

# G20



International  
Labour  
Office

## Accelerating a job-rich recovery in G20 countries: Building on experience

An ILO report, with substantive contributions from OECD,  
to the Meeting of G20 Labour and Employment Ministers,

20-21 April 2010, Washington, DC



# Contents

<b>A. Supporting employment and strengthening recovery</b> .....	2
<b>B. Weak recovery in labour markets</b> .....	2
<b>C. Policy experience from the G20 crisis responses</b> .....	4
C.1 An evolving G20 policy pattern: expanding, borrowing, adapting the “tried and tested” .....	4
C.2 21 million jobs created or saved in 2009 and 2010 .....	5
C.3 Timing, size, and composition of fiscal stimulus measures determine effectiveness .....	5
C.4 Public spending on infrastructure generates job with varied impacts.....	7
C.5 Retaining employees through working time reductions.....	7
C.6 Supporting small and medium-sized enterprises .....	8
C.7 Temporary subsidies to accelerate employment recovery.....	9
C.8 Extending social protection systems feature in many countries .....	10
C.9 Targeting employment programmes to disadvantaged communities.....	11
C.10 Strengthening public and private employment services .....	12
C.11 Skills and training to prepare for recovery and beyond .....	13
C.12 Maintaining or raising wages for the lowest paid .....	13
C.13 Social dialogue: managing crisis and promoting recovery.....	14
<b>D. Policy challenges for a sustained jobs recovery</b> .....	14
D.1 Timing of exit strategies .....	15
D.2 Developing the framework for quality jobs at the heart of strong, sustainable and balanced growth.....	16
D.3 An integrated approach to accelerating jobs recovery .....	16
D.4 Gradual consolidation of a basic floor of social protection.....	16
D.5 Realizing the potential for green jobs and clean energy technology .....	16
D.6 Improving international policy coordination.....	17
<b>E. Summing up</b> .....	17
<b>References</b> .....	18

### A. Supporting employment and strengthening recovery

1. The G20 Employment and Labour Ministers convene in Washington, DC on 20-21 April 2010 "... to assess the evolving employment situation, (...) report on whether further measures are desirable and consider medium-term employment and skills development policies ...." as requested by G20 Leaders.
2. This report reviews labour market developments in the G20 countries during the global economic crisis and initial phase of the recovery and examines the early lessons from a range of policy measures taken by G20 countries in response to the crisis. It is based on a more detailed review of employment and social protection policies applied by countries.<sup>1</sup> It also draws on a series of G20 country briefs which focus on crisis response measures that may be of interest to G20 ministers as they seek to build on each other's experiences to shape a job-rich recovery.<sup>2</sup>
3. G20 countries responded to the global decline in economic activity and mounting job losses with extraordinary fiscal and monetary measures and a range of employment and social protection policies. Their impact in attenuating the crisis and reducing net employment losses is now becoming clear.
4. Broad international coordination of policy responses took shape shortly after the extent of the crisis became evident in the latter part of 2008. Policy decisions taken in September 2008 have been coordinated globally by G20 Leaders at their Summits in Washington (November 2008), London (April 2009) and Pittsburgh (September 2009). In all three statements, G20 Leaders addressed together the financial, economic, employment and social dimensions of the crisis.
5. In London, G20 Leaders agreed that: "...our global plan for recovery must have at its heart the needs and jobs of hard-working families..." In Pittsburgh, they reiterated their commitment to a job-rich recovery: "...every country must act to ensure that employment recovers quickly... implementing recovery plans that support decent work, help preserve employment and prioritize job growth."

<sup>1</sup> See ILO: *Employment and social protection policies from crisis to recovery and beyond: A review of experience*, March 2010; and OECD: Chapter 1 of the *Employment Outlook 2010*, forthcoming.

<sup>2</sup> ILO: G20 Country Briefs, April 2010.

6. Measures adopted by countries reflect the approach articulated in the ILO Global Jobs Pact which G20 Leaders welcomed in Pittsburgh and committed to adopting "...key elements of its general framework to advance the social dimension of globalization." The G20 medium-term framework for strong, sustainable and balanced growth addresses both the volume of employment required and its quality, or "...the good jobs our people need."
7. Major challenges remain to ensure that the positive effects of employment measures can be sustained. The crisis is also bringing about long-term structural change in labour markets. New areas of activity will emerge. But some of the jobs lost during the crisis may not return soon or even at all. Labour reallocations across occupations, industries and enterprises will intensify movements in the labour market.

### B. Weak recovery in labour markets

8. By the fourth quarter of 2008, negative gross domestic product growth was experienced in 16 of 17 G20 countries with quarterly data. In six G20 countries the recession lasted up to 3 consecutive quarters; in another nine countries the recession lasted between 4 and 6 consecutive quarters; two countries experienced a recession of 7 consecutive quarters. China and Indonesia did not have a quarter of contraction during the period.<sup>3</sup>
9. In 13 G20 countries, with quarterly data, real GDP levels currently remain well below those prior to the most recent peak. In Australia, India, Rep. of Korea and South Africa recovery from the trough has now lifted their economies above the levels immediately prior to the onset of the recession.
10. The increase in unemployment has been commensurate with the intensity of the contraction in some countries, but not in others (figure 1). Indeed, a number of G20 countries have seen increases in unemployment far beyond that expected from the decline in output (Spain, United States and to a lesser extent France), while in others the increase in unemployment has been far lower than what could be expected from the large drop in economic output (Germany and Japan). Significant adjustments in working time have been a widespread mechanism to accommodate output losses in these latter countries. Only a few countries show a sharp

<sup>3</sup> This section draws heavily on an accompanying report, *Employment and labour market adjustments in G20 countries during 2007-09 and outlook for 2010: A statistical overview, 2010*, which identifies main trends and patterns in the adjustment of labour in G20 countries.

**Table 1. The impact of the crisis on real GDP and unemployment: country experiences differ strikingly**  
**Changes in GDP (in percent) vs. changes in Unemployment Rate (UR, in percentage points) in 2009**

	Decrease in UR	Slight to Moderate increase in UR (from 0 to 1.5 pp.)	Strong increase in UR (from 1.51 pp. to 3.0 pp.)	Very strong increase in UR (more than 3.0 pp.)
Slower but positive GDP growth	Indonesia	Argentina Australia Brazil China Korea, Rep. Saudi Arabia		
Moderate GDP shock (from -2.5% to 0%)		South Africa	France	United States
Strong GDP shock (from -2.51% to -4.99%)			United Kingdom Canada	Spain Turkey
Very strong GDP shock (-5.0% and less)		Italy Germany Japan Mexico	Russian Federation	

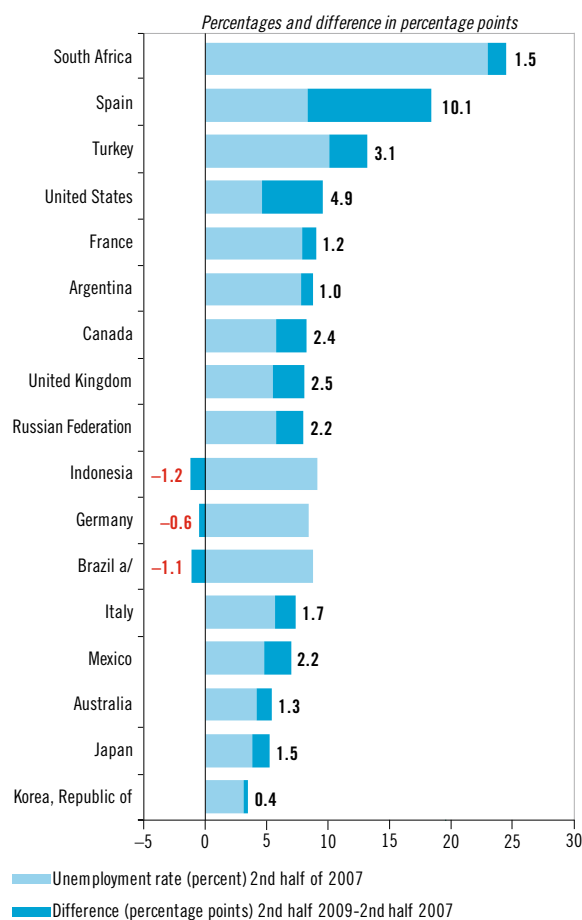
Source: OECD and ILO based on official country estimates

Notes: Figures in brackets indicate real GDP change and unemployment rate change, respectively in 2009.  
 pp: percentage-point change.

drop in real compensation per employee (Russian Federation).

