

Global jobs crisis: strengths and risks of current responses

Raymond Torres,

Director, International Institute for Labour Studies, ILO

Origins of crisis

- *Poorly regulated financial system*
- *Unbalanced globalization*

DEVELOPED

Excessive risk-taking

Growing inequalities

Demand for credit

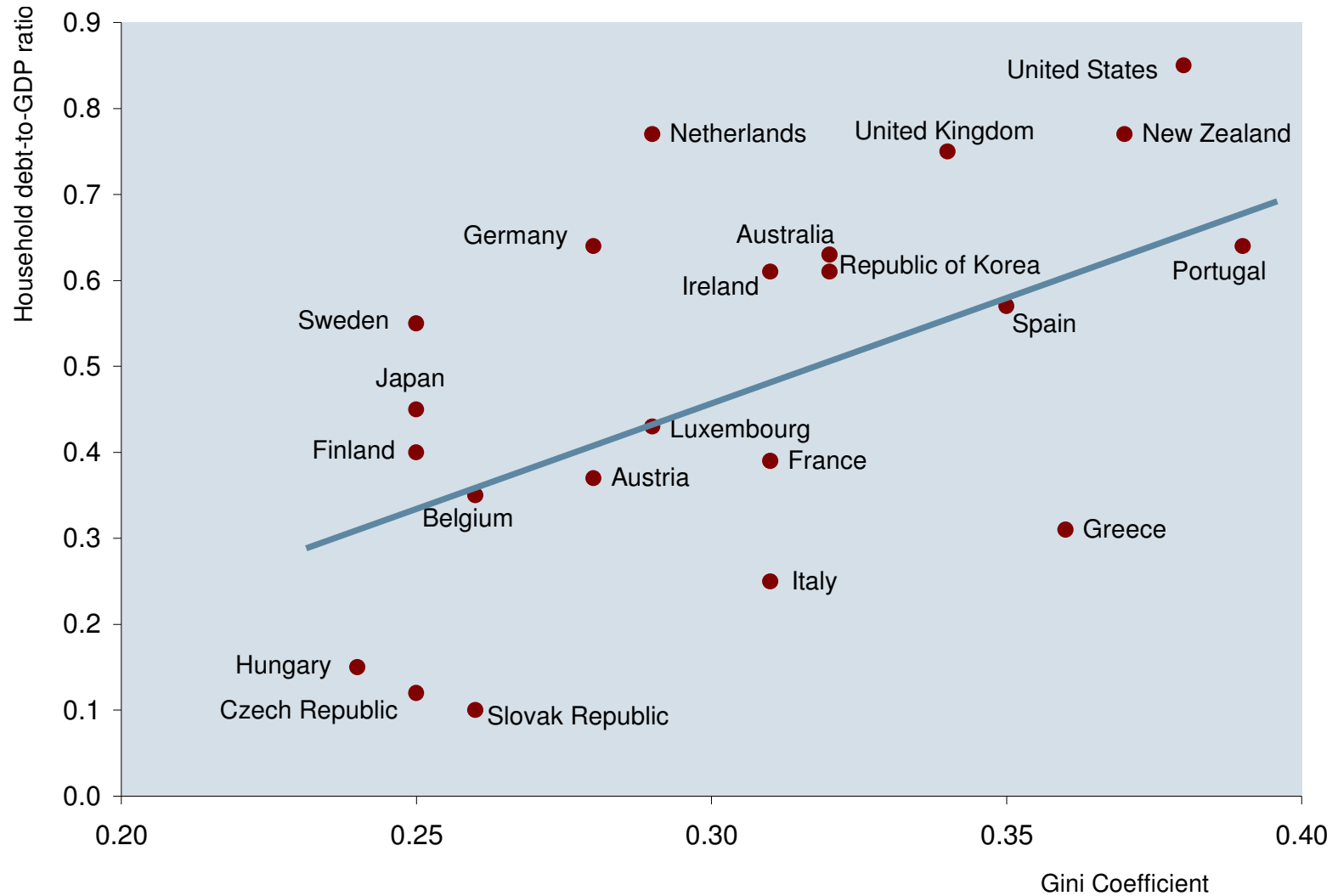
DEVELOPING

Export-led strategies

Excess savings
(and weak social
protection)



