

**Comments by Jose M. Salazar-Xirinachs  
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at the OECD Policy Forum:**

**HOW CAN LABOUR MARKET AND SOCIAL POLICIES BEST HELP  
WORKERS WEATHER THE STORM OF THE CRISIS?**

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**I. THE CONSEQUENCES OF UNEMPLOYMENT**

Let me start by fully endorsing Prof. Blanchflower's message on the tragedy and costs of unemployment. The ILO has been insisting consistently on this for many years, not only in this crisis, but in what we call "the crisis before the crisis", that is, the enormous human tragedy of underemployment, poverty and lack of social protection as well as gaps in respect for workers rights, in short, the enormous decent work deficits that existed before this crisis and that this crisis is exacerbating.

The ILO has been responding aggressively with all our means of action to the present crisis. As part of this, last June, the International Labour Conference adopted a document called: "*Recovering from the Crisis: A Global Jobs Pact*" (GJP).<sup>1</sup> Our Director General, Mr. Juan Somavia will be speaking more extensively this afternoon on the GJP and the G20 Summit in Pittsburgh.

I would like to focus on three issues: a brief assessment of the policy responses to the crisis and the economic outlook, the challenge of minimizing persistent unemployment; and the role of social dialogue.

**II. POLICY RESPONSES AND ECONOMIC OUTLOOK**

**1. Boosting aggregate demand**

Regarding policy responses, as Prof. Blanchflower pointed out, thanks to John Maynard Keynes, this time around, governments and central banks have focused on expanding aggregate demand and injected massive amounts of cash into the world economy. The unemployment situation around the world would be much worse had this not been done.

- The OECD has estimated that for the 19 OECD countries examined the average employment effect in 2010 falls in the range of 0.8 to 1.4%, a total of 3.2 to 5.5 million jobs.
- For the G20 countries the ILO has estimated a slightly larger employment impact: from 7 to 11 million jobs created or saved in G20 countries in 2009. This is equivalent to between 29 and 43 percent of total unemployment in G20 countries. This means that the fiscal stimulus measures have made a

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<sup>1</sup> The GJP contains a series of principles for crisis response based on the Decent Work Agenda and the 2008 Declaration on Social Justice for a Fair Globalization, and a portfolio of policy options that countries can adapt to their specific needs and situation. The GJP is an ILO contribution to national decision-making, international cooperation and policy convergence on the crisis.

difference, without them unemployment would have been much higher in these countries.<sup>2</sup>

Having said this, it is also important to make the point that fiscal policy responses, while helpful and essential, cannot possibly fully mitigate the fall in output, let alone employment and labour market outcomes. This is partly because the reduction in private investment and consumer demand is huge. Thus, sustainable recovery can only be obtained when consumer demand and private investment recover in a sustainable way.

What are the prospects of this happening?

## **2. The Economic Outlook: the importance of avoiding premature withdrawal of stimulus and the urgency of repairing the financial system**

The International Labour Office's studies and discussions of the global economic outlook are quite close to Prof. Blanchflower's assessment. Like him, we believe that despite recent signs that the world economy has stabilized and began to recover, the outlook is more fragile than many commentators believe, and that return to the previous levels of unemployment will take a long time. In fact, this concern is a central one in the Global Jobs Pact, and one that the Pact very much hopes to contribute to address.

A major reason to believe that the recovery will not be V shaped but slow and protracted is that in the US and other major developed economies the company and household sectors are highly indebted and have lost wealth massively. It will take time to rebuild the balance sheets of banks and to repair those of households in countries where consumers were most overstretched and the housing bubble was most dramatic. The experience of Japan in the 90s shows that this can take a long time.<sup>3</sup> The reality is that there is still no sign of self-sustaining economic recovery. What growth is observed now is almost exclusively driven by government stimulus, and that is why governments should stay the course for the time being.

Despite bail out actions, the financial sector is still pretty sick in many countries and, as the Financial Times argued in its editorial last Friday "pathologically undercapitalized".<sup>4</sup> Credit flows have not been restored to levels compatible with full employment, and the limited bank lending that takes place is often at high interest rates. Given these realities the recovery is likely to remain vulnerable to many possible shocks, at least over the next year or two.

Restoring health to the financial system to achieve a private-sector-led recovery is all the more urgent because there are increasing concerns with the rise of fiscal deficits and government debts and their future consequences.

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<sup>2</sup> ILO, Protecting people, promoting jobs, An ILO report to the G20 Leaders' Summit, Pittsburgh, 24-25 September, Annex 4.

