

**FOR DEBATE AND GUIDANCE**

## SECOND ITEM ON THE AGENDA

**The sectoral dimension of the ILO's work****The current global economic crisis:  
Sectoral aspects****Introduction**

1. Following discussions at the November 2008 session of the Governing Body, it was suggested that the ILO should monitor the impact of the crisis and its likely implications at sectoral level. This report, prepared between December 2008 and early February 2009, reviews mainly the employment impact of the crisis. It is based on a variety of sources, including media reports, information from governments, employers' and workers' organizations, and recent ILO documents. Given the rapidly evolving nature of the crisis, the figures are open to change and debate. The paper focuses on two of the most severely impacted sectors: automotive and construction, to provide overviews of recent labour market developments in these sectors, analysis of specific labour issues, and possible policy actions for constituents and the ILO. General policy challenges are listed in the concluding remarks.
2. The Global Dialogue Forum on the Impact of the Financial Crisis on Finance Sector Workers (24–25 February 2009) covered another key sector. The Office is monitoring the sectoral impact of the crisis, and reviews are under way of other sectors (commerce, textiles/clothing, tourism, education, utilities, health and public services). It is planned to report on developments in these sectors during the November 2009 session of the Governing Body.

**Sectoral assessments****A. Automotive industry*****Pre-crisis situation and dominant trends***

3. In 2004, automotive assembly and component firms employed an estimated 8.4 million people globally (Western Europe: 2.03 million; China: 1.65 million; North America:

1.12 million; Russia: 0.76 million; and Japan: 0.73 million) to produce 44.5 million passenger cars. Passenger car production rose to 53 million in 2007. During the same period however the cars per employee ratio also rose, since many jobs were in new factories where the labour intensity of production is relatively low, while efficiency gains were made in existing plants. The probable global figure for automotive production employment at the end of 2007 was just under 10 million people.

4. Major trends in the sector prior to the crisis included:

- geographical relocation: from Western countries and Japan to Brazil, Russian Federation, India, China and low labour cost countries;
- higher interdependency of firms, as component manufacturers contribute 65–70 per cent of value added;
- rising costs of meeting increasingly stringent emission limits and safety standards;
- volatile fuel prices resulting in decreased demand for relatively high-profit vehicles.

5. These trends relate to the present crisis in the sector in three specific respects:

- underutilized capacity was built up as a result of past government incentives to the sector. This excess capacity, estimated at 34 million cars, is exacerbated by a recent wave of building new factories;
- the structure of the value chain and just-in-time production has increased the risk of business failures rapidly becoming contagious;
- vehicle manufacturers' financing arms immediately suffered the effects of the credit crunch even before the financial crisis reached the "real economy".

### **The crisis picture**

6. The global financial crisis hit the automotive sector with full severity from mid-2008. In 2008, car sales still increased in China and Brazil, were stagnant in Germany and France and decreased markedly in Japan and the United States. Sales figures in December 2008 fell dramatically compared to December 2007: by 50 per cent in Spain, 35 per cent in the United States, 22 per cent in Japan, 7 per cent in China and 14 per cent in Brazil.<sup>1</sup> Production and demand for all vehicle segments and in all national markets are notably lower in 2009. Sales are expected to drop 10 per cent or more. China and India may register moderate increases in 2009, whereas further sharp declines are expected in Europe, North America and Japan. A January 2009 survey of supplier executives anticipated a 27 per cent decline in production during 2009 in North America, and a 21 per cent decline in Europe. Global sales are expected to slide 11–13 per cent.<sup>2</sup> This would further aggravate the situation of excess capacity: already now global production runs at approximately 75 per cent of its January 2008 level.

7. If global automotive production employment in early 2008 was just below 10 million, and companies are assumed to reduce jobs in proportion to production, then job losses within the coming year may exceed 1 million. This would have knock-on effects going well

<sup>1</sup> "World cars: The big chill", in *Economist Intelligence Unit*, 16 Jan. 2009.

