

# G20



International  
Labour  
Office

## Boosting jobs and living standards in G20 countries

A joint report by the ILO, OECD, IMF and the World Bank

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INTERNATIONAL LABOUR OFFICE, GENEVA  
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## Introduction

Almost four years since the onset of the global financial and economic crisis, unemployment and underemployment remain stubbornly high in many G20 countries, and many workers remain trapped in low-paid, often informal, jobs with little social protection. Job creation has been anaemic in many countries, too slow to fully reabsorb the mass of unemployed and underemployed or, particularly in some emerging-market economies, to keep pace with labour force growth and the pressures of rural-urban migration. This raises concerns about the long-term negative effects on human capital, growing inequality and lower future output growth. The political pressures are high, and the risk of a drift towards protectionist measures aimed at “keeping jobs at home” cannot be ignored. While there is substantial variation in national contexts, G20 countries can help minimize these risks through collective and collaborative work aimed at identifying and implementing credible policy reforms that will boost job creation, employment and the quality of jobs. Even though employment is largely seen as a domestic problem, taking action to boost jobs can help with other G20 macroeconomic objectives, including achieving balanced growth at the global level.

The Cannes Summit Declaration requested the four international organizations to report to Finance Ministers on the global employment outlook and, in particular, to examine how the G20 economic reform agenda under the G20 Framework for Strong, Sustainable and Balanced Growth could contribute to job creation. It might be recalled that the G20 Labour and Employment Ministers’ meeting in September 2011 called “on our Leaders to reemphasize employment as a key objective of economic policy and of the framework for strong, sustainable and balanced growth; and to facilitate to that effect a comprehensive dialogue and cooperation among the different relevant ministers.” The recommendations made by G20 Ministers of Labour and Employment and endorsed by Leaders in Cannes are also part of the policy backdrop for the review.<sup>1</sup> The context for the report thus goes back to the commitment made at the Pittsburgh Summit to place quality jobs at the heart of recovery.

<sup>1</sup> G20 Labour and Employment Ministers’ Conclusions, Paris, 26–27 September 2011, available online at [http://www.g20-g8.com/g8-g20/root/bank\\_objects/G20\\_Travail-Emploi\\_ANG\\_27\\_09%5B1%5D.pdf](http://www.g20-g8.com/g8-g20/root/bank_objects/G20_Travail-Emploi_ANG_27_09%5B1%5D.pdf)

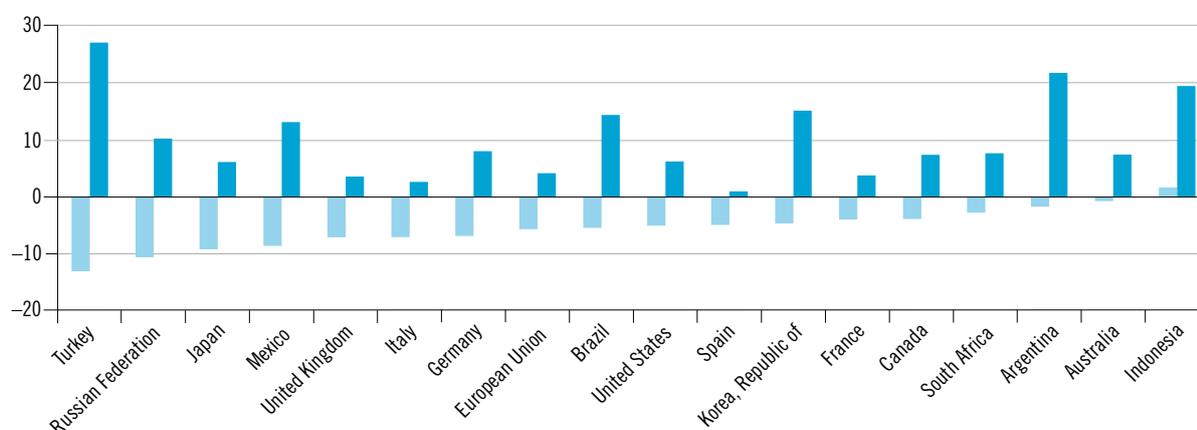
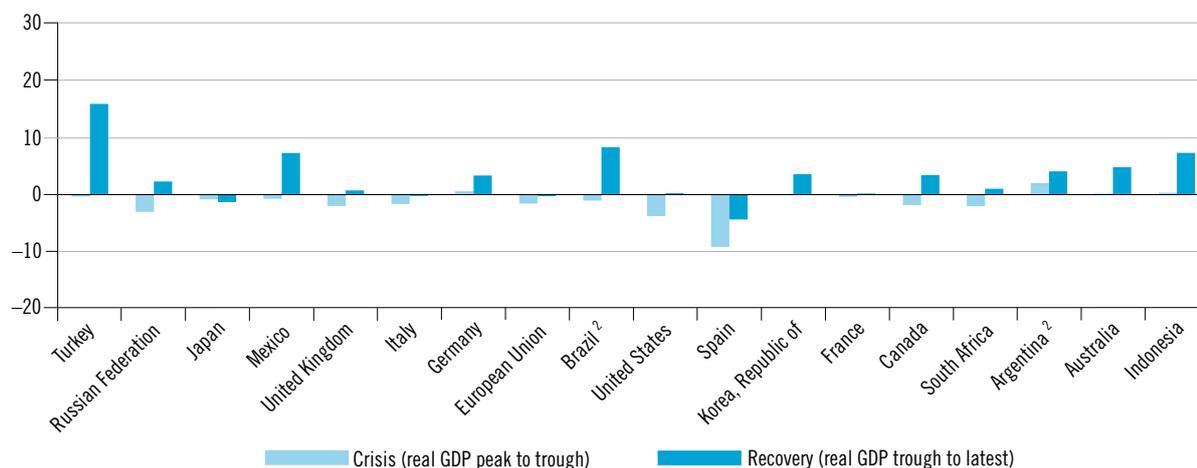
The report aims at providing a preliminary review of countries’ experiences against the backdrop of an evolving economic outlook and could form the basis of a more in-depth analysis, should Ministers request it.

## 1. Recent trends in labour market outcomes

Improving labour market outcomes involves several challenges relating to both the quantity and quality aspects of job creation. There is a need in all countries to harness growth to generate labour market opportunities that correspond to labour force growth. But in a number of G20 countries characterized by high and increasingly persistent unemployment together with falling employment to working-age population ratios, there is furthermore an urgent short-term challenge to boost job creation so as to bring down unemployment and increase employment rates. Moreover, ensuring that there is a tighter link between growth and improvements in job quality is another challenge common to all G20 countries.

### 1.1 Lasting impact of the crisis on unemployment in many advanced G20 countries

The impact of the crisis on employment has varied considerably across the G20 countries (figure 1). On the one hand, substantial job losses were recorded in a number of G20 countries during the recession (most notably in Spain and the United States). In most of these cases, employment growth in the recovery has been insufficient so far (and has remained negative in Italy, Japan and Spain) to make up for these losses. On the other hand, employment growth slowed but remained positive during the downturn in a number of other G20 countries – e.g. Argentina, Australia, Indonesia and the Republic of Korea – and subsequently returned to robust growth in the recovery. And while countries such as Brazil and Mexico suffered initial job losses during the crisis, employment has subsequently fully recovered. For most of these countries, unemployment or the quantity of jobs is not the most pressing labour market challenge. Weak job growth in many countries has been reflected in persistently high unemployment (figure 2). Unemployment is substantially higher now than its pre-crisis level in France, Italy, Spain, the United Kingdom and the United States, even though the

**Figure 1. GDP and employment growth in G20 countries during the crisis and early recovery<sup>1</sup> (percentage change)**
**A. Real GDP**

**B. Total employment**


Countries shown in ascending order of real GDP growth from its peak to its trough.

n.a.: not available.

<sup>1</sup> Peak (trough) dates are defined as the start (end) of the longest spell of consecutive negative quarterly real GDP growth rates since 2006 Q1. For the purpose of comparison, the dates for Indonesia correspond to the period when real GDP growth slowed.

<sup>2</sup> Selected urban areas for Argentina and Brazil.

Source: OECD Main Economic Indicators Database and national labour force surveys.

US unemployment rate has fallen significantly in recent months. In Spain and South Africa, unemployment exceeds 20 per cent of the labour force, although that was already the case in 2007 in South Africa, where high unemployment primarily reflects longer-run structural problems.

