World of Work Report 2010

From one crisis to the next?

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The **International Institute for Labour Studies** was established by the International Labour Organization in 1960 as an autonomous centre for advanced studies in the social and labour field.

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Editorial

Raymond Torres
Director
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Three years after the start of the financial crisis, the world economy has resumed economic growth and some countries have even witnessed encouraging signs of employment recovery, notably in Asia and Latin America.

In many countries the employment outlook worsened recently…

Despite these significant gains, however, new clouds have emerged on the employment horizon and the prospects have worsened significantly in many countries. In advanced economies, employment is expected to return to pre-crisis levels by 2015, instead of 2013 as expected in last year's World of Work Report (Chapter 1). In the case of emerging and developing countries, it is estimated that employment will reach pre-crisis levels already this year – as predicted in last year's Report. However, over 8 million jobs are still needed to meet the growing workforce in those countries. In many other countries in which employment growth was positive at the end of 2009, more recent trends suggest a weakening of the job recovery or even falling employment.

The longer the labour market recession, the greater the difficulties for jobseekers to obtain new employment. In the 35 countries for which data exist, nearly 40 per cent of jobseekers have been without work for more than one year and therefore run significant risks of demoralisation, loss of self-esteem and mental health problems. Importantly, young people are disproportionately hit by unemployment and, when they find a job, it often tends to be precarious and does not match their skills. Because the labour market has been depressed for so long, many unemployed people are getting discouraged and leave the labour market altogether. By the end of 2009, more than 4 million jobseekers had stopped looking for work in the countries for which information is available.

…reflecting both the shift to fiscal austerity and the fact that the root causes of the crisis have not been properly tackled.

The first reason behind the deteriorated outlook is that fiscal stimulus measures, which were critical in kick-starting a recovery, are being withdrawn. Governments are worried about larger public deficits in view of investors' reluctance to fund these deficits. In the majority of countries analysed in the Report, fiscal policy has shifted to austerity which, if badly designed, will prolong the job crisis.

A second, more fundamental factor is that the root causes of the crisis have not been properly tackled. The coexistence of debt-led growth in certain developed countries with export-led growth in large emerging economies has proved to be the Achilles' heel of the world economy. Before the start of the financial crisis, real labour incomes grew less than justified by productivity gains, thereby leading to growing income inequalities. In certain advanced economies such as the US and several EU countries, this situation pushed households to borrow in order to fund their housing and consumption plans – which was possible because of a dysfunctional financial system. In other advanced economies like Germany and emerging countries such as China, growing inequalities translated into relatively modest domestic demand growth. But this was outweighed by higher exports to high-spending, debt-led economies. The private-debt bubble exploded with the onset of the global financial crisis and for a while was replaced with public debt as an engine of growth. However, there is a limit as to how much public debt can increase in order to stimulate the economy.

For a sustainable exit from the crisis, it is therefore crucial to address both the income imbalances and the dysfunctional financial system.

But there is a sustainable exit from the crisis, involving, first, job-centered fiscal support…

It is still possible to improve the employment outlook. The Report provides evidence on the key role of a mutually reinforcing, three-pronged approach. First, job-centered policies must be strengthened to reduce the risk of growing long-term unemployment and higher informality. Well-designed active labour market policies, work-sharing arrangements and targeted measures to support vulnerable groups, notably youth, are especially relevant in this respect. In countries where recovery is taking place, effective training policies are needed in order to ensure that workers have the right skills.

The Report shows that these measures have been used successfully in different regions of the world and are not expensive to the public purse. Moreover, over the longer run, the measures would support labour market participation and job quality, thereby creating room for reducing public spending and generating more revenues. In the end, public deficits would be lower than would be the case if ill-conceived fiscal austerity is pursued (Chapter 3).

…second, income-led growth in emerging economies and other surplus countries…

The second policy plank is income-led growth in surplus countries in order to move away from debt-led growth and pave the way for sustainable job creation in both surplus and deficit countries. The Report shows that, by ensuring a closer link between increases in labour incomes and productivity in surplus countries, unemployment would decline in these surplus countries but also in those facing acute deficit problems (Chapter 4). This would be more effective in rebalancing the world economy than currency changes. Indeed, income-led strategies not only support aggregate demand, but also result in enlarged domestic markets and new business opportunities that can be seized by sustainable enterprises.

Income-led growth, in turn, depends on efforts to reinforce collective bargaining and social dialogue, well-designed minimum wage policies as well as employment-friendly social protection systems. Countries like Brazil and India have demonstrated how this can be achieved.

…and third, financial reform.

As stated by the Bank for International Settlements in its 2009 Annual Report "a financial crisis bears striking similarities to medical illness. In both cases, finding a cure requires identifying and the treating the causes of the disease". It is a fact, however, that reforms have so far failed to tackle the "causes of the disease".

As a result, a significant "moral hazard" problem has been created by bailing out banks without imposing deep reforms on them. The volume of credit to the real economy has declined in advanced economies. The situation is especially worrisome for small businesses which are central to a jobs recovery but rely on banks for their investment and hiring plans. Emerging and developing countries too are affected by volatile capital flows which tend to destabilise the real economy.

By reforming financial systems, including through the adoption of measures discussed in international fora, savings would be channelled to productive investment and jobs would become more stable (Chapter 5). Such measures should involve action at both the national and international levels, e.g. through the adoption of a tax on financial activities. Some concern has been expressed, especially among the financial profession, regarding the transition period entailed by financial reform and increased lending costs. However the longer-term benefits of financial reform for the real economy and society are clearly of much greater importance.

Social cohesion is at stake

Social cohesion should figure more prominently in the policy debate. The initial policy response contributed to building a sense that employment and social concerns were taken into account. However, continued social cohesion cannot be taken for granted if the strategy becomes less inclusive.

Already, there is growing evidence of a deteriorated social climate, especially in countries where job losses have been the highest. For example, out of 82 countries with available information, more than three-quarters indicate that in 2009, individual perceptions of their quality of life and standard of living have declined. The unemployment rate in these countries has risen by nearly 3 percentage points more than in the other countries. Even among those with a job, satisfaction at work has deteriorated significantly: in more than two-thirds of 71 countries with data, job satisfaction fell in 2009. Not surprisingly, perceptions of unfairness are growing (46 out of 83 countries) and people have less confidence in governments (36 out of 72 countries) than prior to the crisis. The Report shows that higher unemployment and growing income inequalities are key determinants of the deterioration in social climate indicators (Chapter 2). By contrast, economic growth per se is not a very significant factor behind social climate indicators. This result reinforces the importance of job-centered policy action advocated by the ILO Global Jobs Pact.

In sum, adopting a job-centered exit strategy would enhance social cohesion while ensuring sustainable recovery from the crisis. This requires carefully-crafted fiscal support to tackle long-term unemployment, efforts to strengthen the links between labour incomes and productivity developments and financial reforms geared towards the needs of the real economy. As stressed by many observers, the crisis should be used as an opportunity to building a balanced global economy. The employment and social outlook suggests that time is running out to make this opportunity a reality.

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