<sup>2</sup> According to Renault and Nissan Chief Executive Officer, Carlos Ghosn, quoted in *detnews.com*, 26 Jan. 2009; and P. Kelly from J.D. Power, *autointernationaal.nl*, 29 Jan. 2009.

beyond the assembly and leading component firms. Estimates by the European Automotive Suppliers' Association hint at over 1 million knock-on job losses in 2009 in Europe alone.

8. Nowhere is the crisis more obvious than in the American state of Michigan, a centre for car manufacturing since the 1920s. General Motors (GM), Ford and Chrysler, the big three companies, have seen their market shares and profits eroded by foreign "transplants" and import competition. The survival of GM and Chrysler is not assured, notwithstanding a budgeted \$17 billion of US Treasury loans, \$25 billion in low-interest retooling loan guarantees, and a prospective alliance of Chrysler with the Fiat group. Up to 3 million jobs (direct, indirect and spin-off employment together) in the United States could be lost if the two companies and financially frail Ford ceased US production altogether, bringing the greater part of the country's automotive supply chain down with them.<sup>3</sup>
9. As a result of negotiations with the United Auto Workers, the so-called job banks at Chrysler and GM have been closed, leaving 2,200 people unemployed. Negotiations with Ford on the same issue have (early February) not yet been concluded.<sup>4</sup>
10. In 2007 the assembly and parts manufacturers employed nearly 190,000 people in Michigan. In December 2008 this was down to 153,000. The decline from December 2007 to December 2008 was 10.6 per cent for assembly and 22.2 per cent for parts. Unemployment in Michigan rose to 10.6 per cent in December 2008.<sup>5</sup>

### ***Emerging issues, government policies and actions in the industry***

11. The first responses to declining automotive sales have been temporary closures of supplier and assembly plants worldwide, and the reduction of temporary employment. Non-permanent workers (i.e. those with fixed-term contracts, temporary and agency employment and other non-permanent arrangements) are the first to lose their jobs and are often ineligible for unemployment benefits. Toyota, for example, is halting production for 11 days in February and March in Japan and laying off half of its temporary workers.<sup>6</sup>
12. Two-thirds of cars in the world are purchased with credit. Therefore the financial crisis has immediate repercussions on car sales. Furthermore, car purchase is relatively easy to postpone, if buyers lose confidence in their own economic situation.
13. The automotive industry crisis is spreading rapidly to the supply chain, to other industries and to services. Just-in-time inventory systems, used throughout the automotive industry, mean that orders for auto parts drop in tandem with the slump in demand for cars. The financial crisis exacerbates the problem, especially for small and medium-sized enterprises. The car industry is a major customer for steel; declining car production may reduce global steel demand by a further 1 per cent in 2009.

<sup>3</sup> Center for Automotive Research memorandum: "The Impact on the US Economy of a Major Contraction of the Detroit Three Automakers," 4 Nov. 2008, at [www.cargroup.org/documents/FINALDetroitThreeContractionImpact\\_3\\_002.pdf](http://www.cargroup.org/documents/FINALDetroitThreeContractionImpact_3_002.pdf).

<sup>4</sup> "GM to end controversial 'jobs bank'", at *Yahoo News (AP)*, 28 Jan. 2009.

<sup>5</sup> US Bureau of Labor Statistics: "Automotive industry: Employment, earnings and hours", at [www.bls.gov/bls/auto.htm](http://www.bls.gov/bls/auto.htm).

<sup>6</sup> "World cars: The big chill", loc. cit.

14. The biggest car buyers in the United States are car rental companies, purchasing 1.8 million cars per year. Their business is shrinking and they have problems selling their used cars.<sup>7</sup>

15. Government actions can be divided into the following categories:

- Maintaining company solvency and liquidity (short term)

Government intervention in the United States has focused on supporting vehicle producers' balance sheets through credit guarantees and direct lending. In Europe, government plans under discussion include direct provision of funds. In France, plans involve direct financial assistance of up to \$7.7 billion to vehicle assemblers, with a proviso that recipients' plants in France are kept open. The Spanish Government envisages deferring social security payments for auto companies in dire straits.<sup>8</sup> The foreign ownership of assembly plants in most vehicle-producing countries is a constraint on governments' willingness to offer industry-specific aid – although not their preparedness to offer inward investment incentives. Measures within the European Union may be subject to review by the European Commission.