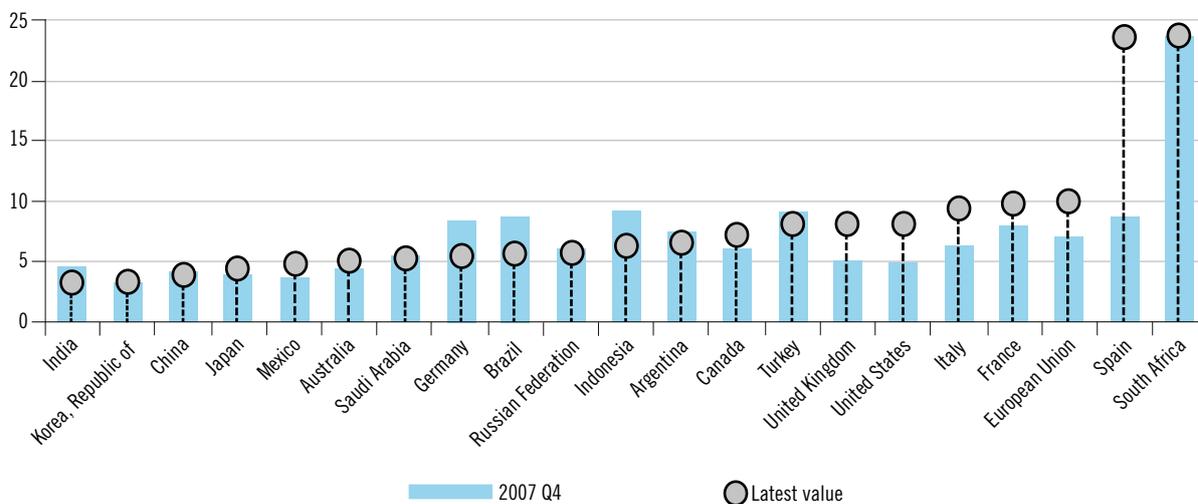
Even more worryingly, long-term unemployment (defined as an unemployment spell of 12 months or more) has risen sharply in several countries (figure 3). Among G20 countries for which data are available, the incidence of long-term unemployment increased most sharply in Spain and the United States, where the share of long-term unemployed tripled to reach an historical high in early 2011, before easing slightly.

In previous recessions, the rise in long-term unemployment was in many advanced countries the main channel through which what was originally a cyclical increase in unemployment turned into persistently high unemployment rates. In addition to lowering potential output growth via the resulting loss of human capital, there are also substantial social costs related to long-term unemployment, as it is associated with a heightened risk of poverty, health problems and school failure for children of the affected individuals.

### 1.2 Other worrying features of labour markets predate the crisis

At present, creating more jobs is clearly a key challenge for many G20 countries. However, many of

**Figure 2. There are stark contrasts in the countries' labour market situation**  
(unemployment rates as a percentage of labour force,<sup>1</sup> 2007 Q4<sup>2</sup> and latest value available<sup>3</sup>)



Countries shown in ascending order of the latest value of the unemployment rates available.

<sup>1</sup> The rates reported refer to persons aged 15 and over except for Argentina and Brazil (10 and over), India (total ages), the Russian Federation (15–72) and South Africa (15–64).

**Argentina and Brazil:** Selected urban areas only.

**China:** Annual unemployment data refer to registered unemployment in urban areas only.

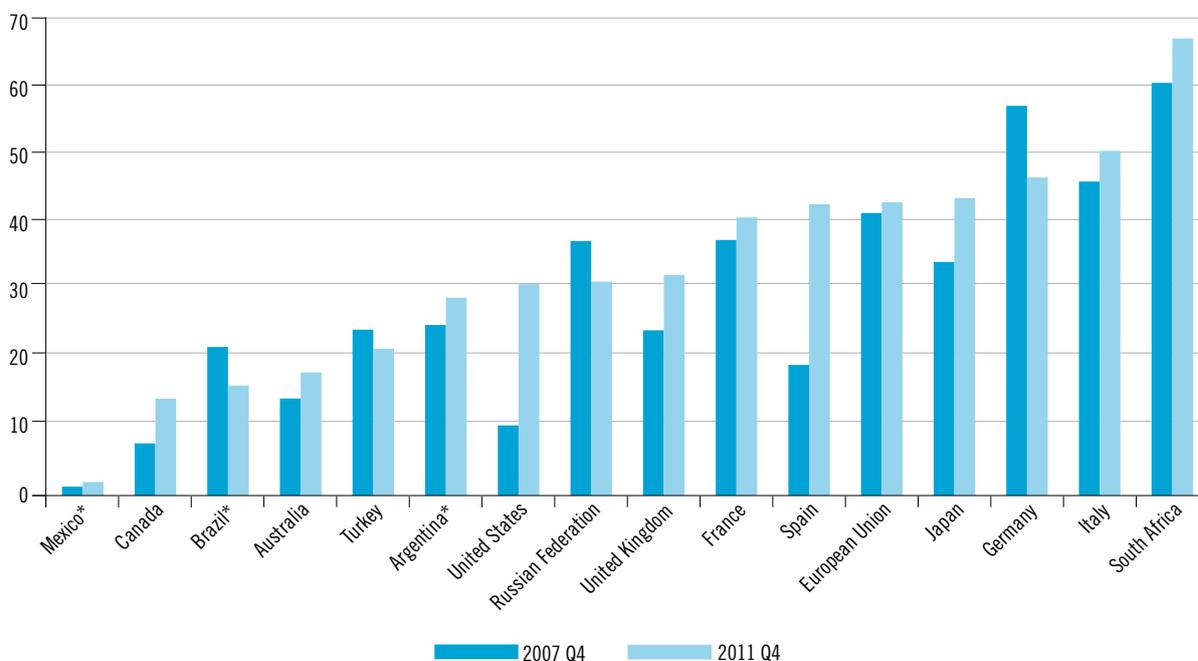
**India:** Annual estimated persons/person-days (in million) based on the current weekly activity status for the entire population.

<sup>2</sup> 2007 for China and Saudi Arabia; 2004–05 for India; 2007 Q3 for Indonesia; and 2008 Q1 for South Africa.

<sup>3</sup> 2009 for Saudi Arabia; 2009–10 for India; 2010 for China; 2011 Q3 for Argentina, Indonesia, Turkey and the United Kingdom; 2011 Q4 for Australia, Brazil, Canada, European Union, France, Germany, Italy, Japan, Rep. of Korea, Mexico, Russian Federation, South Africa, Spain and the United States.

Source: OECD Main Economic Indicators Database and national labour force surveys.

**Figure 3. Long-term unemployment<sup>1</sup> has risen in several countries** (percentage of total unemployment, 2007 Q4–2011 Q4<sup>2,3</sup>)



Countries shown in ascending order of the incidence of long-term unemployment in 2011 Q4.

\* Selected urban areas.

<sup>1</sup> Persons unemployed for one year or more.

<sup>2</sup> 2008 Q2–2011 Q2 for Argentina; 2007 Q2–2011 Q2 for the Russian Federation and 2008 Q3–2011 Q3 for South Africa.

<sup>3</sup> Selected urban areas for Argentina and Brazil.

Source: OECD estimates based on various national surveys.

them are also confronted with various underlying problems that have plagued labour markets for years and which can only be addressed through structural reforms. In several, mainly emerging G20 countries output growth before the crisis yielded a relatively slow growth in formal-sector employment. Other worrying features include poor integration into the workforce for specific groups and, in some cases, a growing duality between workers benefiting from strong job protection and those employed under contracts offering little job security (e.g. fixed-term or other atypical contracts) or in the unprotected informal sector. Many of these factors contribute to undermining the link between economic growth and job quality. In this regard, G20 Leaders endorsed the commitment of Labour and Employment Ministers to step up efforts to promote decent work and to encourage the effective application of Fundamental Principles and Rights at Work in conjunction with the ILO, and underscored the critical role of social partners.<sup>2</sup>

#### *Integration of youth, adult women, low-skilled workers and older workers*

Employment rates for youth are dramatically lower than those for adult men (figure 4), and their situation in many countries has worsened since the crisis. While this could be partly explained by the fact that many persons in this age group are still enrolled in education, low employment rates also reflect a high proportion of young people who are neither in employment nor in education or training. A long spell of joblessness for youth who have left the education system can have major negative consequences for their future employment prospects and for the potential growth of the economy.

Adult women and low-skilled workers are also employed at significantly lower rates than adult men, but while the employment disadvantage of low-skilled workers is fairly common across G20 countries, the disadvantage of women is particularly strong in some emerging-market economies. Employment rates of older workers also vary substantially across the G20 countries, but have shown some tendencies to increase in recent years.

#### *Underemployment, informal employment and temporary contracts*

Employees who are underemployed (i.e. constrained to work fewer hours than they would be prepared to

do), in informal employment or employed on fixed-term contracts represent, to varying degrees, sources of concern for basically all G20 countries (figure 5).

Underemployment due to inadequate working time is substantially above its pre-crisis level in some countries, including Spain and the United States. In other countries where underemployment is high, such as Argentina and Indonesia, this reflects long-standing structural factors (figure 5, panel A).

In spite of the strong economic performance in many emerging-market countries both before and after the global crisis, the share of informal employment remains sizeable in several countries (figure 5, panel B). The causes of informality are complex and there is considerable variation in the types of informal jobs. An important part of the informal sector, for instance, comprises self-employed workers, some of whom may choose not to be salaried employees because they have more flexibility and higher earnings. Small, low-productivity firms attracting low-skilled workers also tend to self-select into the informal sector to avoid social security contributions and labour and other regulations. Putting in place the conditions for boosting job creation in the formal sector should be high on the policy agenda of emerging market countries, as it would raise the share of jobs with rights to social protection and provide a more secure base for tax revenues.

In many of the advanced G20 economies, a significant and often growing share of the workforce is employed on fixed-term and other temporary contracts. In nearly half of them, the incidence of temporary employment lies between 10 and 25 per cent (figure 5, panel C), with a high share of women and youth employed on such contracts. In France and Spain, more than 50 per cent of youth in dependent employment were employed on a fixed-term contract or working for a temporary work agency in 2010, despite the major job losses among youth temporary workers following the crisis. A high incidence of temporary and casual employment is also observed in many emerging market economies. While for some a temporary job is a stepping stone into more stable career jobs, for many others it is often a trap leading to a vicious circle of precarious employment and unemployment.

