THE BROOKINGS INSTITUTION

THE GLOBAL JOBS CRISIS: SUSTAINING THE RECOVERY THROUGH EMPLOYMENT AND EQUITABLE GROWTH

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P R O C E E D I N G S

MR. DERVIŞ: Good morning, ladies and gentlemen, dear colleagues. It's a great day for Brookings to host the managing director, Dominique Strauss-Kahn, just at the beginning of the spring meetings. And also, of the G-20 parallel meetings.

The event is even better, even greater, because Sharan Burrow, the head of the International Trade Union Confederation, is also here joining in with Dominique Strauss-Kahn. I think it's a special message. And we're very lucky, also, to have Professor George Akerlof and Stephen Pursey, senior advisor to the head of the ILO.

Professor Akerlof also doesn't need any introductions; Nobel prizewinner 2001 for his analysis of the impact on markets of asymmetric information. He is a non-resident senior fellow at Brookings, also, and a professor at Berkley. Stephen Pursey has been in the international and national trade union movement. He is the senior advisor to the ILO now, and on cooperation with the IMF and on the macroeconomic implications of labor market and employment issues, in particular.

Sharan, a great leader. A teacher at the beginning of her life. Leader of women in the trade union movement, and now heading an organization that represents about 170 million workers worldwide in 150 different countries.

And of course, the managing director, Dominique Strauss-Kahn, doesn't need any additional words. I think I want to just remind you that he's also a professor of economics. And of course, he was Minister of Finance in France. And I think he's led the IMF at this very critical moment in these last two, three years in a really remarkable fashion. The institution -- which was always a strong institution, but it has been transformed. And I think he, in many speeches, has reminded us that there cannot be long-term macroeconomic stability and sustainability without strength in the labor market, without employment, and without greater equity.

Let me just say one word about the employment issue. I think it is, of course, a moral and ethical and political issue. It's a political priority across the world. I think a job is not just an income, but it's also human dignity. It's participation in society. It has impact on health, on family. There is evidence, as was presented at the joint meeting of the IMF and the ILO in Oslo on the health of children, on long-term inclement health issues for the family -- it's a major ethical, moral challenge to provide full employment across the world.

But I think there is also another angle now, and the IMF is beginning to do some very interesting research. It may also be very much linked to dynamics of income distribution, which themselves are linked to macroeconomic policy effectiveness. There are now, I think, views that the extreme concentration of income at the top and the imbalance -- the fact that the middle class is not sharing in the growth of productivity -- is not just a political and ethical problem, but is also a problem for sustainable effective demand. So, I think we may touch on these issues, also, today.

But I don't want to take more time and invite the managing director, Dominique Strauss-Kahn, to take the floor now. Many thanks, Dominique, for being here. (Applause)

MR. STRAUSS-KAHN: This is not working anymore. No iPad, no speech. (Laughter)

Well, good morning. And I want to thank the Brookings Institution for -- no, no, I got it. Thank you, don't worry. (Laughter)

MR. DERVIŞ: IMF is also high tech.

MR. STRAUSS-KAHN: Well, not always.

The problem is that I don't use the written speech because last time I did it, it was so long that people told me, oh, you're so boring. Why did you have such a long speech. And I asked my people, my staff, why did you write for me such a long speech? And they said, well, sir, it wasn't so long but there was no need to read it twice. (Laughter) So, I prefer to keep this away.

So, I want to thank the Brookings Institution and my good friend, Kemal DERVIŞ, for having organized this very important and hosting this very important and timely event. And I'm especially glad that Sharan Burrow, the general secretary of ITUC, will be with us this morning together with George and Steve.

Just let me start with a quotation. At the end of this magnum opus, the General Theory, Keynes stated the following: The outstanding faults of the economic society in which we live are it's failure to provide for full employment, and its inequitable distribution of wealth and incomes. I think that not everyone will agree with the entirety of this statement, but we have learned that unemployment and inequalities can undermine the achievements of the market economy. And therefore, sewing the seeds for instability and crisis.

And when we look how dangerous this cocktail of unemployment and inequality can be -- with also associated with sometimes often some political tension -- when we can see how it's playing out in the Middle East and North Africa. And of course this is an easy example, a timely example. But also, a real example, which shows that when you look only at the traditional macroeconomic figures that the IMF usually do, you may have a look of (inaudible) and growth is not bad, inflation is low. Current account is fine, deficits are not very big. So, have a positive assessment of a country which, from one point of view, is totally wrong just because we don't look enough at what is happening within the country. And that's a very important point I'm making for weeks now, which is that this recovery is unequal and uneven. But not only between countries, but also within countries.

Because growth beset by social tension is not conductive to economic and financial stability, we in the IMF, we cannot be indifferent to distribution issues. And that's a very strong point for me. As Kemal just said, there may be a lot of ethical reasons why people would be interested in inequalities, income distribution, all of this kind of thing. And I did spend myself, when I was a student, a lot of time on this. But that's not the point, or at least, it's not the only point, not the main point for IMF.

The main point for the IMF is that we are in charge of providing or at least helping to provide some kind of economic stability. And so each and every topic that may undermine economic stability is one of our concerns. And frankly, when I look around today there are reasons to be concerned.

For the recoveries here, but growth -- at least in advanced economies -- is not creating enough jobs. And clearly it's not the recovery we want. Many people in many countries are facing social crisis that is every bit as serious as the financial crisis. No need to remind you that unemployment is at record levels in many countries. The crisis threw 30 million people out of work, and more than 200 million people around the world looking for jobs.

And one point which is very important in terms of stability and possibility of social and political unrest -- also, of course, on the ethical side -- is that the job crisis is hitting the young especially hard. What should have been a brief spell in unemployment is turning into a life sentence. And we are facing really the risk of a lost generation. So when you look at this -- unemployment on one hand, and on the other hand the fact that in too many countries inequality is at record highs, there are things to worry about the sustainability of growth in these countries.

At the same time, as we face these challenges we have to remember what has been accomplished during the last years under the umbrella of the G-20. Policymakers came together -- I have made this point several times, I don't want to elaborate too much. But I think we shouldn't forget the remarkable cooperation that took place in 2009 and, at least, the first half of 2010 really avoiding for the global economy something which could have been a collapse as big as the Great Depression. I'm not saying we didn't have a crisis. Of course we had a crisis, we're still in the aftermath of the crisis. But the huge crisis that it could have been has been, so far, avoided.

Okay, we have been able to do that. We have been able to cooperate. We have been able to put everybody together looking in the same direction and trying to do the right thing. So today, we need a similar full force forward response to get the recovery we need, which is a recovery in which takes into account more than it does so far the question of unemployment. So it means not only a sustainable recover, but also one that brings employment and fair distribution.

Let me start with a few words about unemployment. Just as we managed to tame inflation in the '80s, this decade should be the decade of employment. What must be done for this? We all know what has to be done. It's politically difficult, it's costly, but we know what's on the agenda. We need to go on repairing and reforming the financial sector to put the banks at the service of the real economy.

We need direct credit to SMEs, which are the key drivers of employment. While unemployment is so high and there are relatively few inflationary pressures, monetary policy can go on being supportive. And what about fiscal policy? That's the most difficult point, because in many -- let us say in the old advanced economies -- the question of medium-term fiscal consolidation is really an important question. Including in this country, but also in European countries. In most of them, not only the ones which are at the edge of the cliff, but all of them.

At the same time, we all know that fiscal consolidation, even in the medium-term, may have some impact on growth. So the tradeoff is difficult, has to be handled very carefully, and really has to be looked at country by country on a case to case basis.

But another side of the coin is that, of course, growth alone is not enough. And what we have learned altogether is that well-designed labor market policy may help to create jobs. And that's probably the worst news of this recovery. That we may have a recovery, and we have a recovery. It's still underway, but without the job that were expected when in the traditional models, we were associating one point of growth to X millions of jobs across the world.

Then comes the question of, fine. Unemployment is at a very high level and is not going to decrease as quickly as we wished. So what about unemployment benefits? And I think that few would disagree that the decent unemployment benefits are foundational. Especially it's relevant when job losses are heavily concentrated among the young or the unskilled.

