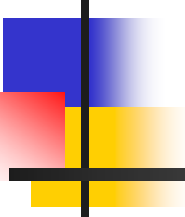


Macro-economic challenges of the crisis in the Caribbean employment and Social Dialogue

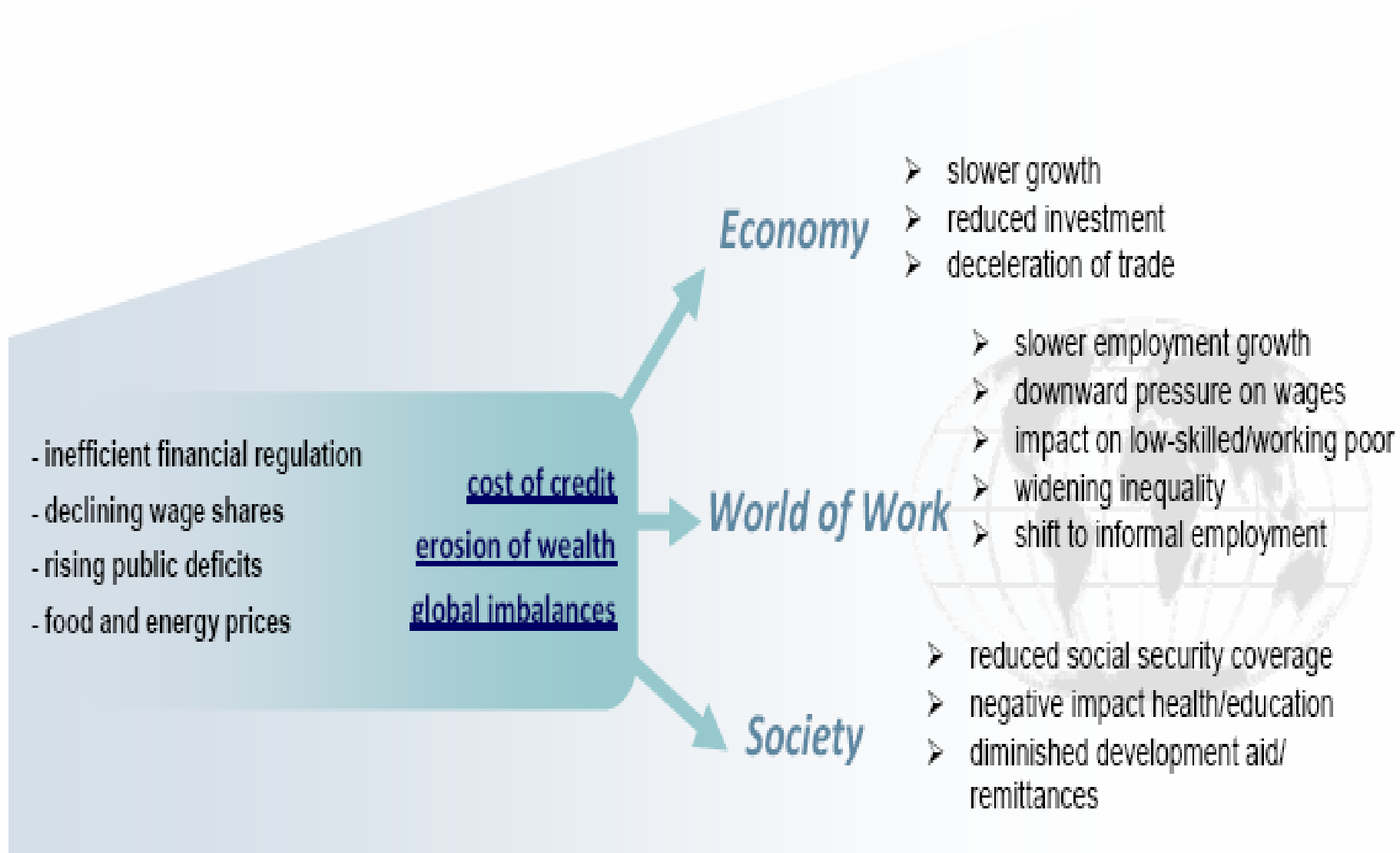




Underlying factors leading to the global financial and economic crisis

- Since the early 1990s two inter-related structural factors
- Global savings-investment imbalances --- Unsustainable model of globalisation with export-led growth models in some countries and little savings in others
- Probably unprecedented increase in income inequalities
 - Wage moderation
 - A weaker ability of taxes and welfare benefits to redistribute the gains from economic growth

