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High-Level Section

Working Party on the Social Dimension of Globalization

HL

FIRST ITEM ON THE AGENDA

A turn for the worse? Latest developments and current outlook for employment and the social dimension of globalization

Overview

Summary

The paper sets out the latest forecasts for the world economy and prospects for employment. It reviews recent international policy developments and concludes with a discussion of the implications of current and prospective economic developments for the work of the ILO and its constituents.

Policy implications

Promotes discussion of policy options in light of the risks of global economic slowdown.

Legal implications

None.

Financial implications

None.

Decision required

The paper is submitted for debate and guidance.

Follow-up action required

None.

Author unit

Policy Integration Department (INTEGRATION).

References to other Governing Body documents and ILO instruments

GB.312/POL/1.

Global Jobs Pact, 2009.

Introduction

1. The fragile recovery of the world economy in the first half of 2011 has given way to serious concerns of renewed recession. This paper sets out the latest forecasts for the world economy and prospects for employment. It then reviews recent international policy developments and concludes with a discussion of the implications of current and prospective economic developments for the work of the ILO and its constituents.

Current world economic outlook

2. Global economic recovery is expected to slow significantly in the second half of 2011 and in 2012, with developed economies experiencing a sharper deceleration than those in the developing world.¹ Output growth in developed economies will be at best very low, while the risk of a double-dip recession has increased. Developing economies would be adversely affected by a resumed financial and economic crisis in the developed world. The epicentre of current concerns is the Eurozone but growth is weaker in the United States than expected earlier. The Japanese economy also suffered from the consequences of the disastrous earthquake and tsunami that hit the country's eastern seaboard on 7 April 2011.
3. Growth in developed economies is faltering as the private demand of households and enterprises has not taken over the lead of sustaining recovery from the expansionary fiscal policies initiated in 2008–09 and which began to be wound back in a number of countries in 2010 and 2011. Business and consumer confidence remains very low. Among the factors holding back investment in the real economy in a number of developed countries are expectations of prolonged stagnant or falling household incomes and high unemployment, and continued deleveraging by the banking sector leading to tight credit conditions, especially for smaller businesses. In addition, concerns that one or more Eurozone countries may default on their sovereign debt, causing a knock-on effect in the international banking system, is seen as threatening to recreate the crisis of September 2008. The repercussions on households and the banking system of the bursting of the property price bubble in the United States, which continues to cause a high level of mortgage defaults, are also an important drag on economic recovery in the country and internationally.
4. Financial instability and fragility in developed economies are thus playing a major role in slowing down recovery and enhancing the risk of a double-dip recession. The combination of weak growth prospects, concerns on sovereign debt, awareness of the weakness of banks' balance sheets and doubts about the capacity of international policy coordination to effectively address these issues, risks creating dramatic adverse feedback loops between the financial sector and the real economy.

¹ The main sources for this section are the International Monetary Fund (IMF): *World Economic Outlook* (Washington, DC, Oct. 2010 and Sep. 2011); IMF: *Consolidated Multilateral Surveillance Report* (Washington, DC, Sep. 2011); IMF: *Global Financial Stability Report* (Washington, DC, Sep. 2011); IMF: *Consolidated Spillover Report: Implications from the analysis of the Systemic-5* (July 2011); ILO and OECD: *Short-term employment and labour market outlook and key challenges in G20 countries* (Geneva and Paris, 2011); OECD: *What is the economic outlook for the OECD countries? An interim assessment* (Paris, Sep. 2011); UNCTAD: *Trade and Development Report 2011: Post-crisis policies challenges on the world economy* (New York and Geneva, 2011).

Latest economic forecasts

5. Growth in economic activity and employment in the past two years has been uneven across regions, with developing and emerging market economies sustaining world output growth. World growth is expected to hover around 4 per cent in 2011 and 2012, with developed economies reaching a modest 1.6 and 1.9 per cent respectively, while developing and emerging market economies are expected to grow at a rate of around 6 per cent, down on 2010.
6. On top of the sluggishness caused by continued deleveraging of bad debts by the financial sector, this slowdown can be partly attributed to some major unexpected shocks such as the Japanese earthquake and tsunami and a new commodity and oil price surge in the early months of the year. The former generated a significant but probably temporary disruption in trade and supply chains. On the other hand, the persistence of the commodity and oil price surge cannot be easily assessed. In addition, the withdrawal of fiscal stimulus measures, and in many cases a turn to large frontloaded fiscal consolidation policies, has contributed to the slowdown of developed economies. In the first half of 2011, a number of large emerging economies also shifted to less expansionary policies as a result of concerns about rising inflation and emerging property bubbles.