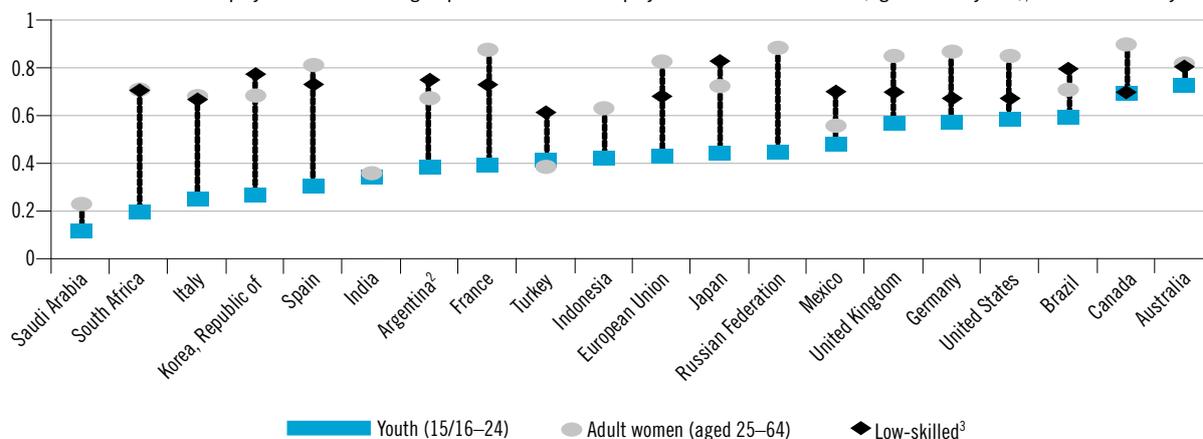
#### *Income inequality*

High and often rising income inequality is another key feature of most G20 countries. In the advanced

<sup>2</sup> See also G20 Labour and Employment Ministers' Conclusions Guadalajara, Mexico, 17–18 May 2012.

**Figure 4. Job creation must be kick-started ... especially for the disadvantaged**

Ratio of the employment rates of the group considered over employment rates of adult men (aged 25–64 years), latest available year<sup>1</sup>



Countries shown in ascending order of the ratio of youth employment rates to the employment rates of adult men.

<sup>1</sup> Annual averages of available quarterly data except for Brazil, India and Saudi Arabia and for the statistics by education. Latest available years: 2011 except for Brazil, India and Saudi Arabia (2009, 2009–10 and 2009, respectively), 2010 for the Russian Federation. Note that in the case of youth, a given level of employment rate can reflect differences on the proportion of young people attending tertiary education.

<sup>2</sup> Selected urban areas for Argentina.

<sup>3</sup> Low-skilled refers to persons with less than upper secondary education. Figure for Japan includes upper secondary education.

Source: OECD estimates based on OECD Labour Force Statistics Database and various national labour force surveys.

G20 countries, income inequality has reached the highest level for the past 30 years; the average income of the richest 10 per cent of the population is about nine times that of the poorest 10 per cent, up from seven times 25 years ago. In some countries, inequality has increased further from already high levels; that is, for example, the case of the United Kingdom and the United States. But countries with historically low inequality, such as Germany, have also seen the gap between rich and poor widen. Only a few countries have managed to contain this trend: income inequality has remained stable in France and Japan, and has recently fallen in Mexico and Brazil. However, in Mexico the incomes of the richest are still more than 25 times those of the poorest, while in Brazil the ratio is 50 to 1.

It should be acknowledged that while income inequality has risen within countries, it has declined across countries, with a significant share of the world population being lifted out of poverty as a result of faster growth in emerging-market countries.

The main drivers of high and often rising income inequality at the household level are to be found in the labour market. While progress has been made in many countries to facilitate access to the labour market of under-represented groups, disparities in earnings and working conditions have often widened.

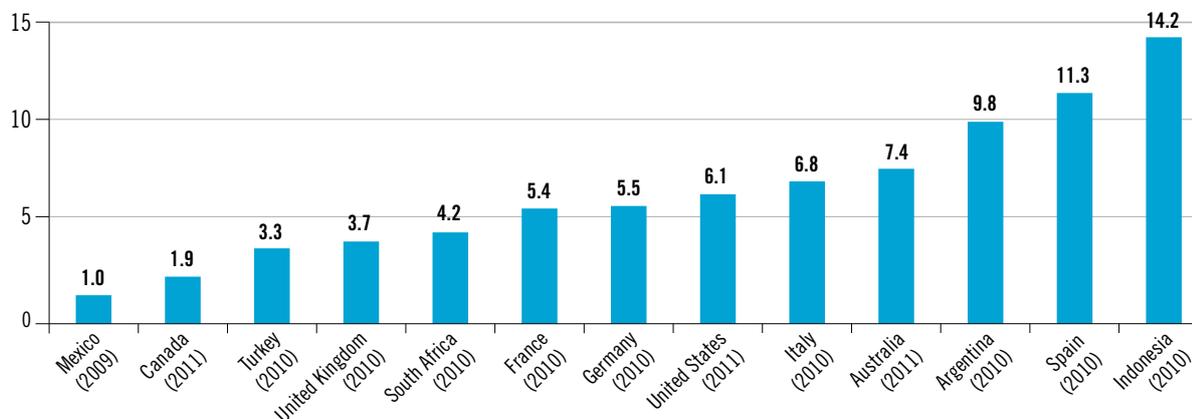
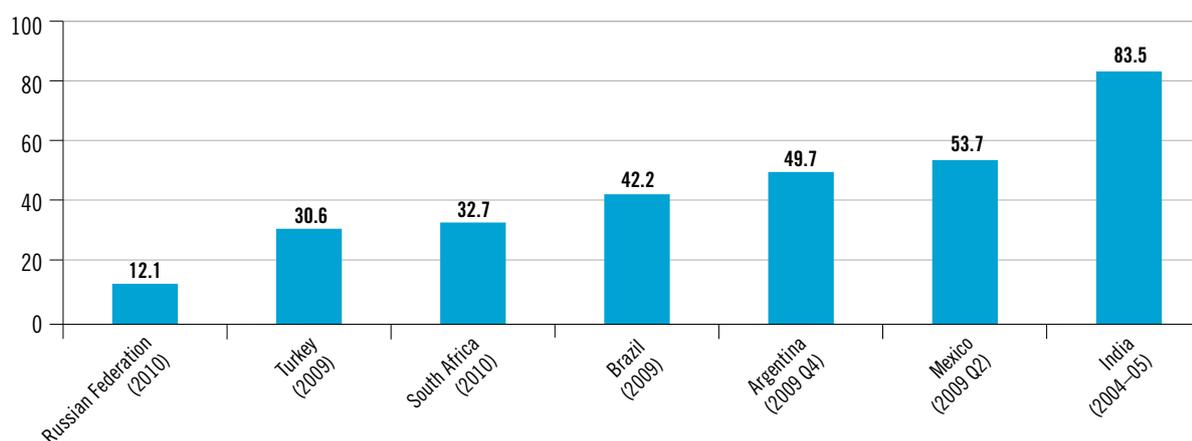
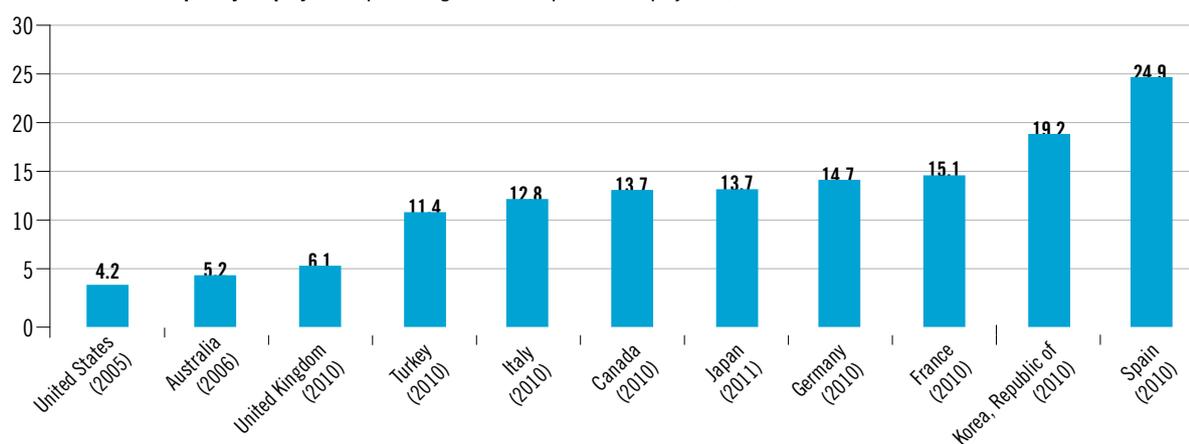
Beyond a certain threshold, levels of income inequality generate negative effects that undermine social cohesion and economic performance. Furthermore, the economic crisis and the need for political legitimacy in addressing it have added urgency to the need to confront inequality. Policies to reverse income inequality trends include benefit and tax policies to expand basic social protection where needed, as well as policies and regulatory measures to generate more and better jobs. More broadly, in pursuing growth and equity/redistribution strategies simultaneously, policy-makers need to be aware of possible complementarities or trade-offs between the two objectives. Many policies could entail a double dividend as they reduce income inequality while at the same time boosting long-run GDP per capita; investment in human capital, in both formal education and life-long learning, is the best example of a policy that has the potential to achieve such a double dividend.

