

Speaking points – GEE Seminar Portugal

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[Greetings]

Introductory remarks

Let me express my gratitude for your invitation to speak today.

Over the years, there has been a strong and fruitful collaboration between the ILO and the various ministerial services present today.

A few months ago a colleague of mine – Aurelio Parisotto – had the privilege of addressing this group and presented the ILO's report on the Portuguese labour market - Decent work in Portugal 2008–18.

Moreover, we are just embarking upon another research piece.

This planned work which is about to start will analyse the future of work in the automotive and the garment sector. It will be undertaken in cooperation with the EC Joint Research Centre.

Portugal will be one of the country cases analysed in detail.

The evolution of the pandemic

The COVID-19 pandemic is one of the most severe shocks the world has seen in a century.

It has unleashed a cataclysmic economic and social crisis and appalling hardship in the world of work.

Eleven months have passed since WHO first alerted the world to the novel coronavirus. Since then, at least 56 million people have been infected, and over 1.3 million people have died worldwide.

Europe is currently experiencing a strong second wave of infections.

This situation has forced policy-makers to yet again impose severe restrictions in terms of our movements within and across countries. It has also re-introduced pandemic-specific modalities regulating the way we work.

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It has also placed further stress on policy decisions.

These have to frequently adjust to the complexities of the interplay between **measures addressing public health concerns** and the necessity to **maintain an adequate and sustainable level of economic activities**.

However, I am not here today to talk about the epidemiological evolution of the pandemic.

I am focussing on its impact on the world of work, which has been nothing short of devastating.

To give you a sense – we have seen the equivalent of 495 million full-time jobs destroyed worldwide, labour income reduced by more than 10 per cent, hundreds of thousands of enterprises closed or under threat, and an alarming resurgence of poverty, including in advanced economies.

In sum, a devastating panorama of human suffering and deep anxiety about what may come next.

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I will start with a brief overview of the main socio-economic challenges posed by the pandemic and how the ILO has worked with its constituents to navigate this unprecedented crisis.

Then I will have a glance at the specific situation in Portugal. Although I also hope to learn from you during this session.

Finally, I will try to lay out some of the crucial components of the policy response that is needed to to foster a **robust, sustainable and inclusive recovery**.

This will build on the **universal guidance provided by ILO's Centenary Declaration on the Future of Work**.

This instrument that was adopted last summer before COVID was anywhere in sight - puts at the disposal of the ILO and its constituents a full arsenal of policy responses that is of the greatest value in responding to the crisis.

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ILO support to constituents

The ILO has been working with its tripartite constituents from the beginning and throughout this crisis.

This support broadly runs along two lines.

The first is **technical advisory services** on how to handle the immediate impacts of lockdowns.

This has taken the form of assisting on physical and legal measures to contain the spread of the virus at the workplace. It also included guidance on how to assure that the most vulnerable are covered by existing and novel social protection measures and other financial assistance schemes.

We have also worked with enterprises to better cope with the crisis by assessing their own operations in light of the unprecedented policy measures affecting their business processes and strategies. We have also placed primary emphasis in articulating their needs through social dialogue.

The second form of support has been to **broaden the knowledge base on the socio-economic impact of the crisis.**

Most prominently, the ILO has produced a series of six so-called ILO Monitors to date, which have drawn attention to the vast working time losses around the world and highlighted the vulnerabilities of specific segments of the population.

Further, we have issued dozens of policy briefs and COVID-specific tools addressing a very broad spectrum of critical dimensions of today's world of work, including rights, employment, labour and social protection and social dialogue.

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One worrying trend became apparent. With each iteration of the Monitor our **estimates of working hours lost increased.**

In the latest version released at the end of September, the estimated total working-hour losses in the second quarter of 2020 (relative to the fourth quarter of 2019) are now 17.3 per cent or 495 million full-time equivalent (FTE) jobs.

This is a figure we have had to continuously revise upwards with the onslaught of the virus and its accompanying containment policies.

Reasons for the upward revision are largely found in developing and emerging economies, where a number of factors are negatively affecting working time losses.

