FES/ITUC Workshop on G20 and Labour

Session III: Growth & Recovery Strategies

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General Secretary Burrow, Director Manz, Minister Vélez,
Executive Director, Ducci, Ladies and Gentlemen:

It is a great honour for me to be invited to this workshop co-organised by the Friedrich Ebert Foundation in Mexico and the International Trade Unions Confederation.

I am glad to be given the opportunity, right before the third G20 Labour and Employment ministerial meeting, to share with you OECD's assessment of the current economic and employment situation in the G20 countries; to highlight some of the key challenges which our economies and societies are facing; but also give you some insights into OECD's recommendations for tracing a way out of the crisis and for engineering a stronger, fairer and cleaner recovery.

A complex economic and social juncture.

We are still dealing with a very complex, unstable and potentially explosive juncture for the global economy--by all economic, social, and political measures.

Certainly, a silver lining can be seen in the sky of the world economy. Activity in the US is gaining pace and there are signs of a slow recovery in employment. In the emerging economies, after a brief slowdown, signs suggest that a cyclical upswing is getting underway. Even in Europe, there a few encouraging signs such as firming activity in Germany whose labour market is faring very well.

Yet the scars of the crisis are fresh and visible. According to recent OECD estimates, potential output levels are still below their pre-crisis values in most of the advanced economies of the G20, and lost output has still not been recovered in all of them. Downside risks prevail at the global level, negative economic and financial feed-back loops can still materialize. In Europe the short-term outlook remains weak while the sovereign debt crisis might be reignited by political events and uncertainties in Greece.

One major consequence of these difficult economic conditions is that unemployment has still not returned to its pre-crisis level. The OECD average unemployment rate in March 2012 was 8.2% - compared with 5.7% before the crisis - and has remained unchanged at this level since August last year. As mentioned in the introduction of the L20 statement, the OECD estimates that the job gap is close to 21 million people. The latest OECD projections for growth, to be released next week, suggest that this gap is unlikely to be bridged in the next two years.

In most advanced G20 economies, unemployment has become entrenched, sometimes dramatically: in the US, for example, long-term unemployment has tripled during the crisis, affecting a third of the unemployed.

Albeit much better, the employment situation in emerging countries is not without drawbacks: many of the new jobs that have been created since the downturn are in the informal and unprotected sector.

So let's not downplay the risks attached to the social legacies of the "Great Recession":

- *They are economically "lethal"*: as long-term unemployment is weighing negatively on future productive capacities of our economies;
- *They are socially costly*: long-term unemployment is associated with an increased risk of poverty, ill-health and school failure for the children of the affected individuals.
- *They are also politically disruptive*: as they have the potential, through mass unemployment and rising inequalities, to damage the very foundations of political stability in our countries.

We need growth, jobs and trust!

In this context, we need growth, we need jobs and we need confidence in order to restart the economic machine.

To achieve this objective, we must first address the short-run emergencies inherited from the crisis. We need a final resolution of the debt crisis in Greece and an effective ring-fencing of so-called peripheral European countries. Unfortunately, political turmoil in Greece and a new bout of volatility on financial markets show that we are not yet out of the woods.

So how do we trace a clear way out of the crisis and provide an answer to the question of where growth will come from in the years ahead? The answer is encapsulated in the triptych: “Go Structural, Go Social and Go Green”. These three elements must be considered together and, if appropriately framed, can actually reinforce each other.

It’s Time to Go Structural!

We cannot afford to procrastinate on the implementation of structural reforms which must happen without delay, especially in the absence of significant fiscal and monetary leeway. Without bold and immediate policy action, and even under rather benign economic conditions, there will be no prospect of recovering the output foregone with the crisis, and public budgets will remain on unsustainable paths in a number of G20 countries. Above all, unemployment would stay high through 2013.

There are very practical reforms to undertake swiftly. Let me highlight three which we consider crucial:

1. Employment-friendly tax reforms as well as targeted and cost-effective cuts in payroll taxation and/or hiring subsidies;

2. Increasing public investment in training, especially for the long-term unemployed, and reforming vocational training and life-long learning systems to make them both responsive to labour market needs and also to re-training requirements of workers affected by skills obsolescence.