11. In the two years to the second half of 2009, labour demand, as measured by the employment-to-population ratio, declined in 12 of 16 G20 countries with available quarterly or semi-annual data. Four countries experienced rising ratios during the same period.
12. Employment losses have shown a distinct sectoral pattern. Over 6 million jobs were lost in manufacturing, 2.8 million in construction, and 2.3 million in wholesale and retail trade in the two years to the third quarter of 2009 among 15 G20 countries with available data. During the same period, utilities, education, public administration and health registered increases in employment. Employment losses have been more marked for men than for women in most countries.
13. Falling labour demand has led to rising unemployment in 14 of the 17 G20 countries and the increase has continued even in the early phases of the output recovery in many countries. Indeed, among 15 G20 countries with available quarterly information, the rise in unemployment has so far lasted on average over six quarters, compared with an average of three quarters for the peak-to-trough fall in real GDP.
14. Even in good times, youth unemployment rates tend to be two to three times overall unemployment rates in the G20 countries. During the crisis,

**Figure 1. Selected G20 countries (17 countries): unemployment rate second half of 2009 compared with second half of 2007**



Source: ILO based on official estimates of the countries. Data not seasonally adjusted.  
 a/ In Brazil, data refer to 6 major metropolitan areas.

youth have been hard hit and joblessness has increased more rapidly than for the total population. In the two years to the second half of 2009, youth unemployment rate increased in 12 of the 14 G20 countries with available data.

15. The crisis has also affected labour force participation with declines in half of G20 countries and increases in the other half. Women's labour force participation rates increased in eight out of 14 countries with available information in the second half of 2009 (with respect to 2007). This is in sharp contrast to men's labour force participation which declined during this period in 13 of 14 countries.
16. The slack in the labour market that accumulated from the second half of 2008 remains high in the first quarter of 2010 despite the beginnings of economic recovery. An additional factor is rising informal employment and poverty in some developing and emerging economies and generally weak growth in real wages in countries at all income levels.
17. The pace at which women and men in search of more and better job opportunities can be absorbed into productive employment will depend on the strength of the recovery in output and in employment, which in turn is a function of the policy mix adopted by countries individually and collectively.
18. The profile of the recovery in output will significantly affect the pick-up in labour markets. Global forecasts available in early 2010 (IMF, OECD, United Nations) all suggest a multi-speed recovery still largely driven by government stimulus measures. Forecasters see persistent downside risks in both advanced and emerging economies, with the exception of some countries in Asia.
20. The policy response of G20 countries to the global crisis was rapid, decisive and large scale. From the latter part of 2008, monetary policy measures to stabilize weakened economies were quickly followed by fiscal measures to sustain employment, generate new activities and protect workers and households.
21. A survey of initial policy responses covering the period mid-2008 to mid-2009 was submitted to G20 Leaders by the ILO in September 2009.<sup>5</sup> This section also draws from similar reviews conducted jointly by the OECD and the European Commission in 2009 and early 2010.<sup>6</sup>
22. Countries continue to adapt employment measures and introduce new ones. Available information suggests that more advanced G20 countries expect to maintain or even expand spending on labour market policy measures in 2010. However, the policy emphasis is changing somewhat as labour market conditions evolve and many such countries face several constraints in their public finances. Indeed the extraordinary fiscal stimulus in many G20 countries has contributed to a significant deterioration in public finances as evidenced by ballooning public sector deficits and public debt/GDP ratios. This is creating pressures for such countries to put in place credible medium-term fiscal consolidation processes, while balancing this against the need not to withdraw the stimulus too soon before the recovery takes firm roots.
23. A number of labour-demand measures are likely to be phased out in 2010 or 2011, with some countries shifting their focus from job-retention measures (e.g. short-time work) to hiring subsidies and other measures to promote a job-rich recovery. Countries that expect a sizeable further increase in unemployment over the next two years plan to increase resources for re-employment, targeting the unemployed with measures such as job-search assistance, training and work experience, as well as income support for those who have lost their jobs.
24. For the most part countries have turned to "tried and tested" measures with a track record in sev-

### C. Policy experience from the G20 crisis responses

19. Experience to date with policies applied since the onset of the crisis, coupled with lessons borne by experience, suggest a number of early lessons about the effectiveness of different policy measures.<sup>4</sup> Emerging lessons need to be tempered by the actual conditions of application in specific country contexts.

#### *C.1 An evolving G20 policy pattern: expanding, borrowing, adapting the "tried and tested"*

<sup>4</sup> The OECD has provided substantive contributions to this report but it does not necessarily endorse all policy lessons presented in it.

<sup>5</sup> ILO: *Protecting people, promoting jobs: A survey of country employment and social protection policy responses to the global economic crisis*, Geneva, 2009. Available at: [http://www.ilo.org/public/libdoc/jobcrisis/download/protecting\\_people\\_promoting\\_jobs.pdf](http://www.ilo.org/public/libdoc/jobcrisis/download/protecting_people_promoting_jobs.pdf)

<sup>6</sup> See in particular OECD Employment Outlook 2010 (forthcoming); and OECD (2009): *Addressing the labour market challenges of the economic downturn: A summary of the country responses to the OECD-EC questionnaire*, (<http://www.oecd.org/dataoecd/15/29/43732441.pdf>).

eral countries. They have also favoured those for which they have established institutional capacity, expanding and/or adapting existing programmes and measures.

25. Eighteen months from the onset of the crisis, it is now possible to draw some preliminary conclusions about the impact of policies for supporting women and men and their families weather the storm of the crisis. From our current vantage point the available comparative evidence points to some emerging lessons. These include:

Stimulating labour demand:

- Fiscal stimulus is working, but the timing, size and composition of spending determine effectiveness in saving and creating jobs.
- Public spending on infrastructure generates jobs; especially when policy design and implementation systems are focussed on employment creation.
- Retaining employees through reduced working hours or other schemes can save jobs and retain skills. Temporary schemes developed through social dialogue can maximise costeffectiveness.
- A broad range of measures to support small and medium-sized enterprises (SMEs) helps save and create jobs.
- Hiring subsidies can bring forward hires that employers, uncertain about recovery, may delay and are particularly useful to increasing opportunities for disadvantaged workers such as the long-term unemployed in the early phases of recovery.

Extending social protection:

- Social protection has helped many women and men and their families cope with the recession and halt the economic downturn especially where systems were already in place and could be quickly extended. A basic social protection floor could bring these benefits to hundreds of millions more.
- Targeting public employment programmes to depressed areas can be effective where schemes are well designed and targeted. Countries with experience of such employment guarantee schemes were best placed to enlarge them in the crisis.

Promoting employment and skills:

- Reinforced public employment services and strengthened co-operation with private employment agencies can play a major role in promoting a quick re-integration of jobseekers into employ-

ment as the economy recovers and are vital to help disadvantaged workers keep a foothold in the world of work.

