rates (% change per year)

	1990-95	1996	1997	1998	1999	2000	2001a	2002a	2001b	2002b	2001c	2002c	2001d
World	2.1	3.0	3.0	1.9	2.9	4.7	2.6	3.5	2.7	3.6	**1.3**	**1.9**	**1.1**
USA	2.0	3.6	4.5	4.4	4.3	4.2	1.3	2.2	1.6	2.6	**1.0**	**1.4**	**1.0**
Japan	2.1	3.5	1.8	-1.1	0.8	2.4	-0.5	0.2	-0.6	0.6	**-1.1**	**-1.1**	**-0.7**
France	1.3	1.1	1.9	3.4	2.9	3.1	2.0	2.1	2.2	2.4	**1.9**	**1.6**	**1.9**
Germany	1.3	0.8	1.4	2.1	1.6	3.0	0.8	1.8	1.1	2.0	**0.8**	**1.2**	**0.8**
UK	1.2	2.6	3.4	2.1	2.3	3.1	2.0	2.4	2.2	2.4	**2.0**	**1.6**	**1.9**
EU	1.3	1.0	2.0	2.7	2.5	3.4	1.8	2.2	1.9	2.4	**1.6**	**1.5**	**1.5**
Developing countries	5.0	4.5	3.8	1.5	3.6	5.6	4.3	5.3	4.1	5.3	**2.5**	**4.3**	
Africa	1.5	1.8	2.6	3.2	3.0	3.1	3.8	4.4	4.3	4.3	**3.0**	**3.0**	
Asia (excluding China & Japan)	4.9	5.5	5.3	-0.8	4.8	6.5	5.8	6.2	4.1	5.5	**1.7**	**4.0**	
Latin America	3.6	3.7	5.1	1.9	0.1	3.7	1.8	3.4	3.1	4.5	**0.8**	**2.0**	

Notes: Figures in bold are projections made after Sept.11th 2001. 'a' indicates IMF Projections World Economic Outlook 2001, 'b' indicates EIU projections Global Outlook September 2001, 'c' indicates the Economist Poll GDP forecast, the Economist October 20th and EIU Country Reports November 2001, 'd' indicates JP Morgan projections Global data Watch 21st September 2001.

Sources: EIU Country Reports and Global Outlook September & October 2001, IMF World Economic Outlook 2001, JP Morgan Global data Watch 21st September 2001, UN *Global Economic Slowdown aggravated by the attacks on the United States*, 10th October 2001, World Bank WDI 2001.

The knock-on effect of the slowdown of the engines of growth of the global economy on the developing countries has been quick and sharp (Tables 1 and 2). The worst affected include Republic of Korea, the newly industrializing countries of Asia (e.g, Malaysia, Thailand, Philippines and Indonesia) and the emerging economies of Latin America (e.g, Brazil and Mexico).

The sharp decline in growth during 2001 represents a serious setback for the countries of East and South East Asia which were recovering from the severe adverse effects of the economic crisis of 1997-98. Countries like the Republic of Korea and Malaysia had recovered very well during 1999 and 2000; but they are the ones who are undergoing very sharp declines in growth in 2001. On the other hand, in countries like Indonesia, Philippines and Thailand, recovery was rather weak, and has been weakened further.

In an increasingly globalized world, the adverse effects of slowdown in one region spreads more rapidly today than in the past. As trade and capital flows are the major channels through which the world=s economies have been getting integrated, declines in these flows create ripple effects and contribute to a spreading of contagion. As far as trade is concerned, growth of world trade had recovered very well (to 7.9 per cent) in 2000 after having suffered declines in 1998 and 1999. On the whole, the growth of world trade has been quite healthy in the second half o the 1990s. But the Economist Intelligence Unit (EIU) forecast (in October) that it would decline to only 2.2 per cent in 2001. And it is the developing countries that are projected to suffer a sharper decline (to 1.6 per cent) compared to the developed countries (to 2.4 per cent). As a result, it is the former who are likely to suffer more from the adverse effects of a global slowdown.

The extent of integration, however, varies. If one looks at exports as a percentage of GDP (Table 3), one can see the difference between countries of East and South East Asia on the one hand and countries like Argentina, India, Brazil and Uganda on the other. It is, natural, therefore, that the former group of countries would suffer more when the growth of exports slows down. Of course a large number of developing countries are suffering declines in the growth of exports, although the rates vary considerably (see Table 4). Indeed, a number of countries, especially those of Latin America and some countries of Africa are experiencing negative growth of exports.

A significant aspect of global integration is the high degree of dependence, especially of developing countries, on a few developed countries (notably, USA, and EU countries) for their exports. Data presented in Tables 5a and 5b brings this out clearly. And amongst the developed countries, dependence on USA is particularly noticeable.

Table 2: GDP Growth for Selected Countries (% change per year)

	1990-95	1996	1997	1998	1999	2000	2001	2002	2001a	2002a	2001b
China	10.7	9.6	8.8	7.8	7.1	8.0	7.5	7.1	7.1	7.3	7.3
India	5.4	7.2	4.5	6.0	7.1	3.9	4.5	5.7	5.0	5.6	
Indonesia	8.0	7.6	4.7	-13.1	0.9	4.8	3.0	4.3	1.7	3.4	
Malaysia	8.8	10.0	7.3	-7.4	6.1	8.3	1.0	4.8	0.0	2.5	
Philippines	2.3	5.9	5.2	-0.6	3.4	4.0	2.5	3.5	2.5	2.9	
Republic of Korea	7.8	6.8	5.0	-6.7	10.9	8.8	2.5	4.5	1.8	3.2	1.9
Thailand	9.0	5.9	-1.5	-10.8	4.2	4.3	2.0	4.0	1.6	2.7	
Argentina	5.9	5.5	8.1	3.9	-3.4	-0.6	-1.4	2.6	-1.5	1.2	-1.5
Brazil	1.9	2.7	3.3	0.2	0.8	4.5	2.2	3.5	1.3	1.9	0.5
Chile	7.9	7.3	7.5	3.9	-1.1	5.4	4.0	4.7	3.2	3.5	
Colombia	4.4	2.1	3.4	0.6	-4.1	2.8	2.1	2.8	2.1	2.9	
Ecuador	3.4	2.0	3.4	0.4	-7.3	2.3	4.0	4.0	5.9	4.5	
Mexico	2.2	5.2	6.8	5.0	3.8	6.9	0.8	4.0	-0.1	2.2	
Peru	4.5	2.5	6.8	-0.5	1.0	3.1	0.5	4.0	0.4	3.4	
Uruguay	3.3	5.6	5.1	4.5	-2.9	-1.3	1.0	2.5	-0.8	1.5	
Venezuela	4.0	-0.2	6.4	0.2	-6.1	3.2	3.3	2.8	2.9	2.5	
Ghana	4.1	4.6	4.2	4.7	4.4	3.7	4.0	5.0			
Kenya	2.0	4.2	2.1	1.6	1.3	-0.2	1.3	2.0			
Nigeria	3.5	4.3	2.7	1.9	1.1	3.8	3.1	2.2	3.0	4.1	
South Africa	0.7	4.2	2.5	0.7	1.9	3.1	2.8	3.4	2.6	2.9	
Tanzania	2.9	4.6	3.5	3.7	3.6	5.1	5.9	6.2	5.2	5.4	
Uganda	7.0	9.1	4.8	5.6	7.6	3.5	4.9	6.3			