<sup>3</sup> Richard Koo (2008), *The Holy Grail of Macroeconomics. Lessons from Japan's Great Recession*, John Wiley & Sons.

<sup>4</sup> "G20 must not let unity unravel", FT Editorial 24<sup>th</sup> Sept.-2009

In this context, the pledges by the G20 last Friday “to sustain our strong policy response until a durable recovery is secured”, “to ensure that when growth returns, jobs do too” and “to avoid any premature withdrawal of stimulus” are very important and reassuring.<sup>5</sup> But efforts should be stepped up to ensure better design of fiscal stimulus so that enough of the expenditure effort goes to effective employment and social protection policies.

### 3. Employment, social protection and social policy responses

I would like to take a few minutes to report to you on the results of a survey carried out by the ILO at the request of the G20 and presented last Friday by our DG in Pittsburgh.<sup>6</sup> The survey included 54 countries, including all G20 and OECD countries, across 32 policy measures. This table shows the frequency of measures declared by the countries in the sample.

**Table 1. Frequency of measures taken across the sample countries.**

<b>1. Stimulating labour demand</b>	(in %)	<b>2. Supporting job seekers, jobs and unemployed</b>	(in %)
Additional fiscal spending on infrastructure	87.0	Additional training measures	63.0
- with employment criteria	33.3	Increased capacity of public employment services	46.3
- with green criteria	29.6	New measures for migrant workers	27.8
Public employment	24.1	Working time reductions	27.8
New or expanded targeted employment programmes	51.9	Partial unemployment with training and part time work	27.8
Access to credit for SMEs	74.1	Wage reductions	14.8
Access to public tenders for SMEs	9.3	Extension of unemployment benefits	31.5
Subsidies and tax reductions for SMEs	77.8	Additional social assistance and protection measures	33.3
<b>3. Expanding social security and food security</b>		<b>4. Social dialogue and rights at work</b>	
Social security tax reductions	29.6	Consultations on crisis responses	59.3
Additional cash transfers	53.7	Agreements at national level	35.2
Increased access to health benefits	37.0	Agreements at sectoral levels	11.1
Changes in old-age pensions	44.4	Additional measures to fight labour trafficking	3.7
Changes to minimum wages	33.3	Additional measures to fight child labour	3.7
New protection measures for migrant workers	14.8	Changes in labour legislation	22.2
Introduction of food subsidies	16.7	Increased capacity of labour administration/inspection	13.0
New support for agriculture	22.2		

Source: ILO survey

As you can see, the six measures with the highest frequency are:

1. spending on infrastructure as part of fiscal stimulus packages;
2. subsidies and tax reductions for small enterprises;
3. credit for small enterprises;
4. training programmes and facilities;
5. consultations with employers’ and workers’ organisations; and
6. social protection through cash transfers.

<sup>5</sup> G20 Leaders Statement: The Pittsburgh Summit, Sept 24-25, paragraph 10.

<sup>6</sup> ILO, Protecting people, promoting jobs, An ILO report to the G20 Leaders’ Summit, Pittsburgh, 24-25 September.

Investment in infrastructure is the most widely used crisis response measure. Almost 90% of the 54 countries surveyed by the ILO reported using infrastructure investment as a policy response to crisis, one third of them with explicit employment creation targets and criteria. It has potentially the largest multiplier effects of all measures, with direct and almost immediate effects, particularly in developing countries. And over time, it lays the foundation for future growth. Of course, quick implementation is crucial for it to make a difference when it matters most.

Financial support to enterprises, via access to credit, subsidies and tax reductions, is the second most important category of measures, used by 3 out of every 4 countries in the ILO survey. Measures range from debt restructuring, to bank recapitalization, to public guarantee schemes, to aggressive credit expansion by public banks in countries that have them, all of these usually targeting SMEs.

Notice that these two sets of measures are very much focused on expanding aggregate demand and thus, the demand for labour. This is not the standard supply-side toolkit, defined as passive plus Active Labour Market Policies through training and activation but a much broader package with a strong emphasis on the demand-side, which suggests, I think, the recognition by governments that, as Mr. Blanchflower has also argued, the main issue in the current recession is the lack of demand.

There are of course important differences in the pattern of responses among countries. There is no time to go into this, but I invite you to read the ILO Report to the G20 available in our public website.

### **III. HOW TO MINIMIZE THE RISK OF PERSISTENT UNEMPLOYMENT**

Let me now turn to the question of how to minimize the risk of persistent unemployment.