- Stimulating demand for cars (short term) and focusing on environmental objectives such as cleaner vehicles (longer term)

Proposals in France, Germany and the United States provide incentives to buyers of new and less polluting cars and trading in their old ones.

- Focusing on employees (in the short-to-long term) – employment, social protection, income support and skills development

In Europe, special placement assistance is provided to workers at risk of displacement or severely hit by recession. This can include creating special re-employment services at the production site, to facilitate transition to new jobs and avoid the traumatizing effects of open unemployment. Discussions were under way in the United States to cover health care of workers who lost their entitlements from private health plans. The Thai Government plans to allocate 1 billion baht (\$28 million) to train half of the 40,000 workers in the auto-parts industry expected to lose their jobs.<sup>9</sup>

16. For workers, the crisis has meant redundancies, short-time working, downward pressure on wages and cutbacks on benefits. In Canada, the Canadian Auto Workers (CAW) is ready to open negotiations with GM, Ford and Chrysler, although they are in the first year of a three-year contract.<sup>10</sup> In Argentina, the auto union SMATA has negotiated agreements with Renault and GM about not renewing temporary workers' contracts and rotating decreases in working hours.<sup>11</sup> At Samwoo Precision Industries, a small auto parts manufacturer in the Republic of Korea, management had announced plans to reduce the number of temporary employees. The union proposed an alternative plan, approved by

<sup>7</sup> "Rental-Car Firms Seek a Bailout", in *Wall Street Journal*, 29 Jan. 2009.

<sup>8</sup> "El automóvil podrá aplazar las cuotas a la Seguridad Social", at *ElPaís.com*, 30 Jan. 2009.

<sup>9</sup> "40,000 auto parts jobs face the axe", in *Bangkok Post*, 21 Jan. 2009.

<sup>10</sup> "Canadian Auto Workers to Reopen Talks", in *New York Times*, 30 Jan. 2009.

<sup>11</sup> "Argentina cars: A good year turned sour", *Economist Intelligence Unit*, 15 Jan. 2009.

management, where the 40 permanent workers alternate taking two-week holidays, thus enabling the company to retain 18 temporary workers.<sup>12</sup>

#### Potential action

17. The following policy issues should be taken into account when measures to support the sector are considered:

- *Social conditionality*: It is extremely difficult to predict the duration of the crisis, which has a disproportionate effect on the sector. If the workforce is adjusted to fully reflect current underemployment, massive job losses will arise. This would not only represent a significant social challenge, but would also deprive the industry of valuable labour resources once the economy recovers. There is therefore a rationale for reducing the extent of layoffs, for instance through partial unemployment benefits or subsidies for shorter hours. At a minimum, government support could be subject to firms facilitating the adoption of such flexible systems, through social dialogue. It would be inappropriate to downgrade workers' rights in the middle of recession. This would further erode employment relationships as well as terms and conditions of employment, thus affecting consumer confidence and the purchase of a whole range of goods, including new or used cars. It would also be unfair, as it would penalize innocent victims of the crisis.
- *Avoiding protectionist solutions*: There is a risk of escalating government support measures, with each country aiming at improving the competitive position of its industry. This would represent a major waste of budget resources. Some social and environmental conditionalities may help cushion this risk. But continued vigilance is nevertheless required.
- *Supporting small firms*: While much media attention focuses on large enterprises, small firms that provide components and other inputs are likely to be severely hit. Small firms rely for their survival on bank credit, which is not functioning at present. Their larger counterparts, by contrast, have access to bond markets and greater leverage in obtaining government support. General measures to revive the credit system would be especially helpful to small firms.