But of course, we must be pragmatic. And what I think is that really we need to get past the binary, unhelpful contrast between flexibility and rigidity in the labor market. What we have to do is to ask ourselves which are the effective policies? Which are the policies that are likely to create jobs? Sometimes there are, sometimes there are not. I'm not that much interested in just, as they call it, flexible policy or they call it rigid policy. That's not the point. The point is, what is the end result, and how able we are to define policy that will really use growth to create jobs?

Now let me talk briefly about the second leg of the social crisis. Namely, inequality. IMF research suggests that inequality can make countries more prone to financial crisis. We have some very interesting result on this. At the same time, some other IMF research shows that sustainable growth, over time, is associated with more equal income distribution. And these challenges, interestingly enough, affect both advanced economies and developing countries. So it's not only a question for traditional advanced economies having this kind of tradeoff. It's also true in most developing countries.

So, there is no ambiguity. We need policy to reduce inequality, and to ensure a fairer distribution of opportunity and resources. We need strong social safety nets, combined with progressive taxation that can dampen market-driven inequalities. We need more investment in health and education. We need collective bargaining that is very important, especially in an environment of stagnation of real wages. And we need social partnership, which is a useful framework as it allows fair sharing of both the gains and the pains.

Again, we can need this because it's our view of the society. That's a philosophical question. From the IMF's point of view, that's not the point. We need it because it's conditioned to the sustainability of growth.

So, let me say a few words about the role of the IMF. As we do understand the links with stability better, the job issue is becoming more central to our surveillance, as the recent video that has been presented by Olivier Blanchard on Monday has shown. I have already mentioned some of our research result on inequalities, but as some of you may remember, we have also supported a taxation of some kind of financial activities. And, we are paying more attention to the social dimension of our programs. I'm not trying to say that our program -- our social program -- far from that. And they are always very painful for the countries being in trouble. But not only at the margin you can take more into account or less into account the social problems and the situation of the most vulnerable in the countries. So we're trying to protect the social safety nets, when they exist, to build them where they don't exist. And, support a more equitable sharing of the burden.

Last year we had, in September, a conference in Oslo together with the ILO and other leaders of government. And really, I think it was an important milestone following up now in several areas. We follow up with the ILO to better understand the policy behind the job creating growth. We are following up with the ILO and in consolidation with the ITUC in supporting social partnership consultation between labor, employers, and government in three countries, namely Bulgaria, Zambia, and, tomorrow, the Dominican Republic. And we are also working with the ILO towards building more effective social protection floors in the low income countries.

This weekend is a busy weekend for the IMF. We will have the Spring meetings, where all finance ministers and governors of the world are supposed to gather. And my intent is not only to present them the picture of the recovery, which is the traditional role of the IMF, but also to remind the ministers and governors of what is behind the numbers. Namely, that too many people have still not seen the fruits of this growth.

So let me conclude. A few thousand years ago, Aristotle wrote that the best partnership in the state is the one which operates through the middle people. Those states where the middle element is large have every chance of having a well-run constitution, he said. That was true at the time of Aristotle, it was true at the time of Keynes, it's true today. Stability depends a lot on a strong middle class that can propel demand.

And we will not see this if growth does not lead to decent jobs. So, we will not see this if growth rewards the favored few over the marginalized many. So that's really what is at stake today. Recovery there, not strong enough, but persistent. We have good hope that it will go on. But the question is, what is the distribution effect of this growth? And that's the real point on which we need to emphasize.

Ultimately, employment and equity are building blocks of economic stability of prosperity. And also building blocks of political stability and at the hand of peace. On many occasions, I remind this; that the mandate of the IMF as it has been defined more than 60 years ago in 1944 in Bretton Woods was a mandate where all the founding fathers had in mind that the ultimate goal was peace. Because economic instability leads to social unrest, to political troubles, as the studies have shown.

So, of course the effective mandate of the IMF is more limited and has to be -- with concern -- has to do with economic and financial stability. But what is the background? The background is to be part of some of the many institutions that try to promote peace in the world.

So that's why all of what I said this morning goes to the heart of the IMF mandate. And the problem we have to face these days is that it must also be put at the heart of today's political agenda.

Thank you. (Applause)

MR. DERVIŞ: Thank you very much, Dominique. And let me just stress two messages. One is equity and employment issues (inaudible). So, labor market employment as well as one topic. But income distribution, the equity, with it. And second, whatever our philosophical, political, ethical approaches are, it is also an issue of macroeconomics. And I think this is very helpful.

So, now we have the leader of the world trade unions. The number one leader of the trade unions in the world. Sharan, thanks for being here.

MS. BURROW: Well, thank you. I think Dominique hasn't left much room, really, so there's going to be a strange but repetitive peace of discourse here.

But, Mr. Managing Director, ladies and gentlemen. First, let me bring you greetings on behalf of the 175 million workers organized worldwide in the International Trade Union Confederation. Kemal DERVIŞ, allow me to thank you for the opportunity to address this timely discussion organized by the Brookings Institution.

Now, I would like to begin by paying tribute to the leadership of the IMF. Mr. Dominique Strauss-Kahn, and ask all government leaders to reflect on his call to action around unemployment and inequity.

It's just over three years since Dominique first warned at Davos that the world stood on the brink of a precipice of accelerating recession, unemployment, and instability. Sadly, his call for action was not heeded before the world economy had fallen into a steep decline from which it is now only starting to emerge feebly, and with significant risk of resuming its downward slide. And, with increased unemployment and inequity.

This is a bleak and uneven financial and social picture without factoring in the tragedy of natural disasters, particularly in Japan. The greatest risk now is the unresolved crisis of unemployment and inequity. I couldn't have said it better than Dominique himself.

Unemployment stands at currently around 205 million worldwide, its highest ever on recorded levels. And yet, even that is a significant underestimate of its true depth, since many millions of people seeking work, particularly women, are not registered. And the informal economy is growing in every country, as it struggles to accommodate those people seeking a desperate livelihood.

It's a worsening long-term problem, too, with some 45 million young people joining the labor market every year. Many increasingly desperate for opportunity, as we've seen in Tunisia, Egypt, Yemen, and neighboring countries. But also, look to Spain, Ireland, the U.S., Africa, America, Asia, pick a country. Youth unemployment is a global fear for our young people who risk finding a jobs market with no vacancies for them.

G-20 leaders seemed to have turned their back on this problem, and we ask them to take another look. In London, in Pittsburg in 2009, the leaders and their finance ministers appeared to clearly understand the vital role that employment played in ensuring recovery.

Not just to mitigate social costs and prevent an explosion of anger from workers -- indeed, the anger you're seeing from young people now -- but because wages actually constitute the basis for a stable and shared consumption-based recovery. And not the return of the inequitable and misery-creating boom and bust economies that we knew before the crisis. The vulnerability -- the very vulnerability that led to the greed at the financial sector-driven crisis.

However, I must say by Toronto and again in Seoul, we had to fight just to get the reference to quality jobs back into commitments. And yet, with no serious action on jobs to date -- certainly no coordinated global action -- not even a jobs target to mirror growth targets. When the G-20 ministers met last week in Paris -- sorry -- a few weeks ago in Paris in February, the paucity of reference to jobs in their final declaration provided even further evidence of that failure of comprehensive action. Of greater significance was that they omitted jobs from their indicators of external imbalances, even though clearly employment is the major element of the aggregate demand that determines economic growth prospects. And so, inevitably, is more than anything else, the ultimate factor influencing external imbalances.

The G-20 2011 must mark the defining moment that things start to change. Or otherwise, the world will simply see just another failure in global governance. With too little action on financial regulation, the bankers are back in control and they're sucking public funds, the taxes of working people, dry as they demand bailouts still. While in turn, demanding public sector jobs and fiscal austerity to satisfy the short-term profiteers of their bond market cousins, driven by the same ratings agencies who got it so wrong before the crisis.

We must go beyond merely reacting to the short-term expediencies created by the crisis and look to coordinated employment and social protection plans as the basis for productivity, growth, and fiscal consolidation.

As Dominique said, at the unprecedented conference organized by the IMF and the ILO in Oslo both leaders, Juan Somavia and Dominique Strauss-Kahn, agreed that the world needed leadership on the fundamentals of an income-led recovery, quality employment and a social protection floor. Workers in their families are looking to them to construct the evidence, detail the costs, and advocate strategies to advise governments of a better and, indeed, a sustainable pathway to growth.