These include the more limited opportunities for teleworking, the greater impact of the crisis on informal workers, the more limited role played by public sector employment, and resource constraints on the implementation of COVID-19 response measures.

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Initial global estimates of working time losses for the third and fourth quarter of 2020 remain high, at 12.1 and 8.6 per cent respectively.

We expect these losses to possibly increase even further during the fourth quarter. This is in light of the latest epidemiological developments and the increasing number of lockdowns applied across Europe and other parts of the world.

The robustness of ILO estimates for the fourth quarter of 2020 varies among regions. A qualified guess is that our estimates from late September probably underestimate losses for Europe, but largely hold for most other parts of the world.

In these working hour losses, we see some regional and temporal divergences.

While the majority of early working hour losses during the first quarter accrued in Asia, they spread more evenly to the rest of the world in the second and third quarter. There is however one outlier region.

That is Latin America, where countries continue to have much higher working time losses – 28 per cent in the second, and nearly 20 per cent in the third quarter. This is due to the fact that the effects of the particularly fast spread of the virus and some of the structural factors of developing and emerging economies in the region are compounding.

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The factors driving the decline in working hours vary considerably across the countries for which relevant data are available.

In some countries, shorter working hours and “being employed but not working” (for example cases in which workers are placed on temporary leave – the famed “Kurzarbeit” or “layoff simplificado”) contributed significantly to the decline.

In other countries, the main driving factor was workers being pushed into unemployment and inactivity despite the fact that some countries have introduced a layoff moratorium across all economic sectors.

These variations suggest that a narrow focus on unemployment does not allow a proper assessment of the pandemic's impact on the labour market. It also means that we are dealing with a problem postponed, but not resolved.

I will elaborate on the challenge of shifting from initial crisis response measures to a forward-looking recovery strategy later on.

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The effect on women in the labour force

The fact that globally these working time losses translate at a higher rate into inactivity, rather than unemployment, has a crucial gender component.

The decline in employment has been stronger for women than for men. This puts at risk many of the gains made by women in the labour market in recent years.

There are multiple reasons for this lopsided effect on women.

On the labour supply side, more women have dropped out of the labour market due to **increasing care responsibilities**. Child and elderly care are still highly unevenly distributed along the sexes, and due to the gender pay gap, it is often a pragmatic choice by families for the woman to leave employment, so higher-earning men can continue to provide the family income.

Especially the closure of childcare and schools, and the high burden of supporting untested distance learning modalities have created an extra burden that does not allow many women to stay in the labour market.

Evidence for Portugal suggests that only one-fifth of those who benefitted from the "exceptional family support scheme", which secured work income for parents forced to stay home, were men.

Yet, women have also been hit harder on the demand side.

Women are **disproportionately overrepresented in sectors that have been the victim of the largest working hour losses**.

To be more specific, the downturn has hit the service sector disproportionately, especially in customer-facing professions like non-food retail, catering and tourism, where women make up the majority of workers.

Moreover, as women are more likely in most countries to be in **less stable employment conditions** – be this temporary employment, agency work or self-employment – they are more likely to have lost their job as a result of in response to workplace closures.

Globally, among men and women, these high working hour losses have also driven high losses in income.

Estimates of labour income losses (before taking into account income support measures) suggest a **global decline of 10.7 per cent** during the first three quarters of 2020 (compared with the corresponding period in 2019), which amounts to US\$3.5 trillion, or 5.5 per cent of global GDP for the first three quarters of 2019.

On the flipside, **women are also overrepresented in a variety of front-line occupations** where exposure to the virus is much higher – especially in the health and social care sectors, and in essential retail.

While it has become clear how essential many of the services predominantly provided by women are, they nevertheless remain significantly undervalued in terms of the quality of working conditions provided.

But not only are working conditions, such as pay, social protection and employment protection not commensurate with the importance of this work - women also lack accompanying support outside of the workplace to ensure their continued capacity to provide these essential services.