18. To the extent possible the ILO should encourage, among others, the following measures aiming at mitigating the effects of the crisis:

- *Activities to build trust between management and employees*. Any solution to alleviate the crisis is more efficient if negotiated among social partners. The conclusions of the Tripartite Meeting on Transport Equipment Manufacture in 2005 emphasize that "Social dialogue in the automotive industry should be a permanent feature of the industry."<sup>13</sup>
- *Programmes to minimize redundancies and retain workers could be initiated*. These can include benefits paid by governments, social security schemes and work-share arrangements within companies, and should also cover small and medium-sized enterprises. Specific programmes could target job losses in the sector, especially if workers share similar characteristics (a case for specific training programmes) or are in depressed regions.

<sup>12</sup> "Korean metalworkers show solidarity in tough times", at [www.imfmetal.org/main/index.cfm?n=47&l=2&c=18887](http://www.imfmetal.org/main/index.cfm?n=47&l=2&c=18887).

<sup>13</sup> See *Note on the proceedings* (TMTEM/2005/9), para. 13 of the conclusions.

- Education and information on social protection issues should be emphasized, to enable workers to exercise their social rights; effective access to which is often hampered by lack of knowledge and information.
- “Continuing research, data collection and monitoring of the situation should be implemented in order to provide an early warning and help to ease the social policy burden.”<sup>14</sup>
- The economic crisis could be turned into an opportunity to reduce the industry’s carbon footprint and create green jobs. Many measures already adopted by governments favour investments in more environmentally friendly vehicles. Producing those vehicles requires more investment in research and development and highly skilled employees. Therefore special emphasis should be put on skills training. A closely coordinated plan among all the main actors in the sector would be needed, in order to maximize the economic and social impacts and avoid the risk of free riding.

## **B. Construction**

### ***Pre-crisis situation and dominant trends***

19. Major trends and structural factors to be considered include:

- The share of construction in the labour force varies, from about 5 per cent to 8 per cent in larger developed countries, and up to double-digit figures in some developing countries. The indirect creation of jobs in the sector has been estimated at around two to one. Construction is one of the largest employers worldwide, and a major gateway for new jobseekers, especially the unskilled.
- There is a long tradition of utilizing both internal labour mobility and international migration, and this has intensified since 2000. The high numbers of casual workers and difficulties experienced by migrant workers have affected union membership.
- In terms of volume of production and total numbers of workers, the sector is cyclical, showing an upswing in many countries from 2000 until early 2008. A boom in many industrialized countries and others, such as China, India, Russian Federation, Brazil and the Gulf States, swelled the global construction workforce.
- In the past 30 years the sector experienced strong casualization and outsourcing of labour. Fluctuations in demand, the project base of construction and the widespread use of the contracting system make it difficult for contractors to obtain a steady flow of work that would allow them to provide continuity of employment.

<sup>14</sup> *ibid.*, para. 7.

## The crisis picture

20. Construction has been severely hit by the crisis, which has precipitated or magnified an eventual cyclical decline in activity. It is estimated that during 2008 at least 5 million construction workers lost their jobs.<sup>15</sup>
21. The global financial crisis displayed its first symptoms in the American sub prime domestic property market. The unemployment rate in the sector reached 12.7 per cent in November 2008, having risen from 8.2 per cent in August, representing more than 30,000 job losses in three months. Between September 2006 and the last quarter of 2008, approximately 780,000 jobs disappeared.<sup>16</sup>
22. Data from other countries further illustrate the impact of the crisis on employment in construction. Spain's property market began to collapse in mid-2007 after a strong period of rapid growth, and an estimated 500,000 construction jobs were lost during 2008.<sup>17</sup> Ireland, which also enjoyed a strong property boom since 2000, lost 15 to 20 per cent of construction jobs in 2008 (around 50,000 jobs).<sup>18</sup> In the United Kingdom, employment fell in every month from the first quarter of 2008, with a cumulative loss of over 100,000 jobs.<sup>19</sup> In the Gulf States, estimates indicate that in 2008 at least 150,000 foreign workers were released.<sup>20</sup> Lay-offs elsewhere have been reported, including in Australia, Congo, Ghana, Kenya<sup>21</sup> and South Africa.<sup>22</sup> Evidence from the Caribbean includes interruptions of large resort construction projects in the Bahamas and Dominican Republic.<sup>23</sup>
23. In the leading Asian countries, employment in the sector was boosted by major infrastructure investments (2008 Olympics in China, Asian Games in India), along with these countries' high growth rates. Despite this, there have been reports of lay-offs, such as in China, where among the 9.9 million resident urban workers and 28.7 million migrant workers in the sector, more than 10 per cent lost their jobs in 2008.<sup>24</sup> Although prospects for long-term expansion of China's construction workforce remain considerable,<sup>25</sup> the