- Enterprises and governments have used the downturn as an up-skilling opportunity, providing employees, job seekers and new entrants with additional training.
- Maintaining or, when appropriate, raising wages for the lowest paid, can contribute to counter-cyclical policies and reduce the risk of increased poverty.
- In all these areas, wide use has been made of social dialogue among business and labour and with government. A range of forms of dialogue are being applied from national tripartite pacts to sectoral and enterprise agreements.

### *C.2 21 million jobs created or saved in 2009 and 2010*

27. The ILO estimates that in G20 countries discretionary fiscal stimulus may have generated or saved 8 million jobs in 2009 and 6.7 million in 2010. In addition, automatic stabilizers may have saved or generated 6.2 million jobs across G20 countries in 2009. With positive growth in output expected in 2010 in most G20 countries, the effect of automatic stabilizers consequently begins to taper off. Fourteen million jobs in 2009 and another 6.7 million in 2010 add up to some 21 million jobs created or saved, equivalent to 1.0 per cent of total employment for the G20 group. The implication is that global unemployment might have risen by 55 million as a consequence of the repercussions of the financial crisis, instead of 34 million, without the effect of both discretionary measures and automatic stabilizers.

### *C.3 Timing, size, and composition of fiscal stimulus measures determine effectiveness*

28. The extraordinary fiscal stimulus measures adopted by G20 countries have been effective in stimulating output and employment. It has become clear, however, that the timing, size and composition of the measures matter as well. All countries that have decided on extraordinary fiscal stimulus have seen the effect of such spending, and countries with large fiscal stimulus packages seem to have reversed the downturn more quickly.
29. Australia, China, Republic of Korea, the Russian Federation, Saudi Arabia, and South Africa adopted above average fiscal stimulus measures in the range of 3-4 per cent of GDP in 2009. The rebound in

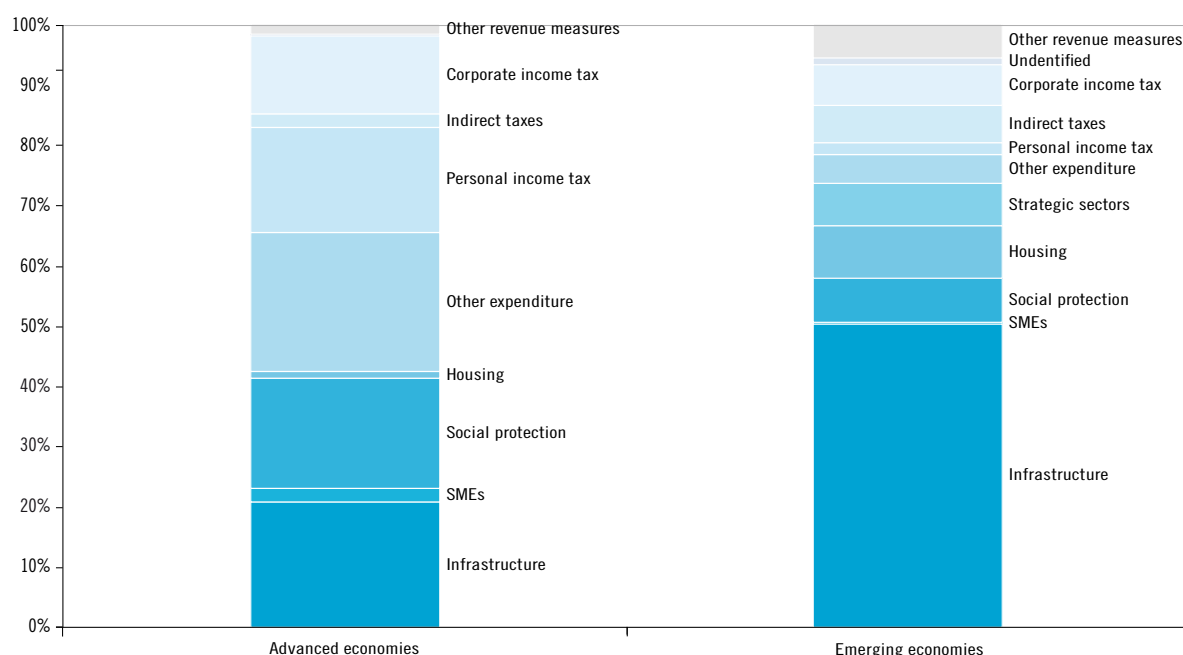
growth as of mid-2009 from the low point of the recession in the 4th quarter of 2008 and the first quarter of 2009 was particularly strong in these countries.

- 30. The boost from extraordinary spending has been complemented by the impact of automatic stabilizers – unemployment insurance, social assistance, progressive tax rates – that help maintain incomes and support consumption. By definition, automatic stabilizers are counter cyclical in a downturn, particularly when expenditure supports lower income households who have a high propensity to consume. Expenditure on automatic stabilizers related to social protection tends to be higher in advanced countries as a proportion of GDP.
- 31. Adding the impact of automatic stabilizers to discretionary fiscal spending, overall fiscal expansion is slightly above 4 per cent of advanced countries GDP in 2009 and 2010; and approximately 3 per cent of emerging countries GDP in 2009 and in 2010 (IMF; 2009). Overall, advanced countries have been able to rely more on automatic stabilizers to stimulate the economy compared with emerging countries which have used discretionary measures. In 2010, the emerging economies stimulus measures are expected to be stronger than those of advanced countries.
- 32. The discretionary fiscal stimulus is composed of additional expenditure and tax cuts. Additional

expenditure accounts for an average of 83 per cent in emerging countries and 65 per cent in advanced countries, in 2009 and 2010; with the balance accounted for by tax cuts, higher in the latter group of countries.

- 33. In emerging economies, some two-thirds of additional spending is concentrated in three areas, namely infrastructure, housing and social protection (Table 2). The top three expenditures in advanced economies, totalling 62 per cent, are infrastructure, social protection and other specific support measures (such as subsidies for the purchase of new cars and appliances).
- 34. Available evidence summarized by the IMF shows that higher government spending, through investment or consumption, is more effective than tax cuts, in stimulating output. Fiscal multipliers for tax cuts are low (0.2-0.5), higher for targeted transfers (0.5-1.7) and large for government expenditure (1.6-3.9).
- 35. “Green stimulus” measures such as investments in low carbon power, energy efficiency and water management are on average between 10 and 15 per cent of total stimulus in G20 countries, (HSBC, November 2009). It is however significantly higher in China and the Republic of Korea.
- 36. Investments and support measures to specific economic sectors and industries have featured promi-

**Table 2: Composition of discretionary stimulus spending, 2009 and 2010**



Source: IMF (2009).



nently among G20 countries, such as scrapping subsidies for the automobile industry.

## Stimulating labour demand

### *C.4 Public spending on infrastructure generates jobs with varied impacts*

37. In periods of downturn, public spending on infrastructure stimulates economic activity and generates employment, with little risk of deterring private investment. The very low interest rates in bond markets indicate the lack of “crowding out” effects at this stage in most G20 countries, particularly the advanced economies. Public infrastructure investment also enhances long-term growth prospects.
38. Public spending on infrastructure has a large multiplier effect on economic activity through backward and forward linkages, although the employment impact varies considerably depending on the structure of the economy in question, the types of public works undertaken and the country’s capacity to implement projects rapidly. Taken together, emerging economies have dedicated a much higher proportion of stimulus spending to infrastructure, about 50 per cent for 2009-10, than advanced economies at about 21 per cent (table 2).
39. On average, emerging G20 countries are spending close to 1 per cent of GDP in 2009 and 2010 for infrastructure projects, compared with advanced G20 countries which are spending close to 0.4 per cent of GDP. Australia and China lead the group with over 2 per cent of GDP spent on infrastructure in 2009 and 2010, followed by South Africa (1.5 per cent), Republic of Korea (1 per cent), Canada (0.8 per cent), Argentina and Mexico (0.5 per cent each), and Germany (0.4 per cent). Other countries are spending between 0.4 and 0.2 per cent of GDP, with the United States at 0.25 per cent. Extraordinary infrastructure spending is scheduled to phase out in most countries in 2010 or early 2011.
40. The quantity of employment generated by infrastructure investment varies significantly across countries and types of works, reflecting relative levels of productivity and wages, the choice of more labour or capital intensive techniques, and the extent of use of smaller enterprises. The employment impact includes both the direct effect of workers hired for the projects and also an indirect effect in firms supplying contractors and in the wider economy. Estimations of employment impact are

dependent on the “multipliers” used to calculate the indirect benefits of infrastructure spending and the time period reviewed.