There remain substantial loopholes in childcare support – both in terms of financial support and in coverage - and especially the burden of school closures and quarantine requirements has been unduly imposed on women.

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Fiscal response and the multilateral system

The unprecedented nature of the crisis has triggered an **exceptional response at both national and EU levels**, which has held some positive repercussions if one can talk of positivity in light of this stark crisis.

Many countries have adopted large-scale fiscal packages, particularly to support incomes and businesses.

Estimates indicate that, on average, an increase in fiscal stimulus of 1 per cent of annual GDP would have reduced working-hour losses by 0.8 percentage points in the second quarter of 2020. In the absence of any fiscal stimulus, global working-hour losses would have been as high as 28 per cent.

One positive indication in this context has been the comparative resilience of low and middle-income countries so far.

Many expected that fiscal stimulus at this scale could only be counted upon by advanced economies, yet the evidence so far shows that some of the LDCs also had room for substantial intervention without risking immediate currency risks.

Moreover, the impact of COVID seems to be less threatening in many of the low-income countries because they tend to have an age structure that favours milder symptoms.

Yet, caution is also warranted, as the absorption capacity of these economies is much lower and their currencies have a higher risk of high fluctuation – risks that could be substantially magnified, the longer and the more forcefully the virus spreads around the globe.

While immediate borrowing capacity of governments seems to have been relatively high, increased sovereign debt might still restrain crucial access to finance in the future. Scenarios project higher amounts of government revenues going to debt service and loan conditions potentially worsening when old borrowing is rolled over.

This can hamper economic growth and the quality and quantity of employment.

Moreover, fiscal stimulus has been unevenly distributed worldwide when compared to the scale of labour market disruptions. The estimated fiscal stimulus gap is around US\$982 billion in low-income and lower-middle-income countries (US\$45 billion and US\$937 billion, respectively).

This gap represents the amount of resources that these countries would need to match the average level of stimulus relative to working-hour losses in high-income countries. Significantly, the estimated stimulus gap for low-income countries is less than 1 per cent of the total value of the fiscal stimulus packages announced by high-income countries.

This scale highlights one of the challenges we have observed so far. **The response to the crisis is largely national, still lacking adequate international coordination** and thereby increasing downside risks in the long run.

The scale of the funding gap - especially in low-income countries - illustrates two issues.

One is the **quantitative scope of solidarity needed to ensure that the gains made in the fight against poverty in the past three decades are not lost.**

The other is that there is a **core role for international coordination of the response through a reinforced multilateral system**, rather than a further retrenchment towards nationalism.

And I refer to international cooperation in the broadest terms, ranging from fiscal support by International Financial Institutions, eye-level negotiations on trade, directly complemented by knowledge exchange and technical support to stem the socio-economic burden resulting from the pandemic.

Another financial aspect that has hit poorer countries harder is the withdrawal of foreign direct investment, as capital has been fleeing to perceived safer havens in high-income countries.

Here, evidence is mixed on what the future might hold.

On the one hand, **capital flight poses a substantial challenge to productivity growth.**

There are also justified fears in some sectors that a period of re-shoring or near-shoring will hurt enterprises that are part of global value chains in lower and middle-income countries, and subsequently destroy employment across the global supply chain.

This trend was preceding the arrival of COVID, with increasing volatility in trade in recent years.

On the other hand, **initial fears of a collapse of the trading system seem to have been unwarranted**, with trade having declined less than expected and rebounded strongly especially in Asia, mainly because of domestic demand in large Asian economies.

The stability of global value chains has also been a crucial factor in swiftly distributing vital medical equipment to fight the pandemic.

The true scope and scale of the kind of structural change the world economy will undergo triggered by COVID is still unclear.

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[The situation in Portugal](#)

Many of these challenges are also visible in the evolution of the labour market situation in Portugal.

GDP figures for the second and third quarter suggest that the Portuguese economy performed slightly worse than the Eurozone average.

This trajectory has been driven by two main factors.

A **significant drop in exports**, which includes the severe contraction of the tourism sector; and a **decline in domestic consumption**, which is largely a reflection of consumer uncertainty that also expresses itself in a higher savings rate.