## 2. Near-term prospects remain bleak for labour markets

If the labour market has fully recovered in some G20 countries, this is not the case for a majority of them, as witnessed by the remaining so-called “jobs gap”, i.e. the number of additional jobs that would be required to restore the employment–population ratio

**Figure 5. Job quality needs improving**

Incidences of underemployment, informal employment and temporary employment, latest value available

**A. Incidence of time-related underemployment<sup>1</sup> (percentage of total employment)**

**B. Incidence of informal employment<sup>2</sup> (percentage of total non-agricultural employment)**

**C. Incidence of temporary employment (percentage of total dependent employment)**


<sup>1</sup> Persons in time-related underemployment are those who during the short reference period, were willing to work additional hours, were available to do so, and had worked less hours than a selected number of hours. For France, Germany, Italy and the United Kingdom, time-related underemployment corresponds to the proportion of involuntary part-time employment as a percentage of total employment.

<sup>2</sup> The concept of total employment in the informal economy is used by the ILO to refer to the sum of the jobs in the informal sector and the jobs in informal employment, counting only once those jobs which are classified in both categories. These concepts refer to different aspects of the informalization of employment, as employment in the informal sector is an enterprise-based concept and informal employment is a job-based concept. For the Russian Federation, informal employment refers to employment in the informal sector (excluding informal employment outside the informal sector).

Source: OECD estimates based on ILO Short-Term Indicators of the Labour Market, ILO Statistical update on employment in the informal economy (Geneva, June 2011) and OECD labour Force Statistics Database.

to its pre-crisis level (figure 6). It is particularly large in South Africa, Spain and the United States, which alone accounts for nearly one-half of the total jobs gap that can be estimated at around 21 million persons across the 11 countries where the employment ratio has yet to return to its pre-crisis level.

While the jobs gap will close eventually — as long as the economy recovers from the 2008–09 downturn, a steady decline in unemployment requires actual growth to exceed potential by a significant margin. This reflects the need to allow for productivity gains in addition to absorbing a growing labour force, which in some cases (e.g. Mexico) is further increased by reverse migration flows. Near-term projections of actual and potential GDP growth over the next couple of years indicate that for the majority of G20 countries, growth is likely to fall short of potential, suggesting that in some of them even stemming the rise in unemployment will be difficult (figure 7). Among the countries where employment remains substantially below the pre-crisis level, growth sufficiently robust to lower unemployment is expected only in the United States.

### 2.1 How much scope for macro policies?

It is not unusual for recessions characterized by severe financial market turbulences and debt overhang to be followed by weak and protracted recoveries. One implication is that compared with typical recoveries, more time is needed for activity to pick up at a sufficient pace to translate into lower unemployment. In this context, one question is how much scope there is for macro policies to stimulate aggregate demand. Clearly, macro policies played a major role in preventing an even worse outcome during the downturn and contributed to recovery. Against this background, room for further stimulus is limited, especially in advanced countries.

In advanced countries, monetary policy is already highly accommodative, with policy rates at near zero, supported by quantitative easing measures put in place by major central banks. While the accommodative stance will be warranted for a considerable time to come, little room for policy rate reductions remains and the effects of unconventional measures are less certain. As regards fiscal policy, public sector finances are too weak in most advanced G20 countries to allow significant fiscal support, though in most cases, automatic stabilizers should be allowed to

operate around the paths towards consolidation that are consistent with underlying economic strength. In several cases, the priority remains to establish credible and appropriately phased fiscal consolidation programmes, to enhance credibility and improve the predictability of future conditions, including tax burdens. A few countries, nonetheless, arguably have some scope to temporarily stimulate aggregate demand, should the economy significantly weaken.

Emerging market economies face different situations. In China, where inflation is under control and public debt modest, fiscal policy could be loosened in the near term should growth slow too much, and poorer households could be supported through expanded social spending. In countries where inflation pressures have eased but public finances are weaker, there is scope for monetary policy easing if necessary, with the support of macro-prudential measures to prevent asset bubbles. Finally, countries facing high inflation and/or public debt (e.g. India, Turkey) need to rebuild their policy space.

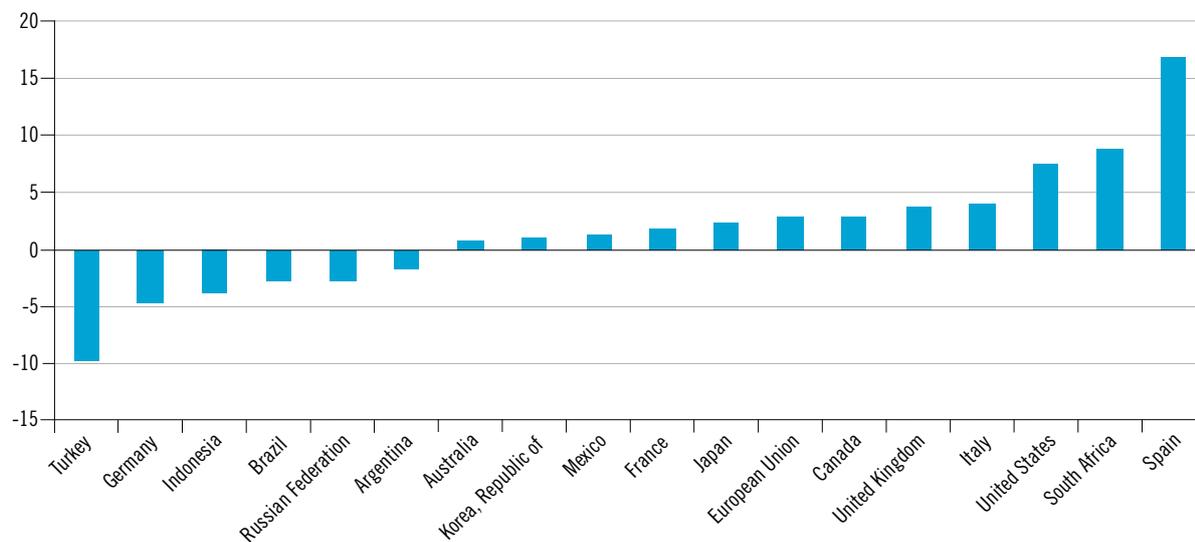
In several advanced and emerging market countries, there is a case for switching expenditures towards improving labour market opportunities for vulnerable workers while expanding the coverage of insurance programmes where appropriate, as well as towards spending components that underpin future growth, such as infrastructure investment, or those that help lower the barriers to bank loan access for small enterprises and entrepreneurs.

In view of the constraints on macro policies, stronger and faster employment gains — including in better-quality jobs — will be hard to achieve without significant and broadly based structural reforms that foster jobs creation and take-up. Measures to boost productivity growth and competitiveness will also be important and since stronger productivity growth often entails a reallocation of resources across firms or sectors, policy reforms also need to address impediments to such mobility.

## 3. Taking stock of the Cannes Action Plan commitments

This section briefly reviews how reform can lead to more jobs and higher employment, not only through better functioning labour markets and institutions, but also via stronger growth. Against this background, it takes stock of the likely employment

**Figure 6. Large jobs gap<sup>1</sup> remains in some countries** (percentage of actual employment,<sup>2,3</sup> persons aged 15 and over,<sup>4</sup> 2011 Q4<sup>5</sup>)



Countries are shown in ascending order of jobs gap in 2011.

<sup>1</sup> The job gaps at a particular date is defined as the increase in employment (as a per cent of current employment) required to restore the ratio of total employment to the working-age population to its value in 2007 Q4.

<sup>2</sup> Selected urban areas only for Argentina and Brazil.

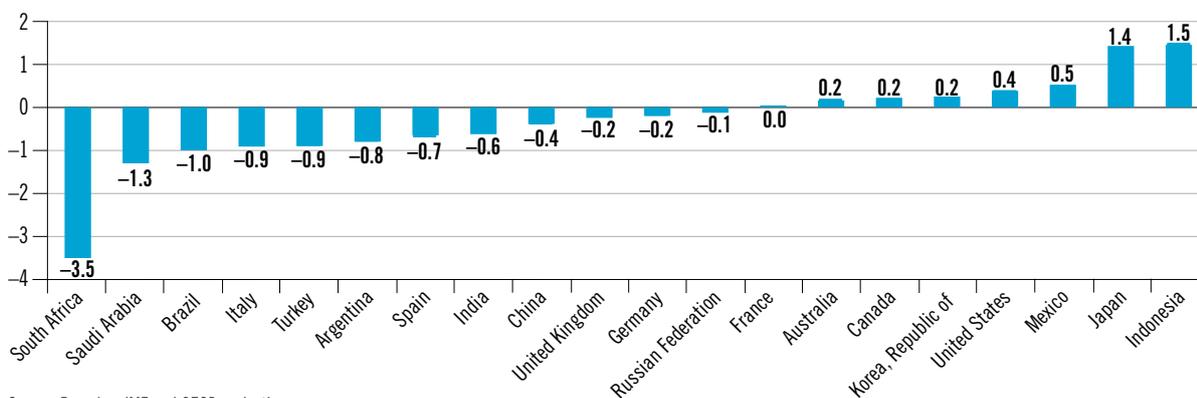
<sup>3</sup> Employment data for Mexico before 2011 have been adjusted to take account of the introduction of new population estimates from the 2010 Population Census.