41. The Indonesian government, for example, has estimated that its US\$7.6 billion infrastructure package has generated 750,000 jobs in 2009. Egypt has committed US\$2.82 billion in 2009 to infrastructure with an estimated employment generation of 650,000. By September 2009, the United States had expended some \$4.4 billion of its large multiyear infrastructure programme creating an estimated 60,000 jobs directly and indirectly.
42. A key concern for all countries has been speed of implementation. Public spending on infrastructure requires institutions and enterprises to turn decisions into plans and plans into worksites. Countries have aimed to streamline administrative procedures and raise investment execution rates in order to accelerate job creation.
43. Decentralizing public investment, resulting in smaller tenders that boost smaller enterprises and local economies, shows benefits both in speeding up implementation and raising the scale of job creation. Tender specifications that encourage labour intensive techniques are an important means of generating jobs and have been widely used.

### *C.5 Retaining employees through working time reductions*

44. Keeping workers in employment through shorter working hours and partial unemployment benefits can be highly effective in reducing open unemployment and maintaining skills and connections to work. Whether through enterprise arrangements negotiated by workers and management or through national schemes, adjustments to regular working time have been widespread in advanced and emerging economies. Such programmes not only help to keep unemployment from increasing, they allow enterprises to hold on to their skilled workers, putting them in a better position to take advantage of the recovery when it comes. Perhaps one of the main lessons from previous economic downturns is that layoffs now can result in skills shortages later. However, such programmes are not without costs for the public purse, raising the issue of how and when they should be phased out.
45. The use of three or four-day workweeks, reduced daily hours and temporary shutdowns were widespread in late 2008 and early 2009. A notable example is Germany where shorter working hours, or *Kurzarbeit*, is an established labour market pro-

gramme managed by public employment services. Some 1.5 million workers in Germany benefited from the scheme in mid-2009; in full-time equivalent terms, this was equal to about 500,000 jobs saved, or one percent of the labour force. The unemployment rate in Germany increased only 0.5 per cent between November 2008 and November 2009, in spite of a sharp drop in GDP.

46. Canada, France, Italy, Japan, Mexico, Netherlands, South Africa, Turkey and the United States, among others, have introduced or expanded various forms of shortened working time.
47. Working time reduction schemes provide no guarantee against possible future dismissals and are costly. But they avoid dismissals as well as re-hiring costs, and maintain skills and motivation. There is evidence from previous recessionary periods that short working time can avoid layoffs and some evidence that such programmes may postpone redundancies (Messenger, 2009).
48. Careful design of short-time working schemes can limit deadweight loss (i.e. supporting firms and jobs that would have survived without assistance) and displacement effects (i.e. supporting unviable jobs) but cannot fully avoid them.<sup>7</sup> Requirements that participating firms must have experienced a minimum reduction in production and/or business activity and have the explicit agreement between social partners can help reduce deadweight losses by restricting access to firms that are not in financial need. Requiring firms to share a significant part of the cost of short-time work, such as in Germany, France and Japan, can also reduce deadweight losses. The easiest way to avoid displacement effects is to attach clear and credible time limits to participation in short-time working schemes. Displacement effects can also be minimized by enhancing the viability of workers (e.g. by providing training or making it compulsory) or jobs (e.g. by requiring firms to repay subsidies if jobs are not maintained during or after participating in short-time work as in the Netherlands).
49. Short-time working subsidies may be most effective in supporting firms when aggregate demand is declining during the downturn. Indeed, participation in short-time working schemes may have already peaked. For example, the number of employees participating in the German *Kurzarbeit* peaked

in May 2009, while participation in short-time working schemes peaked in August 2009 in Japan and in October 2009 in Canada. Some temporary measures to expand the coverage or level of subsidy of short-time work schemes were withdrawn at the end of 2009 in Mexico and the Republic of Korea. Extended duration of short-time work subsidies is due to finish during 2010 in Canada, France, Germany and Turkey.

### *C.6 Supporting small and medium-sized enterprises*

50. Small businesses are big employers, and SMEs represent a very large slice of most economies. In Europe, for example, SMEs represent almost 99 per cent of all businesses and 67 per cent of private sector jobs. In Indonesia, SMEs account for just over half of GDP and about 95 per cent of employment. In the United States, almost a third of Americans work in businesses with fewer than 50 employees it is estimated that such businesses have suffered about 45 per cent of the job losses in the downturn.
51. While smaller businesses may be more agile than larger ones, they are disadvantaged even in good times by difficulties in raising finance, thin expertise in key skills and difficulties in reaching the scale of operation needed to grasp market opportunities. Such constraints are magnified in recession. In consequence, a number of countries are reviewing the effectiveness of the array of measures available to support SME's and whether adjustments are required to help SME's survive the downturn and benefit as quickly as possible from the upturn.
52. Most stimulus packages include specific measures for SMEs. These measures can be classified into four broad categories:
  - access to finance
  - tax benefits
  - employment incentives and entrepreneurship
  - access to market opportunities.
53. In countries struck directly by the financial crisis (mainly advanced countries), bank lending in late 2009 was still much below pre-crisis levels, impairing SME activity. Availability of credit in other countries (Brazil and China) has actually increased substantially. Where SME's are credit constrained, effective measures have included higher loan guarantees, accelerated amortization, overdraft facilities, and faster settlement of invoices.

<sup>7</sup> The OECD has estimated, based on historical data, that the deadweight losses associated with short-time working schemes may be significant; see Chapter 1 of the OECD Employment Outlook 2010 (forthcoming).