The world needs a new growth model. And you'll see trade union leaders talking about this here with the ITUC and TUAC this week. Our leaders must decide now that they will support a global social protection floor, and provide kick start funding for the poorest countries. A global fund to both lift people out of poverty and establish a demand floor. They must decide now that they will restructure our economies to create the green jobs that can achieve the low carbon economy that the planet needs. And they must decide now that they will prevent the levels of inequity that allowed the crisis to fester and explode. This requires wealth distribution mechanisms that ensure affordable finance for the real economy, a minimum wage on which working people can live, and good faith collective bargaining.

Trade unions are already there. Just last week we called for an employment youth pact at the preparatory meeting of the labor ministers of the G-20. And indeed, we know that we're willing to be partners in global coherence. We need to promote a society in which workers' representatives, trade unions, can ensure that workers are protected and that the benefits of growth is shared equitably amongst all people, closing the divides that have opened up in too many countries between young and old, rural and urban, insiders and outsiders, women and men.

In short, we need a structural regeneration of our economies. A new vision for growth, supported by genuine social dialogue with the actors in the real economy, workers and employers. But will we see the necessary leadership from the G-20? That's the question for 2011.

It was again Dominique Strauss-Kahn that argued that the added value of coordinated stimulus measures at the height of the crisis was essential. These measures staved off the worst of the financial crisis, bailed out the banks, and with the support of trade unions, secured a future for many enterprises.

Today, the message is the same with the same urgency. Courageous, coordinated leadership, globally with employment targets, real action on jobs, and social protection. This requires the G-20 ministers to recognize the urgency when they meet here this week, and likewise the support of all IMF member countries when they meet in the days to come.

The IMF, working with the ILO and other IFIs, can play a significant role if government leaders are serious about these two priorities. As a start, we need to return to the recognition in London and Pittsburg and in the far-sighted G-20 labor ministers conclusions held right here in Washington last year. We need to see those initiatives implemented.

We need to see employment targets. We're going to look for employment targets to be incorporated into national economic programs. And, unemployment and social protection measures, including amongst the indicators of risk for peer review processes under the G-20 mutual assessment process. And we ask the IMF to fully involve the ILO in providing analysis of employment and social protection in that mutual assessment process.

Can I say that in summary, because you can read the rest online, but in regard to the IMF we do welcome the start that's been made with the ILO and the ITUC. And we hope the employers now in the three countries that Dominique talked about -- Bulgaria, Zambia, and Dominican Republic, we hope. We know that you have to drive a new model based on credibility of real action at the local level. We need global coordination, but we need national action and support from all of the players in that regard.

I've already indicated we need to see progress on global social protection, and the Bachelet Panel will actually report in September alongside the work of the IMF and the ILO. And we need the G-20 leaders and the UN Sustainability Panel in the lead-up to Rio to take note, and support, in fact, the funds that actually will drive that for the poorest countries globally.

A social protection floor is fully within our means. We need to raise unorthodox global funds. ODA is not working. It will not work when it's subject to the vulnerabilities of economies, and to favoritism of bilateral arrangements. It can play a role, but we need to be much more strategic.

I would just say a word about taxation. We know that the financial sector has not made a contribution, either to pay for the crisis that they created in part, or indeed to look to the future. They're increasingly divorced with speculative activity from the real economy, and it's really hurting people on a range of fronts. Not just jobs, not just in security but, indeed, food prices and the like.

Dominique, I know that you agree with me that the financial sector needs to provide a much greater contribution to match the cost it imposes each time it triggers a crisis in the real -- the productive economy.

There is a growing political momentum in favor of a financial transactions tax. I would say that we should not be divided, as Dominique has called, by orthodoxy of the mechanics. But rather, get the commitment to make this work.

We also want to see, of course, a taxation arrangement globally around industrial sectors. Where, for little impost, sectors like transport and others can contribute to the global funds that will be necessary. And of course, likewise, a price on carbon is inevitable.

I don't want to dwell in this country where it seems that you contain the bulk of climate deniers at all level on this question, but governments must find a political courage to ensure the shift to a green economy. And again, it must be coordinated globally, hopefully with a UN binding agreement. But the opportunity is what we want people to focus on. Our calculations show you can have an increase in employment between 5 and 15 percent in every country within 15 to 20 years if the investment is there. And later on this year, we're doing the work and we will release a green jobs target for many of the economies in the world.

In a few weeks time there will be key meetings. One on coherence, another, indeed, at the ministerial level at the OACD, and the G-8 summit in Deauville. These messages, the messages here today, that rights are social as well as economic tools -- they are clearly social rights but they're economic tools for wealth distribution. Aristotle got it right then, Dominique, and it's right now. And indeed, we want to see the investment in those other areas of the productive economy that drives jobs. Value added industries, the green economy, public services, and infrastructure.

Under your direction, Dominique, the IMF has begun, we think, for the first time to work significantly with the ILO in a way that supports the translation of such coherence from the national to the international level as well. But it's also become a voice for cutting through the timidity and the lack of courage that our governments show.

So, we will be making a full contribution to the meetings throughout the year. Particularly beginning with a meeting on coherence, vital if we're to see our ambitions collectively achieved. The joined up, multilateral architecture with decent workers underpinning that can correspond to the challenges of the globalized world for the 21st century is now an essential challenge.

So, Dominique, we appreciate your remarks today and the leadership they portray, and hope to work with you to bring that about. For us, it is imperative that jobs, decent work, social protection, and the environment get the focus they deserve. A new growth model. Frankly, workers of the world won't settle for less.

Thank you. (Applause)

MR. DERVIŞ: Thank you, Sharan, for this very eloquent call for action. And I think the symbolism of the labor movement and the IMF exchanging views -- maybe not agreeing on everything, but working together with the ILO as the tripartite organizationals in the background is quite special and quite unique, I think.

Professor Akerlof, thank you very much for joining us.

Mr. AKERLOF: Thank you for being here. It's nice to be back at Brookings always.

So, I'm going to make two points. The first is motivated by graph. Let's see whether we can get that graph. That's the graph. I don't know whether you can see it. Can you see it? It's over there. Oh, it's there. It's there, too. I can see it now. Okay.

So, that's the graph. If you can see it, you know, it's unemployment 27 weeks or over as a fraction of total unemployment in the United States. And if you look on the left, what you see is the foothills. You know, you go up and down and up and down. And then at the end on the right hand side, what you see is Mount Everest. So, you don't see that, usually, on unemployment statistics. I've never seen anything like this. And you can see that nothing like what has happened has happened in recent history. It hasn't happened even in the history of the unemployment statistics. You'd have to back to the 1930s, when I couldn't have plotted this graph.

So, that takes us to the need for continued stimulus. The extreme shortage of jobs. I think we have to look at this in human terms. What it does, it makes life simply hell for the people who are unemployed. So, this isn't just a graph, this constitutes millions of people.

This is for the United States. I did it for the United States because I'm most familiar with that. Different labor markets, you'll have to look for the same statistics.

Now, what happens here -- why is it hell? It's because there are very few job openings since there are very few quits. And then, the odds of acceptance for any single job application, even for these very few openings that people can apply for, they're close to zero because they're swamped by all the other many people who are applying at the same time.

So this means that my first point is, the continued stimulus to increase the number of available jobs is a first priority. When I look at how the economy is doing, I never look at the GDP statistics. I always look at the unemployment statistics and then the employment statistics. That's the way I measure it. And that corresponds to what Dominique Strauss-Kahn said at the beginning of his talk. This is a question of human dignity, that people can have the jobs to support themselves and their family, and to have jobs with meaningful work. Okay.

So now I'm going to come to a second point. And that concerns financial collapse. So, a handful of world financial leaders in the Fall of 2008, in the Winter of 2009 looked a great financial collapse in the eye, and then they stopped it in its tracks. Actually, Dominique Strauss-Kahn was one of that handful of leaders. Who are also quietly sitting in the second row is Don Kohn, who is also another one of those leaders. But this was just a handful of people, and they did what was a miracle.

This miracle of policy sanity has so far saved us from a Great Depression.

So, the lesson here is if this financial system is about to collapse, we have no choice. We simply have to get all of us together as we did in the Fall of 2008 and the Spring of 2009. And we have to agree, and we have to do what needs to be done.