Table 1. Overview of International Monetary Fund *World Economic Outlook* projections
(percentage change in GDP unless noted otherwise)

	2009	2010	Projections	
			2011	2012
World output	-0.7	5.1	4.0	4.0
Advanced economies	-3.7	3.1	1.6	1.9
Emerging and developing economies	2.8	7.3	6.4	6.1
Selected countries/regions				
United States	-3.5	3.0	1.5	1.8
Eurozone	-4.3	1.8	1.6	1.1
United Kingdom	-4.9	1.4	1.1	1.6
Japan	-6.3	4.0	-0.5	2.3
China	9.2	10.3	9.5	9.0
India	6.8	10.1	7.8	7.5
Brazil	-0.6	7.5	3.8	3.6
Mexico	-6.2	5.4	3.8	3.6
Central and Eastern Europe	-3.6	4.5	4.3	2.7
Commonwealth of Independent States	-6.4	4.6	4.6	4.4
Middle East and North Africa	2.6	4.4	4.0	3.6
Sub-Saharan Africa	2.8	5.4	5.2	5.8
World trade volume (goods and services)	-10.7	12.8	7.5	5.8

Source: IMF, *World Economic Outlook: Slowing growth, rising risks* (Washington, DC, 2011), table 1.1.

7. Forecasts by the International Monetary Fund (IMF) in its *World Economic Outlook* are based on the assumption of successful policy initiatives to avoid a major worsening of the sovereign debt crisis in Europe, a renewed recession in the United States and/or a deterioration of macro-financial conditions in emerging and developed economies. If such downward risks were to materialize in combination, further IMF reports suggest that global growth in 2012 could turn out to be 3 per cent lower in 2012 than the central forecast of 4 per cent, creating a situation where the global "... economy could trip into a downward spiral of increased uncertainty and risk aversion, dysfunctional financial markets, unsustainable debt dynamics, falling demand and rising unemployment".²

Risks of renewed financial crisis

8. Financial stresses and volatility have reached the levels of September 2008. Fears about the debt sustainability of some Eurozone economies have been compounded by awareness of the vulnerability of banks. Several European and other banks face both direct exposure to the risk of sovereign debt default and higher costs of borrowing. Many have become reliant on very short-term borrowing on what is known as the "wholesale" market, where companies place temporary surplus cash, as contrasted to "retail" deposits of savings by households. If the wholesale market dries up, banks can rapidly find themselves in trouble, as recently happened to the medium-sized Franco–Belgian bank Dexia.
9. A financial and economic downturn in a number of developed economies could have serious repercussions on the developing world. Global financial volatility in major financial centres tends to follow the business cycle, with capital flowing to emerging markets in relatively tranquil times and reversing abruptly in periods of enhanced stress. A slowdown in trade can also create an adverse feedback loop, with financial fragility, and represents a threat to stability and growth in developing countries.
10. Sovereign debt sustainability prospects hinge upon expectations of future government balances in relation to the size of the economy and on the response of the financial markets to such expectations. Many developed and developing economies have experienced a large increase in their government debt and deficit-to-GDP ratios as a result of the crisis. The largest factors in the public debt surge have been output contraction, increased unemployment and financial sector rescue measures. In most countries loss of tax revenues has exceeded increased expenditures in contributing to rising deficits. Low growth in many developed economies has thus reduced the capacity of governments to bring down the relative size of fiscal imbalances, while at the same time financial markets have turned increasingly risk averse. There is a risk of "competitive deflation" as individual governments all attempt to cut deficits to appear more attractive to financial markets but thus slip into a collective downward spiral of low growth, making the deficits even more intractable and markets even more nervous.
11. Escaping such a scenario requires collective action, certainly by Eurozone and European Union (EU) governments, but most likely also by the G20 and the global multilateral institutions, notably the IMF, preferably acting in concert with others, including the ILO.