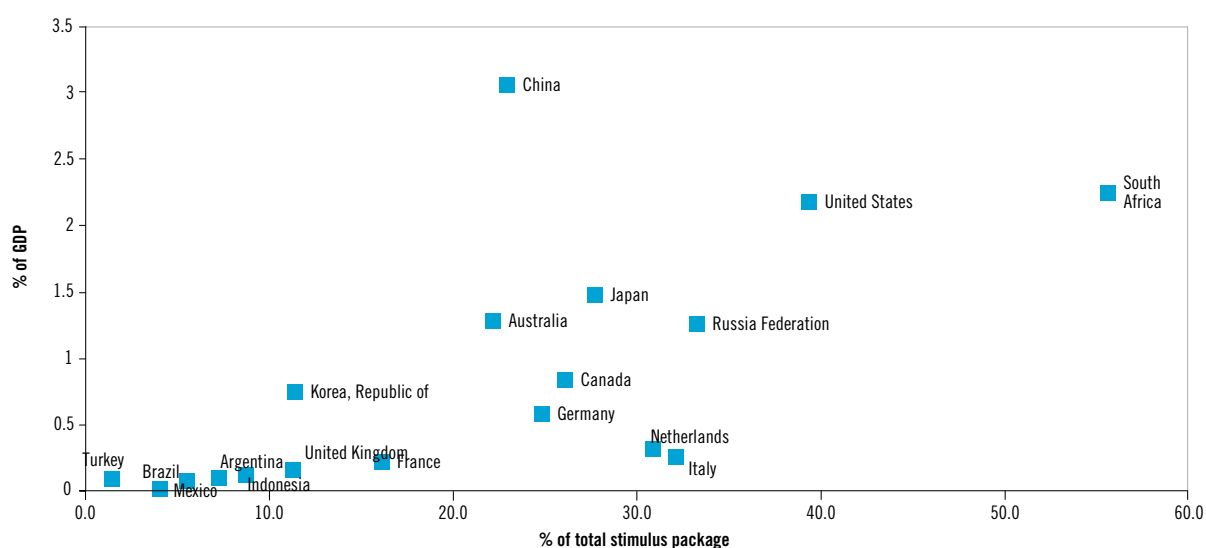
54. Some countries have also extended a range of tax deductions, from social security to capital gains and value added taxation. In general such tax changes apply to all firms regardless of size. They may however be critical to smaller firms on the margin of survival, which may also need assistance in taking full advantage of tax breaks.
55. Business start-ups and recently formed enterprises can play an important role in easing the impact of the slowdown. New businesses can be started by locally retrenched workers, as well as by new entrants into the labour market and by migrants moving from urban to rural areas or returning from abroad. It must be recognized, however, that new businesses have a high potential to fail. Support services can increase survival rates and thus employment. Publicly funded agencies and business associations can provide suitable entrepreneurship training and advisory support. Voucher schemes are one method of enabling businesses or individuals to buy support in the form of training or expertise. Support should be tailored to ensure that women as well as men have access to appropriate advice and training.
56. Government infrastructure programmes designed to include the contracting of work to SMEs are likely to have greater employment impact than big projects with big firms. Small tenders and the decentralization of procurement decisions increase opportunities for small firms. Where feasible, governments should:
- ensure that there is no minimum enterprise size for bidding on projects;
  - source SMEs for small projects and components of large projects;
  - reserve a specific percentage of government contracts for SMEs;
  - favour bids from SMEs with high employment intensity.
- C.7 Temporary subsidies to accelerate employment recovery*
57. Job subsidies can play a role in helping firms and workers weather the storm of a deep downturn. Subsidies can take a number of forms. *Stock subsidies* generally involve broad cuts in employer social security contributions intended to support overall labour demand. Due to the limited long-run cost-effectiveness of such reductions, they should be temporary and focused in the initial stages of a recession when firms are experiencing declining aggregate demand. Reductions targeted at low-wage workers, such as those in France, are likely to be more cost-effective. A number of G20 countries, including Canada, Germany, France, Mexico and Japan, temporarily reduced employer social security contributions in response to the current crisis. These measures were terminated in Mexico at the end of 2009 and are due to be withdrawn in some other countries during 2010.
58. At the same time, several countries introduced wage subsidies aimed at new hires. These measures are directed at more vulnerable groups such as youth, older workers and long-term or hard-to-place unemployed. The overall effectiveness of these gross hiring subsidies in improving net employment appears to be somewhat limited whereas they appear to be more effective in reducing the unemployment burden on the most disadvantaged jobseekers. However, performance has been highly variable across countries, underlying the importance of good programme design, including careful targeting on disadvantaged groups and controls to prevent employers from gaming the system (e.g. maximising the subsidy by “churning” workers). Marginal employment subsidies, which are paid only for new hires associated with net employment gains, tend to be more cost-effective because leakages via deadweight losses and churning can be reduced significantly.
59. Hiring subsidies, particularly marginal employment subsidies such as those introduced by Turkey and the United Kingdom, are well-suited to strengthening job creation in the later stages of a downturn and the early stages of the recovery, when the priority is to ensure that the rebound in production translates quickly into strong job creation. Available information suggests that job subsidies introduced by advanced G20 countries in response to the crisis are expected to remain in place during 2010 and beyond, as countries face a large pool of unemployed and private sector job creation remains weak.
60. Income subsidies to low paid workers are widely used, for instance in the United Kingdom Working Tax Credit, or in the United States Earned Income Tax Credit. Such programmes aim to increase the labour force participation of low-income households and reduce poverty and are generally deemed to be effective.

## Extending social protection

### *C.8 Extending social protection systems feature in many countries*

61. Providing basic social protection to workers and their families affected by job losses and at risk of poverty is the first line of defence in a major downturn. The challenges vary across countries depending on the depth of the jobs crisis, the design and coverage of existing social protection and the fiscal space to expand them. For unemployment benefit schemes, the challenges include providing sufficient resources to deal with a significant increase in benefit applications, providing adequate income support over longer unemployment spells and covering non-standard workers. Additional challenges arise in emerging G20 economies, where unemployment benefit systems are less developed and, even in good times, social protection schemes may struggle to provide effective support to all those who need it. Other income support measures, including cash transfers and public works programmes (see below), are needed to reach those outside the formal sector who do not have access to unemployment benefits or other forms of social assistance.
62. Unemployment benefits, health insurance, old-age pensions and child benefits have been expanded in many G20 countries since the onset of crisis. Figure 2 provides an estimate of discretionary social protection expenditure relative to total stimulus measures and to GDP. Additional measures have often been directed at low-income households.
- This contrasts with the response to the initial phase of the Asian crisis in 1997, when many countries cut social expenditure.
63. Approximately two-thirds of G20 countries provide unemployment benefits for a period of between 6 and 12 months, and one third up to 24 months. Several countries extended the duration (9 countries) and expanded the coverage (7 countries) of unemployment insurance. Coverage varies from between 60 to 80 per cent of the unemployed (5 countries), to between 30 and 50 per cent (5 countries) and 10-20 per cent (7 countries) (figure 3). Seven countries have sought to improve coverage and benefits to persons in partial unemployment, compensating for the time not worked.
64. The crisis has accelerated plans to expand coverage of basic social protection. China has announced plans to achieve universal coverage of basic health care by 2020. India is expanding health protection for low-income households. Basic pension benefits have been raised and coverage expanded in a number of countries, including Brazil, France and Russia Federation. China launched a major reform in December 2009 to introduce a basic pension scheme for 700 million persons in rural areas. India has also expanded significantly a national old-age pension scheme. Research in Brazil and South Africa has found that non-contributory pensions have a significant effect on the incidence and depth of poverty. (ILO, 2010).
65. Temporary benefits for families have been introduced in Germany, and on a permanent basis in

**Figure 2. Discretionary social protection expenditure as per cent of total stimulus and of GDP in G20 countries (2009-10)**



