



INTERNATIONAL ORGANISATION OF EMPLOYERS
ORGANISATION INTERNATIONALE DES EMPLOYEURS
ORGANIZACION INTERNACIONAL DE EMPLEADORES

THE GLOBAL ECONOMIC CRISIS

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Let me in the next ten minutes, outline first, what I see as the key messages from the business community for governments in responding to the crisis; and second, how we as Employers' Organizations should be leading the business community.

However first let me say a word on the causes of the crisis.

The crisis was sparked by a failure of responsible lending practices and investment decisions, and by a lack of adequate governance and insufficient regulation. And lets be blunt – greed.

These things need to be corrected. And they are and will be

But businesses and employers in the *real economy* did not cause this crisis. They however are currently suffering the consequences of the decline in confidence, in market activity and in asset and commodity prices.

We unfortunately are in this unprecedented situation together.

The collapse in global demand will drive exports down by roughly 9% in volume terms in 2009. This is the biggest such contraction since the Second World War. According to the World Bank, an additional 53 million people will be pushed into extreme poverty this year.

The crisis may also have important political and security implications. Increased poverty and social unrest could turn latent political divergences into acute strife. A point made by the IMF Managing Director, Dominique Strauss-Khan when he visited us earlier in Geneva in March.

KEY BUSINESS MESSAGES TO GOVERNMENTS

There is a danger in the current climate of not seeing the bigger picture and drawing the conclusion that *all* the policy choices adopted in recent decades were wrong and have resulted in a flawed economic model. They have demonstrably not been in terms of poverty reduction, economic and social development and so forth.

What we need to do now, as the Director of the National Economic Council (in the U.S.) Larry Summers put it *"is to develop policy approaches that can ensure prosperity is more fully shared without threatening its fundamental basis"*

What this means in the current context is that the suitability of policies needs to be "re-examined" with a view of how they fit a crisis. Importantly, it also means that policy choices must underwrite a durable recovery.

Let me elaborate on some of these:

1. Support open trade

In this deteriorating economic context nothing is more important than providing greater transparency, stability and predictability to global trade through the conclusion of the Doha Round. Trade must be part of the response to the economic crisis and the Doha Round offers the best global stimulus package.

2. Fix the financial sector

The restoration of financial sector stability and market trust is a necessary pre-condition for reversing the downward momentum of the global economy, enhancing the effectiveness of macroeconomic policies, and paving the way for an enduring recovery. As World Bank President Robert Zoëlick said recently '*Stimulus plans will be like a sugar high unless you fix the banking system.*'

3. Get the SME sector moving

SMEs will play a critical role in economic recovery. Easing access to financing will reduce the threat of layoffs as it will enable enterprises to overcome cash-flow problems and the drying up of opportunities for trade finance. The crisis also provides opportunities for local SMEs. The dramatic fall in trade provides openings for SMEs by allowing them to recapture local markets.

4. Supporting the enterprise sector and employment

At present, viable and sustainable enterprises and their workforces are being lost due to poor credit availability, rapidly changing export conditions and collapsing confidence. Short-term measures need to be put into place urgently.

Several European countries such as Spain and Sweden have cut social insurance contributions so as to reduce labour costs. Others (including Germany, Hungary, Italy and France) are encouraging firms to shorten work weeks rather than lay people off by topping up the pay of workers on short hours. Others are supporting training costs.

But governments *everywhere* need look urgently at how to make it easier and less costly to do business. The downturn provides an opportunity for governments to assess whether their regulatory

environments, including their labour markets, are facilitating enterprise creation and employment generation.

Balanced labour markets are essential not only for the survival of firms, but also for companies' abilities to retain employees through the economic downturn. *Legislation needs to facilitate enterprise survival.*

5. Social Protection is an important response

Strengthening social protection measures should be considered as a means to bolster demand and protect the most vulnerable. But this is however not without its challenges. In transition economies the fiscal space to expand social spending will be limited.

6. Boosting demand

In countries in which fiscal space is limited, fiscal stimulus actions should be focused on those measures that will have the largest effect on aggregate demand. Augmenting or accelerating the implementation of existing public works or infrastructure investments is one option, which provides a rapid channel for generating employment and also is consistent with enhancing longer-run growth and development.

Boosting public sector employment and wages might be a tempting way for governments to bolster labour demand, but this is an expensive intervention with limited pro-poor impact.

7. Use the crisis now to Invest in skills and training

Those countries that are able to maintain or build up the skills of their work force during the recession will be poised to take advantage of opportunities once the recovery starts. To sustain educational progress despite the crisis, countries will need to prioritize efforts and investments.

8. Labour market planning - now and in the future

Labour market planning is very much an issue for the current crisis. While firms are contracting now and making layoffs, including highly skilled personnel, *those skills will be needed in the future.*

Before the crisis skills mismatches were a major issues across many economies. A concern would be with current efforts to reinvigorate economic growth; policy makers may lose sight of the fundamental prerequisites for effective longer term labour market planning – accurately matching future labour market demand with supply. The lack of consultation with the main clients of education and training systems – the business community –is unquestionably a contributing factor to this persistent problem.

9. Dialogue

In the current climate of fear and apprehension in the workplace, enterprises can help ease tensions by planning and implementing decisions in a manner that is fair, consistent and based on rigorous analysis – especially when they relate to downsizing. Enterprises should be open about the challenges facing their business. In many cases providing real-time data on the enterprise’s economic situation can be helpful.

WHAT SHOULD EMPLOYER ORGANIZATIONS (“EOS”) BE DOING?

In the current climate with so many enterprises either struggling to survive or going bust, we as EOs need to demonstrate our value more than ever.

To do this I see the following elements.

First, Providing leadership

Promoting policies that will restore confidence and promote private sector activity needs to be our first priority.

Second, promoting viable national policy proposals

We need to champion open and honest debate with members, as well as other stakeholders such as governments and trade unions, regarding the policies and measures needed to exit the crisis.

Third, ensuring responses are effective and sustainable

Important and wide-ranging decisions, many with longer-term ramifications, are currently being made by governments, understandably in an atmosphere of urgency. EO's should caution governments against adopting immediate crisis management policies that compromise longer-term growth prospects and urge that other policy goals, in particular education, are not sacrificed in the short term.

Fourth, helping rebuild trust

Public perception and trust in business has been seriously damaged. EOs must insist on the ethical conduct of enterprises and be prepared to criticize those that fall short of the mark. They need to actively promote fundamental principles and rights at work everywhere.

Fifth, explaining the social and economic relevance of the enterprise sector

EOs need to promote the message that, when a culture encouraging entrepreneurial activity and business development is established in the right regulatory framework, wealth, jobs, new

products and services are created and consequently society as a whole benefits.

The challenges before us collectively are enormous – unprecedented. *Everybody has the same problems at the same time.*

I said at the outset that nobody has a monopoly on pain in this crisis. The inference is that this is not the time for recriminations but for collective action. Indeed we as employers, trade unions and governments have a responsibility to come together to find solutions – equitable solutions – that can restore our economies to prosperity.

Thank You