



# INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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**IMFC Statement by Guy Ryder  
Director-General  
International Labour Organization**

## Statement by Mr Guy Ryder, Director-General, International Labour Organization, to the IMFC

Washington D.C., 15 October 2020

### Summary

- Workplace closures continue to disrupt labour markets around the world. As a result, the equivalent of 495 million jobs were lost globally in the second quarter of 2020 relative to the fourth quarter of 2019.
- Working-hour losses due to workplace closures are reflected in higher levels of unemployment and inactivity, with inactivity increasing to a greater extent than unemployment, thus posing an even greater employment challenge. In addition, the decline in employment is greater for women than for men in most countries.
- These trends translate into substantial losses in labour income with an estimated global decline of 10.7 per cent during the first three quarters of 2020 (compared with the corresponding period in 2019), which amounts to 5.5 per cent of GDP. As a result, poverty levels are increasing. Income support measures for vulnerable and hard-hit groups should be a policy priority.
- The impact of the fiscal stimulus measures on employment has been positive but uneven. In high-income countries, the announced fiscal stimulus measures equate to 10.1 per cent of total working hours, while estimated working-hour losses averaged 9.4 per cent. In low-income countries, the stimulus is equivalent to only 1.2 per cent of total working hours, while working-hour losses averaged 9 per cent. This “fiscal stimulus gap” is therefore around US\$982 billion in low-income and lower-middle-income countries. Filling this gap requires greater international solidarity while improving the effectiveness of stimulus measures.
- In “building back better” in the recovery to the crisis, and restoring progress towards attaining the UN’s Sustainable Development Goals (SDGs) by 2030, urgent priority should be devoted to:
  - strengthening measures and policies to reduce poverty and inequalities and ensure a fair share of the fruits of progress to all;
  - making access to adequate social protection for all a reality, strengthening delivery systems and mobilising resources from diverse sources to finance those systems;
  - significantly boosting public and private investment in women and men – their economic opportunity, productivity and security – in a coordinated effort;
  - increasing investment in employment-intensive sustainable infrastructure – both physical and social – and sustainable enterprise, including digital infrastructure and green technology.

## Economic and social outlook

The global economic and social outlook is shrouded in uncertainty, but we know that the world will be much poorer than it would have been without the virus. Global income could be USD 7 trillion lower by the end of 2021 than what the OECD projected less than a year ago in November

2019<sup>1</sup>. The world will also be more unequal. The pandemic has, in many cases, exacerbated pre-existing inequalities, accelerating trends already in place<sup>2</sup>.

The COVID-19 pandemic has had a more negative impact on economic activity in the first half of 2020 than anticipated and the recovery is projected to be more gradual than previously forecast<sup>3</sup>. The downturn in 2020 affects both advanced economies and emerging market and developing economies. Over 95 percent of countries are projected to have negative per capita income growth in 2020 according to IMF forecasts. The cumulative hit to GDP growth over 2020–21 for emerging market and developing economies, excluding China, is expected to exceed that in advanced economies<sup>4</sup>.

Labour markets around the world are still reeling from the COVID-19 crisis. With activity in labour-intensive sectors like tourism and hospitality expected to remain subdued and the looming menace of the reintroduction of necessarily stricter measures to contain the COVID-19 pandemic, a full recovery in the labour market may take a while, worsening inequalities and increasing poverty.

## Higher levels of unemployment and inactivity

Workplace closures continue to disrupt labour markets around the world - 94 per cent of workers globally reside in countries with workplace closures of some sort – leading to high levels of working-hour losses. In the second quarter of 2020, 17.3 per cent of total working-hours were lost, the equivalent of 495 million jobs, relative to the fourth quarter of 2019. Lower-middle-income countries are the hardest hit, having experienced an estimated decline in working hours of 23.3 per cent (240 million jobs) in the second quarter of the year.