<sup>4</sup> Data refer to persons aged 15–72 for the Russian Federation and aged 15–64 for South Africa.

<sup>5</sup> 2011 Q2 for Argentina, 2011 Q3 for Indonesia and the Russian Federation.

Source: OECD estimates based on OECD Economic Outlook projections for the OECD countries and national Quarterly Labour Force Surveys for the other G20 economies.

**Figure 7. Growth will not be strong enough to reduce unemployment in many G20 countries** (difference between actual and trend GDP growth on average over 2012–13)



Source: Based on IMF and OECD projections.

consequences of the country commitments under the Cannes Action Plan.

### 3.1 G20 countries face different labour market challenges

The previous sections have shown that if all G20 countries are concerned about near-term labour market developments and the need to ensure that benefits from the recovery reach larger swathes of the

population, the specific policy priorities nevertheless vary across them.

For countries that suffered a sharp increase in the unemployment rate and in the incidence of long-term unemployment, a priority is to limit the risk of the long-term unemployed and those who have dropped out of the labour force through discouragement facing growing barriers to reemployment as time passes. This risk appears particularly strong for

youth and low-skilled workers who have been disproportionately affected in most of these countries. Countries primarily concerned with such a risk include Canada, Italy, Japan, South Africa, Spain, the United Kingdom and the United States.

In countries such as France, Italy, Spain, South Africa and Turkey, the unemployment rate was already relatively high as they entered the crisis, suggesting that the current level also contains a large structural component, which needs to be addressed.

For other countries, the priority is to increase labour force participation and employment rates, in particular for specific groups such as women and older workers, a high proportion of whom are largely excluded from the labour market. In some cases, this challenge is compounded by the need to absorb large cohorts of youth reaching working age. Countries where participation rates are significantly below average include Argentina, Brazil, France, India, Indonesia, Italy, Mexico, Saudi Arabia, South Africa and Turkey. While overall rates in the Republic of Korea are close to average, they are still relatively low among women.

In Argentina, Brazil, India, Mexico, and to a lesser extent South Africa and Turkey, low official employment rates partly reflect a high degree of informality rather than inactivity, which can be tackled through a combination of regulatory reforms, better enforcement and broader skills opportunities.

### 3.2 How can policies help address these diverse challenges?

Actions aimed at addressing these challenges cut across a broad range of policy domains that have the potential to promote stronger growth and job creation, as well as to foster the integration in the labour force of groups at the margin. Here, the focus is on the product and labour market policies and related aspects of taxation that are considered as most relevant for near-term labour market outcomes. Some reforms can have initial negative consequences before medium-term benefits emerge, especially in times of weak demand. The size and timing of employment effects depends to a great extent on country circumstances. The report leaves aside extensive discussions to improve access to, and efficiency of, education and training systems even though they are a fundamental element in developing human capital, which in turn is key for promoting sustained

growth and better-quality jobs in the longer term.<sup>3</sup> Additional measures to boost employment through public and private investment as well as broadening the coverage of social protection are considered in section 4.

Finding an appropriate balance between supply-side measures to enhance job readiness and search and labour force participation, and demand-side measures to support strong employment generation, is contingent on country-specific situations. However, pursuing such a balance in all countries can have large positive effects for all.

#### *Addressing the risk of persistent high unemployment*

Countries facing the risk that higher unemployment in the wake of the crisis becomes permanent could boost labour demand through stronger investment and firm creation, as well as via containing non-wage labour costs. Given that the pay-off from reforms often takes time to materialize, it is important for countries facing persistently high unemployment to focus on policy packages most likely to yield short-term gains. However, in assessing policy options to accelerate the creation and take-up of job opportunities, policy-makers also need to take into account other policy objectives such as budgetary consolidation, higher labour force participation and social protection. While some of the measures reported below do not have significant budgetary costs, others may, suggesting that countries facing tight budget constraints may have to focus on low-cost measures or ensure that others are financed through means that are as friendly as possible to employment. Potential policy trade-offs are highlighted in table 1.

- **Regulatory barriers to competition:** Reforms aimed at reducing regulatory barriers to firm entry and at exposing sheltered sectors to stronger domestic and foreign competition can boost both growth *and* employment. In particular, evidence suggests that fairly rapid employment gains from liberalization can be expected in sectors such as retail trade and professional services.
- **Employment protection:** In so far as stronger competition also leads to more firm entry and

<sup>3</sup> Policies to develop human capital are discussed in OECD: *Pursuing strong, sustainable and balanced growth: A Note on Implementation of Structural Reform Commitments* (Paris, 2011), prepared for the G20 Framework Working Group.

**Table 1. The impact of policies to reduce persistence of unemployment on other economic objectives**

	Short-term impact	Budgetary cost	Social protection / Labour force participation
Reduce barriers to competition	No impact on unemployment but raise employment of women	None	Improve participation of women
Reform tax structure with reduced tax on employment	Stronger effect on employment than unemployment	Depends on net effect on revenues	Shift tax burden from workers towards pensioners
Provide job subsidies	Help reduce unemployment, especially for women	High	Unclear (risk of displacement effect)
Reduce initial replacement rate and/or shorten benefit duration	Lower unemployment in general but may raise it in period of weak activity	Negative	Reduce protection
Expand training programmes	Reduce unemployment rate of women and youth	High	Improve integration
Reduce average labour tax wedge	No strong impact	Potentially high	Neutral if benefits maintained
Ease overly restrictive EPL on regular contracts	Reduce unemployment rate of women and youth	None unless accompanied by stronger UI benefits	Improve if it reduces duality
Reform wage bargaining	No short-term impact	None	Improve if it reduces duality

Source: Based on OECD *Economic Outlook* (2011/1) and *Going for Growth 2012*.

exit as well as higher jobs turnover, the income and employment benefits can be underpinned by policy settings that facilitate resource reallocation. This implies a level and design of job protection that does not result in excessive hiring and firing costs so as to allow firms to adapt quickly to new technology or product demand but also to provide workers with adequate advance notice so as to allow time to start the search for a new job. Strong restrictions on the dismissal of workers help cushion the employment impact of falling activity in severe downturns, but easing provisions whose costs are high and unpredictable for employers can boost hiring during the recovery. Setting an optimal level for employment protection legislation requires balancing the advantages in terms of a secure employment relationship in which both parties invest to the benefit of firm performance against facilitating the transfer of workers from less to more productive employment. Employment protection legislation thus needs to be part of a package of measures to reduce both worker and employer costs involved in forming long-term productive matches.

Where high severance payments represent the main source of income for an unemployed worker and his/her family in the event of a lay-off, an easing of job protection could be accompanied by a strengthening and extension of unemployment benefit programmes, along with effective

activation measures in order to minimize benefit dependency.

- **Work-sharing:** In times of severe downturns, work-sharing arrangements help to avoid mass lay-offs and allow businesses to retain their workforces, thus minimizing firing and (re)hiring costs and preventing a sharp rise in unemployment. If complemented with targeted training for affected workers, work-sharing can bring long-term benefits to both workers and enterprises.

The significant role played by these programmes in cushioning the crisis in countries such as Germany and Japan suggests that having such options in place and being able to activate them quickly in severe downturns can be useful.

Work-sharing arrangements with different modalities have been used in a number of G20 countries. One desirable feature is the inclusion of built-in incentives for a timely phasing out to minimize the risks that such arrangements maintain jobs that are not viable in the long run, which could hamper productivity gains.

- **Tax structure:** A shift in the composition of taxation away from labour and capital and towards consumption, immovable properties and environmental externalities has been found to stimulate employment relatively quickly, in addition to boosting growth in the longer term, though this may also lead to higher income inequality. Short

of a comprehensive tax reform aimed at improving economic efficiency and equity, there is a case for targeted and temporary cuts in payroll taxation and/or temporary increases in job subsidies as their budgetary cost can be kept moderate and their effectiveness increased by focusing on low-paid workers. These policies have been applied in a variety of ways, such as reduced employer social security contributions, especially for new hires in small enterprises; reduction of employee and employer contributions to unemployment insurance; or a flat subsidy for hiring workers unemployed for more than six months.

- **Training and job-search assistance:** A higher take-up of current and future job vacancies calls for policies to improve matching between jobseekers and employers through scaled-up training programmes and job-search assistance, as recommended in the G20 Training Strategy.<sup>4</sup> Recent analysis suggests that fairly rapid employment gains can be generated by boosting measures to help the unemployed find the right jobs and keep their skills updated. That said, a rapid and effective scaling-up of training programmes may be difficult in countries that lack sufficient infrastructure and/or that face acute budget constraints (e.g. Italy, Spain, the United Kingdom and the United States). In emerging market countries, employment services and training programmes would achieve greater impact through improvements in governance and design.

#### *Reducing structural unemployment*

While action to stimulate labour demand will also help countries facing a high structural unemployment rate, additional measures may be needed to ensure that specific groups of workers – in particular youth and the low-skilled – can be better integrated in the labour market. In particular, a number of measures can be envisaged to tackle labour market duality and raise mobility:

- **Differences in degree of protection:** In countries where employment protection legislation for regular workers is particularly stringent, and the use of temporary contracts widespread, there is a case for narrowing the differences in provisions between the

two types of contracts so as to reduce labour market duality. This will encourage hiring in more stable jobs in the formal sector and likely contribute to promote a smoother transition of new entrants, including youth, from entry jobs with short duration to more stable jobs that offer a career prospect.