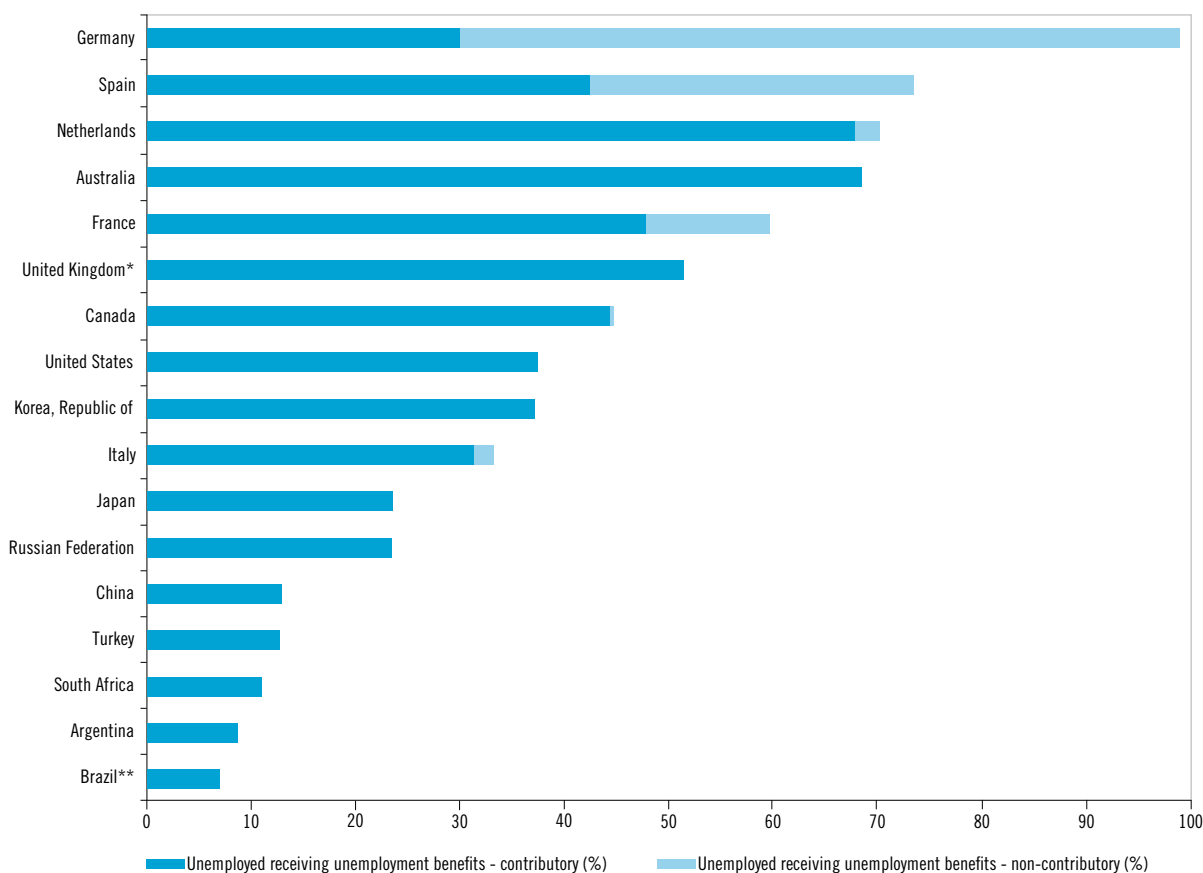
Source: Zhang et al (2009), IMF (2009), ILO estimates.

Argentina. Brazil has continued to expand the coverage of its cash transfer programme to low-income households, as have Mexico and Turkey. The poverty reducing effect of such programmes has been shown to be high.

66. Public expenditure on social protection varies widely across G20 countries from above 25 per cent of GDP in Europe to less than 6 per cent in developing Asia. Argentina and Turkey are around the median point of just above 13 per cent.
67. Unemployment benefits are strongly counter cyclical, and have a stabilizing effect on consumption during times of declining incomes. They also prevent people from falling into poverty. Providing other cash-constrained households with additional resources, such as cash transfers, directly supports consumption. Research on the stabilizing impact of social protection, unemployment insurance in particular, in the United States, Canada and the European Union, has demonstrated their effectiveness in cushioning incomes and supporting demand. In the United States, for example, increased unemployment insurance spending together with increased spending on food programmes have had a stronger multiplier effect on output than tax cuts or an increase in infrastructure spending in the recovery package.
68. As discussed in section C.6, several countries, notably Canada, Germany and Japan have opted to cut or freeze contribution rates to reduce costs to business and employees in the early part of the downturn. One of the lessons of the current crisis is that the rate-setting framework for unemployment insurance contributions should move from a pro-cyclical to a counter-cyclical approach, in which rates are reduced during recessions then increased afterwards to assure reserve funds for future downturns.
69. Public employment or public works programmes targeted to depressed communities and groups

### C.9 Targeting employment programmes to disadvantaged communities

Figure 3. Percentage of the unemployed receiving unemployment benefits, 2008



Source: ILO/SECSOC Database

\* Data for the United Kingdom job seeker's allowance includes social insurance and social assistance.

\*\* Brazil has a non-contributory unemployment scheme for fisher people.

can be effective and socially and economically justified when alternative employment opportunities are unavailable. They combine elements of basic income support with infrastructure investment. There is a long history of government intervention to supply jobs through public works programmes using public resources to employ available idle labour, build needed infrastructure and stimulate consumption. Evaluations of public employment programmes in advanced G20 countries have often yielded disappointing results in terms of re-employment opportunities in private-sector jobs and prospective pay.

70. There have been a number of significant innovations in public employment schemes in recent years. Beyond traditional construction work on infrastructure projects, countries have expanded the focus to work in the social sector, environmental services and multi-sectoral community-driven programmes.
71. Possibly the largest scheme is India's National Rural Employment Guarantee Scheme (NREGS) launched in February 2006 and expanded to 619 rural districts in 2009. In 2009-10 the programme provides 100 days of employment at the minimum wage rate to 43 million low income households. Women account for close to 50 per cent of beneficiaries. South Africa is implementing an Expanded Public Works Programme operating along similar principles. A new phase was launched in April 2009 with a target of 4.5 million jobs of 100 days. Mexico has recently expanded its temporary employment programme in response to the crisis. Over half a million jobs were created between January and July 2009.
72. Many agencies, including the ILO, the UN, World Food Programme and the World Bank, have helped disseminate the experience with employment guarantee schemes. The primary aim is to reduce poverty in households that are unable to secure sufficient remunerative employment. Most schemes address rural underemployment but some are now also being implemented in urban settings. Rather than a simple cash handout the schemes help to develop community assets such as roads, canals or facilities for family care. The works carry positive externalities, including raising investment, productivity and trade. Such programmes require adequate administrative capacity for implementation and monitoring.
73. The main challenge faced by public employment programmes is to reach the intended beneficiaries.

Geographical targeting is frequently used; it allows resources to be channelled to the communities most affected and can be combined with targeting disadvantaged groups such as youth. In Chile, when unemployment in a region exceeds 10 per cent, funding is triggered to finance contingency employment programmes.

74. Many schemes aim to be "self-targeting" by applying the local minimum wage, thus making the jobs unattractive to people already working elsewhere but paying enough to reduce household poverty. Many women participate in public employment programmes, especially when work can be combined with family responsibilities.

## Promoting employment and skills

### *C.10 Strengthening public and private employment services*

75. Public employment services (PES) are dealing with dramatic increases in the number of job-seekers registering for assistance. Many countries have responded to the crisis by expanding existing PES job-matching services and hiring more staff to that end (e.g. Argentina, Canada, Germany, Japan, Mexico, Turkey and United Kingdom). Despite this scaling-up of resources, caseloads have increased in most advanced G20 countries (with the exception of Germany and Japan). Some PES, including those in France, Italy, the Republic of Korea and the United Kingdom, have strengthened partnerships with private employment agencies to extend services or rely on the expertise of private employment agency staff.
76. It is important to maintain a focus on job search and placement, even when vacancies are limited and competition for available vacancies is intense. A continued focus on re-entry to unsubsidised jobs for the majority of unemployed can limit the build-up of a large pool of long-term jobseekers, freeing resources for the PES to focus on hard-to-place persons. A number of countries, including Australia and the United Kingdom, have increased job-search assistance for newly-redundant workers with a view to helping them return to work as quickly as possible.
77. An important labour market policy reform in many advanced countries over the past decade has been the implementation of activation or mutual obligation strategies, which combine effective re-employment services with strong job-search incentives, enforced by the possibility of moderate ben-

efit sanctions. Evidence shows that such strategies have been successful in moving people off benefit rolls and into work (e.g. OECD, 2006). However, in the current context of a large pool of jobseekers and weak labour demand, activation strategies are facing a difficult test. To compensate for a sharp decline in vacancies, many countries have expanded short-term programmes for the unemployed such as job-search training, short vocational training or general and remedial training, motivation and information seminars, work experience and internship programmes. This allows PES clients to meet activity requirements and maintain some activity during a potentially lengthy unemployment spell.