Unbalanced growth: household debt and income inequality



Transmission mechanisms of the crisis

- **Credit crunch**
- **Real economy: confidence effects, depressed demand, deflation**
- **International transmission (trade, FDI, remittances)**



Responses have been significant

Financial measures to rescue banks and revive credit

- Up to 27 % of GDP

Fiscal and monetary stimulus

- 1.7% of global GDP on fiscal stimulus in 2009
- Liquidity support and interest rate cuts: 2 to 3 percentage points on average



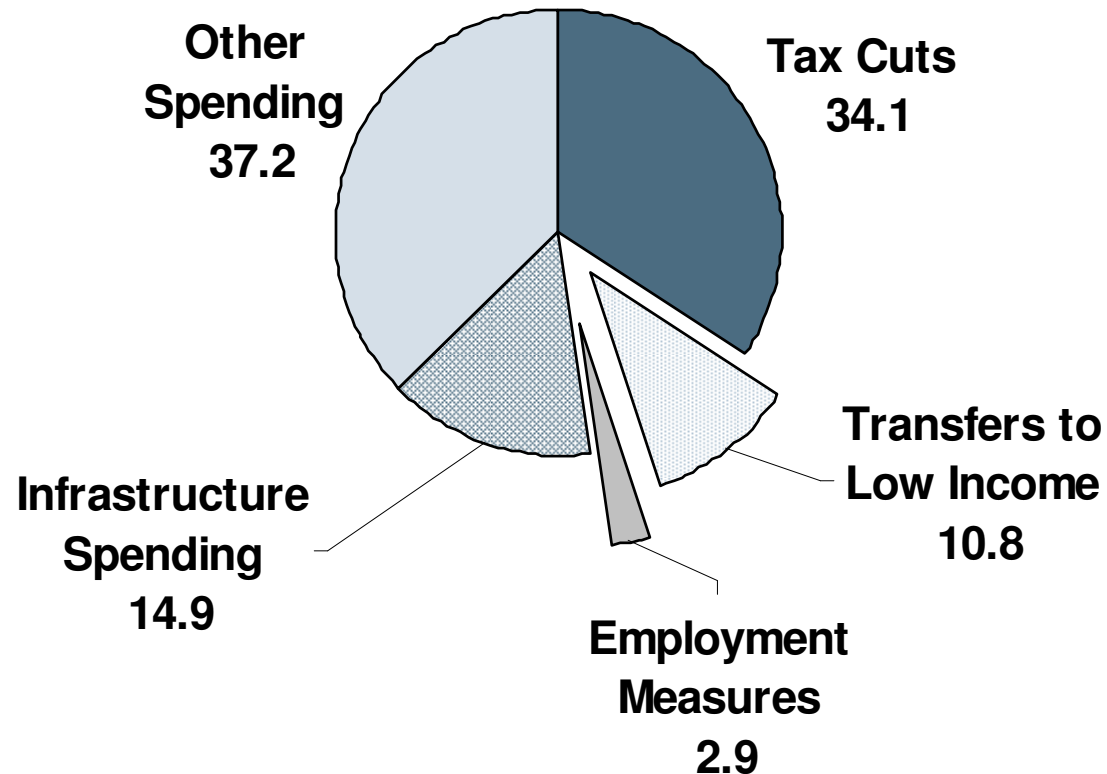
Some initial results

- Growth in China and India, some positive signs in OECD countries (e.g. car sales)
 - Stimulus measures may start to work
 - Financial collapse has been avoided
 - A spiral of wage cuts has been avoided so far
 - Protectionist pressures have been contained

Current responses: 3 main risks

1. Not enough attention is devoted to jobs crisis

Labour market and social measures make for 14% of total fiscal packages



Neglect of jobs crisis could have serious economic and socio-political impacts:

- Drag on consumption and raises risk of concessional wage bargaining (aggravates depression of real economy)
- Further reduction of housing demand and prices (affects balance sheet of banks)
- Social unrest



