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Making markets work for jobs: The way out of the crisis

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The "World of Work Report 2011" calls for maintaining and in some cases strengthening pro-employment programmes, warning that efforts to reduce public debt and deficits have often disproportionately focused on labour market and social measures. For example, it shows that increasing active labour market spending by only half a per cent of GDP would increase employment by between 0.4 per cent and 0.8 per cent, depending on the country. The study also calls for supporting investment in the real economy through financial reform and pro-investment measures. An interview with Raymond Torres, Director of the ILO International Institute for Labour Studies.

Recent trends reflect the fact that not enough attention has been paid to jobs as key driver of the recovery. How can we make markets work for jobs?

Raymond Torres: Countries have increasingly focused on appeasing financial markets. In particular, in advanced economies, the debate has often centred on fiscal austerity and how to help banks – without necessarily reforming bank practices that led to the crisis. Worse, there was a lack of vision for how the real economy will recover. In some cases, this has been accompanied by measures that threaten social protection and worker rights. This will not boost growth and jobs.

Meanwhile, regulation of the financial system – the epicentre of the global crisis – remains inadequate. In advanced economies, the financial sector does not perform its normal intermediary role of providing credit to the real economy. And emerging economies have been affected by the massive inflows of short-term, volatile capital flows, which destabilize their real economies.

In practice, this means that employment is regarded as second order vis-à-vis financial goals. It is urgent to shift gears. The window to leverage job creation and income generation is closing, as labour market exclusion is beginning to take hold and social discontent grows. This vicious circle can be broken by making markets work for jobs – not the other way around.

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Some economists recommend wage moderation as a means to boost employment and productivity?

Raymond Torres: We think that it is time to reconsider "wage moderation" policies. Over the past two decades, the majority of countries witnessed a declining share of income going to labour – meaning that real incomes of wage earners and self-employed workers have, on average, grown less than justified by productivity considerations. Wage moderation has not translated into higher real investment: between 2000 and 2009 more than 83 per cent of countries experienced an increase in the share of profits in GDP, but these profits were used increasingly to pay dividends rather than invest. Neither is there clear evidence that wage moderation has boosted employment prospects.

In fact, wage moderation has contributed to the aggravation of global imbalances which, along with financial system inefficiencies, have led to the crisis and its perpetuation. In advanced economies, stagnant labour incomes created fertile ground for debt-led spending growth – which is clearly unsustainable. And in emerging economies, wage moderation was an integral part of growth strategies based on exports to advanced economies – these strategies too are unsustainable.

The World of Work Report 2011 recommends a closer connection between wages and productivity?

Raymond Torres: By ensuring a closer connection between wages and productivity, the global shortage of demand would be addressed. In addition, such a balanced approach would alleviate pressures on budget-constrained governments to stimulate the economy. In many countries, profitability levels are such that making wages grow in line with productivity would also support investment.

"The responsibility for making markets work for jobs rests primarily with national governments"

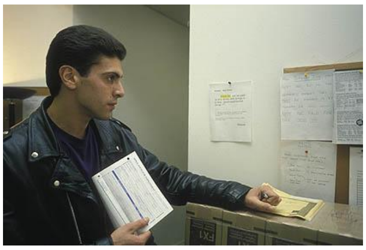
Raymond Torres: Obviously the policy needs to adapt to country circumstances and can only be achieved through social dialogue, well-designed minimum wage instruments and collective bargaining, and renewed efforts to promote core labour standards. With this in mind, surplus economies like China, Germany, Japan and Russian Federation have a strong competitiveness position, therefore more space for such a policy than other countries. More balanced income developments in surplus countries would be in the interest of those countries while also supporting recovery in deficit countries, particularly those in the euro area which cannot rely on currency devaluation in order to recover lost competitiveness.

The report also says that small firms are at the heart of a jobs recovery?

Raymond Torres: There is no job recovery possible until credit to viable small firms re-starts. In the European Union (EU), the net percentage of banks reporting a tightening of lending standards has remained positive throughout 2011, and when firms in the EU were asked about the most pressing problem facing them between September 2010 and February 2011, one-fifth of small firms reported lack of adequate access to finance.

Earmarked support could take the form of credit guarantees, the deployment of mediators which examine credit requests denied to small firms, and providing liquidity directly to banks to finance operations of small enterprises. These instruments already exist in countries like Brazil and Germany. In developing countries, there is significant scope for increasing investment in rural and agricultural areas. This requires targeted public investment, but also curbing financial speculation on food commodities in order to reduce the volatility of food prices.

Only one major advanced economy – the United States – has announced a global jobs plan. What is the role of public employment programmes?