Working-hour losses are expected to remain high in the third quarter of 2020, at 12.1 per cent or 345 million jobs. Moreover, projections for the fourth quarter suggest a bleak outlook with 8.6 per cent of total working-hours lost, or 245 million jobs under a baseline scenario.<sup>5</sup>

Working-hour losses are reflected in higher levels of unemployment and inactivity, with inactivity increasing to a greater extent than unemployment. Rising inactivity is a notable feature of the current job crisis calling for strong policy attention as it is much harder to bring back inactive people in the labour market than the unemployed.

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<sup>1</sup> OECD, "Coronavirus (COVID-19): Living with uncertainty". [OECD Economic outlook, Interim Report](#). September 2020.

<sup>2</sup> J. Stiglitz, "[Conquering the Great Divide](#)", *Finance and Development, Fall 2020 Issue*, IMF.

<sup>3</sup> IMF, [World Economic Outlook Update](#), June 2020.

<sup>4</sup> Ibid.

<sup>5</sup> ILO, [ILO Monitor: COVID-19 and the world of work. Sixth edition. Updated estimates and analysis](#). 23 September 2020.

The decline in employment is greater for women than for men in most countries<sup>6</sup>. Women's relatively high representation in the sectors hardest hit by lockdown orders have indeed translated into larger declines in employment for women than men in numerous countries; and evidence also suggests that lockdowns and stay-at-home orders have increased unpaid care workloads, with the increased hours falling disproportionately on the shoulders of women.

## **Substantial losses in labour income leading to higher levels of poverty and inequality**

These high working-hour losses have translated into substantial losses in labour income (before taking into account income support measures). ILO estimates 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 gross domestic product (GDP). Labour income losses are highest in middle-income countries, reaching 15.1 per cent in lower-middle-income countries and 11.4 per cent in upper-middle-income countries.

When those significant losses are not mitigated by other sources of income, such as social protection transfers, they can often push households into poverty. Formal employees are the most likely to benefit from social security benefits or other public sector measures that cushion the blow of labour income losses. The net income loss for this group will therefore be smaller. In contrast, the 60 per cent of global workers who are informal and thus unlikely to be protected by social protection schemes are particularly vulnerable to income loss and poverty during the COVID-19 crisis.

The rate of relative poverty, which is defined as the proportion of workers with monthly earnings that fall below 50 per cent of the median earnings in the population, is expected to increase by almost 34 percentage points globally for informal workers, ranging from 21 percentage points in upper-middle-income countries to 56 percentage points in lower-middle-income economies<sup>7</sup>. This is in line with the World Bank's new poverty projections, which suggest that by 2021 an additional 150 million people will have fallen into extreme poverty, living on less than \$1.90 per day<sup>8</sup>.

The pandemic has exposed, and in many cases exacerbated, pre-existing inequalities. In many countries, income inequality increased sharply since the 1980s, with adverse social and economic consequences. Various intersecting inequalities have left many workers vulnerable to the effects of COVID-19. Indeed, the impact of COVID-19 has fallen particularly heavily on many of the 2 billion workers who are in informal employment, as well as on workers in jobs with little protection, such as temporary workers, workers under short-term contracts and many of the world's domestic or migrant workers. Inequalities also play out in what happens to people when

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<sup>6</sup> Ibid. For the impact of the crisis on women, see also [ILO Monitor: COVID-19 and the world of work. Fifth edition](#), 30 June 2020.

<sup>7</sup> ILO, [ILO Monitor: COVID-19 and the world of work. Third edition. Updated estimates and analysis](#), 29 April 2020.

<sup>8</sup> World Bank. 2020. [Poverty and Shared Prosperity 2020: Reversals of Fortune](#). Washington, DC: World Bank.

they catch the virus. While some have access to sick leave, health services and continue to receive a salary, for many of those at the bottom of the income distribution, the consequences of COVID-19 have been catastrophic. In “building back better” in the recovery to the crisis, urgent priority should thus be devoted to strengthen measures and policies to reduce inequalities and ensure a fair share of the fruits of progress to all.