78. An important task of employment services is to pay particular attention to special groups of disadvantaged job seekers facing multiple barriers in securing employment, including migrants, youth, older and low-skilled jobseekers. Helping these groups access employment more easily, particularly in a weak market, is an important contribution to greater equity and helps prevent from falling into long-term unemployment and inactivity. There is consistent evidence that longer-term unemployment has a “scarring” effect making return to employment difficult. Experience suggests reactivating the long-term unemployed warrants an array of measures combining intensive counselling, job-search assistance, skills development, and sometimes subsidized employment. Some shift from a “work-first” orientation to a “train-first” approach may be warranted for the most hard-to-place jobseekers in the present circumstances. Subsidised jobs or workexperience places could also be used to maintain a focus on activation.

#### *C.11 Skills and training to prepare for recovery and beyond*

79. Making use of shorter working hours to invest in skills development and training makes sense. So does making skills development opportunities available to job seekers, either for up-skilling or for re-orienting to new growth areas; as well as retaining to the extent possible young people in education and training. The returns to investing in training increase in a steep downturn because the opportunity costs of such investment are lower (OECD, 2009). All of these have featured prominently among G20 country responses to the crisis; and continue to feature as enterprises and public policies aim to consolidate the incipient recovery. Skills and training programmes are often negotiated at either the enterprise or at the

sectoral level. Skills development needs are often identified through public and private employment services; or integrated in a range of job re-entry programmes designed for special target groups.

80. All countries have identified extending and improving basic education and skills as a strategic medium-term priority. The G20 Leaders have asked the ILO to prepare a training strategy. A large wealth of practice and knowledge can be built upon. These show that returns to investments in training and skills development can be high when they can rely on two developments: broad-based quality basic education; and flexible institutional settings enabling skills providers, enterprises, workers and funding arrangements to continuously adapt skills to the changing environment of enterprises and labour markets. Additionally, skills policies gain to be closely coordinated with social protection and employment policies, as illustrated in a number of countries during this crisis.

#### *C.12 Maintaining or raising wages for the lowest paid*

81. The value of wages has in general followed the shape of the recession. With contracting output levels in early 2009, average wages were flat or even declining in real terms in a number of countries including Germany, Japan, the Republic of Korea, the Russian Federation, Turkey, and the United Kingdom. In South Africa and the United Kingdom, lost ground has been gradually recovered in the latter half of 2009. In countries that are recovering more rapidly from the crisis, such as Brazil, China and India, real wages have maintained positive growth in 2009. Japan has experienced a combined decline in average wages, real wages and prices.
82. With high unemployment and a forecast weak recovery in advanced countries, competitive pressures on private employers and on public finances may restrict the scope for real wage increases. In this context it is important for both economic growth and equity to protect the consumption levels of lowpaid workers. Falling into the ranks of the working poor can result from low wages, underemployment (working less than full time) or both. While in-work benefit schemes act as a complement to income from work mainly in the higher income countries, maintaining or preventing a fall in the purchasing power of wages at the lower end of the spectrum is important to prevent both a rise in poverty and an added downward twist to the recession. Brazil, Japan, the Russian

Federation, the United Kingdom and the United States raised the minimum wage in 2009.

83. Maintaining or, increasing wages at the bottom of the pay scale, when appropriate in the light of the level of the minimum wage relative to the mean wage, may counteract weakening aggregate demand during a downturn and boost the prospects for recovery. However, to individual employers, an increase in wages not off-set by a corresponding rise in productivity, can be problematic. The role of statutory minimum wage systems in protecting low paid workers, are well recognized, including in periods of recession and weak recovery.
84. The more recent wage developments should be seen against the backdrop of widespread and rising wage inequality marked by stagnating median wages in several countries, and de-linking of trends in productivity and in wages.

### *C.13 Social dialogue: managing crisis and promoting recovery*

85. Consultations between employers, trade unions and governments over the last 18 months have been dominated by the crisis and the recovery. Many countries are engaging in some form of dialogue. In some cases it has led to detailed agreements. In others the process has been more consultative.
86. Many of the policy measures described here have been subjects of social dialogue sometimes through new initiatives and established mechanisms. The forms of dialogue and the outcomes are specific to each country, dependent on legislation, economic and social characteristics, existing practices of dialogue and forms of representation of business and labour. The nature of dialogue, however, is relatively universal – bringing the parties together to listen, exchange views and arrive, when possible, at a negotiated solution. Such compromises can lead to better outcomes from an economic and social standpoint.
87. There are many areas where social dialogue and tripartism have played positive roles during the crisis, including:
- Consulting social partners on the composition of extraordinary fiscal measures;
  - Support to programmes calling for consultation of business and labour, for example through subsidies to work-sharing schemes or training programmes;
  - Minimum wage fixing mechanisms calling for the participation of social partners;

- Legislation on atypical work and on promoting formal employment relationships;
  - Direct intervention by mediation and/or financial support in restructuring of enterprises, especially if large collective redundancies are expected;
  - Extension through administrative decision of collective agreements to employers not party to the agreement or (via legislation) to workers not members of signatory unions;
  - Participation of social partners on the management board of public employment services and vocational training institutions;
  - Assistance, through labour inspection, to employers and workers for redundancy proceedings, enterprise restructuring, illegal forms of work, job matching, training opportunities;
  - Conciliation, mediation and arbitration services in case of industrial disputes;
  - Ensuring social partners have access to relevant and up-to-date statistical information and analysis to facilitate consultations and collective bargaining.
88. With respect to basic rights, G20 Leaders in Pittsburgh urged that: “To assure that global growth is broadly beneficial, we should implement policies consistent with ILO fundamental principles and rights at work.” A proper application of basic legislation on working conditions and regular payment of wages is essential even during periods of economic contraction and recovery. Strengthening the capacities of labour administration and labour inspection are important elements in worker protection, social security, labour market policies and social dialogue. International labour standards create a basis for and support rights at work and contribute to building a culture of social dialogue particularly useful in periods of crisis.
89. Especially in times of heightened social tension, strengthened respect for, and use of, mechanisms of social dialogue, including collective bargaining is an invaluable mechanism for the design of policies to fit national priorities. Furthermore, it is a strong basis for building the commitment of employers and workers to joint action with governments to overcome the crisis and for sustainable recovery.

### **D. Policy challenges for a sustained jobs recovery**

90. Looking ahead to the next 18 months and beyond, G20 and other countries are faced with a differ-



entiated recovery in output and a continuing jobs crisis and worsening public finances. Prolonged labour market weakness has a “scarring” effect on the economy and society that is hard to heal. Furthermore unemployment and underemployment are hampering recovery and heightening risks of a slow return to strong growth. Accelerating the jobs recovery is thus the key policy challenge before G20 countries.

91. The review of experience offered in this paper suggests six strategic aspects to policies for accelerating jobs recovery:
- Exit strategies from the extraordinary stimulus measures launched in 2009 should not be activated prematurely, whilst acknowledging the need for fiscal consolidation. Growth remains fragile and private sector demand weak in many countries.
  - Sustaining recovery and shaping a path to an inclusive globalization will require a much better articulation between employment and social protection and macroeconomic policies. Balanced growth of the global economy rests on balanced growth of national economies.
  - The range of employment and social protection policies deployed by G20 countries interact with each other. There are likely to be significant benefits from the pursuit of an integrated approach in which several initiatives are packaged to exploit potential synergies.
  - Gradual consolidation of a basic floor of social protection in all countries would greatly contribute to more balanced economic and social development.
  - Realizing the potential for green jobs and clean energy technology could reap substantial employment and environmental benefits.
  - International coordination is vital. It has proved its value in preventing a world depression. Sustaining the recovery of the global economy given the differences that are emerging may require yet more coordination.

