Rome, G8 Labour Ministerial

Social Summit 2009
"People First:
Tackling together the human dimension of the crisis"

Introductory Remarks by Angel Gurría,
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OECD

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Minister Sacconi, Ladies and Gentlemen:

It is a great pleasure to participate in this G8 Social Summit 2009. Tackling the human dimension of this economic crisis, the subject that brings us here today, is our most important challenge. We are facing the most serious and global economic crisis of our lifetimes, and we will only be able to address it if we join forces and work together.

The global economy is contracting. The credit squeeze, negative wealth effects (stemming from lower house and equity prices) and a generalized loss of confidence are dragging down economic activity everywhere. Trade flows are expected to fall by 9% in 2009. Foreign direct investment inflows will further contract, after shrinking by about 20% in 2008. Development aid flows are threatened, while remittances from migrants are dropping fast.

This meltdown is rapidly turning into a jobs and social crisis. Labour market conditions are weakening throughout the world, as companies are cutting production, closing factories and dismissing workers. Our latest projections (to be released officially tomorrow) indicate that the unemployment rate in the OECD area could approach 10% by 2010 compared with 5.6% in 2007. This implies that the crisis could swell the rank of the unemployed in the OECD by about 25 million people, by far the largest and most rapid increase in OECD unemployment in the post-war period.

And the job crisis is spreading rapidly around the world. The International Labour Organisation estimates that world-wide unemployment could increase by 40 million people by the end of this year.

The most disadvantaged labour-market groups – youth, low-skilled, immigrants and temporary workers – are already bearing the brunt of the rapidly rising unemployment. They are the first to lose their job and tend to have only limited access to social safety nets. And since they also face serious difficulty in finding a new job, they run the risk of becoming long-term unemployed or discouraged.

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Restoring global growth is an economic and political priority, but also an ethical, moral, social and human imperative.

1. Reviving the global economy

Our OECD projections indicate that the ongoing contraction in economic activity will worsen this year, before recovery gradually builds momentum through 2010. The uncertainties attached to this bleak outlook are exceptionally large, while the risks remain firmly inclined to the downside.

An essential first step is to implement without delay a coherent strategy to tackle the mess in financial markets. Above all, dealing decisively with impaired bank assets and broader concerns about bank solvency is needed to restore credit supply and to restore trust and confidence in financial markets. In this respect, the Geithner plan is a welcome initiative. We all have much at stake in its success.

Macroeconomic stimulus is also critical to cushion the fall in economic activity and prevent a deflationary downward spiral. Monetary policy should be used fully by keeping or bringing policy rates near zero. Measures introduced by central banks to enhance liquidity in markets have also helped to compensate for the tightening in financial conditions.

Fiscal policy is already playing an important role in OECD countries. For the average OECD country with a discretionary fiscal package, the cumulative budgetary cost over the period 2008-2010 amounts to 2 ¾ per cent of GDP. To these discretionary measures must be added the higher government spending on social security and lower tax payments that “automatically” kicks in to support demand as the economy weakens. Overall, the stance of fiscal policy will provide a powerful cushion to the economic downturn.

But all these measures to bring countries back on a growth track will not bear their best fruit if they are not accompanied by appropriate employment and social policies.

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2. Mitigating the impact on people: Employment and social policies

Earlier economic downturns have provided important insights on what works and what doesn't. Nevertheless, the current downturn poses some difficult new challenges to labour market and social programmes.

- The first challenge is to find the extra resources needed to scale up labour market programmes to respond adequately to the jobs crisis. The need for additional funding varies significantly across countries, depending both on the depth of the jobs crisis and the magnitude of resources already available. Just to give an example among the G8 countries, spending for regular income support to the unemployed is limited in Russia, it rises from over 0.2% of GDP in the United States up to 2% in Germany; while spending on active measures varies from just over 0.1% of GDP in the United States to 0.9% in France.

  The good news is that most fiscal stimulus packages that G8 and other countries have introduced – or are planning to introduce – include funds for labour market and social policy measures. The bad news is that these additional funds are rather limited, accounting for about 8-10% of total expenditures in the United States and France, and less in the other countries. This may turn into a missed opportunity.

- The second challenge is to promote labour demand and avoid unnecessary layoffs by credit-constrained firms. Many jobs are at risk around the world because firms – in particular small and medium-sized ones – face a severe contraction in demand coupled with a major credit crunch. Such a combination could result in massive layoffs that are inefficient, socially very costly and could justify short-time working subsidies or temporary reduction in social security contributions to maintain at least some of these jobs.

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There is a need to act quickly on this front and design the subsidies in ways which will maximize the employment gains, while minimizing the negative side-effects. And we have to make sure these support schemes are carefully targeted to those firms for whom demand is only temporarily depressed, or — in the case of the hiring subsidies — to the disadvantaged workers who face the greatest difficulties in finding a job on their own. It is also essential that these subsidies are unwound in a timely fashion, as soon as the recovery begins.