² IMF: *Consolidated Multilateral Surveillance Report* (Washington, DC, Sep. 2011).

Implications for employment

12. The downward revisions to growth projected by the IMF for 2011 and 2012 are expected to have an adverse impact on employment. At the global level, unemployment may now rise in 2011 by about 200,000, and by close to a million in 2012 compared to earlier more optimistic forecasts.³ This will cancel out some small gains made between 2010 and 2011 leaving global unemployment some 27 million higher than before the crisis.⁴
13. Even before the economic crisis, many countries were grappling with a number of underlying structural challenges in the labour market. In some instances the crisis has exacerbated existing problems. For example, the fall in employment during the crisis has affected some workforce groups more than others. Youth, low-skilled, temporary and migrant workers, especially women, have been most affected. The crisis has also increased the risk of high long-term unemployment becoming entrenched in some countries.
14. In a report prepared for the meeting of G20 Employment and Labour Ministers in Paris on 26–27 September 2011, the ILO and the OECD analysed recent and prospective trends. Over the next few years, many countries will be facing significant challenges to create enough jobs to accommodate their growing labour force and/or to absorb the persistent jobs gap resulting from the crisis. Total employment in all G20 countries was approximately 2 billion in 2009, equivalent to 63 per cent of total world employment. The employment to working-age population (15+ years) ratio was 64.6 per cent before the crisis, and the pre-crisis annual rate of growth of employment was 1 per cent (excluding India). Between 2008 and 2010, G20 countries generated 19 million fewer jobs than what would have been required to hold the employment ratio constant at its pre-crisis level.
15. Annual employment growth of at least 1.3 per cent is now needed to return to the pre-crisis employment rate by 2015. This would generate some 21 million additional jobs per year, filling the jobs gap that has opened since 2008 and absorbing the increase in the working-age population. Several G20 countries have recorded such employment growth rates in the recent past. However, employment growth of less than 1 per cent cannot be excluded, given the slowdown of the world economy and the anaemic growth foreseen for several G20 countries. Should employment grow at a rate of 0.8 per cent over the two years to the end of 2012, now a distinct possibility, then the shortfall in employment in G20 countries would increase by some 20 million to a total of around 40 million.
16. Weak employment growth leads to unemployment and the withdrawal of workers from the labour force. It particularly affects young working women and men. Between 2008 and 2009, the number of unemployed youth increased by an unprecedented 4.5 million worldwide. Across 56 countries with available information, there were 2.6 million fewer youth in the labour market in 2010 than expected based on longer-term (pre-crisis) trends. Many of the 2.6 million are likely to be discouraged youth waiting for times to improve.⁵ In spite of the strong economic performance in many emerging countries, both before and after the global crisis, the share of informal employment remains sizeable in several

³ Preliminary ILO estimates.

⁴ The *World of Work Report 2011* provides an assessment of the employment and income effects of faltering growth; it also examines the possible impact of job-friendly policies on global rebalancing and sustainable exit out of the crisis, see International Institute for Labour Studies: *World of Work Report 2011: Making markets work for jobs* (ILO, Geneva, 2011).

⁵ ILO: *Global employment trends for youth: 2011 update* (Geneva). Available at: http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_elm/---trends/documents/publication/wcms_165455.pdf.

countries. Informal employment is also largely the consequence of weak growth in formal employment.

17. In many countries, earnings inequality has increased over the past 20 years. With very few exceptions, the earnings of the 10 per cent best-paid workers have risen relative to those of the 10 per cent least-paid workers. In most countries, wage disparities grew more in the upper half of the distribution than in the bottom half. Growing earnings inequality in most G20 countries has often translated into growing household income inequalities. Such inequalities are generally lower and increased by less than inequalities of market incomes, due to the redistributive effect of taxes and benefits. However, over the past decades, tax-benefit policies in many countries have been unable to fully offset growing market-income disparities. High levels of income inequality generate negative effects that undermine social cohesion and economic performance.⁶
18. The IMF has expressed serious concern that unemployment is likely to stay high for some time in major developed economies. It finds that “sluggish wages and low funding costs have boosted corporate profits, but this is not directly benefiting households with a high propensity to consume”. In particular, “concerns about income prospects are particularly elevated in the United States, where an extraordinarily large loss of jobs has added to an ongoing trend decline in the pace of employment creation ... meanwhile, the share of corporate profits in income has returned to about 10 per cent, which is close to the high pre-crisis levels”.⁷ Research carried out for the *World of Work Report 2011* shows that growing social discontent is associated with both the current employment situation and the perception of an uneven sharing of the burden of the crisis.