3. Enhancing labour matching and job-search through more efficient and better equipped public and private employment services.

I am glad to note that several of these policy recommendations are mentioned in the L20 Statement to G20 Ministers. These policies, together with complementary proposals, are set out in the report requested from International Organisations by the G20 - the objective of which is to consider how its economic reform agenda under the Framework for Growth would contribute to job creation.

This report is contemplating possible extensions to the commitments under the Cannes Action Plan - or the new Los Cabos Action Plan in the making - that might boost sustainable growth by strengthening the quantitative and qualitative aspects of employment creation; two dimensions that are relevant to advanced and emerging economies alike.

But for structural reforms to happen, they must go hand- in-hand with enhanced social policies. Populations are exhausted by the crisis, so they are unlikely to accept structural reforms unless they include elements which seek to share the benefits more equally.

Time to Go Social!

Two dimensions deserve specific and priority attention: inequalities and youth employment.

As the L20 rightly puts it in its statement to Ministers, inequalities are a manifestation of “the crisis before the crisis”. In December 2011, we released our report entitled *Divided We Stand: Why Inequality Keeps Rising* which, after our landmark report from 2008 *Growing unequal* , provides an updated assessment of inequalities in a broad range of countries and their main causes, and puts forward some recommendations for how best to reduce inequality.

Our diagnostic is unambiguous: Income inequality in OECD countries is at its highest level for the past half century. The average income of the richest 10% of the population is about nine times that of the poorest 10% across the OECD, up from seven times 25 years ago. In some countries, inequality has increased further from already high levels; that is the case of the United Kingdom and the United States. A few emerging economies have managed to buck the trend: Brazil recorded a significant drop in inequality but from an extremely high level. Chile and Mexico have also made some progress, but their ratio is still about 27 times to 1.

If inequalities represent “the crisis before the crisis”, youth unemployment is “the tragedy within the tragedy”. Youth unemployment has worsened in the crisis and is, in most cases, 2-3 times the adult unemployment rate. In every respect, we cannot run the risk of a “lost generation”. We need to consider and take specific policy actions, such as those being shared in the context of the on-going work of the G20 Task Force on youth employment.

Last but not Least: It’s Time to Go Green!

We need to go green and harness the job potential of a transition to green growth. The potential is there and is highlighted in the joint ILO-OECD paper on sustainable development and green growth prepared for this G20 Ministerial meeting.

Yet, to make the most of these opportunities, aspirations are not enough. We must develop practical approaches to the development of green jobs; analyse emerging job-skill requirements as well as retraining and up-skilling needs; and adapt policy frameworks to facilitate the matching of workers and skills needed for a low-carbon economy.

Ladies and Gentlemen,

The crisis has damaged the social fabric in many countries, as well as exhibited and magnified previous underlying negative trends, like rising inequalities or increasing youth unemployment. The combination of these and other perils is politically toxic: as Francis Fukuyama noted in a recent article published in Foreign Affairs, from the days of Aristotle, thinkers have believed that stable democracy rests on a broad middle-class; extremes of wealth and poverty are prone to oligarchic domination or populist revolution.

All our established certainties about the economy and how best to regulate it have been shaken to the core by the Great Recession. It is forcing a radical rethink about our underlying economic models and how appropriate they are in the current context.

But economic systems that produce inequalities and high youth unemployment are not inexorable facts of life: they are shaped by policies. It is thus appropriate to rethink these policies, adding the question of their social fairness and their impact on income distribution to the “core” of our economic policy recommendations .

At the OECD, we have embarked on a reassessment of such policy recommendations. We call it “New Approaches to Economic Challenges”. This is an attempt to learn the lessons from the crisis, rethink our analytical framework and policy recommendations. This is not meant to develop a new economic theory, but a way to better deal with interlinked policy challenges. In this process, we will reach out to the trade unions, among other institutions and experts. We will strongly welcome your contribution to, and involvement in, this ambitious endeavour.

Together, we must design, promote and implement “better policies for better lives”

Thank you.