Figure 6. Financial crisis – Origins and potential consequences





Why is focussing on financial aspect of the crisis not enough

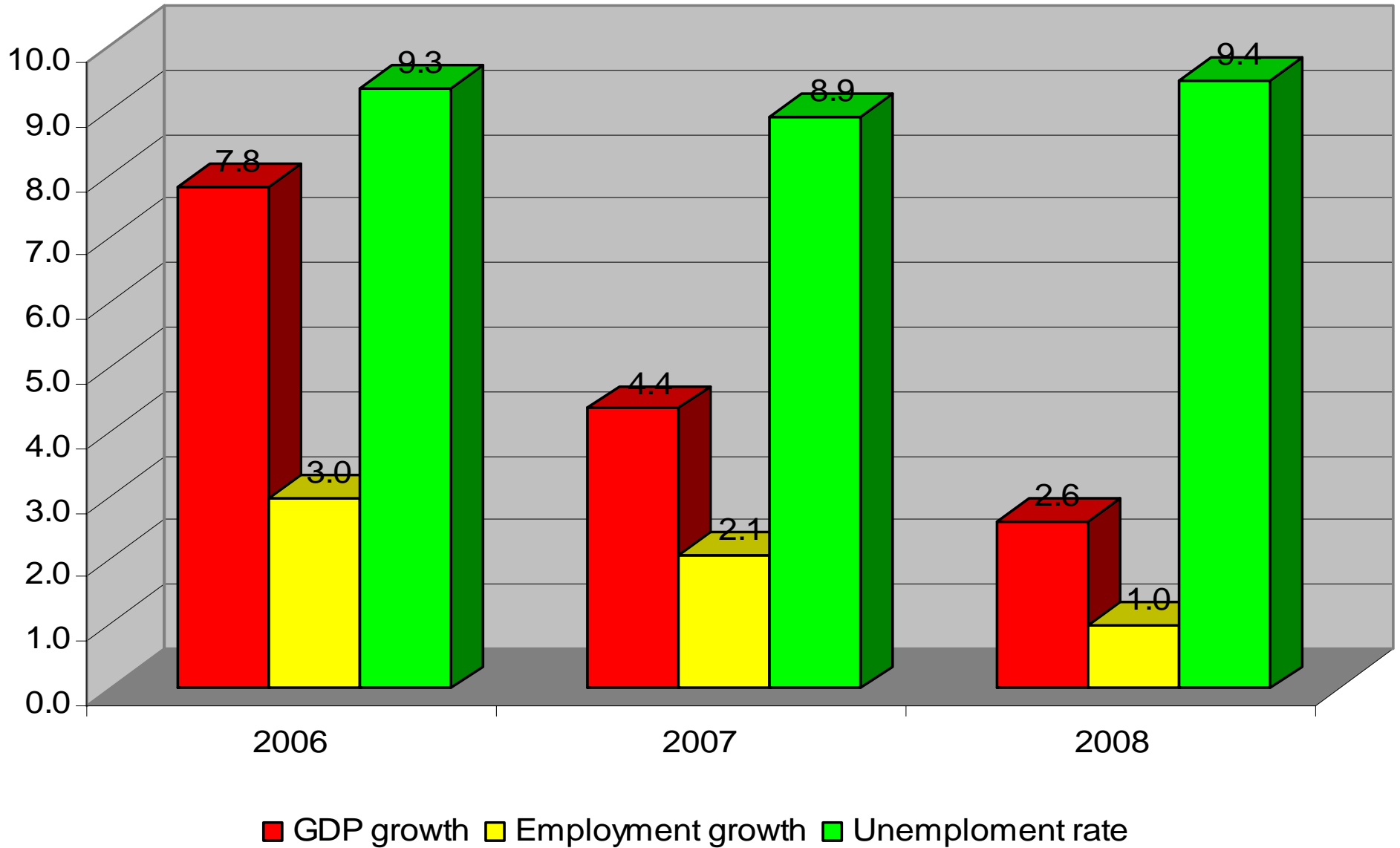
- Financial bailouts have not resulted in striking success Fiscal stimulus not focussed
 - On average financial stimulus measures are more than five times larger than fiscal measures.
 - Fiscal packages
 - Labour market measures on average 9.2 per cent
 - Social policy measures the figure is 1.8 per cent
- There is a significant risk of labour market recession
- The development dimensions of the crisis have been relatively neglected --- Developing countries do not have, the fiscal space to engage in fiscal stimulus packages



In the Caribbean

- Initial response crisis --- would be limited to the developed countries
- Considering the relative success since the last crisis of the late eighties and early nineties easy to play down the impact of the crisis

GDP, Employment growth and the Unemployment rate in CARICOM countries in the Caribbean (excl. Haiti)