<sup>15</sup> Based on data from OECD countries, Gulf countries, Russian Federation, China and India (references given in footnotes below).

<sup>16</sup> US Bureau of Labor Statistics, Construction Sector NAICS 23, report of 19 Dec. 2008.

<sup>17</sup> "Spanish unemployment surges above 3 million", in *Financial Times*, 8 Jan. 2009.

<sup>18</sup> Data from FAS (Irish Training and Employment Authority), in *Irish Independent*, 16 May 2008.

<sup>19</sup> "UK construction industry hits new low", in *Financial Times*, 5 Jan. 2009.

<sup>20</sup> Agence France Presse, 27 Dec. 2008.

<sup>21</sup> BWI (Building and Wood Workers International): "International financial crisis and its impact on the construction, wood and forestry industries, some findings," Information Paper, 2008.

<sup>22</sup> Reuters: "M&R sacks 1 400 workers," at [www.moneyweb.co.za/mw/view/mw/en/page40?oid=244821&sn=Detail](http://www.moneyweb.co.za/mw/view/mw/en/page40?oid=244821&sn=Detail), 11 Dec. 2008.

<sup>23</sup> Caribbean Net News, 19 Nov. 2008.

<sup>24</sup> *South China Morning Post*, 14, 15 and 19 Nov. 2008 and "Spectre of 50 million job losses looms in China", in *The Australian*, 19 Jan. 2009.

<sup>25</sup> According to the OECD.

Government's recently announced stimulus packages will give only a short-term boost, because the build-up of excess supply is such that demand will remain weak for years.

24. Migrant workers have been particularly affected by the crisis, as evidenced by Asian migrants in the Gulf States. Similarly, in China, large numbers of internal migrants returned home after losing jobs in construction.<sup>26</sup> Another example comes from the Russian Federation, from where more than 20,000 Turkish workers were sent home, where they have few prospects of finding jobs.<sup>27</sup> In Yekaterinburg, a key industrial city, many Tajik migrant workers had been unpaid for over three months, with accumulated debts of contractors in excess of \$400,000.<sup>28</sup> Workers at risk of abuse of human and labour rights are often women migrant workers, especially domestic workers, migrant workers in irregular status, trafficked persons and youth migrant workers. Worsening socio-economic inequalities potentially increase susceptibility to HIV among migrant workers and surrounding communities.
25. Forecasts for 2009 suggest further job cuts due to postponement and cancellation of projects. In the United States, for example, two-thirds of non-residential construction enterprises plan cuts in 2009, leading to a 30 per cent drop in jobs in that segment, which is estimated to account for about one quarter of construction expenditure, and could translate into 600,000 job losses.<sup>29</sup>
26. In the United Kingdom, the Royal Institute of Chartered Surveyors forecasts 300,000 possible job losses for 2009, equivalent to roughly 10 per cent of the sector's workforce. Forecasts for job losses in construction in 2009 in Germany amount to 100,000,<sup>30</sup> and in Indonesia to 1.5 million.<sup>31</sup>
27. Given the high probability that unemployment will continue to rise, there is a widespread risk of losing skilled staff who would take years to replace. Other crisis-related issues, such as complaints, strikes, wage cuts and deterioration in working conditions have been reported in several countries. While health programmes, including HIV prevention, are at risk of being downscaled, they are important for the protection of rights and the maintenance of productivity. Attention should also be paid to avoiding any compromising of workers' safety and health, particularly in construction as it is by its very nature one of the most hazardous industries.