So, for that I based -- I made a little calculation. A small U.S.-based calculation indicates one of the logics behind that conclusion. Estimates of the cost of the United States' troubled asset relief program, or TARP, now have an upper bound of 50 billion. That's an upper bound. A second Great Depression, if we should have had it, at the minimum would have given us 5 years of unemployment at 20 percent unemployment rates.

Counting unemployment with TARP as being below 10 percent, which we now have, says that we got a reduction of at least 50 unemployment point years at a maximum cost of $50 billion. That is a cost of less than $1 billion per unemployment point a year.

In contrast, for fiscal stimulus packages, a rule of thumb for the United States -- a rule of thumb is that it takes roughly $100 billion to reduce unemployment by 1 percentage point for 1 year. In terms of the effect on the deficit, financial rescue when it is called for is orders of magnitude more effective than stimulus.

So, there are reasons for this. There's a mathematical reason for that, and that is -- so think about the fall of Lehman. The failure of the bankruptcy laws, to take into account systemic risk, results in a mathematical discontinuity. Assuming Lehman Brothers goes from $1 in the black to $1 in the red, there's an enormous change in the legal rules regarding financial transactions, and financial transactions totally freeze up. Expenditure of just the right $2 at exactly this point will make trillions of dollars of difference. Why? Because it saves the jobs on Main Street. That is the overriding reason. The overriding reason why we need to prevent financial collapse. Popular wisdom now says that it only unfairly saves jobs on Wall Street. That's wrong.

So in closing, let me shift gears slightly. I'll give another analogy regarding the prevention of financial collapse.

Usually, it would do great disservice if we went to our neighbor's house and aimed high pressure water hoses through their windows and into their living rooms. But, when a fire breaks out, that's exactly what the firemen do. They are brave men and we thank them. I begin this point where I started. The IMF and all the western governments must keep up the good work. We need a fire department. And then, we should thank them for their continued valiant efforts, which have so far -- they may not have been 100 percent successful. We still have that diagram that we had at the end. But at least it wasn't much, much, much, much worse. So, thank you. (Applause)

MR. DERVIŞ: Thank you very much, George, and now I turn to my good friend, Steven Percy.

MR. PURSEY: Well, after those three speeches, you're probably wondering what's left for me to say. And I think you have a very clear and a very stark picture of the scale of the employment challenges or the scale of the decent work challenges. It's not just any job, but decent jobs. And decent jobs clearly matter an awful lot to people. And it's hard (audio disruption) I think George Akerlof explained how life is hell if you haven't got one. But is the search for ways to increasing availability of good jobs, is it at the heart of the employment or the economic policy dialogues that are going on nationally and globally? And despite the best efforts, the managing director of the Fund or the director general of the ILO, the general secretary of ITUC. It isn't quite there, and that's why I think the managing director was making a speech this morning because we need to get it there, and I'd just like to offer three, quick reflections on that policy challenge.

First, on the role of broad-based policy dialogue, I say, as Sharan remarked, the managing director has gone out of his way to open up the Fund, and I would add the community of policy practitioners and theorists that surround the Fund to some new thinking and at today's exchange, I think, was a very good example of that, and the Managing Director and Sharan both referred to the conference with the ILO last September in Norway, and the work that we're doing together. What it's doing, essentially this effort of collaboration between the ILO and the International Monetary Fund is to open up a policy dialogue between if you like the world of fiscal policy and finance on the one hand and the world of labor, the world of work on the other. And that is refreshing and it's very widely welcomed by I think both the ILO and the IMF's constituencies. Precisely because both have to get the grips of this enormous challenge of creating enough work for people who need it, and we have a differentiated recovery and the unemployment numbers look much worse in the industrial countries, but I think we need to remember that when we turn to the emerging economies, you still have a very rapidly-growing labor force in those countries. And often, very thin unemployment benefit systems, so, you have to work, even if you're struggling and hustling on the street corners, you have to find some work. And policy leaders, government leaders, trade union leaders, employers themselves in emerging countries are also worried about jobs. It's a slightly different way of expressing it, but it's still central to their concerns.

So, I think it is going to be a struggle to get this policy dialogue to really work, and not least because the reflexes of these two different communities and the language that they use is sometime very different, but it's exactly the right thing to do because the old, intellectual, varieties that -- as the Managing Director was saying at the beginning of his speech, if you get enough growth, the jobs will come. It's not working anymore and we need to find some new ways forward. And another very important reason why we have to get to grips with it is because working people are hurting all over the world, and they need some credible answers from the policymakers as to how we're going to generate enough decent jobs for people to have decent lives. So, I think policy dialogue is one of the reflections that I would draw from the three sets of remarks this morning.

Secondly, a coordination, and this is a favorite topic at the International Monetary Fund. I think the ILO is also working hard on it, and one thing to say is it's a little bit easier said than done. The G20 technical experts are meeting this morning, and they're still struggling to get some very basic tools together to do the jaunt analysis that we need. But I don't want to speak this morning about the international policy coordination, which is a very big topic, but it's the need for coordination within countries, and the G20 dialogue has tended to focus on questions that finance ministers deal with because the G20 was set up by finance ministers; it's generally driven by finance ministers still. Unemployment, as a result, is often treated as a residual, exactly the problem that the managing directors referred to. If we've got everything right, it'll come along. And we need to escape from that. If the idea is if we get the fiscal balances back in kilter, if you deal with dealt overhand, the jobs will come, but the reality is that the scale of unemployment that we're facing and the difficulty of getting it down is itself a barrier to getting the fiscal balances in order is itself a barrier to getting the debt overhang dealt with. We need to deal with employment side by side with the other issue of macroeconomic policy, and I think one of the conclusions from that, it may be a very obvious one, but it has to be stated, employment is a macro policy issue. It's not something to be compartmentalized in a different place, but it isn't really at the macro table.

Now, there are some countries that are ready to try and sort this out, including France, this year's G20 presidency, and I think the ILO and the Fund can help them, and we're very ready to do so, but it is a very major challenge, and this brings me to my third point. Macro policy makers, including the Fund, are beginning to focus much more on what is currently termed structural issues, and that includes labor markets. And for those of you who haven't come across it yet, structural is the current label for the way in which markets are organized and that's whether they promote productivity and growth. One of the difficulties I think in looking at, we feel like the structural issues in labor markets is that the labor markets are largely about people, and as events in North Africa have shown dramatically once again, but it's not just North Africa, people cared deeply about a social justice, respect, and rights, and it's important to organize and work out how markets, labor markets in particular can be efficient, but promote equity, too. I don't think it's enough to think about very clever systems of tax and benefits which sort of fix the inequalities that come from the labor market after an event. I think we have to do that certainly, but we also have to think about how we organize markets so that they're not so inequitable in the first place, and it's very encouraging to hear this morning the Managing Director talk about the centrality of collective bargaining. Again, I think a very important and neglected area of policy. But having said that we need to the grips of this issue, and forgive me, Managing Director, but the Fund has an implicit and sometimes explicit model of how people behave in the world of work which to my mind bears little resemblance to the reality, even if it is conveniently computable. Again, cracking this quality challenge will require, in my view, the capacity of the Fund and the ILO to convene policy practitioners, and when I use the phrase “policy practitioners,” I’m thinking of the trade unions, I’m thinking of the employers’ organizations, I’m thinking of the labor ministries, as well as the finance ministries and the theorists, the academics, the people who can give us the conceptual basis for this to find a better way forward, and may I congratulate you, Kemal, on having George Akerlof join us this morning because he’s thinking about how to make models that do actually resemble the way in which people really behave and ways in which we can have economic models that actually respect people’s identity.

