



Reduce inequality, accelerate growth, generate decent work

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Summary

- Global growth has disappointed for a number of years and is once again decelerating. High un- and under-employment, coupled with depressed wages adds to the global demand deficit.
- In many countries the gaps between the highest income groups and those in the middle and lower end of the distribution have widened. The trends of slow growth, weak employment and widening inequality are connected.
- Responding urgently and vigorously to the scale of the global jobs challenge is key to successful implementation of the 2030 Sustainable Development Agenda. Current and forecast growth rates are insufficient to meet this challenge. Not only will outright unemployment continue to move upwards, many of the jobs being created will not speed poverty reduction, help narrow inequalities or boost aggregate demand.
- Weak output growth has a particularly damaging impact on the employment prospects of young women and men. In 2013, 169 million young women and men were working but living on less than US\$2 per day. In most low-income countries, two thirds of young workers were in vulnerable employment as either own-account workers or contributing (unpaid) family workers.
- Rising inequality is a major concern because it can have a corrosive effect on social and political cohesion and lead to slower as well as less sustained economic growth. Pro-equity policies, especially those that target the middle class and poor, can also be pro-growth.
- Weakening global growth and the scale of the global jobs challenge require the mobilization of the full range of policies for urgent concerted action to fill the global demand deficit with a strong focus on tackling rising inequality as well as promoting productive transformation and diversification in developing countries.
- Faster and more inclusive growth will in turn create investment opportunities and reactivate the channels that should link the financial sector to the real economy. In this respect, it is particularly important to improve the environment for sustainable micro, small and medium-sized enterprises to start up, survive and grow.
- Six areas of labour market policy action that together with enhanced fiscal measures and productive development policies can support inclusive growth and jobs are strengthening labour market institutions; reducing wage inequality; improving employment outcomes for vulnerable groups in the labour market; improving job quality by fostering the transition of workers from the informal to the formal economy, and tackling labour market segmentation; ensuring equality of opportunities to participate in quality education, training and lifelong learning; and promoting universal social protection.

Vital to reverse trends towards increased inequality, weak job growth and faltering recovery

1. Global growth has disappointed for a number of years and is once again decelerating. High un- and under-employment, coupled with depressed wages adds to the global demand deficit further deterring private investment despite extraordinarily low interest rates and loose monetary policies. In many countries the gaps between the highest income groups and those in the middle and lower end of the distribution have widened. These trends are connected. As a result, cyclical weakness is feeding into structural constraints stemming from weak investment and threatening a slide into a low growth quagmire. It is vital that current trends are quickly reversed by concerted action on an agenda of reducing inequality and generating jobs in order to make growth faster, greener and more inclusive.
2. The 2030 Agenda for Sustainable Development adopted on 25th September by world leaders at the UN Summit commits countries and the system of multilateral organizations to ambitious transformative goals. The Paris COP21 must make a critical step towards reaching a new agreement to accelerate towards a climate neutral world which should include recognition of the significance of employment transformations and the need for a just transition for all.

Growth insufficient to meet global jobs and sustainable development challenges

3. Responding urgently and vigorously to the scale of the global jobs challenge is key to successful implementation of the 2030 Agenda. Global unemployment reached 201million in 2014, still over 30 million higher than before the start of the global crisis in 2008 despite a pick-up in employment in some countries. Another 30 million workers have dropped out of the search for work. 780 million women and men are working but not able to earn enough to lift themselves above the \$2 a day poverty line. The global labour force is set to grow by 570 million by 2030. Reducing gender gaps in employment participation rates would need the creation of a further 200 million jobs.¹
4. Current and forecast growth rates are insufficient to meet this challenge. Not only will outright unemployment continue to move upwards, many of the jobs being created will not speed poverty reduction, help narrow inequalities or boost aggregate demand. In developing countries, many of the jobs being generated are in the informal economy where pay is low and social security coverage largely absent.
5. In 2014, 45 per cent of developing country workers were in vulnerable employment compared to 52 per cent in 2000. Vulnerable employment is a proxy for informality and measures the share of own-account workers and contributing family workers in total employment. The decline of vulnerable employment (in both absolute and percentage terms) that continued during the post-crisis period is a sign of favourable labour market dynamics. Yet, the large shares of workers that remain in vulnerable employment are indicative of a stubbornly large informal economy.
6. Amongst wage and salaried workers worldwide only one in four are working fulltime. In several advanced countries, part-time work has grown faster than full-time work during the post-crisis period. Total numbers of jobs created may thus overstate the extent of

¹ World employment and social outlook: Trends 2015, International Labour Office, Geneva, 2015

progress. This would also suggest that the jobs created provide less support to aggregate demand, given the lower average earnings, lower levels of job security and weaker social protection coverage of many part-time workers.²

Young women and men hit hard by weak job growth

7. Weak output growth has a particularly damaging impact on the employment prospects of young women and men. The global youth unemployment rate stood at 13.0 per cent for the period 2012 to 2014 and is expected to increase to 13.1 per cent in 2015. The rate has not yet recovered its pre-crisis rate of 11.7 per cent in 2007. The number of unemployed youth is estimated at 73.3 million in 2014 compared to 76.6 million at the peak of the crisis in 2009.³
8. Youth unemployment was highest in the Middle East and North Africa, at 28.2 per cent and 30.5 per cent, respectively. The youth unemployment rate exceeded 20 per cent in two-thirds of European countries in 2014. In the European Union (28 countries), more than one in three (35.5 per cent) unemployed youth had been looking for work for longer than one year in 2014, an increase from 32.6 per cent in 2012. In 2013, 169 million young women and men were working but living on less than US\$2 per day in developing countries. Two thirds of young workers were in vulnerable employment as either own-account workers or contributing (unpaid) family workers in low income countries.