<sup>26</sup> idem.

<sup>27</sup> S. Inkici: "Recession looms for Turkish economy as job losses accelerate", in *Hurriyet Daily News*, 18 Dec. 2008.

<sup>28</sup> Novosti: "Construction workers strike in Urals city amid financial crisis", 1 Dec. 2008, at [www.en.rian.ru/russia](http://www.en.rian.ru/russia).

<sup>29</sup> Associated General Contractors of America, at [www.agc.org](http://www.agc.org), 8 Jan. 2009. The figure of 600,000 is derived from the shares indicated in the text.

<sup>30</sup> "Am Rande des Abgrunds: Prognose der wirtschaftlichen Lage 2009", in *IMK report*, Dec. 2008.

<sup>31</sup> [www.MySinChew.com](http://www.MySinChew.com), 22 Dec. 2008.

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**Emerging issues, government policies  
and actions in the industry**

28. A number of efforts to address the crisis are worth mentioning. Construction is highly dependent on the borrowing capacity of customers, a major issue in the crisis. Policy debates in early 2009 are focusing on ways to “force” credit institutions to lend. Housing may be among the first sectors to benefit, although this is unlikely to happen until 2010.
29. A joint programme for 2008–11 agreed upon between the European Federation of Building and Wood Workers and the European Construction Industry Federation includes an item on employment, while construction workers’ unions are campaigning for governments to reduce retirement age, ban overtime and to invest in infrastructure projects to generate employment.<sup>32</sup>
30. In Ukraine, in November 2008 a new national collective agreement was signed for the construction sector. According to the chairman of the workers’ union in the sector, “The Agreement will help workers to get through the crisis” by protecting pay, jobs and occupational safety and health. A memorandum on the crisis was signed between the Ukrainian Ministry of Regional Development and Construction, the building workers’ union and leading construction companies.<sup>33</sup>
31. The Royal Institute of Chartered Surveyors has proposed that the British Government establish a new post of Chief Construction Officer, to ensure that expenditures promised for the 2009–10 fiscal year are implemented.<sup>34</sup> Industry groups have been lobbying for specific measures in other countries, ranging from indirect tax reductions and exemptions through to the creation of joint public–private groups to assist the construction industry.<sup>35</sup>
32. Several governments have launched policies related to direct construction investments and/or measures to assist firms (see table).<sup>36</sup> Stimulus packages include a considerable percentage of infrastructure projects (and hence employment generation). These can be illustrated by Spain, where the Government’s package includes direct job-creation measures and 996,000 individual housing and infrastructure-related projects over the next four years, in the context of ongoing social dialogue.<sup>37</sup>

<sup>32</sup> Interview with BWI.

<sup>33</sup> BWI: “Ukraine: New National collective agreement in construction,” at [www.bwint.org/default.asp?index=2005&Language=EN](http://www.bwint.org/default.asp?index=2005&Language=EN).

<sup>34</sup> “CBI Construction Council calls for further action to move credit markets”, 15 Jan. 2009, at [www.cbi.org.uk](http://www.cbi.org.uk).

<sup>35</sup> “Financial crisis to be faced with unity, solidarity, continuity”, Tanjug (Serbian News Agency), 12 Jan. 2009; “US, building bridges and roads to everywhere”, in *Financial Times*, 19 Jan. 2009.

<sup>36</sup> Source: FIDIC: “Fiscal Stimulus Package Survey 2009”, at [www1.fidic.org/about/infra09/](http://www1.fidic.org/about/infra09/).

<sup>37</sup> International Federation of Consulting Engineers: “Worldwide inventory of infrastructure spending and plans”, 21 Jan. 2009.