This is a critical question. The ILO and the OECD coincide in warning that there are strong reasons to believe that this time we are in for a period of 5 to 6 years of serious disruption of labour markets. And we have also learned from previous crisis that the unemployment rates for youth persist at particularly high levels for many years. So Prof. Blanchflower is quite right in his call to give high priority to targeting the young to avoid the risk of a lost generation. And it is encouraging that this Ministerial Meeting is having a session on the subject.

To minimize the risk of persistent unemployment the first line of attack is to try to keep people in their jobs. This objective requires interventions at the macro and micro levels, on the demand-side and on the supply-side.

At the macro level, it is essential to sustain aggregate demand. I already commented on this.

At the micro level, relevant measures include incentives to help employers retain workers, such as subsidies for part time work or work sharing, as well as cost reducing measures for enterprises such as tax cuts. Work sharing has been used by 1 in 4 of the 54 countries in the ILO survey sample. Germany's Kurzarbeit programme

is the largest in the world covering 1.3 million workers as of March 2009. It has been estimated that it has increased consumption by 0.3% per month and prevented unemployment from rising an additional percentage point, being therefore a major factor explaining the relative resilience of the German labour market in this crisis.<sup>7</sup>

A second line of attack is incentives to promote new hiring, especially of vulnerable groups. These are as important as incentives to avoid layoffs because firms stop hiring during recessions, or at least drastically reduce it. Hiring subsidies, tax credits and reductions in social security contributions can all help in this regard. Evidence on the effectiveness of hiring subsidies or wage subsidies during “normal” times is mixed.<sup>8</sup> However, they can be particularly effective in the recovery phase and when well targeted to specific categories of workers such as young people.

A third line of attack is to improve the match between labour demand and supply by making the unemployed more employable through training, strengthening Public Employment Services and other labour market intermediation services. Even in the middle of a crisis there is some degree of job creation. So job search assistance, activation measures and training remain important and more so during the recovery phase.

Economies need highly skilled workforces to meet the competitive challenges of the post-crisis world. The crisis itself generates new demands for skills because of the accelerated productive transformations associated with it, including the policy-induced ones in green technologies and jobs. Using the times of slack labour demand to invest in skills makes sense for people, enterprises and economies as a whole. In developing countries investing in the skills of those in the informal economy is a particularly relevant, but often neglected, measure. We therefore welcome the G20 pledge in Pittsburgh “to support robust training efforts in our growth strategies and investments” and the “call on the ILO, in partnership with other organizations, to convene its constituents and NGOs to develop a training strategy” for the consideration of the G20.

Finally, during recession, supply-side activation policies that rely mostly on sticks are less effective as the binding constraint is on the demand-side. So activation policies need to be adapted to the realities of the labour market and it is very appropriate that OECD Employment and Labour Ministers are devoting a session to this issue in this Meeting.

### **III. ROLE OF SOCIAL DIALOGUE**

Let me close with a brief comment on social dialogue. As the Global Jobs Pact stresses: “Especially in times of heightened social tension, strengthened respect for, and use of, mechanisms of social dialogue, including collective bargaining, where appropriate at all levels, is vital.” (GJP, par 15 and 16).

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<sup>7</sup> Broyer, S; Costa, B. 2009. How do you explain the resilience of the German Job Market ? Natixis Special Report, 30 June, 194.

<sup>8</sup> See Bechterman, G., Olivas, K. and A. Dar (2004). Impact of active labor market programs: new evidence from evaluations with particular attention to developing and transition countries. World Bank Social Protection Discussion Paper, No.0402.

A recent study by the ILO suggests, however, that the involvement of social partners in the design and implementation of national responses to the current crisis has generally been limited, especially in the earlier stages of the downturn.<sup>9</sup> This situation might have changed somewhat, as suggested by the fact that 60% of the 54 countries in the ILO survey said they had engaged in consultations with employers and workers.

Countries like Belgium, Ireland and Spain, which already had well established tripartite systems in place managed to focus on the crisis since the early stages as part of their institutionalized negotiations. This highlights the importance of having existing institutions in place in order to effectively respond to an economic crisis.

The Global Jobs Pact can be a major tool to promote social dialogue across the broad range of relevant policies and it is encouraging that this was explicitly recognized by the G20 Leaders Statement in Pittsburgh.

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<sup>9</sup> See Rychly, L. 2009. "Social dialogue in times of crisis: finding better solutions, *ILO Industrial and Employment Relations Department*, No. 1.