#### *D.1 Timing of exit strategies*

92. With recovery taking hold, albeit at various speeds, increasing attention is being paid to “exiting” from extraordinary measures. The IMF has advised countries to assess prudently the appropriate time when a winding down of fiscal stimulus and a return to less accommodating monetary policy might be appropriate. Various principles and indicators are used to assess the strength of the re-

covery, one of which must be employment. The IMF has also advised countries to prepare credible paths to fiscal consolidation and sustainable public finances. (IMF, Nov 09) In November 2009, G20 Ministers of Finance indicated that fiscal support should be maintained until recovery was assured, recognizing that high unemployment remained a major concern.

93. The ILO Director-General has on several occasions reminded the international community and national policy-makers that there could be no recovery in name without a recovery in employment.<sup>8</sup> A jobless recovery is not sustainable; expenditure targeted at accelerating recovery in employment and on social protection must be maintained as long as necessary. Shielding households from poverty, assisting workers facing continued income uncertainty and recovering employment are vital objectives in themselves, underpin stable long-term fiscal balances and are a foundation for strong, sustainable and balanced growth.
94. Attaching clear and credible time limits to labour demand support measures is important. As economic recovery gains momentum, it is important to shift the focus from job-retention measures (e.g. short-time working schemes) to hiring subsidies to strengthen the job content of growth and target them to the most disadvantaged jobseekers.
95. In a number of countries, extended income support for the unemployed, notably through extended duration of unemployment benefits, is expected to be terminated at the end of 2010. There is a risk that many long-term unemployed will face an even stronger risk of poverty and exclusion if this occurs while unemployment remains relatively high. If countries choose to maintain exceptional income support measures for longer, additional resources should also be allocated to cost-effective re-employment programmes for the unemployed to maintain an activation stance and provide incentives for jobseekers to move off income support when labour market conditions improve.
96. The pursuit of job-centred policies, though more costly in the short-term relative to an early exit or winding down scenario, may in fact lead to a more robust recovery. This would lead to similar levels of fiscal deficits in the medium-term. ILO calculations, based on data for advanced countries, explore such possible outcomes (IILS, 2010).

<sup>8</sup> In October 2009 to the International Monetary and Financial Committee, in January 2010 in a public statement and in March 2010 in his address to the ILO Governing Body.

### *D.2 Developing the framework for quality jobs at the heart of strong, sustainable and balanced growth*

97. Raising the quality of employment should be a continuing focus of policy during recovery and beyond. In Pittsburgh, G20 Leaders called for “Putting quality jobs at the heart of recovery”. The period before the crisis already illustrated a growing divergence between aggregate economic gains and broad-based progress towards decent work. If anything the crisis has underscored the urgency of greater and faster progress towards decent work.
98. Achieving a faster pace of growth in quality productive employment requires better coordination between macroeconomic and employment policies. The G20 Leaders have committed to a mutual assessment process for the framework for strong, sustainable and balanced growth. The framework spans macroeconomic as well as employment and social protection policy levers. Achieving a high level of productive employment should be recognized as an objective alongside low inflation, sustainable public finances and strong growth. A financial sector at the service of the real economy and encouraging long term productive investments is part of this approach.
99. A better balance between the growth of productivity, wages and employment could help reduce volatility and thus lay the foundations for the strong sustainable and balanced growth envisioned in Pittsburgh. Future productivity gains provide the benchmark around which wage increases are decided. Strong collective bargaining, underpinned by representative employers’ and workers’ organizations, is an important contribution to balanced growth.

### *D.3 An integrated approach to accelerating jobs recovery*

100. Many policy initiatives by G20 countries have been designed in an integrated way, cutting across the boundaries of the categories used for the analysis presented here. The sequencing and packaging of policies are important considerations for overall effectiveness. Economic and labour market policies do interact in various ways. Acknowledging these interactions and aiming for high degrees of synergy can significantly affect economic, employment and social outcomes.
101. Well-designed employment and labour market policies contribute to raising potential growth. Infrastructure investments create more jobs per unit

of investment when they are planned as part of a strategy for the recovery of local labour markets through support to smaller enterprises and worker training. Extended social protection systems provide an essential platform for re-entry into the labour market as well as the prevention of poverty. Social dialogue in its varied forms is a key mechanism for assuring that policies focus on priorities in the real economy and are well implemented. Skills development policies can prepare the workforce for future growth spurred by innovation and new technology.

102. With more than one year having passed since the onset of the sharp deterioration in the world economy and the rapid development of policy responses, it would appear timely for countries to review the policy portfolios they have in place to identify gaps and improve synergies.

### *D.4 Gradual consolidation of a basic floor of social protection*

103. Social protection fulfils a basic need; it protects persons from life contingencies and reduces poverty. It also serves an economic function of sustaining demand, particularly in times of declining incomes. Evidence shows that, in the long run, social protection helps to build human capital and labour productivity, contributing to the sustainability of economic growth.
104. A basic social protection floor is increasingly recognized as one of three measures for rapid poverty alleviation and broad based development, together with robust economic growth and rapid employment generation. A combination of these three policies explains substantial gains in poverty alleviation in Brazil, China and India.
105. Gradually moving towards the consolidation of a fiscally sustainable basic floor of social protection in all countries, through G20 leadership, would provide a tangible signal of commitment to balanced global growth and development.

### *D.5 Realizing the potential for green jobs and clean energy technology*

106. In recognition of the challenges lying ahead to reduce dependency on fossil fuel, G20 countries are investing heavily in measures to gradually transit to clean energy technology. Major benefits can be reaped for employment generation from this transition. In order to realize these potential benefits, it is important to recognize the nature of this

transition taking place foremost in enterprises and workplaces.

107. Involving all actors concerned, including employers' and workers' organisations, will be critical to success. Public policy and investment are playing an important role. They will help guide private investment. Likewise, social dialogue, skills development and labour market policies are important instruments for a smooth transition to clean energy. A key challenge is to ensure that the transition to cleaner energy is managed in a way that does not contribute to raising costs through skills and employment shortages.

#### *D.6 Improving international policy coordination*

108. Just as staving off a great depression required an unprecedented effort at international policy coordination, so will putting in place a strong, sustainable and balanced framework for growth. National imbalances in the growth of employment and wages feed into international imbalances.
109. In view of the advanced degree of economic interdependency globally, there are few domains of national economic, employment, social and environment policy making that have no global implications. In fact, most do, and even more so among G20 countries, which aggregate 85 per cent of total output and 65 per cent of the world's labour force. Ranging from employment policy to trade policy, poverty reduction policies, climate change mitigation policies, and migration policies, all these domains are highly interdependent in a global economy.
110. The case for a closer national coordination of employment, social and macroeconomic policies applies internationally too. There is need for a global rebalancing so that international macroeconomic policies add to net worldwide effective demand and result in overall consistent outcomes at high levels of world growth.
111. Given the strong "public good" nature of a well functioning financial system in a modern market economy, the issue of long-term financial stability is not one that concerns or benefits the financial sector alone. Reform of the financial sector is of concern to the entire economy, especially the world of work.

#### **E. Summing up**

112. This document argues that accelerating a job-rich recovery remains today a compelling objective in G20 countries and indeed worldwide. This is underscored by the scale of the employment challenge facing all G20 countries, quantity and quality wise, whilst acknowledging the impact of the measures taken to date. Accelerating job-rich recovery is an objective that can be met. It requires a combination of well-coordinated macro-economic policies together with employment, labour market, skills and social protection policies.
113. The policies applied by G20 countries in the context of the crisis and the recovery and reviewed here suggest that experience with a broad range of policies, is available for countries to learn from and build on for the critical recovery phase. Continuing the process of information exchange and policy dialogue could further help improve and sustain the policy effort needed to move through recovery to strong, sustained and balanced growth. Whilst policy results are always contextspecific and no single set of policies can be applicable in all circumstances, there is here a growing body of knowledge. This together with careful evaluation of the key measures put in place during the jobs crisis will be essential to inform future options.

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