Recent international policy developments

Eurozone stability

19. During the course of April and May 2011, it became increasingly clear that Greece was finding it difficult to meet the conditions attached to its May 2010 Agreement with the European Commission, the European Central Bank and the IMF (the Troika). The threat of a possible default by Greece provoked concern that other European countries with difficulties in funding their debts might also have to default and that a significant number of banks, mainly in Europe, would themselves face funding problems. This led to the conclusion in July 2011 of a new arrangement by Eurozone countries for Greece and countries facing balance-of-payments and debt problems.⁸
20. The programme consisted of three elements:
 - a new €109 billion official (EC/ECB/IMF) programme for Greece designed, through lower interest rates and extended maturities, to improve the debt sustainability and refinancing profile of Greece;

⁶ A. Berg and J.D. Ostry: *Inequality and unsustainable growth: Two sides of the same coin?* IMF Staff Discussion Note 11/08 (Washington, DC, 2011).

⁷ IMF: *World Economic Outlook: Slowing growth, rising risks*, op. cit., p. 5.

⁸ Statement by the Heads of State or Government of the Eurozone and EU institutions, 21 July 2011. Available at http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/123978.pdf.

- a European Commission Task Force to work with the Greek authorities to enhance access by Greece to existing European structural funds on competitiveness and growth, job creation and training; and
 - a voluntary financial sector contribution estimated at €37 billion to reduce and lengthen Greece's debt service payments, accompanied by access by Greek banks to European resources for liquidity needs and, if needed, recapitalization.
21. The implementation of these arrangements was delayed and they do not appear to have been sufficient to alleviate Greece's difficulties nor prevent contagion to other Eurozone deficit countries. In August, the European Central Bank decided that it would buy government bonds to help countries such as Italy that were beginning to experience problems in selling debt to the private market at reasonable interest rates. However, in September renewed concern broke out that the July package would not be adequate to meet Greece's funding difficulties and that other countries were at risk of slipping into similar problems, threatening default and large-scale knock-on damage to major European banks.
22. These concerns, together with increasing evidence of weakening economic recovery in a number of countries, dominated meetings of European, G20 and IMF finance ministers in September and October. At the time of writing, decisions on a programme of institutional change for the Eurozone and the EU is anticipated at EU summits in late October. The G20 Cannes Summit is also likely to focus on critical issues of international policy coordination to stem the drift into prolonged slow growth – or worse, a renewed global recession.

International Monetary Fund

23. The overall policy approach being taken by governments was summarized in the communiqué of the International Monetary and Financial Committee (IMFC) on 24 September:

The advanced economies are at the core of an effective resolution of current global stresses. The strategy is to restore sustainable public finances while ensuring continued economic recovery... Euro-area countries will do whatever is necessary to resolve the euro-area sovereign debt crisis and ensure the financial stability of the euro area as a whole and its member states. ... Advanced economies will ensure that banks have strong capital positions and access to adequate funding; maintain accommodative monetary policies as long as this is consistent with price stability, bearing in mind international spillovers; revive weak housing markets and repair household balance sheets; and undertake structural reforms to boost jobs and the medium-term growth potential of their economies. Emerging market and developing economies, which have displayed remarkable stability and growth, are also key to an effective global response. The strategy is to adjust macroeconomic policies, where needed, to rebuild policy buffers, contain overheating and enhance our resilience in the face of volatile capital flows. Surplus economies will continue to implement structural reforms to strengthen domestic demand, supported by continued efforts that achieve greater exchange rate flexibility, thereby contributing to global demand and the rebalancing of growth. Fostering inclusive growth and creating jobs are priorities for all of us.⁹

⁹ Communiqué of the 24th Meeting of the IMFC: "Collective action for global recovery", Washington, DC, 24 September 2011. Available at: <http://www.imf.org/external/np/cm/2011/092411.htm>.