Rising inequality slows growth

9. An ever-growing body of research documents that inequality has risen across the globe, in some cases to historic highs.⁴ The middle class has been squeezed in many advanced and some emerging economies, with incomes stagnating or even declining. The share of national income going to labour has declined in almost all large economies, with productivity rising much faster than real wages in a number of advanced economies. Within the labour share, the highest paid have captured an increasingly large portion, while those at the bottom have seen their shares decline significantly.
10. On average, the crisis brought down the global growth rate of average real wages to about 1 to 2 per cent. That modest growth was attributable almost entirely to emerging economies, particularly China, while wage growth in advanced economies has been fluctuating around zero since 2008. In addition, in many countries productivity has outpaced wage growth for a prolonged period, leading to a marked shift in the balance between labour and capital shares in national income. This significant structural change in many leading economies feeds into an increasingly unequal distribution of incomes.

² World employment and social outlook 2015: The changing nature of jobs, International Labour Office, Geneva, 2015

³ Global employment trends for youth 2015 : scaling up investments in decent jobs for youth, International Labour Office, Geneva, 2015

⁴ Global wage report 2014/15: Wages and income inequality, ILO, 2014; In it Together: Why less inequality benefits all OECD, 2015; Inequality and unsustainable growth: Two sides of the same coin? IMF Staff Discussion Note 11/08. Berg and Ostry, 2011; Causes and consequences of income inequality: A global perspective, Dabla-Norris, E.; Kochhar, K.; Ricka, F.; Suphaphiphat, N.; Tsounta, E., IMF Staff Discussion Note 15/13. 2015; "Inequality is Bad for Growth of the Poor (But Not for That of the Rich)", Milanovic, B.: van der Weide, R., World Bank Policy Research Working Paper No. 6963, 2014.

11. Many emerging economies have managed to bring millions of people out of absolute poverty over the past two decades, but at the same time several have seen sharp increases in income inequality. Amongst the emerging economies, inequality has been increasing in some – e.g. Indonesia and China – while falling in others – e.g. Brazil and Argentina.
12. Rising inequality is a major concern because it can have a corrosive effect on social and political cohesion and is leading to slower as well as less sustained economic growth. This negative impact on growth occurs through various channels, including lowering consumption, under investment by firms in the face of slack demand, less government revenue and less investment by low-income households in education and skills. Thus, well-designed and implemented pro-equity policies, especially those that target the middle class and poor, can also be pro-growth.

Urgent concerted action for more inclusive and faster growth

13. Weakening global growth and the scale of the global jobs challenge require the mobilization of the full range of policies with a focus on urgent concerted action to fill the global demand deficit with a strong focus on action to tackle rising inequality, as well as on promoting productive transformation and diversification in developing countries. The major component of demand is household consumption so a focus on wages as well as taxes and social benefits should take centre stage. A revival of more evenly spread and faster global growth will also create fiscal space by lifting tax revenues and reducing debt to income ratios. This will in turn create investment opportunities and reactivate the channels that should link the financial sector to the real economy. .
14. To advance towards full and productive employment and decent work for all it is particularly important to have productive development policies to help achieve higher levels of economic productivity through diversification, technological upgrading, innovation, entrepreneurship and investment in skills. Micro, small and medium sized enterprises generate the largest proportion of jobs around the world. It is therefore essential to improve the environment for enterprises to start-up, survive, grow and be sustainable.
15. Increasing incomes from work can be a major source of financing for the development of the productive capacity that in turn generates the decent jobs needed. Increased female participation in employment and an end to discrimination at work are essential foundations both for gender equality and economic growth. Rising incomes allow households to invest in their skills and education, enlarge the savings that fund investment, broaden the potential tax base (to fund amongst other things poverty-reducing social protection floors) and generate the consumer demand that activates the private sector, especially micro and small enterprises.
16. Improving social protection coverage is a significant factor in tackling persistent poverty, economic insecurity, growing levels of inequality and insufficient investment in human capabilities. It can also bolster aggregate demand. There has been significant progress in extending coverage of social protection systems and improving their level in a number of emerging economies.

17. Six areas of labour market policy action that together with enhanced fiscal measures and productive development policies can support inclusive growth and jobs. In headline form they are:
- Strengthening labour market institutions, such as collective bargaining
 - Reducing wage inequality, through for example minimum wages
 - Improving employment outcomes for vulnerable groups in the labour market
 - Improving job quality by fostering the transition of workers from the informal to the formal economy, and tackling labour market segmentation.
 - Ensuring equality of opportunities to participate in quality education, training and lifelong learning
 - Promoting universal social protection
18. Fiscal measures such as adjustments to tax and social protection systems to lift the incomes of lower income households have a high multiplier effect because such groups spend most of any increase in disposable income. Investment in infrastructure is also a proven method of accelerating recovery. Such investments in the medium to long term growth potential of economies can also be designed to maximize the short term employment impact.
19. Despite the differences between national circumstances, it is important to align policy stances to increase aggregate global demand. A faster pace of employment creation and a narrowing of income inequalities coupled with a renewed drive to eradicate extreme poverty are political priorities everywhere. Increased consumer purchasing power would also have positive spillover effects around the world, transmitted through an increase in the current low rates of trade growth.
20. The repercussions of not rising to the challenge of generating every year for fifteen years 40-50 million decent new jobs and improving another 40-50 million poverty jobs would be economically, socially and environmentally damaging and politically disastrous. Investing in decent jobs is both the means and end of sustainable development. A key dimension of such investment is anticipating and encouraging the transformation of employment patterns to match the changes in production and consumption needed to ensure that poverty and inequality reducing growth is carbon-lite.