Notes: Figures from 1990 to 2000 are actual figures, whereas the figures for 2001 and 2002 are projections from the EIU Global Outlook September 2001. 'a' indicates figures released after Sept.11th 2001 by The Economist Poll GDP Forecast, The Economist October 20th and 'b' indicates figures released after Sept. 11th 2001 by JP Morgan, Global Data Watch 21st Sept. 2001.
Sources: EIU Global Outlook September & October 2001, JP Morgan Global data Watch 21st September 2001. World Bank WDI 2000 & 2001.

Table 3: Exports as a Percentage of GDP

	1999	2000
Argentina	10	11
Brazil	11	11
Chile	29	31
China	22	25
Colombia	18	19
Ecuador	37	42
Ghana	33	49
India	12	12
Indonesia	35	39
Kenya	24	26
Malaysia	122	131
Mexico	31	32
Nigeria	37	49
Peru	15	16
Philippines	51	67
Republic of Korea	42	44
South Africa	26	29
Tanzania	13	N/a
Thailand	58	66
Uganda	11	N/a
Uruguay	18	18
Venezuela	22	27

Source: World Bank World Development Indicators 2001.

Table 4: Annual Average Growth Rates of Exports

	1990-95	1996	1997	1998	1999	2000	2001	2002
China	18.7	17.9	20.9	0.5	6.1	27.8	**2.7**	**5.2**
India	11.5	5.6	4.5	-3.9	11.6	17	**12**	**13**
Indonesia	11.7	5.8	12.2	-10.5	1.7	28.2	8.1	11.2
Malaysia	19.9	7.2	0.7	-7.3	16.9	14.5	11.8	14.9
Philippines	14.4	17.7	22.8	16.9	18.8	8.7	3.0	8.0
Republic of Korea	12.8	4.3	6.7	-4.7	9.9	21.1	**9.0**	**10.5**
Thailand	18.7	-1.9	3.8	-6.8	7.4	19.6	7.0	11
Argentina	10.5	13.6	10.7	0.3	-11.8	13.1	**2.3**	**10**
Brazil	8.9	2.7	11	-3.5	-6.1	14.8	**4.9**	**7.6**
Chile	11.9	-3.9	8.2	-11	5.3	16.5	**-0.6**	**14.4**
Colombia	7.3	5.3	8.8	-5.8	6.7	17.5	-0.1	0.8
Ecuador	9.4	13.8	7.4	-20.2	5.9	10.1	-4.0	12.8
Mexico	13.8	20.7	15	6.4	16.4	21.7	**-4.6**	**4.3**
Peru	11.1	5.8	16	-16.2	6.6	14.8	**6.7**	**11.6**
Uruguay	4.6	13.8	13.7	1.6	-19.4	7.7	**-8**	**13.6**
Venezuela	1.4	24.9	-6.2	-20.5	15.5	71	-5.3	1.2
Ghana	17.2	-3.2	-2	9.7	-4.9	11.8	5.3	5.0
Kenya	12.4	10.1	-0.7	-2.2	-10.4	-0.1	0.0	11.8
Nigeria	-4.8	37.8	-5.8	-36	24.2	68.9	**-13.7**	**-5.7**
South Africa	3.2	4.9	6.2	-15	1.3	17.6	**4.0**	**5.3**
Tanzania	15.2	11.5	-5.4	-6	-19.9	29.4	**14**	**12.5**
Uganda	25.3	27.4	-5.5	-9.7	3.1	-24.6	-2.6	0.0

Notes: Figures for 2001 and 2002 are projections and figures in bold have been released after Sept.11th.
Sources: ADB Asian Development Outlook for Asia, EIU Country Reports and Country Forecasts, Sept. & Oct. 2001 for 2001 & 2002 Projections, UNCTAD Handbook of statistics 2000 for Africa & Latin America.

According to one estimate, US accounted for two-fifths of world GDP growth over the past five years, either directly or indirectly by absorbing imports from other countries.[2] Indeed, American imports now amount to 6 per cent of the GDP of the rest of the world - twice as large as in 1990. And in the first half of 2001, American imports fell at an annual rate of 13 per cent; imports of IT equipment fell at a rate of almost 50 per cent.[3]

Going back to Tables 5a and 5b, one can see the high degree of dependence on US markets - not only on the part of export-oriented economies, but also of countries like India and China. Almost all but 10 per cent of Mexico's exports in recent years have gone to USA. Some other countries of Latin America (e.g, Colombia, Ecuador, and Venezuela) are also highly dependent on US for their exports. In Asia, Bangladesh, Nepal and Sri Lanka have a greater degree of dependence on the US market than the countries of East Asia. The African countries, on the other hand, are highly dependent on EU countries for their exports. The conclusion that tends to follow from the above is that while countries of Asia and Latin America were quick to feel the pinch of US economic slowdown, African countries are also being affected through their linkage with the EU countries.

In fact, the external transmission effect of a slowdown in EU growth may be stronger than that of a slowdown in US growth simply because EU has a far greater import dependency than does the US (30 per cent of GDP as compared to 13 per cent). It is of course possible that a part of the EU imports represents intra-EU trade. But even net of intra-EU trade, EU's import linkage with developing countries is likely to be stronger than that of US. And to that extent, an equivalent decline in EU growth can cause far greater ripple effects on countries heavily dependent on them for markets.[4] Although growth in the EU region has not declined as sharply as in the US during 2001, countries more dependent on the former do face the risk of a strong knock on effect of a recession in that region. And a large number of African countries belong to this category.

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[2] Estimate by Morgan Stanley, reported in *The Economist*, August 25th 2001.

[3] *The Economist*, August 25th 2001.