Country	GDP growth %				Employment growth				Unemployment rate			
	2006	2007	2008 ⁽¹⁾	2009 ⁽²⁾	2006	2007	1 st half 2007	2008	2006	2007	1 st half 2007	2008
Antigua and Barbuda	8.0	3.8	2.1	4.0	-	-	-	-	-	-	-	-
Bahamas	4.6	4.5	1.0	1.2	3.7	3.0	-	2.0	7.7	7.9	-	8.7
Barbados	3.9	3.6	1.3	1.0	-1.2	1.4	-0.3	0.1	8.7	7.4	7.9	8.2
Belize	4.7	1.2	5.3	2.5	3.7	9.8	-	12.7*	9.4	8.5	-	5.3*
Dominica	4.2	2.9	2.6	2.8	-	-	-	-	-	-	-	-
Grenada	2.1	5.0	3.7	4.2	-	-	-	-	-	-	-	-
Guyana	5.1	5.4	4.8	4.5	-	-	-	-	-	-	-	-
Jamaica	2.7	2.3	0.1	0.9	3.5	2.6	0.6	-0.1	10.3	9.8	10.1	11.0
St. Kitts and Nevis	4.0	3.1	3.5	2.7	-	-	-	-	-	-	-	-
St. Lucia	5.0	2.9	2.3	3.1	10.1	1.7	-	2.8	15.7	14.0	-	14.5
St. Vincent & the Grenadines	6.9	7.7	5.0	4.7	-	-	-	-	-	-	-	-
Suriname	4.5	5.3	6.5	4.8	1.6	0.4	-	1.6	12.3	14.5	-	15.6
Trinidad and Tobago	13.3	5.5	3.5	4.5	2.1	0.3	2.2	0.4	6.2	5.5	5.0	4.9
Total ⁽³⁾	7.8	4.4	2.6	2.8	3.0	2.1	-	1.0	9.3	8.9	-	9.4



Minimum wages (lowest*) as a percentage of GDP per capita (per month) in selected Caribbean countries

	1991	2000	2007	2008
Antigua and Barbuda	0.16	0.16	0.35	0.43
Bahamas			0.39	0.38
Barbados	0.24	0.18	0.14	0.12
Jamaica	0.34	0.48	0.58	0.54
Trinidad and Tobago	0.43	0.36	0.18	0.16



What to expect

- By the end of 2008 became clear that the crisis will have a profound effect
- Depends largely on the dept and duration of the global crisis, particularly in Europe and the US
- The new global economic landscape after the crisis
- The region's ability to adjust



What are the main macro-economic challenges

- High trade to GDP ratios 100% and higher --- Latin America around 25% --- in some the territories the import component of consumption may be over 75%
- Lessons from previous crisis – two inter-related challenges
 - Centrality of the foreign currency income and reserves in macro-economic management in the Caribbean context --- both have declined dramatically as a result of:
 - the collapse of commodity prices and demand
 - Destruction of wealth in the financial/capital markets
 - The importance of demand management
 - Government expenditure
 - Wages and other income
 - Deterioration of the income distribution ---- Without concerted efforts of the social partners a spontaneous redistribution of income occurred through the (free market) price mechanism (Guyana, Jamaica, Suriname and Trinidad and Tobago)



Depreciation of the currencies

- Two exchange rate regimes in the region:
 - Floating
 - Pegged to the US\$
- If depreciation becomes a serious problem a policy decisions will be necessary in both cases
- How will we deal if we are again faced with these challenges? Repeat the policies of the last crisis?
- Close linkage between monetary policies and the labour market:
 - Fixed incomes (wages, pensions and cash transfers)
 - Competitiveness of local businesses
 - Local costs
 - Interest rates



Major lessons of the Barbados Case

- Solutions for macro economic challenges (including monetary and fiscal) can be found and implemented with less social costs and economic and social disruption if they are part joint effort of the social partners to:
 - Manage expenditure in the economy (wages, government expenditure)
 - Increase productivity
 - Redirect savings
 - Prevent a deterioration of the income distribution
 - Restore employment levels
 - Design a more efficient safety nets



Global Jobs Pact

- Financial support facilities to sustainable enterprises so that support does not miss the target of supporting the real economy (include improving access to credit by SMEs)
- Job-reach infrastructure, social housing and rural development projects making sure skills are available and the possibility of enterprises to respond to these programmes
- Support to jobseekers is crucial and it can be done through various ways – employment guarantees, active labour market policies, skill development, conditional cash benefits, supporting workers who are at risk of lay-off through shorter working hours or other means.
- youth combine education with work, special youth programmes and other instruments which are possible as well
- a Global Jobs Fund would help avoid pro-cyclical solutions, indeed the Global Jobs Fund would be anti-cyclical and also offer fiscal space for developing countries to undertake decent work friendly policies to overcome the crisis

Tripartite dialogue on Major macro-economic policies

- Expenditure/consumption
 - Alternative public spending patterns:
 - Strengthening consumption of local or regionally produced products with a lower import component
 - Linking export sectors more closely with local business including retail trade
 - Tailor safety nets to the new conditions
- Protect wages from spontaneous deflationary processes particularly of the vulnerable by using consensus on wage policies and a responsible minimum wage policy
- Increase savings including the use of National Insurance system
- Public investment policy to include employment related investment linked to productive and social infra-structure
- Export orientation is unavoidable in the Caribbean context. However as the global landscape is expected to change there will be a need to revisit an exclusive focus on export:
 - Strengthen production/income focussed on local and regional markets
 - Explore new markets