So, I congratulate you, Kemal, and the Brookings Institute this morning. I think it’s an example of how we can open our minds to come up with some new thinking in this key area and I’m very encouraged that we will eventually be able to deal with this, but it’s going to be a heavy lift and we need to have extensive collaboration to do it. Thank you very much. (Applause)

MR. DERVIŞ: Thank you, Steve, and your last remarks remind me when I was reading *Animal Spirits*, a book by Professor Akerlof and Shiller. They recount in the beginning of the book how the great labor economist, Al Reese, who was actually my professor at Princeton. It was the end of his life, said well, some of the labor economics I've taught weren't quite right. (Laughter)

Let me start the discussion by asking all of the panelists, Dominique, Sharan, George, Stephen, something that's happened when we look at the last 60 years or maybe even longer than 60 years, the period, the 30s, the second World War was a special period, but after that, productivity started rising rapidly, but at the same time, most countries in the market economies, the gains of productivity were shared very widely. In fact, wages pretty much increased with productivity and income distribution was fairly stable and had improved quite a bit in the 30s in the U.S. and the second World War and continued to improve and the middle class was strengthened and in some ways market economies had their golden age, and I think ultimately they also prevailed worldwide or other systems which may have good intentions, but were quite ineffective in terms of economic results. But since roughly the 80s, productivity still is increasing, sometimes more slowly, but clearly, the gains are no longer shared in the way they were before. And, I mean, the U.S. numbers are the ones I know the best and they are the best numbers in terms of the statistics, but just focusing on the top 1 percent, it's a dramatic story when the share of the top 1 percent goes from about 8 percent of national income to about 24 percent before the crisis, and the latest numbers we see during the crisis because of capital losses and things like that, there may have been a little bit of not a loss, but a little bit of a diminution of that share, but the latest numbers we see actually is that productivity is again rising very rapidly, profits are very high overall, and, yet, wages are stagnating in the U.S. and in many other countries. So, probably, the dynamics are continuing, and my question to start a discussion is: What happened really to the market economic system which fundamentally changed the dynamics of income distribution?

MR. STRAUSS-KAHN: Good question. (Laughter) I kind of have two, tentative answers. The first one is that you're right in saying that there has been some equality fatigue and where does it come from? The first answer I would try to give is that it's not really new, and when you look back at the beginning of the 19th Century, and not talking before, you have always had this kind of phase where society, especially the Western World at this time more globally today, phases where it's more interesting than trying to organize collective action and work together and have a widespread of the gains and so on and a period where you have some backlash and you come to more segmented society and the idea that too much has been done and going towards a more equality, and, so, you have this moving backward, and, clearly, at the beginning of the 80s, there has been this kind of political move, some used to date this from the Proposition 13 in California, which was kind of a beginning even if it was a small event itself of trying to say enough is enough. So, I think we have waves like this. The question is that certainly now, we must be at the beginning of a new wave, which is a wave of taking more into account, the need to fight against this different kind of inequality, inequality in unemployment between the young and others, and so on.

But there's another thing which is more recent, which is globalization, and what means globalization in the labor market means that rather suddenly, you have millions of people coming in the labor market, in the global labor market, with the countries providing this supply of people not providing the same amount of capital because they were not as developed. So, supply and demand worked. More supply in the labor market, less supply proportionally in the capital market, the price of capital rises, the price of labor decreases. So, of course, then you may say fine, but then the overall price of labor should decrease and why inequality among the people? Because part of them, the reward, that part of them is still linked to the capital rewards and the financial activity.

So, while the period of trade globalization has been associated with decreasing inequalities, financial globalization has been associated with decreasing inequality because of this incredible change in the labor market. Practically, it means, as we all know, work in some developing countries is very low cost competing with what may exist in the advanced economy and so on. So, this is a more recent event, but I think it plays its part, but only in the cyclical way that the society moves for more individualistic, to more collective society, but also this event, which is not totally new because part of the cyclical historical event comes also from the previous phase of globalization, had the same effect, and this phase of globalization brings the same kind of result.

MR. DERVIŞ: Thank you, Dominique.

Sharan, how do you see it?

MS. BURROW: Well, I think Dominique has given you the frame. Let me make three points.

If you actually take that period at the beginning of the 20th Century where you had the 20s, 30s, 40s, perhaps 50s in some developed countries, then the social contracts that were made with citizens around social protections, particularly unemployment benefits, pensions, and so on were a result of social unrest. The Great Depression, World War II, and in fact our societies in the developed world built social protection systems when they were poor. It was a social contract, but it didn't just work to support the dignity of people, it actually worked to provide an economic stabilizer which is only being recognized in economic policy at the margins, and, of course, it carries a lot of tension because people don't think that we should be about social justice. Well, we think we should be about social justice and solidarity with people who are more vulnerable, but economically, we have to be about those issues, as we've said today.

The second thing is that capital got too greedy. In the world that I grew up in at least in Australia, if you got back to the middle of last century through to about the 80s, then the companies, the big companies in particular, settled for a rate of return around 6, 7 percent, it was a long-term, strategic return to capital, and, of course, it was mirrored by the strength of labor market institutions, minimum wages, collective bargaining, that actually distributed more equitably the wealth of the nations. So, I think the prime minister of Norway made this point a few years ago that you grew collectively more wealthy and it had its own virtual cycle of growth and stability. Here in the U.S., when you look at the fact that collective bargaining rates had fallen to 7 percent or so in the private sector, the minimum wage didn't increase for God knows how many years because it's in the hand of politicians rather than any economic analysis of a wage in which you can live. Then it's not rocket science to see that inequity is going to grow.

And the third piece is really around the question of globalization and I think the imbalances between trade liberalization without strong labor marketing institutions and the economic tools of social protection, minimum wages, and collective bargaining, those rights that we talk about all the time that are so valuable to any stability frame in a country would simply not be, and people, we've fought ideologically over these things and we've got to get beyond it. We really have to get beyond it and say what in this world that requires people to be cohesive around both economic and social policy requires us to step back and start to find the common ambitions for our kids and grandkids across the divide, and, therefore, to build an economic and a social future. So, I think Dominique's frame's right, but, for us, there are particular points.

And one last I'd say is that you can turn this around. I think productivity is growing, but, frankly, it's only growing with any stability in the emerging economies. What you we've seen to date is low wage productivity based on the globalization facts Dominique talked about, and that can't be sustained. We're interested in productivity, but we know the drivers of productivity are much more significant; their innovation, skills, technology, work organization, supply chain cohesion, a whole range of factors that we want to be part of a new conversation around globally. My country, we did this in the early 90s, we built both a restricting economy, but on skills-based productivity, we also did it on skills-based wages and career rewards, and it served us well. At the same time, we built, of course, a much stronger social security system, including the pension funds that deferred wages by bargaining. It held Australia up in terms of savings during both the Asian Crisis and now this.

MR. DERVIŞ: Thank you, Sharan.

George, do you want to add?

MR. AKERLOF: Yes, just briefly. So, I think the economic work, initially, they claimed it was all due to technical change, so-called skilled bias technical changes. A very nice paper by Toma Lemure which says it isn't skilled bias technical change; it is changes in minimum wages and it is changes in unionization, which exactly follows what Sharan was saying.

Just one note, I think that another thing that could account for this change in the income distribution is the increased power of lobbying and changes in the detail regarding the financial laws and what powers that gives people.

MR. DERVIŞ: Thank you.

Stephen?

MR. PURSEY: Yes, I think that we're on the right track here. I think there are two things going on. I think one is this first one of I feel like a much more open markets, global markets, and it's not so much the opening of the markets, it's the consequence, it's the fact you have much intensified competition, competition from abroad and not just in your own market. Coupled with profound structure transformation caused by the technological changes that are going on for the past 20 years or so. So, the consequence of that, I think, is that those who are able to compete at somewhere near the global, technological frontier, whether they be in South Africa or China or the United States, are doing quite well. But most people are not in those occupations. Most people are employed in the service sector and relatively small employees in the service sector. And they're not doing so well. The fastest-growing occupation in the world is street trading. It's hustling. It's making do because you haven't got anything better.

So, that clearly is an important aspect, but I would very much agree with what George just said, and that is the policies sort of have been going in the opposite direction, just when you needed it most. That we've been waiting on minimum wages legislation in many countries. Trade unions have been hard pressed to maintain the coverage collective bargaining because those commanding heights have shifted, it’s very hard to organize lots of smaller service sector employers, and it’s sent on the tax and benefit system, has been shifting in the wrong direction.

And, finally, and perhaps the most worrying element of it is we’re now getting into the sort of second round effects, and that is we see signs of social mobility reducing, and the U.S. has less social ability than the so-called rigid European countries these days. How’s that happening? Most likely because the wealthier people can afford to send their children to the best schools where they get the best education and the best jobs, and if you can’t, you’re hustling and struggling. So, I think we’re into that it’s not just a matter of now income inequality; it’s also a matter of opportunities because social mobility is beginning to stagnate.

MS. BURROW: Absolutely.