[4] The author of the present paper is grateful to Azizur Rahman Khan for pointing this possibility.

Table 5a: Destination of Asian Exports (as % of total exports)

	Year	USA	Japan	EU		Year	USA	Japan	EU
China	1995	17.6	19.1	12.9	**Singapore**	1995	18.7	7.8	13.4
	1998	21.8	16.2	15.3		1998	20.4	6.6	15.8
	1999	21.5	16.6			1999	19.2	7.4	
	2000	20.9	16.7	15.3		2000		7.0	
India	1995	18.3	7.0	27.0	**Taipei**	1999	25.4	9.8	
	1998	22.6	5.2	26.6	**Vietnam**	1995	3.4	26.8	11.9
	1999	22.2	5.2			1998	7.6	18.1	32.2
	2000	22.8	5.3			1999	5.7	17.2	
	2001	**21.7**			**Bangladesh**	1995	34	3.3	44.3
Indonesia	1995	14.9	27.1	14.6		1998	37.9	1.7	45.7
	1998	17.0	17.8	16.5		1999	31.2	1.6	
	1999	16.1	20.0		**Nepal**	1995	31.6	0.5	53.2
	2000		22.0			1998	26.2	0.7	33.1
Malaysia	1995	21.6	12.5	14.2		1999	30.7	0.8	
	1998	22.4	10.5	16.2	**Pakistan**	1995	16.8	6.8	30.4
	1999	21.9	11.6			1998	23.6	3.4	30.7
	2000		13.0			1999	22.9	3.6	
Philippines	1995	36.9	15.8	17.6		2000	24.8		
	1998	35.2	14.4	20.3	**Sri Lanka**	1995	36.8	5.2	31.6
	1999	29.6	13.1			1998	40.0	4.7	29.3
	2000		14.0			1999	39.9	3.6	
R. Korea	1995	20.7	13.6	12.2	**Thailand**	1995	18.7	16.6	14.9
	1998	18.6	9.3	13.8		1998	23.5	13.7	17.8
	1999	20.6	11.0			1999	21.5	14.5	
	2000		11.0			2000		16.0	
	2001	**21.8**	**11.9**						
Hong Kong	1999	23.9	5.4						
	2000		6.0						

Notes: Figures in bold have been released after Sept. 11th 2001.
Sources: ADB Asian Development Outlook 2001 for 1999 figures, EIU Country Forecasts for 2001 projections IMF World Economic Outlook Oct. 2001 for 2000 figures, UNCTAD Handbook of Statistics 2000 for 1995 &1998 figures.

Table 5b: Destination of Latin American and African Exports (as % of total exports)

	Year	USA	Japan	EU
Argentina	1995	7.7	2.1	21.3
	1998	8.9	2.5	17.7
Brazil	1995	19.9	6.7	27.7
	1998	20.4	4.3	28.9
Chile	1995	15.1	17.6	26.9
	1998	18.3	13.9	26.9
Colombia	1995	35.8	3.7	25.5
	1998	40.8	2.5	23.9
Ecuador	1995	43.3	2.7	19.3
	1998	38.3	3.5	19.7
Mexico	1995	86.1	1.2	4.3
	1998	89.2	0.7	3.3
Peru	1995	19.9	9.1	30.1
	1998	34.8	3.9	22.2
Uruguay	1995	6.7	0.9	20.9
	1998	6.7	0.8	16.5
Venezuela	1995	53.6	2.3	10.1
	1998	50.2	1.2	7.5
Ghana	1995	12.0	4.0	53.3
	1998	7.5	3.3	51.9
Kenya	1995	5.8	1.5	39.0
	1998	5.0	1.0	38.2
Nigeria	1995	42.4	1.0	34.1
	1998	38.1	0.7	25.9
South Africa	1995	5.2	5.0	29.3
	1998	6.2	4.9	28.8
Tanzania	1995	3.6	8.6	33.4
	1998	2.4	7.5	40.6
Uganda	1995	3.6	1.8	78.8
	1998	4.5	1.5	65.6

Source: UNCTAD Handbook of Statistics 2000.

Global integration and linkage with the developed countries thus work in two ways. During good times, such interlinkage allows other countries to benefit from the spread effects of economic growth via healthy growth in trade and capital flows. This positive aspect was demonstrated in 1999 and 2000 when the crisis affected countries of Asia could recover quickly, thanks to the high rates at which the US and EU economies were growing and the consequent strong demand that was being generated for exports from the Asian countries. On the other hand, when the US economy started slowing down, the negative effects quickly spread, especially to the economies which are closely linked to it. The export oriented countries of East and South-East Asia experienced negative growth of GDP already between the fourth quarter of 2000 and the first quarter of 2001.[5]

[5] ASpecial Report of The World Economy@, *The Economist*, August 25th 2001, and *Far Eastern Economic Review*, July 26, 2001.

3. From Slowdown to Recession: Impact of 11 September[6]

The terrorist attacks that were carried out on USA on 11th September are having significant and far-reaching effects on the global economy. While the immediate and direct effect was a loss and destruction of physical and human capital in USA, economic activities were also affected in a variety of ways. The shock was a bit too hard for an already weak economy to absorb. As a result, the US economy now faces the real danger of a recession - as the country=s GDP has contracted in the third quarter of 2001, and is almost certain to continue the same trend in the subsequent quarter. And given the high degree of integration of today=s global economy, and more particularly, the dependence on America=s economy, the adverse effects quickly spread to other countries - thus threatening to produce a global recession.[7]

The growth of world gross output is now expected to be only 1.4 per cent in 2001,[8] compared to IMF=s recent forecast of 2.6 per cent and the May 2001 forecast of 3.2 per cent. Likewise, the growth forecast for US economy in 2001 has been lowered to 1.1 per cent. Forecasts for Germany and Japan have also been revised downwards.

The sectors which bore the immediate brunt of the aftermath of the 11th September attacks included travel-related activities (e.g, airlines, travel agents, hotels and restaurants, tourism, etc.), insurance companies, and financial traders. While the downward spiral started in the US., the ripples soon spread throughout the world - to countries as diverse as those in the Caribbean, Nepal and Bhutan. The list of sectors affected also started to grow quickly, with effects spreading to manufacturing, retailing, etc.

One element which was significant in the chain of adverse effects was the downward shift in the confidence of consumers and business. Even before 11 September, the consumer confidence was declining and business sentiment was depressed. The events of 11 September led to further deterioration in both. Apart from the psychological shock, a sudden increase in uncertainties made consumers more cautious, thus leading to a reduction of spending. And that in turn had a negative effect on investor confidence and sentiment. Thus, consumer and investor sentiment acted on each other to create a downward spiral of economic activities. The sharp declines suffered by stock markets (see Figure 1) in New York when they reopened in September (after a week=s closure) reflect the situation described above. It took some time

(exactly two months for the Dow Jones index) for the markets to regain their pre-11 September levels.