## Stimulus packages: Infrastructure component

Country or region	Date	Funds for Infrastructure
European Union	December 08	€173 billion for extra measures
Australia	December 08	2.5 billion Australian dollars
Brazil	January 09	67.8 billion Brazilian reals
Canada	January 09	Total package 30 billion Canadian dollars*
Chile	January 08	\$0.7 billion
China	November 08	\$540 billion
Hong Kong, China	No data	Total package 4.2 billion Hong Kong dollars*
Egypt	December 08	Total package 15 billion Egyptian pounds*
France	No data	€10.5 billion
Germany	December 08–January 09	€14 billion
Hungary	No data	Total package 1.4 trillion Hungarian florins*
India	December 08–January 09	\$33.5 billion
Israel	November 08	11.2 billion Israeli shekels
Italy	No data	€16.6 billion
Japan	August–December 08	Total package 12 trillion yen*
Korea (Rep. of)	November 08	\$7.8 billion
Malaysia	November 08	\$0.91 billion
Netherlands	No data	Total package €6 billion*
Peru	December 08	Total package \$3.3 billion*
Portugal	No data	Total package €6.6 billion*
Russian Federation	No data	Total package \$20 billion*
Singapore	January 09	4.4 billion Singapore dollars
Spain	No data	€9 billion
Sweden	December 08	1 billion Swedish krona
Switzerland	No data	Total package 0.9 million Swiss francs*
Thailand	January 09	Total package 115 billion Thai baht*
United Kingdom	November 08	Total package £20 billion*
United States	January 09	\$180 billion
Viet Nam	No data	\$3 billion

\* No data available for the infrastructure component.

## Potential action

33. Given construction's importance for employment, in particularly for the poor, and given that government authorities will launch a large number of infrastructure programmes as part of their employment recovery plans, policies and programmes should pay special attention to:

- ensuring that procurement contracts to be used to channel the stimulus packages consider enterprises that operate in a transparent and competitive framework while respecting labour standards;

- promoting social dialogue to discuss how best to use the contracts for the benefit of revamping businesses, employment and working conditions in construction;
- developing a system to monitor the impact of the crisis in the sector, collect good practices on addressing its labour, economic and social aspects and share information with social partners and governments;
- undertaking research on new solutions to help address the crisis in the sector, including in the social security schemes dealing with the protection of its workers. For example, while the planned stimulus packages largely focus on new construction, repair and maintenance, which are labour-intensive, also affected by the crisis;
- promoting synergies between the green jobs initiative and possible solutions to the crisis. Construction is high on the green jobs agenda, and possibilities to attract “green” funding to the sector should be explored;
- encouraging sectoral social dialogue to address the labour and social aspects of the crisis, with particular attention to the countries most in need, to casual and migrant workers and small enterprises;
- identifying synergies between existing proposals to address unemployment in general and specific proposals for the construction sector;
- ensuring that the protection of the safety and health of workers is not compromised.

## Concluding remarks: General policy challenges

34. The dependence of the automotive and construction sectors on the finance sector made them early victims of the crisis, and their revival will be partially dependent on the success of policies to restore the global banking system.<sup>38</sup> Short-term and part-time work and temporary halts to production have prevented larger outright job losses in the automotive sector, but are not generally options in the construction sector. In contrast, the success of demand-side stimuli will be crucial to policies capable of reviving employment in sectors where consumers’ discretionary spending is important. The resilience of employment in such sectors will depend on several factors, including profitability, average enterprise size, financial leverage and the interdependence of supply chain members. Aside from job losses, economic pressures on employers will tend to have a negative effect on improvements in pay and working conditions in those labour markets less regulated by minimum wage and working hours legislation.
35. Policy initiatives likely to be effective in mitigating the impact of the crisis on employment should distinguish sector-specific problems from those relating to individual regions and countries within those sectors. However, the following general policy challenges can be considered when designing policy responses at sectoral level:
- *Policy coherence and targeted distribution of resources are crucial.* Concerns over the size, target and ways in which bail out resources are spent appear to be growing. Such funds are insufficient to meet needs in all affected sectors. Sector-level monitoring and analysis could help focus the resources and address the most critical problems. A sectoral approach can promote distribution of funds to those sectors most affected and those with the greatest multiplier effects, rather than those with the best

<sup>38</sup> For further analysis, see P. Auer et al.: “Assessing the impact of the financial crisis on the US labour market,” 21 Nov. 2008, at <http://vox.cepr.org/index.php?q=node/2603>.

capacity to lobby for government support. In the immediate future, an intensification of sector-specific lobbying may be expected.

