

G20 and the real economy: What's at stake

By Juan Somavia*

GENEVA – On the eve of the G20 Leaders Summit in Toronto this weekend, we are again at a critical juncture.

Despite a fragile economic recovery, global unemployment is at its highest level ever, at more than 210 million, and we will need to create 470 million new jobs in the next 10 years to absorb new entrants into the labour markets. Youth unemployment has reached unacceptable levels. Gains in reducing the number of working poor living on less than \$1.25 per person per day are being reversed. The informal economy and vulnerable work are swelling.

Perceptions of social injustice – once seen as mainly a problem of the developing world – are spreading fast in many developed countries. Tensions and social unrest are increasing in the form of public protests against austerity measures and for jobs.

There is still time to turn this situation around. But we must make the right choices. Up until eight weeks ago the “Pittsburgh Consensus” – decisions taken by the G20 at their summit in that city last September -- was on track as the right approach to the crisis: putting quality jobs at the heart of the recovery and gradually withdrawing stimulus measures as the economic and jobs recovery took strong hold.

Suddenly, however, the agreement on this economic and social approach has come under pressure. Concerns over the sovereign debt crisis and growing deficits in Europe have prompted decisions to cut social spending, moves to raise taxes and the pursuit of significant austerity measures. History shows that doing this can jeopardize the very recovery we are trying to achieve. And we also know that such measures will certainly slow down jobs recovery in the short run.

These concerns dominated the discussions at the just-concluded International Labour Conference, the annual meeting of the ILO. The Conference is a unique gathering of more than 4,000 government, employer and worker representatives — representatives of the “real economy”. Their voices expressed concern, fear and frustration over the evolution of the crisis response, and the possibility that even meager gains made so far in economic recovery may be lost in terms of creating jobs, sustaining enterprises and supporting the unemployed.

Their expectations can be summarized in the following points:

First, we need a balanced policy convergence strategy that protects and promotes productive investments and job-rich growth in a fiscally responsible manner.

Second, we need growth that generates decent jobs. That means building further on the Pittsburgh commitments to “put quality jobs at the heart of the recovery”.

Third, we must make sure that people – especially young workers – have the necessary skills to fill the jobs that are created.

Fourth, job creation must be a targeted goal for governments alongside low inflation, sound fiscal policies and other macroeconomic objectives.

Fifth, and very importantly, we need a financial system that works for the real economy, not the other way around.

Global growth is expected to reach around 4 per cent this year, but what does that matter to a worker who cannot get a job or has weak social protection in times of crisis? And what about the small enterprises that have difficult access to credit and cannot benefit from the mild economic recovery that is underway? These are questions we should be answering.

The bottom line is that the only sustainable way out of the crisis is by reactivating the real economy, creating more jobs and thus increasing government revenues.

At the same time we certainly have to address the issue of fiscal deficits and sovereign debt which requires medium and long term sustainable solutions. But we must start now. Countries, according to their own circumstances, can formulate balanced, gradual and credible exit strategies from the stimulus measures that rescued the global economy from an ever deeper recession, and that have saved or created tens of millions of jobs since the start of the crisis.

I must express the strong support of ILO constituents for the responsibilities that the G20 have decided to take on and consequently the difficult tasks ahead. The message coming from them is the importance of political and social dialogue, nationally and internationally, to find the right balance of policies to deal with all these issues. What is at stake is the future of the real economy.

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