[6]In this and the subsequent section, the effects of the September 11 events are separated from the slowdown earlier in 2001 by comparing the projections made before the events and projections made subsequently taking into account possible repercussions of the shock to the economies caused by those events. This approach is not entirely satisfactory because projected growth for 2001 was being lowered anyway. And it is quite possible that projections made in the latter part of the year would have been lower than the earlier projections even without 11 September.

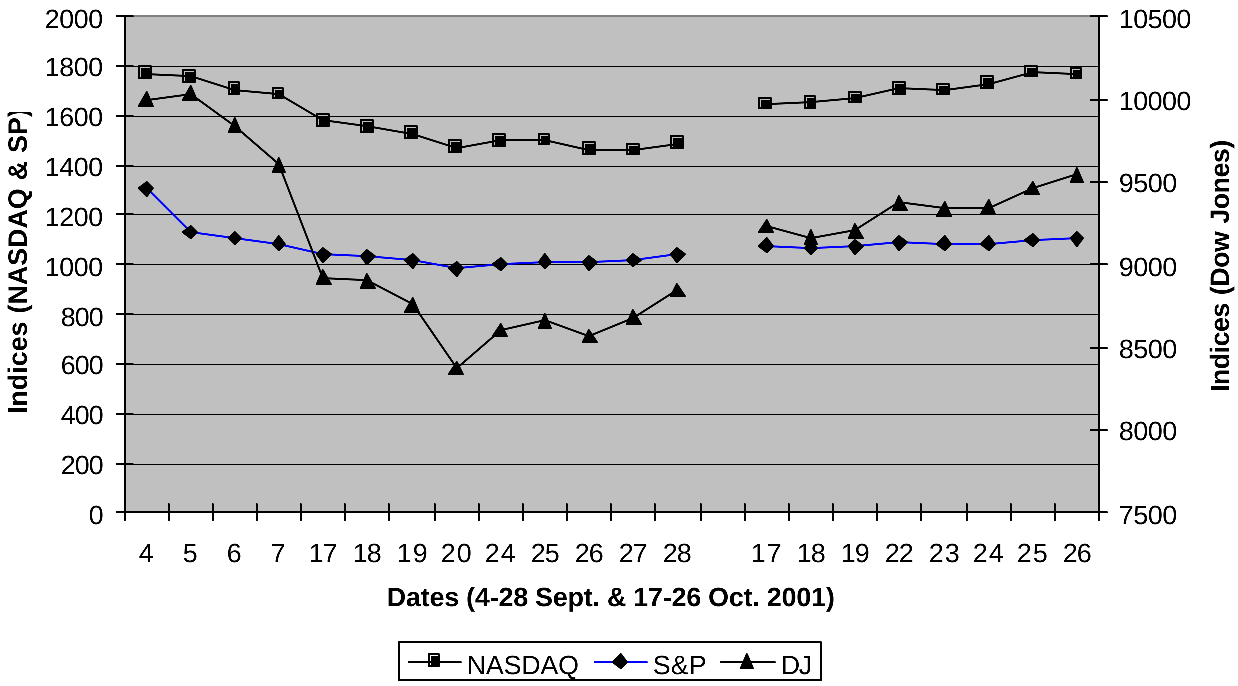
[7]There is no precise definition of world recession; but it is generally taken to be growth of less than 2-2.5 per cent.

[8]EIU, *Global Outlook*, October 2001.

The decline in consumer confidence in USA not only affected business sentiment (and economic activities) within the country; through a reduction in the demand for imports, it immediately affected countries with a high degree of dependence on USA market for their exports. Countries like Mexico and the export-oriented economies of Asia fall into this category. In addition, some countries (e.g, Bangladesh, India, Nepal) which are not so export-oriented and yet are heavily dependent on the US market for their export items are also feeling the pinch. Recent newspaper reports are replete with news from developing countries of sharp declines in their exports.

Apart from exports, another channel through which developing countries are being affected is foreign direct investment (FDI). According to UN Department of Economic and Social Affairs (DESA), FDI was expected to decrease in 2001 even before 11 September; and
The decline will be exacerbated by the changed environment. For the crisis-affected countries of Asia, private capital inflows were already stagnating at a level well below their pre-crisis levels. And in the current scenario any improvement seems highly unlikely. The same remark can be made about emerging economies of Latin America. Declines in FDI and private capital inflows can have further implications for revival of growth in such economies.

Figure 1: Stock Prices (New York Stock Exchange) before and after 11 September 2001



Projections of GDP growth are therefore being revised downwards. For developing countries as a whole, the growth projection for 2001 has been lowered from 4.3 per cent to 2.5 per cent. And the projected decline is most dramatic for Asia (excluding China and Japan) – from 5.8 per cent to 1.7 per cent (Table 9). Again, the export-oriented economies of Asia lead the list in this respect. Indonesia, Malaysia, Republic of Korea and Thailand who were already going through a sharp slowdown in output growth lowered their growth forecasts further (see Table 2). Even China, a country which had come out of the Asian economic crisis relatively unhurt, is experiencing a very sharp decline in their export growth (the current projection is 2.7 per cent for 2001, compared to a hefty 27.8 per cent achieved in 2000). And the GDP forecast for 2001 has now been revised to 7.1 per cent, although the earlier forecast was 7.5 per cent. India, which is another relatively insulated economy, is also experiencing a slowdown in their export growth as well as GDP growth.

In Latin America the most dramatic is the case of Mexico - a country which, in contrast to a healthy growth in 2000, is now experiencing a contraction of the economy. Brazil is another country which has revised its growth forecast for 2001 very substantially. Argentina was already in recession, and the rate of contraction may now be higher than projected earlier.

The economies of Africa appear to have been less directly affected by the slowdown in the global economy; but a recent update by the UN Department of Economic and Social Affairs reports that a weakening of commodity prices resulting from the slowdown is having negative consequences for many countries in the region. According to this update (dated 10 October 2001), growth in the region is now expected to remain around 3 per cent for 2001 - barely above the rate of population growth.

The outlook for the global economy in 2001 does not appear to be bright. While there are differences in opinion regarding precise timing and strength of recovery as well as possible effects of the current uncertainties and the war on terrorism, there is general agreement that real recovery of the American economy (and thus of the others closely linked to it) will not start until about the middle of 2002. Till then the global economy is likely to remain depressed.