24. The ILO Director-General in his statement to the IMFC concluded:

To counter the renewed downward pressures facing the world economy and consolidate recovery towards strong, sustainable and balanced growth, policies must give priority to the real economy, its capacity to sustain investment, savings and consumption based on high levels of productive employment and decent work. This also requires recovering the dignity of work and investing in institutions of dialogue to deliver balanced solutions strengthening the prospects of the real economy. Determined global cooperation is urgent to tackle the global jobs deficit.¹⁰

G20 Labour and Employment Ministers

25. The conclusions of the meeting of G20 Labour and Employment Ministers held in Paris on 26–27 September stated:

The world is facing difficult times, with a risk of new crisis, and serious consequences for the labour markets. We strongly believe that employment must be our top priority. We are committed to urgently renew our efforts to promote creation of decent jobs and support workers and their families affected by unemployment and precarious employment. While some countries' labour markets have fared quite well, in many G20 countries the pace of growth during the recovery from the financial crisis has not been enough to significantly reduce the high levels of unemployment and under-employment accumulated during the downturn. More worryingly, recent data indicate that growth is faltering in many advanced G20 economies and there has been some deceleration of rapid growth in the emerging economies.¹¹

26. The Ministers agreed to a set of policy recommendations including the improvement of active employment policies, particularly for young people and other vulnerable groups; consolidation of employment as a priority of economic policy; preparing young people to find decent jobs; labour market policies for better social inclusion and access to jobs; strengthening social protection by establishing social protection floors adapted to each country; promoting effective application of social and labour rights, especially respect of fundamental principles and rights at work; strengthened coherence of economic and social policies by fully implementing the ILO Declaration on Social Justice for a Fair Globalization and further enhancing coordination among international organizations. They also agreed to “recommend setting up an intergovernmental task force on employment, composed of the G20 representatives, with the contribution of relevant international organizations and consulting social partners as appropriate. The task force will provide input to the G20 labour and employment ministerial meeting to be held under the Mexican Presidency in 2012”.¹²

¹⁰ “Priority number one: Tackling massive global jobs deficit”, Statement by Juan Somavia, Director-General of the International Labour Office at the International Monetary and Financial Committee and the Development Committee, Washington, DC, 24 September 2011. Available at: <http://www.ilo.org/public/english/bureau/dgo/speeches/somavia/2011/imfc2.pdf>.

¹¹ G20 Labour and Employment Ministers' conclusions, Paris, 26–27 September 2011, para. (1). Available at: http://www.ilo.org/global/about-the-ilo/how-the-ilo-works/multilateral-system/g20/WCMS_164260/lang--en/index.htm.

¹² *ibid*, para. (9).

Implications of current and prospective economic developments for the work of the ILO and its constituents

27. The global economic situation at the end of 2011 is a major cause of concern. The risks of slipping into a prolonged period of slow growth or even outright recession are increasing, with serious consequences for working people and productive enterprises. This could also constitute a major setback to the construction of a stronger social dimension for globalization.
28. The epicentre of the renewed sense of crisis is the Eurozone and more broadly the developed countries in which the financial crisis of 2008 had its origins. Indeed, the 2011 crisis is a direct result of the turmoil set in motion by the near meltdown of the financial system that year.
29. Not all countries are experiencing the weakening of growth apparent in Europe and the United States. A number of emerging and developing countries continue to expand. However, some of the largest have started to introduce measures to slow growth in order to control inflation. A slowdown in the developed world would likely spill over and affect the pace of their development.
30. An essential part of staving off these risks is a renewed effort to strengthen the social dimension of globalization. The ILO's Global Jobs Pact continues to receive widespread support as a valuable framework for mitigating the effects of the crisis and preparing for recovery, most recently at the meeting of the UN Economic and Social Council (ECOSOC) in July 2011¹³ and from G20 Employment and Labour Ministers. However, employment and social policies are swimming against strong tides of economic weakness caused by the huge debt overhangs created by the financial system and now in part transferred onto government accounts.
31. It is vital that the voice of the tripartite ILO world of work is heard very strongly at the present time, especially in the key forums for macroeconomic policy-making where it sometimes appears that a prolonged period of labour market distress is accepted as somehow the inevitable price to be paid for deleveraging the debt overhangs generated in the pre-2008 period of financial expansion. The consequences for individuals, communities, countries and the productive base of economies of such an approach could be disastrous.
32. Already some of the social tensions about which the ILO has warned are breaking out in many countries both in organized protest and also in more personally destructive forms such as rising rates of suicide, crime, drug and substance abuse and domestic violence. Moving forward, the aspirations for jobs and social justice launched by the Arab Spring may be jeopardized by the weakening international economic environment.
33. The main mechanism by which the voice of ILO constituents is expressed in national policy-making is through social dialogue in its many forms. International organizations of workers and employers are playing a prominent role in the processes leading up to the European Community and Cannes Summits.
34. Within the framework of the UN system, the ILO has collaborated with the IMF and the United Nations Environment Programme in preparing a report on "fairer, greener and more