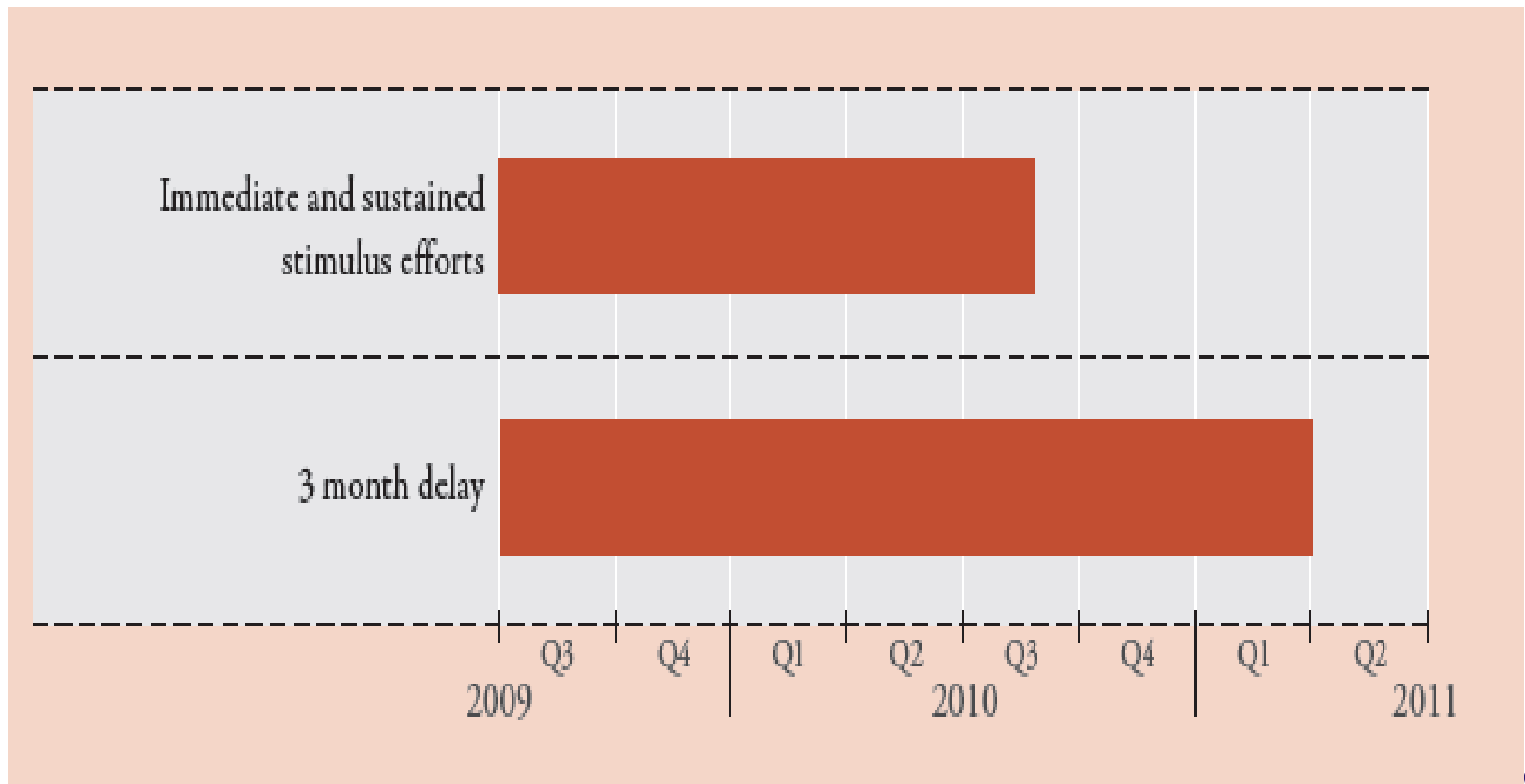
2. Too early withdrawal of fiscal stimulus

- Huge increase in public debt in some countries, partly related to bank bail outs
- Fiscal capacity has become more limited, raising resistance to new stimulus
- Little discussion of tax options (main debate is about cutting spending)
 - More progressive taxation?
 - Green taxes?