As labour income losses are massive, income support measures for vulnerable and hard-hit groups should be a policy priority. Wage subsidies have played a large role in that regard<sup>9</sup>. During the crisis, at least 40 countries have implemented temporary wage subsidies or extended their coverage with the aim of helping businesses retain their workforce and helping workers preserve parts of their incomes. By doing so, wage subsidies have also helped to protect aggregate demand and mitigate the recession. Nonetheless, many employees saw their earnings stagnate or decline, mostly as a result of declining hours of work. While in the five years before the pandemic, global real wage growth fluctuated between 1.6 and 2.2 per cent, data available for the first half of 2020 shows falling average wages in a wide range of countries<sup>10</sup>. In other countries, average hourly earnings increased, largely as a reflection of the substantial job losses among lower-paid workers<sup>11</sup>.

The crisis laid bare some of the major gaps in social protection systems, which as a result, couldn't fully protect workers and their families and avoid the steep increases in poverty and inequalities: close to 40% of the world's population has no health insurance or access to national health services; an overwhelming majority of workers lack the income security to take sick leave; and only one in five unemployed persons worldwide can count on unemployment benefits. Adapting existing systems to provide effective access to social protection for all is paramount in that context.

## **The urgency of providing access to social protection for all**

Social protection systems have been the first line of defence against the adverse impacts of the crisis on people's health, jobs and incomes. Most states have mobilized their social protection systems and, where necessary, have taken measures to reinforce them, as to facilitate effective access to health care, while supporting job and income security for those affected. However, many of the adopted measures have been temporary and often insufficient to offset the steep decline in incomes during this protracted crisis.

While the pandemic is still with us, emerging evidence suggests that the hallmarks of a good social protection policy response comprise four core elements:

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<sup>9</sup> ILO. [Temporary Wage Subsidies](#). Factsheet. 21 May 2020.

<sup>10</sup> ILO. *Global Wage Report 2020/21* (forthcoming).

<sup>11</sup> When most of those who lose their jobs are low-paid workers, this automatically increases the mean of wages of remaining employees. See: [https://www.bls.gov/news.release/archives/empst\\_05082020.htm](https://www.bls.gov/news.release/archives/empst_05082020.htm)

1. First, having a robust social protection system in place before a crisis hits is consequential for policy responsiveness. Social protection systems that provide universal or close to universal coverage, adequate benefit levels and comprehensive provision covering all life-cycle risks have been more agile in providing effective health coverage and sustaining jobs and incomes compared to narrowly targeted 'safety nets' that only respond when people fall into poverty. Countries that already had strong social protection systems in place were able, with some adjustments, to rapidly guarantee access to much-needed healthcare, ensure income security and protect jobs. Countries with only rudimentary social protection schemes have had to improvise under duress, often adopting ad hoc measures.
2. Secondly, the dissonance between social protection systems and the labour market can severely constrain policy responsiveness. The lack of social protection for the 2 billion informal economy workers — 61.2 per cent of the world's labour force — and their families makes them particularly vulnerable to shocks, as they cannot count on social insurance protection nor are they well-served by narrowly targeted social assistance schemes. It is now more urgent than ever to address the wide-ranging factors that trap people and enterprises in informality, and to help them transition from the informal to the formal economy, including by extending social protection coverage to them.
3. Thirdly, even social protection systems with high legal coverage and adequate and comprehensive provision can fail to reach their intended beneficiaries if delivery systems are weak and entitlements are difficult to access. To ensure high take-up of benefits, it is critical that procedures are simplified, benefit information is widely available and up-take is not hampered by onerous eligibility requirements.
4. Fourthly, fiscal capacity is key to build universal and robust social protection systems that make the right to social security a reality for everyone. Our latest figures show that the resources required to close the global financing gap in social protection has increased by approximately 30 per cent since the onset of the COVID-19 crisis. Developing countries would need to invest an additional sum that is about 3.8 per cent of their average GDP to close the annual financing and coverage gaps in 2020; but for low-income countries, the additional resource need is close to 16 per cent of their GDP. This underlines the urgency of mobilising resources from diverse sources. While domestic resource mobilisation must remain the cornerstone of national social protection systems, for low-income countries international support is critical.