4. Employment Implications of the 2001 Recession

The sharp decline in the growth of output (mentioned in the two earlier sections) has an important human dimension in terms of the loss of employment that results from such severe downturns in economic activities. With the memory of the adverse social consequences of the Asian economic crisis still rather fresh, it is not difficult to appreciate the gravity of the current situation. This, however, is an aspect on which it is more difficult to produce hard figures as in the case of output. For much of the developing world (which accounts for a major proportion of the world's working population), reliable and up to date data on unemployment are hard to come by. What the present exercise aims to do, therefore, is just to make some estimates of the possible loss of employment that could result from the declines in output growth that one is currently seeing. This is done basically to provide some idea of the rough orders of magnitude of the problem that one is looking at, which in turn could help create alertness about the seriousness of the employment implications of the current recession.

While making any estimate of employment losses, it would be important to remember (as analysed in the earlier sections) that the current global recession cannot be ascribed solely to the 11th September event. Growth of output had slowed down substantially already before that; and the shock inflicted by the attack simply accentuated the downturn. To recall the relevant statistics, before 11 September, world output growth in 2001 was forecast to fall to 2.6 per cent. This was a very substantial decline (from 4.7 per cent in 2000) by itself, and must have been affecting the employment situation adversely. In fact, anecdotal reports of job losses in various countries were already appearing in the media. After the 11th September shock, the growth forecast was lowered from 2.6 per cent to 1.4 per cent. And with that multiplied news items of job losses.

In estimating employment losses due to the decline in output growth, the present exercise, therefore, tries to estimate (i) the loss that would have resulted anyway (i.e., without the 11 September events) due to the global economic slowdown from 4.7 per cent to 2.6 per cent, and (ii) the loss that might result from the decline in output growth that is forecast after the 11 September events (from 2.6 percent to 1.4 percent). The former can be regarded as the effect of global slowdown before 11 September, while the latter the effect of the 11 September shock.[9]

[9] In other words, "employment loss" estimated here is the difference between what employment would have been with a 4.7 per cent growth, and what it is likely to be with the rates of growth projected after the slowdown began, before and after 11 September.

Table 6: Alternative Projections of Employment Loss Due to Global Economic Slowdown in 2001 and the Terrorist Attack of 11 September

Factors	Projected Loss of Employment
Effect of global slowdown (from 4.7 % to 2.6 %)	39 million
Effect of 11 September (from 2.6 % to 1.4 %)	22 million
Effect of global slowdown and 11 September (from 4.7 % to 1.4 %)	61 million

Notes and sources:

(1) An employment elasticity of 0.63, as provided by the ILO=s World Employment Report 1996/97, was used.

(2) World output growth of 4.7 % for the year 2000 was reported both by IMF=s World Economic Outlook, October 2001, and EIU=s October 2001 report.

(3) IMF=s Word Economic Outlook, October 2001 which reports pre- 11 September projections, projects 2.6 % growth for 2001.

(4) EIU=s October report projects a 1.4 % growth for the year 2001, taking into account the impact of the 11^{th} September. J.P. Morgan=s Global Data Watch 21 September projects 1.1 % growth in 2001.

(5) Using the ILO=s World Employment Report (1998/99) figure of 3 billion for the world=s labour force in 1998, and 150 million unemployed, the employed labour force in 1998 has been estimated to be 2.850 billion. Assuming an employment growth of 1.5 % per annum, the employed labour force for 2000 has been estimated to be 2.936 billion. This figure has been used as the base, along with the employment elasticity and alternative GDP growth figures, to make employment projections for 2001. The following projection model has been used:

$E_t = E_0 (1+r_e)^t$
where:
E_t = Total employment in the t-th year
E_0 = Total employment in the base year
r_e = Rate of employment growth
and
$r_e = \eta r_g$
where
η = employment elasticity
r_g = growth of GDP

The estimates of employment losses are made for the world as a whole by using an employment elasticity of 0.63, and an estimated employed labour force of 2.936 billion in the year 2000.[10] Such estimates indicate an employment loss of 39 million resulting from a slowdown of output growth from 4.7 per cent (in 2000) to 2.6 per cent (in 2001), and a further loss of 22 million due to the decline in output growth from 2.6 per cent to 1.4 per cent. Thus, the effect of the global slowdown before 11 September can be said to be a loss of 39 million jobs, while the effect of the 11 September shock is an addition of 22 million to that number. Thus, the total impact of the global recession in 2001 (which is the combined results of the slowdown in global output growth already under way and the shock inflicted by the 11 September events) could be some 61 million jobs.

A few remarks need to be made in respect of the estimates mentioned above. First, an important parameter in these estimates is the elasticity of employment. And the figure for this parameter that has been used in the present exercise is one based on historical data for the period 1982-93. It is quite possible for the elasticity to have changed (indeed, to have declined) in recent years. And the use of a lower elasticity would yield lower estimates of employment losses.

Second, employment losses would vary from country to country, depending on the magnitude of employment elasticity and the decline in output growth. Table 7 presents estimates for countries (both developed and developing) for which needed data (viz., employment elasticity, total employment for 2000 or a recent year, and output growth rate) are available. These estimates indicate that even without the 11 September shock, job losses could represent 1.7 per cent of the labour force in the USA. For Mexico, the figure could be as high as 3.5 per cent. The corresponding figures for countries of East and South East Asia range from 0.4 per cent in Thailand to 1.7 per cent in Korea. These figures simply represent percentage points of increases in unemployment rates due to the economic slowdown even before 11th September. The figures of employment loss after the 11th September shock are naturally higher: 2 per cent of the labour force in USA, 4 per cent in Mexico and 1.9 per cent in Korea. These figures, in turn imply that unemployment rates in USA, Mexico and Republic of Korea, for example could rise to 6, 6.2 and 6 per cent respectively in 2001 (from 4, 2.2 and 4.1 per cent respectively in 2000).

[10]The employment elasticity figure is from the ILO *World Employment Report 1996/97*, and refers to the period 1982-93. See notes to Table 6 for a description of how the employment figure for 2000 has been estimated.

Third, the employment loss figures presented here are estimates based on the assumption of observed relationship between employment and output growth. Such relationships may not apply exactly in the same manner in practice, especially when output declines. Also, in developing countries, declines in economic activities typically result in labour market adjustments in a variety of ways (including increased underemployment, reduction in real wages, etc. - rather than straightforward unemployment). The manner in which the labour markets of some of the South East Asian countries responded and adjusted during the economic crisis of 1997-98 illustrates the possibility of such outcomes rather than massive increases in unemployment.[11] Therefore, the estimates of job losses for the developing countries should perhaps be taken as indicators of a combination of labour market outcomes like increases in unemployment and underemployment, increased resort to informal economic activities, and declines in real wages.