¹³ ECOSOC resolution: "Recovering from the world financial and economic crisis: A Global Jobs Pact", July 2011 (E/2011/L.21/Rev.1).

sustainable globalization”. The report, presented for discussion at the October 2011 meeting of the UN System Chief Executives Board for Coordination, may give rise to research on the role of employment and social policies in global rebalancing. ILO work under its Green Jobs Programme is also focusing on the employment and decent work implications of the ongoing negotiations for a new international climate agreement.¹⁴

35. At the global level, the ILO is also following up the September 2010 ILO/IMF Oslo Conference with preparations for national dialogue meetings in Bulgaria, the Dominican Republic and Zambia; joint examination of financing options for social protection floors in El Salvador, Mozambique and Viet Nam; and continued exchange on research work regarding the relationship between macroeconomic and employment policies in generating inclusive growth. Important speeches by the IMF Managing Director Christine Lagarde and other senior leaders have strongly emphasized the need to tackle the jobs crisis and work with the ILO.¹⁵

Building on the Global Jobs Pact

36. Building on the Global Jobs Pact to prioritize measures of widespread application is a potentially important component of an effective international package of policies that can be tailored to specific country circumstances.¹⁶ A series of relatively modest simultaneous national actions aimed at placing an economic and social floor under the downward spiral the world economy risks entering would generate multiplier effects which could help restore worker and employer confidence and thus the consumption and investment drivers of the productive economy. Tripartite review of national economic prospects, even in times of crisis, can help define the elements of possible social pacts to relaunch growth and share the burdens of adjustment.
37. The report, *Social protection floor for a fair and inclusive globalization*, prepared by an advisory group led by Michelle Bachelet, former President of Chile, for the United Nations and the G20, gives an important boost to the Pact’s advocacy on building adequate social protection for all.¹⁷ The International Labour Conference discussion in 2012 on an international standard applicable to diverse national situations could help define a constructive and realistic way forward that both reduces poverty and inequality and also helps develop an international economic and social stabilizer.

¹⁴ See GB.312/POL/1.

¹⁵ “The IMF is seeking to sharpen its awareness of the quality of growth *within* countries. A poor distribution of income and high unemployment can have implications for macroeconomic stability, sustainable growth, and social stability, as demonstrated by the Arab Spring. We need to broaden the range of indicators we look at to assess the economic health of a country. But this is not really our area of expertise, so we must collaborate with other institutions. Right now, we are working with the International Labour Organization (ILO) across a number of dimensions, including on the policies behind job-creating growth.” (Remarks by Min Zhu, IMF Deputy Managing Director, “The evolving role of the IMF in the global economy”, Port Louis, Mauritius, 17 October 2011. Available at: <http://www.imf.org/external/np/speeches/2011/101711.htm>).

¹⁶ ILO: *Recovering from the crisis: A Global Jobs Pact* (Geneva, 2009). Available at: http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_115076.pdf.

¹⁷ Social Protection Floor Advisory Group: *Social protection floor for a fair and inclusive globalization* (ILO, Geneva, 2011).

- 38.** The Working Party is invited to review and comment on the analysis of the current economic, social and employment prospects.

Geneva, 28 October 2011