- Shift to “competitiveness” approaches?
 - Fiscal stimulus may be scaled down and shifted to supply-side measures (tax cuts, supply driven infrastructure, etc.)
 - Pressure on wages and labour standards

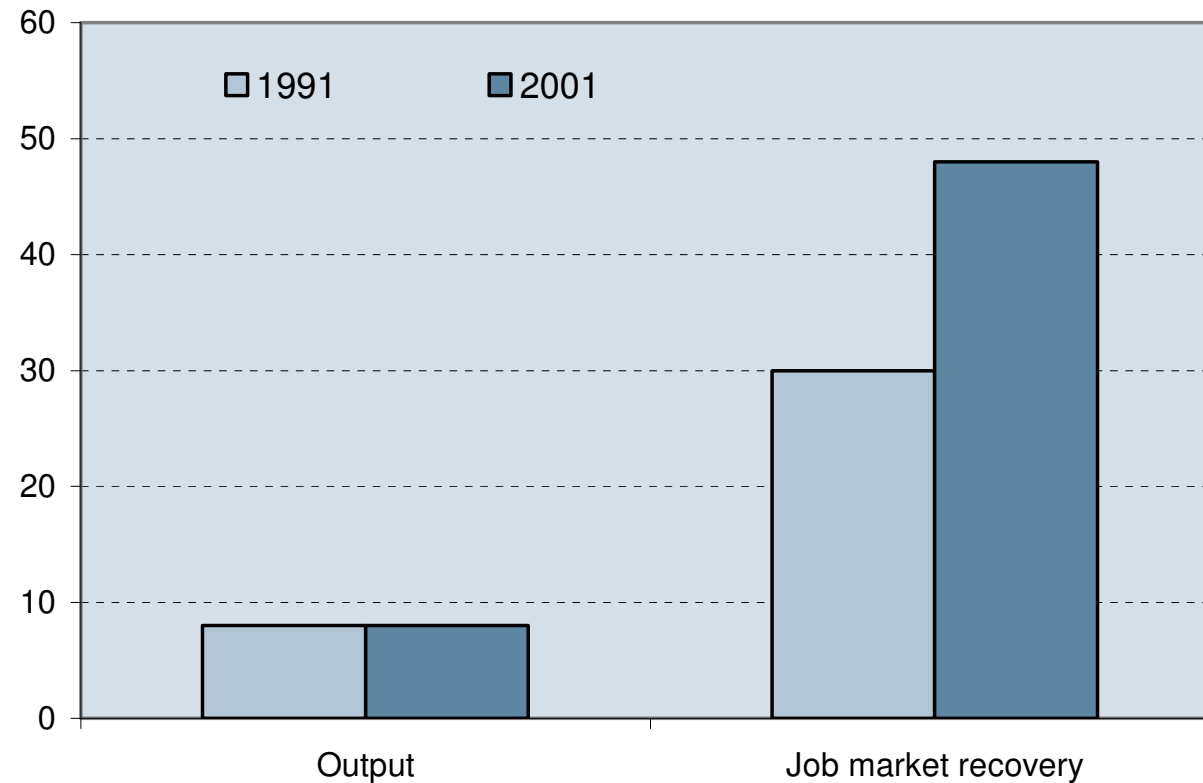
A double dip would lead to disproportionate effects on i) the jobs crisis; and ii) size of new fiscal stimulus needed later on

(ILO estimates based on GEL model)



Labour markets recover with long delay: risk of social exclusion and loss of growth potential

Duration of output recovery and job market recovery after the 1991 and 2001 US recessions (in months)