[11]See the overview chapter as well as the chapter on Indonesia in Betcherman and Islam (2001) for illustrations.

Table 7: Projected Employment Loss due to the Global Economic S1owdown in 2001 (with and without the 11th September shock)

	(i) Employment Elasticity	(ii) Labour Force (000's)	(iii) Employment Loss (without 11th Sept. Shock)	(iv) Col. (iii) as % of col. (ii)	(v) Employment Loss (with 11th Sept. Shock)	(vi) Col. (v) as % of col. (ii)
Argentina	0.5	9,645	58.41	0.61	62.55	0.65
Brazil	0.5	79,315	1,003.46	1.27	1,326.01	1.67
Chile	0.51	5,934	27.56	0.46	49.61	0.84
China	0.15	711,610	529.40	0.07	952.91	0.13
Colombia	0.22	7,056	11.17	0.16	11.17	0.16
France	0.25	25,931	46.75	0.18	64.28	0.25
Germany (2000)	0.46	39,588	317.99	0.80	376.56	0.95
India	0.23	338,241	137.02	0.04	685.10	0.20
Indonesia	0.25	95,763	444.08	0.46	732.74	0.77
Japan (2000)	0.28	67,420	470.43	0.70	542.81	0.81
Malaysia	0.24	9,152	169.69	1.85	171.81	1.88
Mexico	0.58	39,751	1,404.92	3.53	1,608.87	4.05
Philippines	0.63	32,000	274.08	0.86	274.08	0.86
Republic of Korea (2000)	0.28	22,119	386.48	1.75	428.10	1.94
Thailand	0.22	33,209	141.18	0.43	169.42	0.51
UK (2000)	0.52	29,461	115.96	0.39	144.94	0.49
US (2000)	0.53	140,863	2,436.45	1.73	2,866.41	2.04

Notes: Employment elasticity figures are from ILO (1996) and Khan (2001). Labour force figures are from ILO Yearbook of Labour Statistics. The figures in other columns are estimated. 'Employment loss' is estimated as the difference between projected employment with GDP growth at the same level of 2000 and projected employment with GDP growth that is forecast for 2001. The following projection model has been used:

$E_t = E_0 (1+r_e)^t$

where:
E_t = Total employment in the t-th year
E_0 = Total employment in the base year
r_e = Rate of employment growth
and
$r_e = \eta r_g$
where
η = employment elasticity
r_g = growth of GDP

Sources: ILO (1996) World Employment Report 1996/97, ILO Yearbook of Labour Statistics various years and Khan, A. (2001) Employment Policies for Poverty Reduction, Issues in Employment and Poverty, Discussion Paper 1, ILO, Geneva.

5. Responding to the Recession: Keynes Remains Relevant

In principle, a number of policy instruments in the domains of monetary, fiscal, and trade and exchange rate policies are available to fight an economic downturn. There are alternative instruments within particular fields also. In fiscal policy, for example, it is possible to apply cuts in personal income taxes or corporate taxes, or to increase public spending. The choice of a particular instrument or a mix of them would depend primarily on the macro economic fundamentals of a country in terms of inflationary situation, prevailing interest rates, budgetary situation (i.e., the existence of surplus, extent of deficit, etc.), balance of payments position, etc. The expected outcomes and speed of recovery can also vary accordingly.

At the outset of the current global economic slowdown (i.e., in the early part of 2001), the situation with respect to key macroeconomic variables was quite conducive to the use of monetary as well as fiscal instruments to fight recession. While this was particularly true of the major developed countries, the situation in the developing countries was of course not uniform. In USA, for example, inflation was not high, prevailing interest rates gave ample room for reduction, and budgetary surplus provided scope for tax cuts as well as increased public spending. The inflationary situation in the EU countries also improved in the course of the year, opening room for some manoeuvre. Although the so-called Astability pact@ (which limits budget deficits to a maximum of 3 per cent of GDP) limits the role of fiscal stimulus in most of the Euro-region, the governments still have some room to allow automatic stabilisers to operate in their social programmes (e.g., unemployment benefits). That should enable them to avoid a tightening of policy to offset the automatic loss of tax revenues and the rise in jobless benefits as economic growth declines.

In the developing countries, the budgetary situation varied considerably when the global slowdown started hitting them. In Asia, most of the crisis-affected countries (except Republic of Korea) were still running budget deficits in 2000 (see Table 8). In Thailand, however, the size of the deficit had declined considerably. In Indonesia and the Philippines, despite an increase in 2000, the budget deficit remained less than 5 per cent of GDP. So was the case in China. In major Latin America countries also, the budget deficit in 2000 was below 5 per cent of GDP. Amongst African countries, Ghana and Uganda had high budget deficits, while in some other countries the situation was much better. On the whole, it seems that budgetary situation in a good number of developing countries did have room for the adoption of fiscal instruments for fighting the economic downturn.

Table 8: Fiscal Balance (% of GDP)

	1990-95	1996	1997	1998	1999	2000	2001	2002
China	-2	-1.6	-1.5	-2.2	-2.9	-2.7	**-2.6**	**-2.4**
India	-6	-4.9	-4.9	-5.3	-5.8	-5.4	**-6**	**-5.7**
Indonesia	0.7	1.2	-0.7	-2.9	-1.1	-3.3	-4.1	-3.3
Malaysia	1.4	2.0	2.9	N/a	N/a	-5.8	-7.2	-6
Philippines	-1.1	0.3	0.1	-1.9	-3.8	-4.1	-4	-3.4
Republic of Korea	-0.2	0.1	-1.3	N/a	N/a	0	**-2.1**	**-1.1**
Thailand	3.2	2.3	-2.1	-7.7	-10.4	-2.2	-3	-4.4
Argentina	0.1	-2.2	-1.5	-1.5	-2.9	-2.8	**-2.2**	**-0.3**
Brazil	-5.1	N/a	-7.3	-7.8	N/a	-4.3	**-6.4**	**-5.3**
Chile	1.9	2.3	2.0	0.4	-1.5	0.1	**-0.8**	**0**
Colombia	0	-3.7	-3.7	-5.1	-7.1	-7.0	-4.1	-3.7
Ecuador	1.4	N/a	N/a	N/a	N/a	8.9	**-0.6**	**-1.2**
Mexico	0.92	-0.2	-1.1	-1.4	-1.6	-1.1	**-1**	**-0.3**
Peru	-2.2	2.8	0.6	-0.1	-2.2	-3.1	**-2.3**	**-1.9**
Uruguay	-0.5	-1.5	-1.2	-0.8	-3.7	-3.7	**-3.6**	**-3.3**
Venezuela	-2.1	1.6	2.2	-3.7	-2.4	-1.7	-2.6	-1.4
Ghana	-1.5	N/a	N/a	N/a	N/a	-8.5	-6.5	-5.5
Kenya	-3.2	-0.9	-0.8	0.6	N/a	0.6	-2.5	-3
Nigeria	N/a	N/a	N/a	N/a	N/a	-2.9	**-5.1**	**-6.0**
South Africa	-4.7	-5.1	-3.4	-2.8	-2.0	-1.9	**-2.1**	**-1.7**
Tanzania	N/a	N/a	N/a	N/a	N/a	-1.5	**-2.8**	**-1.2**
Uganda	N/a	N/a	N/a	-0.5	-0.6	-10.2	-10.7	-11.7