MR. DERVIŞ: Very good point. Sharan said one thing, which I want to add maybe one more point, and that is the kind of expectation about the rate of profit. And from the mental growth theory, there is a relationship between the real growth of the economy, the rate of profit, and the share of profits, and unless the share of profits keeps going up, the rate on return on capital has to be close to the rate of growth of economy, but somewhere in the financial sector, a culture has grown where anywhere below, I don't know, 10, 12, 15 percent –-

MS. BURROW: Twenty, twenty-three, yes.

MR. DERVIŞ: Is considered no good.

MS. BURROW: Yes, exactly.

MR. DERVIŞ: And the real economy in the advanced countries at least, the potential growth rate, I mean, 3, 4 percent, perhaps. So, there is a fundamental problem here between kind of expectations coming from the financial sector and what's really healthy, sustainable, in turn the real return on capital, and I think that's a good point.

So, let's open the discussion. We'll take some questions from the floor. We'll take a few questions so that we group them two, three, and then we'll turn –- yes? Please do identify yourselves, kindly.

MR. HARRIET: My name is Judd Harriet. I'm a documentary filmmaker. I have a nuts and bolts kind of question for Managing Director Kahn. If as a result of your annual surveillance or let's say country X, you determine that equity and income distribution is a serious problem constraining growth. And country X enters into a medium-term facility with the Fund, does that mean that income distribution equity and employment are going to be explicit targets in such things? Is that how you're going to design your future programs?

MR. DERVIŞ: All right, there were questions in the back. Two questions in the back, yes.

MR. TRINKLE: Thank you, Garth Trinkle, Department of Commerce.

A question for Dr. Akerlof. Professor Rajan in his third Fault in *Fault Lines* talks about the U.S. need for a new system of unemployment insurance and social protection. Could you talk about your response to that and how would you talk your *Animal Spirits* analysis and combine that with Rajan's third fault and perhaps Ms. Burrows' point about developments in Australia in the last 10 years, to talk about what policy the U.S. might propose going forward for the next six years?

Thank you.

MR. DERVIŞ: Thank you, yes, we can take one or two more. Yes?

SPEAKER: Thank you. My name is (inaudible) I'm representing the (inaudible) which is a German foundation, and I'm representing (inaudible) in New York.

So, I find this focus on employment and inequality in the debate very important and very necessary given the recent experiences during and after the financial crisis, but what I want to emphasize it's also necessary to look at the quality of employment, not just employment as such, and in order to underline this argument, I want to look at the German experience, which I know best. I mean, when you look at German statistics, growth is relatively high, unemployment has decreased, it's relatively low, and employment has reached historically high levels, namely more than 40 million people are employed in Germany now. But what is the price of it? The price is that more than 10 million, meaning 25 percent of those employed are having precarious jobs, jobs which are not sufficient to sustain themselves and their families.

So, inequalities are still growing, despite Germany being a high productivity country. So, even those people having employment feel like living in hell because they cannot make ends meet. This is from the German perspective, but it also has effects on the European Union and the other countries in Europe. So, because it's a low German wages and these high productivity low wages policies, create additional economic and social pressures in other countries in Europe like Greece, Portugal, Ireland, and so on, which even makes the IMF recommend to those countries you have to lower your wages and freeze wages here because German competitiveness is much too high for you to be able to create additional growth which is needed to get out of the crisis.

So my question is there's a lot wrong in this whole system, in this whole setup. What are the policies which need to be undertaken to change this general picture in labor market, macroeconomic policies, and how can these policies be better coordinated here within the European Union and of course on a global level?

MR. DERVIŞ: Thank you.

Here, yes.

MR. EVANS: Thanks. John Evans from the Trading Advisory Committee, OECD.

Managing Director, I think if your speech was sort of condensed into the conclusions of the spring meetings this week, and that was the outcome of these meetings, I think many of us would have felt we'd died and gone to heaven on these issues, but building on that last question, in the European debate at the moment, the focus is almost entirely on the fiscal consolidation, austerity measures, and almost locking Europe into a period of probably many of us fear will be sustained low growth on the fiscal side. And, yet, the policy then comes back to argue for structural reforms, many of which look exactly like the sort of measures which increased in quality in the past that George Akerlof referred to, pressure on minimum wages, decentralization of collective bargaining, and limitation of the duration of unemployment benefits, employment protection legislation which looks very much like the U.S. model, which led to the crisis in the first place, not the sort of European models which have been rather successful.

So, what is your assessment of the hope of getting as you said at the end of your speech a different approach in the policy conclusions of some of the key finance ministries as a result of these meetings in the next few days?

MR. DERVIŞ: All right, we'll take one more here, and then we'll turn to the panel.

MR. RUTHERFORD: Thank you. Malcolm Rutherford, Brookings Advisory Council.

In a competitive world, and we're becoming a more competitive world every day, education is a very, very important quality in our race to be competitive. And American and public education, in my judgment, is not keeping up with the demands of the workforce, and I'd like your comments on that.

MR. DERVIŞ: All right, let's turn to the panel. Dominique, why don't we start with you?

MR. STRAUSS-KAHN: Yes, two points I would like the comment. The first question on what about the design of our future programs and the second, the one about the question was shared between the two gentlemen here on what kind of policy we may advise.

On the first one, what I see is that for sustainability of growth, the reasons we need to take more into account than we did in the past or the question going around, income inequality and all that stuff. But I don't believe I'm going to turn the IMF into an institution who has a lot of expert on this question because it's not our job. So, the first thing is that we need to rely on the job that has done by others, the World Bank and many organizations, trade unions, NGOs, academia, to give us the information because there's no way we can build inside the IMF. Rely on this, we will have a better view on the focus we make for a country, and then how does it interfere when a country is likely to come to the IMF and ask for some support. Well, I won't say that I see this kind of topics becoming defined targets for IMF programs because first, it's very difficult to measure, so, it's open to a lot of controversy. Second, we have to deal with short-term problems and to put a country back on track on short terms, and income inequality, for instance, are long-term questions so that changes that may happen during the one-year or two-year program are really not significant enough. But it doesn't mean that if it doesn't become really a target of the program, it's not taken into account of the program.

I'll give you two examples. When we have program both in the first wave of programs in the European Union or Latvia, Hungary, or in the rest of the world, let's say Pakistan, when we tried to put in place new element in the program we call social conditionality, which is to take what happens to most vulnerable during the timeframe of the program, it goes in this direction, which is to take care that the program will not have a lot, or least as possible consequences on the most vulnerable. So, it's taking this to that.

Second example, when we build the degree program, the question of what's going to happen on wages was, of course, one of the questions, and I will address this one more directly with the second question, and I had a discussion with Hans Mofmeijer, the head of the ILO at this time, and his advice was well, on the public sector, you do what you have to do because really, the edge of the cliff, but on the private sector, my advice, he said, would be to let the collective bargaining go on and the private sector deal with the government and see what they can do because it's the only way to protect a minimum of a fairness and distribution of income. What we did. And, so, contrarily to what many have in mind, in the Greek program, there's no comment from the IMF on the private wages, just to say okay, we let (inaudible) to discuss it together.

So, it's two examples which are not putting in place explicit target on this topic, but taking this into account in the building of the programs.

Now, to the second point, the problem is the contradiction between short-term and long-term. Some countries are in such a difficult situation that they need short-term action expeditiously. That's the fire department George was talking about, and when the house is burning and you ask the firefighter to come, well, the problem is not how much water they will put in the house. After, you will have to mop of, of course, and that's a problem. The problem, it's the one you accept because you want to avoid fire.

So, back to our problem, in some countries, especially in the European Union or the Eurozone where the fiscal situation is so deteriorated that the first thing to do is to fix this, we have to fix this. If not, it will collapse, and growth will collapse, and then the consequences in terms of wages, income and so on will be 10 times as big so we need absolutely to fix it. I'm not saying that to fix it, can be done without a cost, and there is a cost. The problem is how to have this cost shared in a fair way and back to my first point, but it has to be done.

I can give you just an example was without naming countries. In the public sector wages, since the beginning of the euro in the Eurozone, the average increase is 38 percent, and most countries are rendering between 30 and 45 more or less. One country you will easy to find which had an increase of only 20 percent. So, this country had some gain of a (inaudible) clearly, which is a problem which has been addressed or raised by the gentleman.