One of the similarities to the global trend is that the Portuguese labour market also experienced a **higher rise in inactivity than in unemployment** during the second and third quarter of 2020.

This has important policy implications, as labour market policies mostly focus on getting those back into work who are actively seeking employment.

Inactivity poses a variety of challenges – from the greater difficulty of activation to a higher risk of poverty.

Contrary to the global trend though, men seem to be more likely to become inactive in Portugal.

There are two main groups driving this increase in inactivity.

One are prime age workers, aged 35-44 years.

The other are NEETs – that is young people neither in employment, education or training.

While this is not per se unusual for a labour market contraction, the risk of scarring effects is magnified for the current generation of young and prime age workers for three reasons:

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1. **First, it is not clear how long the effects of the current crisis are going to last.** The longer these last, the harder it will be for those who have never been in the labour market, or those who have been absent from it for a longer period of time, to eventually return to the labour force. The effects of labour market segregation are also going to be more severe, leaving those already in a vulnerable state even more vulnerable.
2. **Second, the current generation of young has already endured a previous severe labour market crisis.** Between 2010 and 2013, youth unemployment and underutilisation increased dramatically, and only slowly subsided thereafter. Hence, the increase of inactivity among prime age workers most likely includes a second spell of inactivity for some of the inactive. This can compound negative effects on lifetime earnings, career progression and accumulation of social protection entitlements, including pension rights.
3. **Third, there are indications that the current crisis is accelerating structural transformation.** Two developments stand out in this regard, both of which

disfavour the inactive. One is a more **rapid pace of technological adoption** in the workplace. This includes the shift to telework, efforts by firms to increase resilience through robotisation, but also a broader shift towards digitalisation-driven business and production models. The other development is a **faster shift in sectoral transformation**, with some sectors strongly consolidating, and some possibly faltering altogether. Some sectors may also recover, but over such a long period of time, that challenges akin to structural transformation will occur, with skills remaining obsolete in the medium term. Industries like oil, transport and tourism are likely to look rather different at the end of the crisis. Some consumption habits may permanently change. These trends require rapid shifts in skills, and the inactive population will have the biggest trouble in keeping up with these shifts.

Initial data also shows that the decline in employment in Portugal largely affected workers on temporary contracts, highlighting the continued challenge of labour market segmentation. The ILO already illuminated this issue in the 2018 study.

At the time, we identified as root causes of labour market segmentation in Portugal:

- (i) the regulation of temporary contracts and open-ended contracts;
- (ii) inertia in the use of temporary contracts;
- (iii) macroeconomic instability and uncertainty;
- (iv) low use of internal flexibility measures by enterprises; and
- (v) the declining collective bargaining coverage.

We must recognise that the current government made progress on tackling segmentation in Portugal. However, this crisis renews the urgency to take further strides. While loss of temporary employment clearly serves as a valve of the labour market under pressure, it seems unjust to pile the crisis effects on those who are already more vulnerable.

However, not to dwell too much in gloom – a feat most of us are prone to in this odd year - I also want to take this chance to commend the Portuguese government and the social partners for some of the wise decisions taken in response to the crisis.

Concerning social protection, there was a concerted effort to lower barriers to access, be that by extending coverage to previously excluded groups or by lowering requirements for contributions.

In particular, new means-tested benefits for informal workers and the self-employed set a positive example. Protection measures for migrant workers made for positive news around the world. Moreover, there are already an array of measures in place to help some of the previously mentioned inactive and long-term unemployment.

These include targeted hiring subsidies, internship programs to promote labour market inclusion, and a strong focus in training and requalification programs on skills for emerging sectors.

And one last aspect that is important to us at the ILO – from the beginning of the crisis, the government response was coordinated and jointly elaborated through the means of social dialogue.

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Looking forward – a policy agenda for recovery

To summarise what I have said so far – the socio-economic crisis the world is facing is the most severe in multiple generations, but to the surprise of some, the policy response has to date been largely successful in retaining employment and incomes in the short term – at least in advanced economies.