Notes: Figures in bold have been released after Sept.11th 2001.
Sources: World Bank WDI 1998 and EIU Country Reports & Country Forecasts Sept. & Oct. 2001.

Different policy instruments can have different implications, not only for the time that may be need for creating an impact but also for the outcomes in terms of employment and benefit for the poor. Monetary policy (through a lowering of interest rates, for example) usually produces the desired result only with a time lag. In a sharp downturn like the present one, a fiscal stimulus package may be able to produce quicker results than monetary easing. However, the composition of the fiscal package would be very important in that regard. For example, tax rebates – especially corporate taxes and taxes on higher income brackets – are unlikely to have the same impact on consumption expenditure as measures to augment incomes at lower income levels. Increased public spending, on the other hand can not only be expected to produce quick results, but also can create an immediate impact on employment and incomes, and through the multiplier effects, on further economic activities and employment - if, of course, there is no crowding out effect on private investment.

Table 9 presents in a summarized form information on policy instruments used by a number of countries - both developed and developing - in responding to the current global economic slowdown. Several points can be noted from this table. First, a combination of monetary and fiscal policies is being applied by many countries. And that makes good sense, because in a downturn as sharp as the current one, it is only natural to utilize all the armouries that are available at one=s disposal.

Second, the use of fiscal stimulus has not remained confined to developed countries with budget surplus; a number of developing countries are also employing this instrument. Moreover, they have not hesitated to adopt increased public spending as a means of propping up their economies. This is not surprising because as mentioned earlier, the budgetary situation at the onset of the slowdown in many countries did leave room for the adoption of such measures. Indeed, the widespread use of fiscal instruments by developed and developing countries alike for fighting the current recession shows the continued relevance of Keynesian economics in tackling the economic problems of the present-day world.

Table 9: Policy Responses to the Global Economic Slowdown

	Monetary	Fiscal	Trade Policy
France		Stimulus package of corporate tax breaks, support for poor households & state aid to struggling sectors was announced. 2002 budget involves a tax cut worth 0.4% of GDP. 30% tax reduction on equipment bought now through next march. Refunds on French VAT to companies making about US$1.09 bn available to some 15.000 French firms. 8.5 million people in France's lowest income households whose monthly incomes are less than 1.600 Euros to get tax credits at a cost to taxpayers of 1.2 bn Euros.	
Germany		CS estimates that budget deficit could be 2.5% of GDP in 2002.	
Japan	On Sept. 17th BOJ cut i/r. In Oct. a further 0.15% fall in overnight lending rate (now virtually at 0). End of Sept. BOJ injected Y 10,000bn (US $83bn) into the money markets.	Y 1 trillion (US $ 8.3 bn) to stimulate growth in 2001. Y 1.1 less in tax revenue in 2001. A second extra budget to pay for anti-terrorism measures.	BOJ intervened in foreign exchange markets to sell Yen and buy $ and Euros to prevent the $ from falling further and push the value of the Y down.
UK	On Sept. 17th BOE cut i/r from 5% to 4.75%. On Oct. 4th BOE cut i/r further to 4.5%. Further reduced to 4.0% in Nov.		
EU	On Sept. 17th ECB cut i/r by 0.5% to 3.75%. Further cut to 3.25% in Nov.		

US	On Sept. 17th the Fed cut i/r by 0.5% to 3%. On Oct. 2nd the Fed made its second 0.5% i/r cut taking benchmark fed funds target rate to 2.5% (lowest level in 40 years) as compared to 6% at the beginning of 2001. The i/r cut to 2% in Nov. 2001.	$60-70 bn package of stimulus spending & tax cuts in addition to $38 bn in tax refunds, $40 bn recovery package & $15 bn bailout for airlines. $3 bn emergency grants to workers who lose their jobs. On 24th Oct. further tax relief plan announced – US$100bn includes repeal of the corporate alternative minimum tax, a new round of tax rebate checks of up to $600 for lower-income workers, a cut in the 27% income tax rate to 25% in 2002 instead of 2006.	Most probably a lowering of tariffs in the near future.
	Monetary	**Fiscal**	**Trade Policy**
Argentina	A raise in the i/r due to dependency on foreign capital.	Tight fiscal policy	
Bangladesh	Bank rate reduced from 7% to 6% (in Oct. 2001). Interest rate on export credit for ready-made garments lowered by 3% to 7% (in Oct. 2001).		
Chile	The target i/r rate to stay at 6.5% due to the sharp monetary relaxation by the US Fed	Increased public spending by 4.9% in 2002.Budget deficit projection for 2001 rose from 0.1% to 0.5-0.8% of GDP.	
China		Rmb. 150 bn ($18 bn) increased spending on govt. salaries, improving the environment & developing the country's poorer western provinces.	Increased spending to cover the slide in export growth. When joining the WTO China will lower its tariff barriers.
India	Commercial bank rate lowered to 6.5% from 7%. RBI's cash reserve ratio lowered from 7.5% to 5.5%.		
Indonesia	Average i/r unchanged at 14%.	Extended budget deficit to 2.7% of GDP from 2.5%. Inflation forecast for 2001 increased from 8% to 9%.	Rupiah e/r has moved from 9000 to 1US$ from 8500.Oil price of $22 a barrel compared with $24 before Sept.11th
Malaysia	0.5% i/r cut on Sept. 20th	M$ 4.3 bn (US $ 1.1bn) Spending package	
Philippines	Cut i/r	Increased public spending	Currency depreciation

Republic of Korea	BOK lowered the overnight call rate by 50 basis points to 4%.	On 8th Oct. $1.5 bn. injected into economy mostly to construction projects to help keep major companies in business. Budget deficit projection for 2001 rose from 0.1% of GDP to 2.1%.	Support for exporting companies. BOK Allowed currency (Won) to depreciate.
Singapore	2.7 bn. Singapore $ (US$ 1.49) worth of bonds issued to the public with aim to recover economy from worst eco slump.	Tax cuts and extra spending of 7% of GDP. Economic stimulus package of 11.3bn US$.	
South Africa	Cut in i/r in Sept.		
Taiwan	Cut i/r	Increased public spending	Currency depreciation
Thailand		58 bn Baht emergency spending package aimed at labour intensive projects	

Source: Compiled from various media reports.