- *The speed with which policies are articulated, detailed and implemented will be a critical factor in the timing of the recovery.* Governments and other institutions are moving rapidly, but it may take considerable time before initiatives such as expenditure on infrastructure can be detailed and implemented. On the other hand, sectors differ in their vulnerability to economic cycles. Recovery rates are often much slower than rates of decline. Evidence indicates that job market declines can last as much as four times longer than declines in business volume, and that recoveries in the job market might take up to six times longer to appear.
- *Sustainability remains a major challenge.* After initial expectations that governments would offer unlimited funds to help, perceptions have been altering towards the medium- and long-term impacts of public expenditure increases on fiscal solvency. Tax increases are inevitable, and their size and structure will have critical effects on the prospects for recovery of the sectors under review.
- *Actions taken by one or more governments may have unintended consequences for others.* The globalization of specific sectors is relevant to assessing where the jobs are affected through “sector employment multipliers”. When value chains have a wide geographic spread, those multipliers may make themselves felt in countries other than the home base of the producers. For instance, many small, medium-sized and large enterprises have shown signs of collapse in the developing world, including in the automotive sector. Labour migration is another dimension of interdependence. In countries where the construction industry was booming from 2000 to 2007, much of the labour force came from abroad. These migrant workers not only reduced employment pressures at home, but also made major contributions (via remittances) to the livelihoods of their families. The cutbacks now recorded in construction thus have a double negative effect: overseas remittances are falling fast, and returning workers are increasing pressure on already depressed domestic labour markets. So far, policy action in affected sectors has been focused on the domestic level, with little consideration of global sectorally coordinated responses. Global sectoral policy dialogue would be crucial to deal with this gap.
- *Sectoral adaptability to change can determine new labour market conditions.* Sectors have different capacities to adapt and react to crises, as well as diverse degrees of “resistance capacity”. Where substantial resources are locked into expensive fixed assets that cannot readily be demobilized, the possibilities of adaptation, especially short term, are limited. Such sectors are likely to press strongly for government help, and argue that their workers’ plight is a government as well as corporate responsibility (notably in the automotive sector).
- *Social dialogue is central to addressing policy responses.* The explicit or implicit “social pacts” that provided a framework for social and labour relations have been placed under severe strain. There have been many calls (from workers’ organizations) for negotiating new social solidarity pacts that would seek to rebalance risk and return. Failure to address changing labour conditions through social dialogue may encourage corporate strategies focused on cost reduction and therefore weighted towards pressure on labour – not only in terms of job shortages, but also affecting conditions of work and unionization. Trade unions, the membership of which has been under considerable pressure from business, social and political forces, should be given a voice in the negotiations and emerging structures.

**36.** The ILO Declaration on Fundamental Principles and Rights at Work, and the ILO Declaration on Social Justice for a Fair Globalization could have increased significance within the context of the current economic and financial crisis, in encouraging sustained attention, international collaboration and a clear political will to tackle the major global issues it presents. In addition to sector-specific potential action by constituents and the ILO outlined in paragraphs 17–18 and 34 above, common sectoral-level action could be taken in many sectors. Special attention should be placed to the ratification and application of relevant international labour standards on workers' rights, tripartite consultation and social security. The ILO response should include measuring and addressing the differences in the number and nature of job losses experienced by men and by women, as well as measures to protect the most vulnerable, including precarious and migrant workers. The sectoral dimension will play a powerful role in changing labour markets in the immediate future and in the medium to long term, while the current reshaping of the world of work will continue.

Geneva, 27 February 2009.

*Submitted for debate and guidance.*