- **Institutional arrangements for collective bargaining:** Reforms of institutional arrangements for collective wage bargaining can also help reduce structural unemployment and labour market duality. Structures for bargaining vary widely across G20 countries according to national contexts, with different issues determined at firm, sector or national levels. Promoting social dialogue and ensuring wage dynamics that are broadly in line with trend productivity may help sustain aggregate demand.
- **Income support for unemployed:** Providing adequate social protection to the unemployed remains a priority in the uncertain recovery, with a growing number of jobseekers who have been without a job for a protracted period of time being at risk of withdrawing from the labour force and falling into poverty. Again, it is essential to combine income support with appropriate job-search incentives and re-employment services to mobilize the beneficiaries back to employment, as well as with a benefit system that provides adequate work incentives.
- **Worker mobility:** The mobility of workers can in some cases be enhanced through reforms of housing policies or with measures to facilitate the transfer of pension rights (including across jurisdictions).

#### *Fostering labour force participation*

High structural unemployment can contribute to lower participation through discouragement effects. Relatively low labour force participation rates – especially of women – may also in some cases reflect cultural choices or traditions. But they often result from the difficult access to services that can help reconcile work and family responsibilities, as well as from financial disincentives embedded in benefit systems.

- **Benefit systems:** In several countries, women face strong disincentives to join the labour market or return to work after child rearing, in part reflecting the loss of out-of-work benefits, but also the

<sup>4</sup> G20 Leaders welcomed at their Summit in Toronto the G20 Training Strategy prepared at their request, which identifies a number of building blocks for effective national skills policies. For more information, see ILO: *A skilled workforce for strong, sustainable and balanced growth: A G20 training strategy* (Geneva, 2011).

difficult access to affordable childcare services. Reforming benefit systems to make work pay in this area involves difficult policy trade-offs, but differences across countries in participation rates and implicit financial disincentives to participate point to large potential gains from reform. In emerging market economies, conditional cash transfers that combine income support with the requirement to maintain investment in human capital and health of children have proven effective in promoting female participation in the formal sector.

Likewise, evidence from advanced country experiences has shown that reforms to pension systems to reduce the financial disincentives to work at ages between 55 and 65 help to raise participation rates for older workers. However, such reforms may not have as strong an impact in emerging market countries where the evidence suggests that those who retire often engage in informal work rather than leaving the labour force. In such cases, reforms of pension systems need to be undertaken in the broader context of addressing informality.

- **Minimum wages:** Combined with in-work benefits and measures to reduce the non-wage cost of low-paid jobs, a statutory minimum wage set at an appropriate level may raise labour force participation at the margin, without adversely affecting demand, thus having a net positive impact especially for workers weakly attached to the labour market. Maintaining the purchasing power of minimum wages at around 30 to 40 per cent of median wages sustains demand and reduces poverty and income inequalities. Statutory wage floors systematically set at levels significantly above that range entail the risk that these benefits would be more than offset by lost job opportunities, especially for youth and low-skilled workers. Allowing the minimum wage to slip significantly below that range risks exacerbating poverty while weakening demand.<sup>5</sup>
- **Social protection:** Labour force participation is also generally supported by adequate social protection systems such as unemployment insurance benefits and an expanded coverage of basic social protection programmes, which have shown

their potential in enhancing school attendance and workforce participation.<sup>6</sup>

#### *Reducing informality*

Large and persistent shares of informal employment, predominantly in the form of self-employment and very small enterprises, are a characteristic feature of labour markets in most emerging-market countries. The resultant low average labour productivity weighs on potential output and thus the pace at which underemployment and poverty are reduced.

A sound policy objective is to promote over time a continued shift from informal to formal employment. Many of the policy measures to tackle unemployment and encourage participation will also contribute to reduce informality. Most relevant in this area are policy measures to promote a business environment conducive to investment and job creation in the formal sector, including easing administrative barriers to entrepreneurship and to the formalization of small enterprises, reforming labour regulation and the financing of social insurance programmes, improving the tax structure and access to credit, and ensuring respect for the rule of law. Broadening the coverage of basic social protection – notably through transfers that complement individual savings and contributions to social insurance programmes – helps workers mitigate the impact of adverse shocks and reduces the risk of poverty and exclusion. If designed carefully, it can also contribute to the reduction of informality.<sup>7</sup> Such measures are also warranted in advanced countries to combat the grey economy.

Non-contributory programmes should be designed in a way so as not to reduce incentives to participate in contributory programmes, using a combination of income-related fees with a subsidy component that decreases with income.

The recent growth pattern of Brazil and its resilience to the crisis appears to be in part attributable to a reduction of informality, inequality and poverty which supported domestic demand and created opportunities for SMEs.

<sup>5</sup> D. Vaughan-Whitehead (ed.): *The Minimum Wage Revisited in the Enlarged EU* (Geneva, ILO, 2010).

<sup>6</sup> See OECD: *OECD Employment Outlook 2011* (Paris, 2011), Chapter 2.

<sup>7</sup> In this regard, the 101st International Labour Conference (30 May–15 June 2012) will discuss the adoption of a new Recommendation concerning national floors of social protection.

**Table 2. G20 structural policy commitments by domain**

Policy domains	Countries with a G20 commitment in the policy area <sup>1</sup>	Countries where the policy indicators suggest scope for improvement <sup>2</sup>
<b>Policies aimed at boosting labour demand through stronger competition and better investment incentives</b>		
Strengthen competition in network industries	Australia, Canada, China, France, Germany, Italy, Mexico, South Africa, Turkey	Brazil, China, India, Republic of Korea, Mexico, Russian Federation, South Africa, Turkey
Strengthen competition in professional services and retail trade sectors	China, European Union, France, Germany, Italy, Republic of Korea, Spain	Canada, China, France, Germany, India, Italy, South Africa, Turkey
Ease administrative and regulatory barriers to entrepreneurship	Australia, Brazil, Canada, India, Italy, Republic of Korea, Mexico, Spain, United Kingdom	Brazil, China, India, Mexico, Russian Federation, Turkey
Lower barriers to foreign ownership/investment / trade	Argentina, Canada, China, European Union, France, India, Indonesia, Japan, Mexico, South Africa	Canada, China, India, Indonesia, Japan, Republic of Korea, Mexico, Russian Federation
Shift the structure of taxation towards consumption and immovable property	Argentina, Australia, Brazil, Canada, China, France, India, Indonesia, Republic of Korea, Mexico, Russian Federation, South Africa	Australia, Canada, France, Germany, Italy, Japan, Spain, United States
<b>Policies aimed at breaking the persistence of high unemployment and labour market duality</b>		
Reduce the (average) tax wedge on (low) labour income, including through targeted payroll tax cuts	Australia, Brazil, Canada, Mexico	Brazil, France, Germany, Italy
Reduce the minimum cost of labour relative to average cost	Spain	Australia, Brazil, France, Indonesia, Turkey
Maintain or beef up training and job-search assistance programmes and consider targeted job subsidies	Italy	Canada, Italy, Republic of Korea, Japan, Spain, United States
Reform wage bargaining system to raise the responsiveness of wage adjustments to labour market conditions	France, Italy, Republic of Korea, Mexico, South Africa, Spain	France, Italy, Spain
Reform employment protection legislation to narrow the gap in protection between temporary and permanent contracts	France, Italy, Turkey	France, Germany, India, Indonesia Italy, Republic of Korea, Spain, Turkey
Reduce housing-related and/or pension-related restrictions on labour mobility	Canada, China, European Union, Germany, Russian Federation	
<b>Policies aimed at fostering labour force participation</b>		
Extend coverage of unemployment insurance scheme to strengthen social safety net	China, Italy	China, India, Indonesia
Reduce financial disincentives to work for household second earner or lone parent and/or improve supply of childcare services	Germany, Italy, Japan, Republic of Korea, Turkey	Canada, Germany, Italy, Japan, United States
Reform pension systems to reduce financial disincentives to continuing to work at older age	France, Italy, Japan, Russian Federation	India, Russian Federation, Spain, Turkey

<sup>1</sup> Refers to the reform priorities identified in the G20 countries' national policy template submissions up to and including the post-Cannes Action Plan.

<sup>2</sup> Based on policy indicators covering most – though not all – G20 countries. Some scope for improvement in a policy domain is considered when the value of the corresponding indicator for a country is found to deviate substantially from the (simple) average across the set of OECD countries for which it is available. Most of the policy indicators can be found in Chapter 3 of *Going for Growth 2012*. In the case of active labour market policies and the coverage of social protection systems, the source of information is the OECD Employment Outlook 2011 (Chapter 2 and Annex tables). There is no indicator of restrictions on labour mobility. Some of these indicators may not reflect recent reforms in the measured policy domain.

Source: OECD.