Third, as mentioned already, the actual impact of the stimulus package on output growth and employment will depend on the composition of the package. But in that respect, it is not possible to say much on the individual country efforts at this stage, as the measures have just been announced and detailed information on their composition is not yet available. However, a couple of examples can be discussed on the basis of available information.

The fiscal package announced by the U.S. seems to be oriented more towards tax rebates, especially corporate taxes. Such rebates, particularly if they focus on past corporate taxes, are not likely to encourage future investment. And in any case, given the over-investment that has taken place in that country in recent years, it may be difficult to induce a turn-around through the investment route. Thus, the US fiscal stimulus package does not seem to be appropriately targeted to induce increases in consumption expenditures and engender the multiplier effect through that route.[12]

In contrast, the stimulus package announced by Malaysia, with its focus on increased public spending targeted at sectors (e.g., infrastructure) and groups (e.g., lower income people including retrenched workers) that are likely to create multiplier effects, appears to have greater expansionary potential.

Finally, a remark on the ability of developing countries to adopt expansionary fiscal stimulus. Although some countries in that category with comfortable fiscal balance are able to adopt such packages, not all are so fortunate. Indeed, many may be suffering from large fiscal deficits, and hence

[12] This also came out during discussions at the Global Employment Forum organized by the ILO in Geneva during 1-3 November 2001.

may even be under pressure from international financial institutions to adopt a restrictive budgetary stance. However, while recognizing the importance of macroeconomic balance and fiscal discipline from the point of view of sustained economic growth, it is important to consider the dangers (especially in terms of aggravating the adverse employment and social effects of the sharp economic downturn currently under way) of a pro-cyclical fiscal policy during a period of sharp economic downturn as the present one. And one way of avoiding such dangers would be for international financial institutions to render support to low-income countries in adopting a counter-cyclical policy.[13]

6. A Decent Work Approach to Minimize the Adverse Social Consequences of the Recession

A sharp downturn in economic activities is bound to be associated with adverse social effects in terms of loss of jobs, and in developing countries, moves to inferior jobs (typically in informal sector activities), and resulting increase in poverty - unless of course adequate countervailing measures are undertaken. The experience of the Asian economic crisis should provide one with a reminder of the kind of human sufferings that can be caused by a severe economic downturn unless timely and effective measures are undertaken. Of course, the current global economic slowdown has not yet assumed the proportion of crisis like the Asian economic crisis. But the situation can easily deteriorate unless appropriate action is taken on a timely basis. And as the adverse social consequences start basically with the loss of work and other related repercussions on the labour market, the appropriate way to minimize these consequences would be to work on a decent work agenda.

The decent work approach is based on the promotion of opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and human dignity. This approach would be highly relevant in the current global climate of looming recession and the associated social consequences. It would be necessary to undertake measures to revive economic activities that can generate new productive employment, to help enterprises survive so that jobs can be preserved, and to ensure that workers continue to be protected against risks posed by ill health, and supported in old age. And as there can be tensions inherent during periods of economic difficulties requiring adjustments in the economy as well as at the enterprise level, social dialogue assumes particular

[13] Stiglitz (2001), for example, suggests that the IMF could use its SDR instrument in providing such support.

importance to ensure that necessary steps are taken in an environment of human dignity and in a democratic and participatory manner.

As far as economic revival and job creation are concerned, a combination of monetary and fiscal policies appears to be a step in the right direction. The relative merit of fiscal instruments, and within them of measures capable of inducing increased consumption and investment expenditures, has already been mentioned earlier. Increases in public spending in a well-targeted manner (so as to create necessary multiplier effects) deserve special attention in that respect. Of course, for public spending to be effective, and for new employment to be productive and sustainable, it is essential to be careful about the choice of projects. One lesson of the experience with such projects is that unless properly planned and executed, their effectiveness can be limited. It is therefore important to remain prepared with well-designed projects and capacity to implement them.

Alongside increased public spending, it is necessary to adopt measures to support micro and small enterprises (where most existing jobs in developing countries are located). While a reduction in the rate of interest is a step in the right direction, attention has to be devoted to other factors that might constrain the availability of finance to such enterprises and make their operating environment difficult. In sum, during a period of economic slowdown as the present one, it would be important to be particularly vigilant to ensure a conducive operating environment for enterprises capable of creating quality jobs.

The experience with the Asian economic crisis has shown that a severe downturn in an economy leads to a further crowding of informal economic activities where productivity and earnings are usually low and social protection much weaker if not totally absent.[14] As there is a distinct possibility of workers again having to resort to such activities, it is high time to find ways and means of providing them with necessary social protection.

Recession and sharp economic downturn are periods of difficulty for all, although some may be hurt more than others. Declines in profits, loss of jobs (which in some cases may mean loss of social protection as well), increased uncertainties can lead to an environment of conflict and friction unless appropriate measures are taken to prevent or overcome them. Transparency and accountability in governance, and the culture of participation and dialogue in selecting the right strategies for responding to the difficulties would be more important in a situation of economic decline than would otherwise be. The experience of some countries (notably, Republic of Korea) during the recent economic crisis in Asia demonstrates the practical importance of social dialogue and its effectiveness in overcoming frictions and tensions that might be inherent parts of a process of adjustment and change.[15] The current global

[14]In Indonesia, for example, during the crisis year of 1998, open unemployment rate registered an increase which was smaller than many had feared. The labour market adjusted partly through a shift in employment towards agriculture and informal sector. See the chapter on Indonesia in Betcherman and Islam (2001).
[15]See Campbell (2001), Lee (1998).

recession has produced another situation where the globalizing world is facing the tests of its ability to weather storms in a way that the resulting pains are not inflicted disproportionately on any particular group. Effective social dialogue can be a powerful tool for passing this test.

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