But some other countries, not so many, let's say three, have an increase of 100 percent. Of course, if it was in line with productivity, no problem, but obviously, it doesn't reflect totally –- I don't say doesn't reflect at all, it doesn't reflect totally the change in productivity. So, you have a problem, and there's no surprise that you have a debt and a fiscal problem, I'm talking about wages in the public sector. So, you need to fix it, but you're absolutely right that we have to do it having in mind how we'll restore growth, and our main file I think is public, so, I'm not revealing any kind of secret. Our main discussion was our friends from the European institution is that well, they're more Catholic than the Pope, and putting all the stress on the fiscal. And we say cool down, the fiscal has to be fixed, the growth has to be supported, and we try to push and to have enhancing growth measures that, of course, they're not against, and it's not that first way to look at the problem.

Second part of the answer, and I've been too long, sorry, is that social reforms, very often, you're absolutely right, refers to a traditional way to look at the labor market and so on, but there are many other social reforms that have to be put in place, and when we say "social reform," it's not only far from that, the labor market, fixing, repairing, and informing the banking sector as part of the social reform, and as George very nicely said, there's no way for a strong recovery and a fair recovery not only in the

European countries, but especially in the European countries without fixing this problem which is still not fixed. And, so, this kind of reform is also a structural reform which has nothing to do with the traditional social reform you had in mind.

MR. DERVIŞ: Thank you. Sharan?

MS. BURROWS: Well, three quick responses. First of all, employment and social protection have to be targets for all governments. If they're not and they're not worked out with the society about how and how long, then in fact, social unrest will grow and ultimately employers have to accept that or their businesses are at risk in the medium term.

In terms of the FES quality employment, absolutely. Let me just give you a bit of a challenge for the German equality. They continue to resist a minimum wage. I have no idea why because, economically, if you have a look at it, the figures, I think, from 2010 showed that if you had a minimum wage of 7.5 euros an hour, then, in fact, scaling up to 9 in 2011, then you would improve the income of 4 million full-time employees and 5 million part-time workers, but you would create 225,000 jobs in the short-term, 600,000 in the medium term. That’s got to be a big boost to demand and to employment. And then, of course, if you go to somewhere like Sambia, where we’re working where the economy is 80 to 90 percent in the informal sector and you talk about decent work, then a minimum wage, and indeed a social protection underpinning it would start, in fact, to destroy the 80 percent informal economy and build sustainable development.

On fiscal consolidation, I think it was Dominique who said to us in a conversation that appears at the Washington Consensus, has moved from Washington to Brussels, and we're very worried about the thinking going on in the European context. We're not opposed to fiscal consolidation, but it's like any family budget, you do it over time, but based on the recipe around growth, and that's got to be job and income-centered. And we want to talk about that based on real productivity, not the crazy kind of superficial return to ideology that's going on in Europe right now, but I would say you can't just have competitiveness based on wages. It's a never-ending story of decline. You must have genuine productivity, and, therefore, competiveness is a much more sophisticated story around evaluated industries and services and global integration than it is around that than it is around just wages.

And, finally, in terms of skills and education, absolutely. Absolutely. I'm not just a teacher by trade, I've actually only resigned from my job, my part-time job as a member of the Australian Skills Council when I took up this job last year. We had estimated for the Australian economy if we didn't increase education and training, vocational education training, I'm talking about now it goes without saying we've got to invest in basic education by a third in a small economy with a workforce of 10 million, we weren't going to make the grade on competiveness, and indeed or meet our own skills deficit, despite an unemployment gap in a two-speed economy, and we certainly weren't going to have the skills to invest in an grain economy that would grow jobs to about 1 million in a 10 million workforce over 15 to 20 years if the investment frame was set. So, anybody who's not thinking about skills in the mix of productivity and competitiveness is frankly going to lose out in the longer term.

MR. DERVIŞ: George, I think one question was particularly addressed to you.

MR. AKERLOF: Okay, I'll answer that very briefly. There's currently a myth that things like extension of unemployment benefits is going to create bad disincentives, which is going to reduce the number of people employed. That's when you look at Mount Everest and you know that there are more than 4 million in the labor market who are searching for jobs for more than 26 weeks, if you apply for a job, there is going to be 250 other people applying for that job. Those disincentive effects can have zero effects on unemployment. So, there are no disincentives. There can be almost no disincentive effects whatsoever.

MR. DERVIŞ: Thank you. Okay, we'll take maybe two or three more questions, and then we'll have to roundup.

Yes, I'm glad we have –-

SPEAKER: Yes (inaudible) Laham Partners. This is just (inaudible) your comment on unemployment and inequality (inaudible) and according to ILO statistics, an unemployment rate of the age 15 to 25 to 25 percent, however, other surveys indicated 35 percent. But when A (inaudible) public sector job, is it Jordan, Syria, one third is the job is coming from public sector, and, B, is largely (inaudible) economy, and, C, poor governance institutions and poor governance creates huge problems.

My question is: How do you coordinate with World Bank, A, and, B, what is your view and pro and cons creating regional development banks? Thank you.

MR. DERVIŞ: Mauricio?

MR. CARDENAS: Thank you. Mauricio Cardenas from Brookings.

I want to come back to the question that was raised by Kemal at the beginning because I think we don't get the answer right to that question. It's very difficult to make recommendations ahead. So, what is it that productivity gains have not been shared by everyone? I have the impression that we live in a world that is very different today from what we learned in the textbooks. In the textbooks, we learned that labor was a non-tradable good, and I think globalization has made labor much more tradable. So, with the framework that we used to have, we thought about labor policies in the nation spectrum, increase in minimum wages, benefits, collective bargaining, et cetera, but I think if we apply those measures at the national level, we're going to do more harm than good because we're ignoring the fact that there is a large, global supply of labor.

Let me illustrate this with an example. I'm from Colombia. Every year at the end of the year, we have to negotiate on this task a minimum, and, of course, everyone wants a high minimum wage, but the economists, us, we have to bring to the conversation look at China. We're competing with China, and we have to bring to the conversation also protectionism in countries like the U.S. So, if we apply those polices based on the old framework that, again, are national in spirit, I think we're going to do harm more than good.

MR. DERVIŞ: Okay, we have quite a few questions and the time is running, so, we can't overrun. I will take one question here, and then I think we'll have to close.

Yes?

MR. WATSON: Thank you. Thank you very much. My name is Andre Watson; I work at the European Trade Union Institute in Brussels, a city which is being disparaged here quite rightly in my view. (Laughter) A quick remark on employment and one on inequality. The employment remark is a number of the panelists mentioned the link between growth and employment and said that that was problematic and I certainly agree with that on job quality and other issues. Having said that, I mean, 80 percent of the job losses in Europe in the recession can simply be explained by the size of the output loss. So, and the reason we're not bring unemployment down is that simply growth is too weak certainly in Europe and the U.S., so, we shouldn't lose sight of that. It's not just a Brussels problem, it's also a Frankfurt problem. We now have the ECB raising interest rates in Europe for reasons that I fail to understand.

On inequality very briefly, it may be worth pointing out that a number of countries have actually prevented through policies arising in inequality. I would mention France, the home country of Mr. Strauss-Kahn, which has managed that for reasons I'm not really qualified to comment on. And the other is until recently, is the Nordic countries, and the Nordic countries managed that quite successfully until they moved away from their social problematic model in recent years and allowed ripening governments to introduce more traditional, liberal policies, which have now there's a rise in inequality in those countries.

MR. DERVIŞ: Thank you. Yes, I think this, in a way, can be taken together with Mauricio's question. I mean, Mauricio says that in an open economy, you can't do the same things necessarily than in a closed economy. But, on the other hand, it is true that within the globalized economy, different countries have achieved quite different results despite becoming features of globalization. So, I think one has to think about that.

Let me add one more thing myself, and then we'll take both the final round of points and answers to the questions, and we'll go in the reverse order starting with Stephen.

But one question, Brussels, I mean, despite the fact that Turkey still doesn't manage to enter the European Union, I still have a strong sympathy for the European Union, and in the defense of Brussels maybe, do you think it has something to do with the fact that the U.S. is the major global reserve currency issuer, and, therefore, kind of worries less in terms of its currency and so on whereas the euro is kind of struggling as a currency because of the divergences and the problems we've had? And, so, in some sense, there's a European reflex that is kind of linked to the euro and the fact that in that sense they're in a quite different position from the U.S., just a question.