### 3.3 Matching challenges with policies: A review of G20 commitments

Table 2 provides a list of structural policies aimed at addressing the main challenges.<sup>8</sup> For each broad objective, it identifies G20 countries that have made a commitment in the respective policy domains. In

<sup>8</sup> Progress made on these commitments and implementation gaps are summarized in OECD: *Pursuing strong, sustainable and balanced growth: A Note on Implementation of Structural Reform Commitments*, op.cit.

addition, the table also identifies countries where indicators suggest that there may be scope for policy improvement.<sup>9</sup> A substantial deviation from the practice observed on average across countries in a particular policy area could be taken as indicative of potential gains from reform, especially if labour-market

<sup>9</sup> This selection is therefore largely based on policy indicators covering most – though not all – G20 countries. Argentina and Saudi Arabia are not covered by policy indicators, while some of the labour market policy indicators cover only OECD countries.

performance related to the policy in question is weak. In several cases, the potential gains may build up only gradually and become more apparent once the recovery is firmly under way.

With the exception of Saudi Arabia and the United States, all G20 countries have made at least one commitment in policy areas to boost labour demand through stronger competition and investment. Commitments are particularly widespread in the areas of tax structure and barriers to foreign trade and investment. In the latter case, virtually all countries that appear to have the largest scope for improvements have made a commitment. While many countries have also committed to strengthen competition in network and/or services industries, it is noteworthy that several of those who stand to gain the most have not done so.

G20 countries have generally made fewer commitments in labour market policy areas where action may be needed to prevent the rise in unemployment following the crisis from becoming entrenched, as well as to reduce structural unemployment. More widespread commitments in these areas might be expected considering that several of the measures suggested would also help to address informality. Furthermore, large differences in policy practice across countries suggest that the pay-off for some could be substantial.

About half of G20 countries have made commitments in the policy areas identified as most relevant to foster labour force participation rate of women and/or older workers.

Simulations of the potential benefits from broad reforms in these areas suggest gains could be important, although such quantitative assessments based on past experience with reforms may overestimate the positive job effects of supply-side measures in periods of weak aggregate demand. Some examples of the possible impacts of reforms in specific areas include:

- **Reform of pension systems:** If pension systems in G20 countries were moved to actuarial neutrality so as to remove the financial disincentives to pursue activity at older age, employment rates could rise on average by around 0.2 percentage points after 5 years.
- **Increase in public childcare support:** If childcare support were increased in Germany, Italy and Japan (i.e. G20 countries with a commitment in this area) to the average level observed in the three

OECD countries with the highest public childcare spending levels, the rise in employment rates could reach on average around 0.4 percentage points after 5 years.

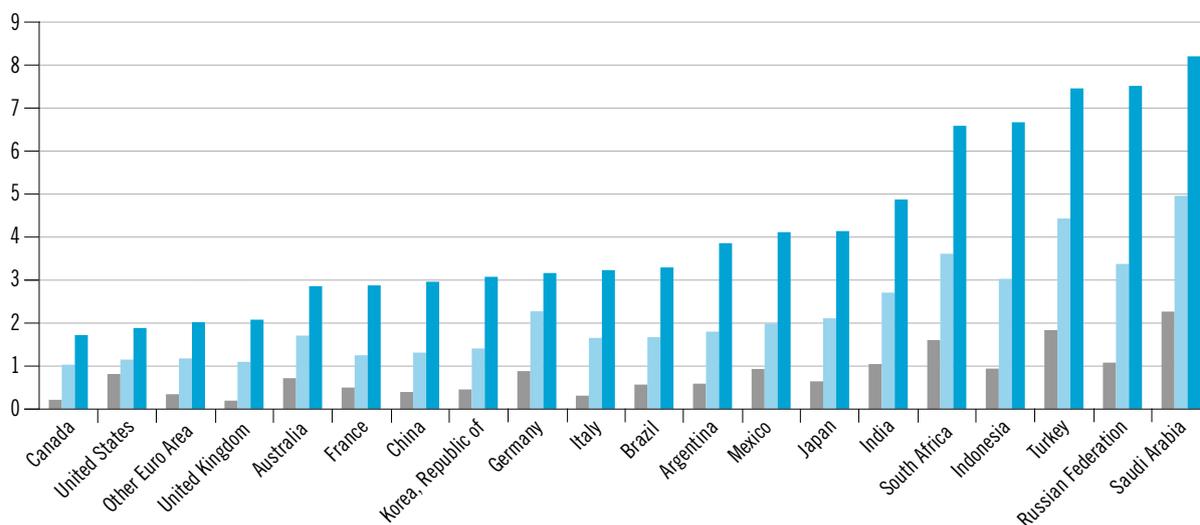
- **Reduction in labour tax wedges:** If the average labour tax wedge in G20 countries were lowered to the level prevailing in the six countries with the highest employment rate, this could lead to an increase in employment rates on average of 0.9 percentage points after five years. This would require the financing of the tax cut to be undertaken in a way that does not reduce employment or undermine the financing of social security systems.
- **Increase in spending on active labour market policies:** If G20 countries were to raise the ratio of active labour market policies (e.g. training, job-search assistance and jobs subsidies) spending per unemployed to around half the average level prevailing in a group of countries with a high spending ratio, the unemployment rate could fall on average by half a percentage point after five years, again assuming that the financing of this measure does not reduce employment.

The average impacts mask potentially substantial variations in country-specific effects according to the relevance and scope for reform in the respective policy domains. Based on the results from IMF/OECD simulations used to build the upside scenario reported in the IMF umbrella report, figure 8 shows possible near- and medium-term GDP and employment effects of reforms undertaken jointly across a broad range of product and labour market policies.<sup>10</sup> In this scenario, where all G20 countries are assumed to take action, the overall gains to domestic production are amplified by positive benefits from international trade. Furthermore, the possible gains illustrated in figure 8 do not take into account an additional benefit from structural policy action, which is to reduce the risk of a downside scenario and thereby help to avoid the substantial costs that this would entail.

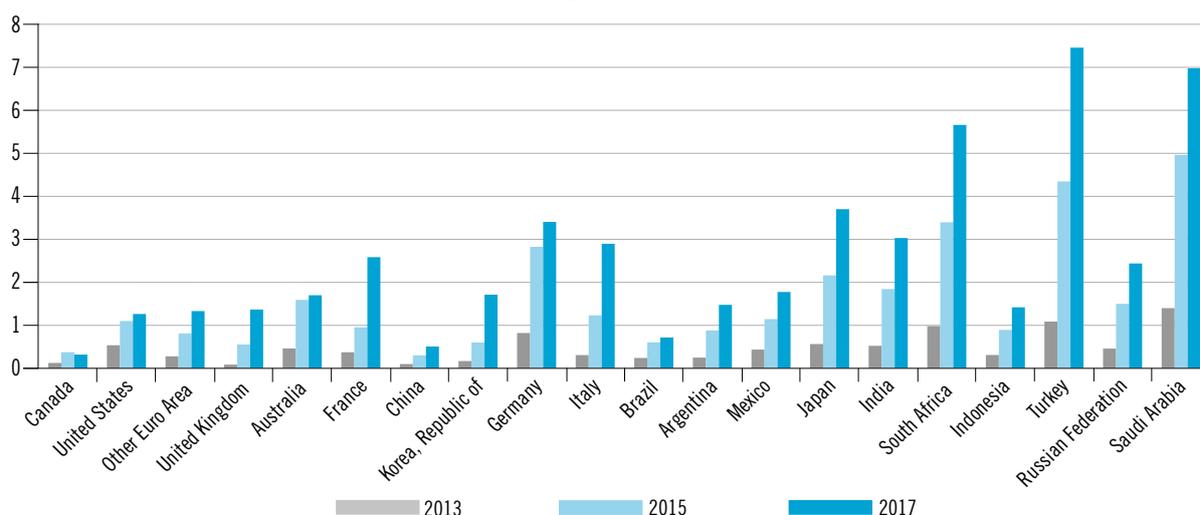
<sup>10</sup> Product market reform concerns a reduction in regulatory barriers to competition in network and services industries. The policy areas covered by labour market reforms are active labour market policies, employment protection legislation, unemployment insurance, pension regimes and policies to boost labour force participation. For more details, see box 1 in IMF: *Towards Lasting Stability and Growth: Umbrella Report for G20 Mutual Assessment Process* (Washington, DC, 2012).

**Figure 8. Comprehensive product and labour market reforms can yield substantial benefits**

**A. The impact of structural reforms on GDP (in percentage deviation from baseline)**



**B. The impact of structural reforms on employment (in percentage deviation from baseline)**



Source: IMF and OECD estimates.

**4. Further labour and social policy options in support of the G20 Framework for Strong, Sustainable and Balanced Growth**

The preceding sections highlighted two significant assessments. The current outlook for actual GDP growth in several G20 countries is too weak to expect a rapid return to the employment to population ratios that prevailed in 2008 within the next two years. Furthermore, structural challenges in relation to low labour force participation, particularly for women and young people, weak formal employment growth relative to total employment growth,

and persistently high structural unemployment raise issues of social destitution, loss of human capital and income inequality, in addition to weakening potential growth.

Employment, labour market and social protection measures currently implemented or contemplated by countries have been discussed in the preceding sections. G20 countries have already taken a broad range of actions, or are committed to do so, in order to address the main challenges. In addition, ongoing reform efforts in several countries involve policy changes in relevant areas that have not necessarily been the object of a G20 commitment (e.g. reform of employment protection legislation in Spain,

reduction of regulatory burden on businesses in the United Kingdom and the beefing-up of training, job search assistance or social protection programmes in several countries).<sup>11</sup> Even so, it is more than likely that further measures will be required in order to tackle the challenges posed by weak employment prospects in a context of an overall economic outlook still clouded by significant downside risks and financial headwinds.