- The third challenge is to provide adequate safety-nets during a severe economic downturn to job losers and low-income families. All G8 countries -- and most of the other OECD countries -- have unemployment benefit systems to provide income support to the unemployed. But the generosity of these systems varies significantly across countries and, in those where the maximum duration of benefits is short, temporary extensions could be envisaged to avoid the long-term unemployed drifting into poverty. This should be accompanied by a close monitoring of eligibility conditions to avoid abuses and/or inducing dependence.

But in those countries where part-time, temporary and other “non-standard” work patterns have become more common, there is also a risk that growing shares of workers will not be eligible at all to receive unemployment benefits.

It is thus important to ensure that social assistance benefits are adequate and accessible to non-standard workers who lose their job and do not have access to unemployment insurance benefits. But countries may also need to address the more structural problem of low coverage of unemployment benefits. And, indeed, a number of G8 countries have — or are planning to — extend the coverage of unemployment benefits (for example in France, Italy and Japan). We support these initiatives but also urge countries that plan to extend the coverage to make sure job-search requirements are properly enforced so as to minimize work disincentives.

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- The fourth challenge is to maintain "the activation stance". Over the past decade, many OECD countries have combined effective re-employment services with strong job-search incentives, enforced by the threat of moderate benefit sanctions. This strategy worked against the background of growth and increasing employment. It is an altogether different challenge to maintain this activation stance in the context of a depressed labour market, with many fewer job vacancies.

Expanding active labour market programmes would be important to maintain this activation stance. But here I see two interrelated issues:

- First, it may be difficult to match a rapidly rising stock of unemployed with correspondingly greater resources for public employment services, not least because it takes time to recruit and train good case managers. Co-operation with private employment agencies could help in this regard, especially if the private agencies are remunerated by fees which reward employment outcomes and minimize the risk of cream-skimming, *i.e.* placing the most employable job-seekers.
- Second, the mix of employment services should be adjusted to reflect changes in the relative effectiveness of different types of measures in the downturn. Public employment services could place considerable emphasis on providing job-search assistance to the most employable job losers. Greater reliance should be placed on training, particularly if it is tied to labour market needs. It would also be advisable to make greater use of targeted hiring and work-experience subsidies and public sector job creating measures, for the most hard-to-place unemployed. But even in this three-pronged strategy, there are essential implementation challenges. A careful monitoring of the quality and pertinence of any training supported with public funds will be essential. Participation in public job creation should be temporary and the programme curtailed once the recovery gets underway.

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- Finally, it is imperative to maintain an effective labour supply, even during the severe downturn. Demographic ageing will put increasing pressure on fiscal and welfare systems in many countries in the very near future and we should resist the temptation of addressing the jobs crisis by a reduction in the labour force. The challenge here lies at the two extremes of the age distribution: youth and older workers.

  Over the past few months, we have already seen the youth unemployment rate soaring much more rapidly than the adult unemployment rate. Decisive actions targeted on at-risk youth have to be taken now. For example, subsidies for apprenticeship contracts for unskilled youth, and promotion of second-chance schools could help reduce the risk that they will enter the labour market without qualifications. Consideration could also be given to raising the school-leaving age (to say 18). If complemented by measures to diversify educational choices and focused on the acquisition of qualifications that meet business needs, this reform could prove very effective in ensuring that youth leave education with a minimum skill level.

  At the other end of the age distribution, pressure to ease older worker unemployment by promoting early retirement or disability benefits should be resisted. The experience of the 1970s suggests that using early retirement to free up jobs for young people does not work and it takes a very long time to unwind these schemes when the economy picks up again. Recently, several countries have taken action to help individuals with health problems who want to work to retain a foothold in the labour market. It would be important to maintain these efforts.

Ladies and gentlemen,

Labour market and social policies are crucial tools to help workers and their families weather the current storm. It is essential to intervene quickly and effectively to avoid the financial crisis from becoming a full-blown social crisis with dramatic effects on vulnerable workers and low-income households. This meeting is a unique opportunity to share our experiences, to learn from our respective policies and programmes.

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Which policy areas are most in need of attention varies according to country-specific circumstances. What is important is to move ahead with a coherent package. I have highlighted some of the key aspects for such a package and a fuller discussion is provided in the OECD background document, as well as in our ongoing work on the crisis that will be discussed by the OECD Employment and Labour Ministers when they meet in Paris on the 28 and 29 of September.

Let's not forget that most of these policy tools to mitigate the human impact of the crisis are not available for the great majority of the people of this planet. Only about one quarter of vulnerable developing countries have the ability to finance job-creation or safety net programs. Most developing countries are now facing serious difficulties and social tensions as a result of a crisis they did not create. We cannot let these people down; both for reasons of ethics and for enlightened self-interest. The developing world's unemployment problem is a G7 problem, an OECD problem. We need to address the world's labour crisis together, through enhanced and more inclusive international co-operation. Relying purely in national policies will no longer do the trick.

I therefore congratulate you for this inclusive Social Summit and very much hope that the coming G20 meeting will focus also on the human dimension of the crisis. For we can no longer think we will save ourselves without saving the others.

Thank you very much.