Raymond Torres: Countries should maintain and, in some cases, strengthen pro-employment programmes funded from a broader tax base. Of course, no country can develop with rising public debts and deficits. However, efforts to reduce public debt and deficits have disproportionately and counterproductively focused on labour market and social measures. Indeed, cuts in these areas need to be carefully assessed in terms of both the direct and indirect effects. For instance, cutting income support programmes may in the short run lead to cost savings but can also lead to poverty and lower consumption with long-lasting effects on growth potential and individual well-being.

A pro-employment approach that centres on cost-effective measures will be instrumental in avoiding a further deterioration in employment. Carefully designed pro-employment programmes support demand while promoting a faster return to pre-crisis labour market conditions. Early support in crisis times pays off through reduced risk of labour market exclusion, as well as productivity gains. These pro-employment programmes are not expensive to the public purse. However, if need be, new resources can be found to support much-needed spending. In this regard, the report notes that there is considerable scope for broadening tax bases such as on property and some financial transactions.

Such an approach would also respond to growing social unrest worldwide?

Raymond Torres: As the recovery derails, social discontent is growing, according to a study carried out for the purposes of our report. In 40 per cent of the 119 countries for which estimates could be performed, the risk of social unrest has increased significantly since 2010. The report shows that the trends in social discontent are associated with both the employment developments and perceptions that the burden of the crisis is shared unevenly. Employment programmes would enhance economic efficiency and help share the burden of adjustment more equitably, thus contributing to appease social tensions. The heterogeneous nature of the recovery makes it necessary, however, to apply the approach in accordance with country-specific circumstances.

The latest indicators suggest that the employment slowdown has started. How can we put jobs back at the top of the global agenda?

Raymond Torres: The responsibility for making markets work for jobs rests primarily with national governments. They have at their disposal a rich panoply of measures inspired by the ILO Global Jobs Pact – ranging from job-friendly social protection programmes to well-designed minimum wages and employment regulations and productive social dialogue – which can be quickly mobilized in combination with job-friendly macroeconomic and financial settings. It is especially important to move quickly on this front in the euro area, where the signs of economic weakening are strongest.

However, there is a critical role for international policy coordination as well. This task has become more difficult given the different cyclical positions of countries. The report's findings suggest that a job recession in one region will, sooner or later, affect economic and social prospects in the other regions. And vice-versa, the interconnectedness of economies means that, if countries act in a coordinated way, the favourable effects on employment will amplify. In this regard, the G20 has a special leadership role in keeping employment, along with fiscal and financial issues, high on the policy agenda. Here too, time is of the essence.

Further resources

ILO Publications

- ILO. 2011. *The global crisis: causes, responses and challenges* (pdf 3.33 MB) (Geneva).
- ILO. 2011. *Global employment trends 2011: the challenge of a jobs recovery* (pdf 2.27 MB) (Geneva).
- ILO. 2011. *World of Work Report 2011: Making Markets Work for Jobs* (pdf 8.52 MB) (Geneva).

  • Executive Summary (pdf 1.75 MB) • Français (pdf 1.76 MB) • Español (pdf 1.77 MB)

- ILO. 2010. *Employment and social protection policies from crisis to recovery and beyond: a review of experience, an ILO report to the G20 Labour and Employment Ministers Meeting, Washington, DC, 20–21 April 2010* (pdf 819 KB) (Geneva)
- ILO. 2010. *Employment policies for social justice and a fair globalization, Report VI, International Labour Conference, 99th Session, Geneva, 2010* (pdf 1.55 MB) (Geneva).
- ILO. 2010. *Global employment trends : January 2010* (pdf 11.33 MB) (Geneva).

- ILO. 2010. *World of Work Report 2010: From one crisis to the next?* (pdf 8.8 MB) (Geneva).
- ILO. 2009. *Labour market policies in times of crisis* (pdf 699 KB) (Geneva).
- ILO. 2009. *Recovering from the crisis : a global jobs pact* (pdf 93.22 KB) (Geneva)
  - Français (pdf 105.47 KB) • Español (pdf 107.50 KB)
- ILO. 2009. *Tackling the global jobs crisis : recovery through decent work policies : report of the Director-General* (pdf 500 KB) (Geneva)
  - Français (pdf 557.17 KB) • Español (pdf 371.85 KB)
- ILO. 2009. *World of Work Report 2009: The Global Jobs Crisis and Beyond* (pdf 2.95 MB) (Geneva).
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ILO Videos

- ILO Director General Somavia: Global Jobs Pact key to a job-rich recovery -
- Global Employment Trends for 2011: BBC World Interviews ILO's Theodoor Sparreboom -
- Global Employment Trends 2011: Weak Jobs Recovery to Continue -

ILO Websites

- Employment Trends (EMP/TRENDS)
- Global Jobs Pact
- Global Job Crisis Observatory: Employment Promotion
- International Institute for Labour Studies
- Employment promotion