Stephen?

MR. PURSEY: Thanks. I think what I'd like to pick up on some of these, these discussions about how much international coordination can you do around labor market employment and policy issues? And, clearly, if you're arguing as I was arguing just now that employment and labor market policies are macro policies and it's increasingly important in an open, global economy to coordinate your macro policies, then you're arguing that you should coordinate your employment and labor market policies to a degree internationally, and I think coming from the ILO, that's not hard to argue since it's written into the 1919 constitution and that the only way you can make social progress in one country is that the countries are moving forward together, and the logic of the ILO system of international labor standards is precisely that, it's to gradually build up floors of agreed commitments and standards as to how you run your employment and labor markets, and I would say on minimum wages, the logic there is that the ILO doesn't say what the minimum wage should be, but it does lay out some good principles as to how you go about fixing it. And large numbers of countries are ratifying that, and even those that aren't ratifying it are going to use it as a way of setting up their systems, including China. So, I mean, I think the question that started this one off was is the IMF going to get involved in surveillance of these issues? Is it going to be starting to tell countries how to distribute their income, to put it very crudely, and the Managing Director said no. Others can do that. Well, I think we do have to find a way to do it, and it's interesting that the G20 when it started to look at how to do macroeconomic policy coordination came up the phrase mutual assessment process. It didn't want to use the phrase surveillance, and that was the idea that you can, by peer discussions between yourselves, you can find a way forward, and I think that is likely to be it because almost inevitably, we are getting into discussions about what's the right collective bargaining system in a country. Should it be centralized? Should it be industrial level? Should it be decentralized? We're getting into international discussions about what the right laws are to have on hiring and firing. And I think there are many answers to what the right laws on collective bargaining are or the right laws and practices on hiring and firing, but, in the end, you do have to have systems that enable people to change jobs smoothly and quickly, find better jobs quickly, the points that George Akerlof has been making, and you do need to have systems of bargaining that mean that wages move ahead with productivity and don't get way ahead of the unit labor cost of other countries. There are lots of different ways to solve that, and I think the loose, if you like, frameworks at the ILO office is a good starting point.

MR. DERVIŞ: George?

MR. AKERLOF: Yes.

MR. DERVIŞ: Any last points?

MR. AKERLOF: Let me just add one point that I've already made, that the United States could potentially be Canada, that somehow we were much closer to Canada if you go back 30 years ago, and that is largely a result of our policies.

MR. DERVIŞ: Sharan?

MS. BURROWS: Well, in terms of unemployment and young people, I think this year's, the social divide that is going to actually destroy social harmony everywhere if we don't get it right. We have a responsibility to intergenerational wealth and equity, and if we don't focus on it, then the very issues we're talking about now, the vulnerabilities just become gaping holes. Can I say that's why we called for a youth unemployment pact that the G20 should focus on? It crosses the partnerships between skills, education, and indeed employment, and just let me give you an example of the challenge I've put to the employers in France and now Spain, but soon to be Germany and Brazil. There are 1,200 French companies in Tunisia. There are, I think from memory, 400 or 500 Spanish companies, there's a lot of Italian companies, Germany, and Belgium likewise. If they went back to old tried and true notions and the global ODA environment supported them, if we took an apprentice in even a half of those countries out of Tunisia and in turn in the public sector, including some global solidarity about interns in other countries, in the short term, in a way, subsidy is going away from ODA. Guess what, you would absolutely settle with the social protection base that's already there the unrest that existed for good reason. So, public sector hasn't got to ease up on its support for employment, but private sector has to do its bid. There are a lot of things we can do in the medium-term, but right now, we need a short-term solution, and we think we've got some ideas.

Can I say I'd love to have a long debate. I do not agree with you at all about the role of minimum wages. Look to China. Spend as much time talking to China as we do, and you know they're looking for a rising wage solution. They're not about a low wage future, and they know that that's going to take them a long trajectory, but that's where their heads are both with social protection and wages, and their wages, giving them strikes in (inaudible) and other places last year are escalating by amounts that we couldn't contemplate in the rest of the world, but their growth rates allow it, and, frankly, our western countries are your problem around inequity and competitiveness because they want to drive low wage cultures in their own interest of that rising profit obscenity. So, let's get the story straight, and I've heard this for 30 years. Forgive me for being a little provocative about it, but in my own country, every year on the minimum wage question, we said this will kill jobs, this will kill jobs. Well, guess what, it hasn't. It's actually grown our economy, it stabilized our economy, and I think if you look at Brazil as well as China, right next door to Colombia, you get some answers about emerging economies, wages, and social protection, and the growth equation that you need. So, for us, jobs, jobs, and jobs. That's the answer underpinned by social protection, and, of course, those wealth distribution tools. If we don't have global coordination and local support, then the imbalances that exist today are simply going to grow and nobody benefits. The EU is a great place to have a look at what not to do, and when you have conversations with emerging leaders, President Zuma last week in South Africa, some of the ministers yesterday in Spain, you know that the conversation is about whether Europe is going to be part of the future or where emerging economies are actually going to start to dominate the environment around policy setting, and it's a really interesting challenge for us. The E.U. has to look to a growth model and it has to look to being part of that future if we're to see that those imbalances are restructured, we need the coordination and the solidarity between nations, not just within nations.

Finally, can I say that on the jobs front, if you don't look to domestic demand, if you don't look to wages, and you build domestic economies, then this nonsense of every country can have an export-led recovery, who's going to pay, who's going to buy the goods? Workers. So, let's get the recipe right for jobs, for fair wages, and, indeed, for social protection. We'll build domestic economies and then we'll play into a much fairer, global, economic frame.

MR. DERVIŞ: Thank you, Sharan.

Dominique, last words.

MR. STRAUSS-KAHN: Well, no, just a few words, first about the question in (inaudible). Part of the answer has to do with the demographic, and, clearly, this part of the world is not the only part of world, it's a part of the world where the increase has been very strong, and, so, the young people are really a large part of the population. I made in November in Morocco in a conference which was on human development, growth, and so on, this point, that the demographic was clearly a time bomb for North African countries. I'm not pretending I was a visionary. I mean, it's a common knowledge, but it was just two months before all the troubles, and it's clear that they have a big problem, not because of demographics by itself, it's a strength for a country, but when it's not managed to provide education and the right way to the (inaudible) and increasing number of people and for many reasons hasn't been done, even in oil producing countries having the resources to do it, then it leads to the situation that we have seen.

On the short term, we're ready to help in the Middle East. We're going to see the solution of the situation in the coming weeks, but we're going to have already some discussion with some countries, and, of course, we'll have short-term problems to solve.

On the Brussels question, yes, you're right. The U.S. having a currency playing a special role, and that gives the U.S. some situation, some possibility to deal differently than the others with their own deficit. That's true. Is that good or is that bad? That's another discussion, but that's the fact, and, so, certainly the Europeans, they may be upset by this, but that's the reality or not so far, and I don't think it will happen any time soon in a situation of the United States facing the rest of the world. That doesn't mean that emerging markets -— emerging markets are contributing for a large part of global growth rate. That's absolutely true, but the addressing thing is to resize the map of the world according to GDP, financial assets, trade, and so on, and then you see that his old fashioned Europe is still a large part of the global economy. Certainly, the growth doesn't come from that. They have a lot of problems to solve which I'm the first to say that and to criticize them, but it's going a bit too fast to believe that in the coming decade a global growth will only rely on what happens in emerging economies. Not overheating is the case in Asia, is the case in Latin America. They will have to deal with this overheating problem and they're facing the traditional problem of needing to have a less (inaudible) of monetary policy and more tightening fiscal policy as others. So, they have beneficiated from very nice years and that's very good, and they use it to lift up millions of people that they were done. Now we're entering a phase of the history where even emerging countries are going to face the same kind of sustainability problem that advanced economies know.

MR. DERVIŞ: Well, thank you very much. I want to say that we've had two top global international leaders here, Dominique and Sharan. We've had a Nobel Prize-winning economist, we've had Steven Pursey, who is top at the ILO and devoted his life to labor issues, and we haven't had an institutional bureaucratic discussion. I think we've have a real substantial exchange, open exchange on real issues that faces the world. So, please join me in thanking our panelists for coming here and for sharing their views with us. (Applause)

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