In thinking about additional measures it is useful to be reminded of two important elements. First, in countries facing severe fiscal constraints, expenditure switching favouring those measures with a high impact on job opportunities and take-up may enhance employment at current spending levels. Second, well-designed employment and social policies can also make a contribution to meeting the policy objectives of the G20 Framework, including the rebalancing of the global economy.

#### 4.1 Further measures to promote economic growth and employment expansion

In considering further action to accelerate the pace of job recovery, G20 countries may wish to focus on specific areas covering both the demand and supply sides of the labour market.<sup>12</sup> On the demand side, measures to boost public and private investment, especially among SMEs, could help create jobs while raising potential growth in the longer run. On the supply side, even though actions have already been taken to improve social protection, more could be done in several emerging-market economies. Also, the low employment rates of youth are clearly a concern shared by most G20 countries and hence deserve extra attention.

##### *Supporting infrastructure investment*

It is important that public investment in infrastructures be as far as possible sheltered from budget cutbacks and that they be expanded in countries and areas where major gaps have been identified. Past evidence from various sources has shown that

investment in physical infrastructure often has a bigger impact on long-term economic performance than other kinds of physical investment, while contributing to raising employment in the short term. In Cannes, G20 Leaders have indeed supported efforts to improve capacities and facilitate the mobilisation of resources for infrastructure projects initiated by public and private sectors.<sup>13</sup>

Infrastructure investments cover a variety of programmes, with different impacts on jobs. One variant of infrastructure investment is public works programmes aimed at direct job creation and poverty alleviation. In this area, India implements a large-scale rural employment guarantee scheme. Indonesia stepped up investments in rural roads in 2009 and 2010 to generate employment, offsetting losses caused by the crisis.

##### *Improving access to bank funding for SMEs*

Small and medium-size enterprises, which on average across countries account for an estimated 66 per cent of total employment, are highly dependent on bank credit for a variety of purposes ranging from investment to cash-flow management. When financial conditions are constrained, as continues to be the case in several countries, particularly in Europe, small enterprises and employment suffer. A close monitoring of credit conditions for small enterprises, and measures to ease them when credit markets tighten unduly, are warranted in those countries facing such conditions. More generally, reviewing support provided to the emergence and growth of new businesses, including support to entrepreneurship, is desirable to expand potential output and employment.

In response to the crisis, many countries including Brazil, the Russian Federation, South Africa, Turkey, the United Kingdom and the United States have taken steps to ease credit conditions for SMEs through increased capital to banks involved in lending to smaller enterprises, lower interest rates, microcredit programmes in rural areas, and tax rate reductions.

<sup>11</sup> An inventory of policy responses to the financial and economic crisis developed jointly by the ILO and the World Bank helps track country policy initiatives. The database was launched on 20 April 2012.

<sup>12</sup> The ILO Global Jobs Pact adopted by the International Labour Conference in 2009 offers a portfolio of policy measures many of which draw on or have been taken up by G20 countries. See ILO: *Recovering from the crisis: A Global Jobs Pact* (Geneva, 2009), available online at <http://www.ilo.org/jobspact/lang-en/index.htm>.

<sup>13</sup> A proposal in this regard is the Global Infrastructure Initiative, which aims at funding infrastructure projects in developing countries from a global pool of savings, and which illustrates the potential for boosting growth and jobs in these countries, supporting global demand and the recovery. See J. Lin and D. Domeland: *Beyond Keynesianism: Global Infrastructure Investments in Times of Crisis*, World Bank Policy Research Working Paper 5940 (Washington, DC, 2012).

### *Extending the coverage of social protection*

Compared with advanced G20 countries, the coverage of contributory social insurance programmes in emerging market countries remains relatively low, even if it has improved significantly in a number of them (e.g. Brazil, South Africa and Turkey). For instance, the share of the workforce contributing to a pension plan and/or health insurance is around 10 per cent in India and Indonesia and less than 50 per cent in China. There is thus significant scope in emerging market countries to further expand the coverage of social protection programmes, ranging from conditional cash transfers to basic old-age pensions, child benefits and health services. Expanded access to basic social protection would have a major impact on poverty, aggregate demand, employment, macroeconomic stability and social cohesion. The G20 Leaders have welcomed recent developments around social protection floors, adapted to national situations.

### *Improving job prospects for youth*

Given the damaging long-term consequences on human capital accumulation and future earnings prospects of a prolonged spell out of work and of any form of schooling for young adults, additional measures to mitigate high levels of youth unemployment are justified. Some 37 million young women and men are unemployed across G20 countries, over 30 per cent of total unemployment. Job search orientation and support, skills development, opportunities to combine work and study, apprenticeships and work experience opportunities, as well as targeted subsidies are among the more common measures to address the challenge. The scale of existing programmes is often not commensurate to the large increase in the number of unemployed.

Expanded opportunities for vocational education and training are needed to impart the skills required by a changing labour market. In many situations, the need is for more relevant training tuned to the demand in the labour market rather than additional spending. A key criterion is quality and relevance of training, often enhanced through the direct participation of businesses, labour, governments and training providers in defining needs and quality criteria. Training-related active labour market programmes also need to be considered in the case of emerging-market economies to target the needs of informal sector workers who often lack access to formal vocational

training or on-the-job training. For vulnerable youth, these programmes can include training on life skills and include subsidies to support internships.

Public and private employment services play an important role in orienting training and re-training programmes. Adequately staffed employment services perform important functions of case management, counselling, intermediation and job-search advice and monitoring.

## **4.2 Policy packages can boost employment and help rebalancing the global economy**

G20 countries should opt for policy packages that appear best suited to address their most pressing labour market challenges, while taking into account budgetary constraints and other social objectives. In the case of advanced economies, the primary concern is the risk that persistently high unemployment turns into structural unemployment. In emerging market countries, concerns have more to do with the quality than the quantity of jobs, and one challenge is to design and expand social protection programmes that can effectively alleviate poverty and provide access to basic services – not least education – while raising incentives to participate in the formal sector.

In so far as they impact on economy-wide saving and investment, a number of policy options that are relevant to address country-specific labour market challenges may also contribute to narrow external imbalances, as illustrated in table 3.

### *Surplus countries*

In surplus countries, policies consistent with narrowing external imbalances are those that reduce overall savings while shifting the composition of demand towards domestic sources.

In advanced economies, this includes reforms of product market regulation, especially in services sectors, to boost domestic investment and consumption. Also, improving the full-time labour force participation of women may help reduce precautionary savings by providing households with more diversified sources of incomes.

In emerging-market economies, the expansion of social protection, combined with improved access to bank lending for households and firms, may lower the need for high private savings and boost domestic investment. The latter may be further enhanced through a lowering of barriers to foreign direct

**Table 3. Employment and social policies consistent with external balance objectives**

	Surplus countries	Deficit countries
<b>Advanced economies</b>	<i>Germany, Japan, Republic of Korea</i> - Lowering barriers to competition in services sectors - Encourage full time labour force participation of women	<i>Australia, Canada, France, Italy, Spain, United Kingdom, United States</i> - Achieving public debt sustainability through reform of pension or old-age health benefit entitlements - Shift in tax composition away from labour and capital towards consumption - Encourage labour mobility and resource reallocation through reform of job protection legislation and stronger active labour market policies
<b>Emerging market economies</b>	<i>Argentina, China, Indonesia, Russian Federation, Saudi Arabia</i> - Expansion of social protection coverage - Financial market liberalization to improve access to credit for households and SMEs. - Lowering barriers to FDI - Promoting wage developments which appropriately reflect trend productivity, including through collective wage bargaining	<i>Brazil, India, Mexico, South Africa, Turkey</i> - Boost investment in infrastructure that help improve competitiveness

investment. Improvements in wage determination systems can also contribute to ensure that wage developments appropriately reflect trend productivity.

#### *Deficit countries*

In deficit countries, external balance objectives will mainly benefit from measures that improve competitiveness and encourage saving.

In advanced economies, a reduction of pension and other benefit entitlements – where such entitlements are unsustainable given demographic trends – would help boost savings. Also, competitiveness would be underpinned by shifting the tax structure away from labour and capital inputs, combined with reforms that facilitate the reallocation of resources towards more productive sectors. Furthermore, policies that influence wage setting may enhance competitiveness.

In emerging market economies, measures that can strengthen the external balance in the medium term include infrastructure investment, in particular in areas that can reduce trade costs and boost export performance.

## 5. Conclusions

Current trends in employment and unemployment rates and in labour force participation will bear on a

balanced and broad-based recovery. Available forecasts and projections suggest no significant improvement in the employment situation over the next two years, at least for the G20 as a whole. This provides ground for a stronger approach to coordinated and possibly additional employment and social policy measures as part of the G20 framework and reform agenda.

Alongside continuing cyclical weakness in a number of G20 countries and the group as a whole, there is increasing evidence of profound structural changes that are generating major shifts in patterns of employment. Measures to support recovery should therefore also contribute to facilitating change by speeding up both the creation of new job opportunities and the transfer of workers from less to more productive employment.

This paper suggests an approach building on the experience of a range of policies already applied by different G20 countries.

Further analytical work on the impact and costs of different measures in different contexts could help consideration of how the G20 might strengthen the contribution of employment, labour market and social protection policy tools to its framework.