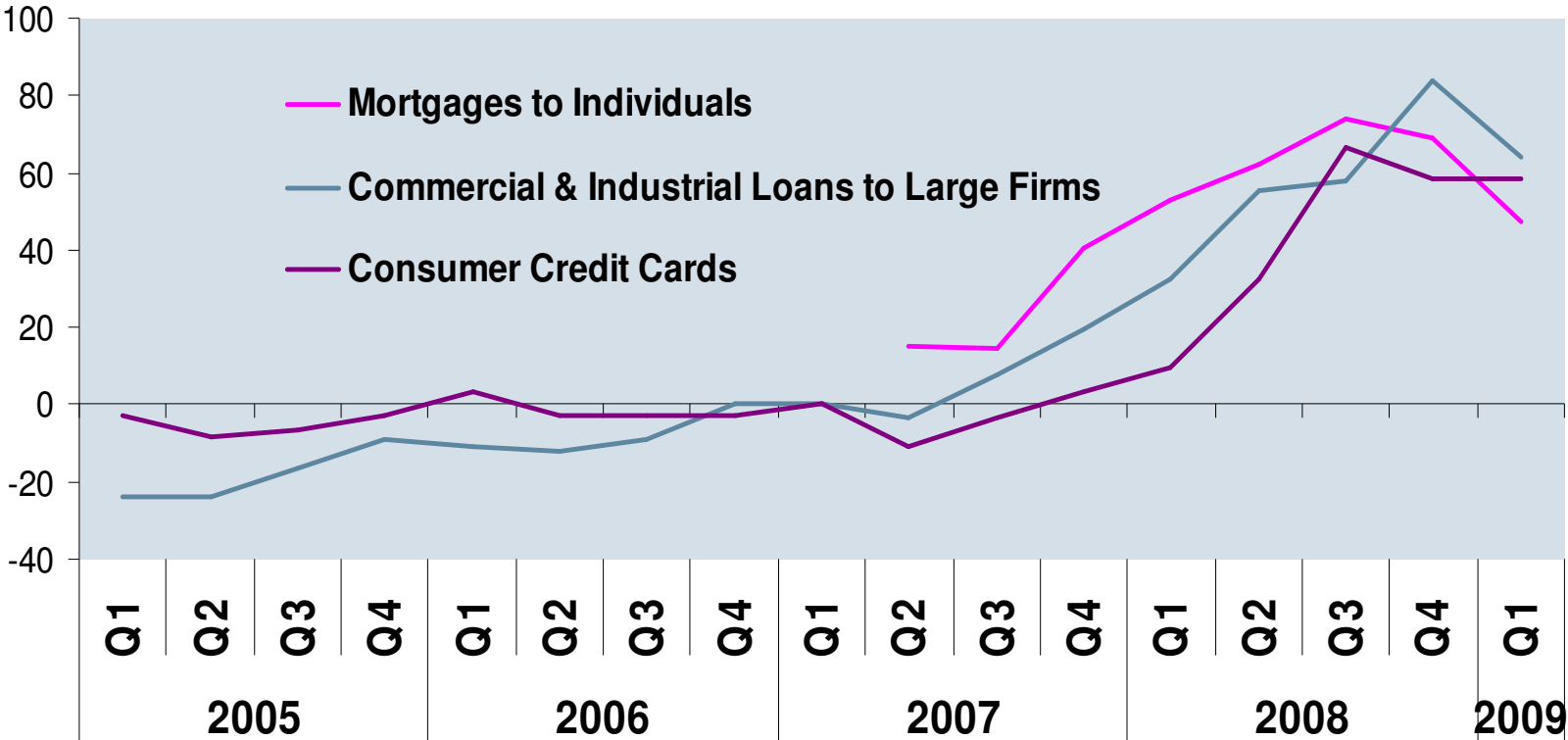


3. Risk of business as usual

- Regulatory failures that lie behind financial crisis have not been addressed (read G20 communique carefully)
- Incentives continue to reward excessive risk-taking: may have been aggravated by « too big to fail » bail outs
- Imbalances in globalisation have not been tackled

Credit to sustainable enterprises has not been revived as yet

% reporting tightening of standards



The Global Jobs Pact

- **Sustained and co-ordinated efforts are needed**
 - Action has been quick but principally “one-off” in nature and with little coordination

- **Emphasis on employment and social measures are needed now more than ever**
 - Serious risk that a labour market recovery will take many years
 - A number of groups (youth, lone parents) are particularly vulnerable to social hardship

- **No return to business as usual**