Yet, going forward the questions that policy-makers need to ask themselves are changing.

It increasingly becomes clear that a difficult balance needs to be struck, which contains the most severe health impacts on the one hand, while enabling as much economic activity as possible to protect livelihoods and prevent poverty on the other. Some questions going forward are:

- How do we need to adapt our response to the crisis not to risk losing the gains of some of these early victories?
- How can we ensure that we leave no one behind, especially as we expect impacts to unravel for years to come?
- What would a new growth paradigm towards a more sustainable, more equitable and more resilient economy look like?

While answers to these questions differ depending on the economic and social context of each country, and may vary depending on economic sector or the composition of society, there are five challenges that we need to address to assure a sustained, coherent and agile policy response:

- We need to find the right balance and sequence of health, economic and social policy interventions, particularly in the light of recently increasing infection numbers in many countries.

- We need to ensure that policy interventions are maintained at the necessary scale, while made increasingly effective and efficient.
- We need to fill the stimulus gap in emerging and developing countries, which requires greater international solidarity, while improving the effectiveness of stimulus measures.
- We need to tailor policy support for vulnerable and hard-hit groups, including women, young people and informal workers.
- And last but not least, to do all this we need to utilise social dialogue as an effective mechanism for policy responses to the crisis.

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To address these five challenges, however, we do not need to reinvent the wheel. In fact, we can take inspiration from the 100 years of experience of the ILO and its constituents, the lessons of which were reaffirmed in their centrality in last year's Centenary Declaration on the Future of Work.

In many ways, this is a reassuring message, because it turns out that we know more than we might think, despite the nature and scope of this unprecedented crisis.

And there are some particular lessons to take from the ILO's history. The most pertinent might be the foresight provided by ILO constituents in May 1944 – at the height of the Second World War – in the Declaration of Philadelphia.

Said Declaration, in the midst of war and bloodshed and among great uncertainty, enshrined two crucial realisations:

1. *Poverty anywhere constitutes a danger to prosperity everywhere; and*
2. *The war against want requires to be carried on with unrelenting vigour within each nation, and by continuous and concerted international effort in which the representatives of workers and employers, enjoying equal status with those of governments, join with them in free discussion and democratic decision with a view to the promotion of the common welfare.*

The Centenary Declaration, adopted 75 years later, holds true to these realisations, laying out a path towards greater prosperity everywhere – and crucially – for everyone.

In particular, the Declaration sets out a human-centred approach for increasing investment in people's capabilities, in the institutions of work, and in decent and sustainable jobs for the future.

Investing in people's capabilities means:

- Investing in lifelong learning for all;

- Supporting people through transitions – of which we are currently experiencing an accelerated one;
- And it requires a transformative agenda for gender equality, and stronger social protection.

When we talk about increasing investment in the institutions of work, we talk about:

- Respect of Fundamental Principles and Rights of Work;
- Adequate minimum wages;
- Limits on working time;
- And occupational safety and health as a fundamental right for all.

Finally, yet importantly, we need to increase investments in sustained, inclusive and sustainable growth, full and productive employment and Decent Work for All

- That means making decent employment a central aim of macroeconomic policies. Most countries have already shown an inclination in this direction in response to COVID-19, but it needs to be sustained;
- It means trade, industrial and sectoral policies that promote decent work and enhance productivity;
- It calls for policies and incentives for sustainable and inclusive growth, formalisation, innovation, and sustainable enterprises;
- And it calls for adequate policies for a digitalised world, including clear rules concerning privacy, labour platforms, and the relationship between machines, algorithms and humans.

In sum, it calls for a set of policies that make the future of work what we envision it to be, and that put each human at the center of our thinking when designing these policies. These steps, no country can take alone.

To achieve a brighter future for all, we need to trust and invest in international cooperation, we need to make sure that existing international labour standards are the vertebrae of this human-centered recovery, and we need to make sure that we arrive at our solutions through dialogue and compromise.

Getting the timing right will matter, but more important will be to get the substance right.

Thank you.

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