It is equally important that countries are able to sustain their levels of social spending when the immediate health crisis subsides, to ensure that everyone is protected against the adverse socioeconomic consequences that are likely to persist, and to counter the dangers of growing poverty, joblessness and inequality. This means streamlining the policy frameworks of all relevant actors with the principles set out in international human rights instruments and social security standards. Today this is particularly relevant for fiscal policies so they can accommodate, rather than undermine, much-needed investments in universal social protection systems, including floors, as called for in the ILO/World Bank [Universal Social Protection initiative](#). Bringing the IMF's social spending floor in line with the social protection floor, would be a big step in the right direction.

## Positive but uneven impact of fiscal stimulus measures on employment

Many countries have adopted large-scale fiscal packages in response to the crisis, particularly to support incomes and businesses. Among countries with sufficient data, a clear correlation can be seen: the larger the fiscal stimulus (as a percentage of GDP<sup>12</sup>), the lower the working-hour losses in the second quarter of 2020. 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<sup>13</sup>.

The fiscal stimulus has been unevenly distributed worldwide when compared to the scale of labour market disruptions. In high-income countries, the announced fiscal stimulus measures equate to 10.1 per cent of total working hours, while estimated working-hour losses averaged 9.4 per cent. In low-income countries, the stimulus is equivalent to only 1.2 per cent of total working hours, while working-hour losses averaged 9 per cent. 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 – the fiscal stimulus gap – is around US\$982 billion in low-income and lower-middle-income countries (US\$45 billion and US\$937 billion, respectively). Significantly, the estimated stimulus gap for low-income countries represents less than 1 per cent of the total value of the fiscal stimulus packages announced by high-income countries.

Nearly nine-tenths of the global fiscal response to the crisis has been in advanced countries.<sup>14</sup> Even in these countries, the outlook for a continuation of this level of effort – averaging 5 per cent of GDP – is uncertain at best given rapidly rising public debt levels. Moreover, less than three percent of global stimulus has occurred in lower-middle-income and low-income countries, and many of these already face severe fiscal constraints, including over a trillion dollars of scheduled external debt repayments in 2020 and 2021.<sup>15</sup> As WBG President David Malpass said, “[the pandemic] could lead to the first wave of a lost decade burdened by weak growth, a collapse in many health and education systems, and excessive debt.”<sup>16</sup>

Filling the stimulus gap in emerging and developing countries requires greater international solidarity while improving the effectiveness of stimulus measures. The poorest countries should not be forced to choose between honouring their debt obligations and protecting their people. The Debt Service Suspension Initiative (DSSI), partly a response to COVID-19 and the need for

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<sup>12</sup> Fiscal stimulus refers here to “above-the-line” measures, which include unemployment benefits, wage subsidies and other transfers, tax cuts and deferrals of tax payments. The recipients of such transfers and tax cuts are households, workers and firms. They are the measures that most directly compensate for losses caused by the labour market disruptions, and are immediately reflected in governments’ fiscal balance, debt and increased borrowing needs.

<sup>13</sup> ILO, *ILO Monitor: COVID-19 and the world of work. Sixth edition. Updated estimates and analysis*, 23 September 2020.

<sup>14</sup> ILO, *ILO Monitor: COVID 19 and the World of Work, Fifth Edition*, 30 June 2020.

<sup>15</sup> UNCTAD, *From the Great Lockdown to the Great Meltdown: Developing Country Debt in the Time of COVID-19*, April 2020.

<sup>16</sup> *Reversing the Inequality Pandemic*. Speech by World Bank Group President David Malpass at Frankfurt School of Finance and Management. 5 October 2020.

countries to have fiscal space and also a recognition that a debt crisis was underway for the poorest countries, enabled a fast and coordinated response to provide additional fiscal space for the poorest countries in the world. But it will not be enough to meet the scale of the crisis, and needs to be broadened and extended through to the end of 2021 with participation of all private and public creditors. In addition, further mechanisms for reducing debt payments will be needed in order to help restart growth and investment and protect the most vulnerable. We welcome the discussion around new tools to push forward with the reduction of the stock of debt for the poorest countries and the proposal by the World Bank and the IMF to the Development Committee for a joint action plan by the end of 2020 for debt reduction for IDA countries in unsustainable debt situations.

## **A human-centred approach to building back better**

The COVID-19 crisis is likely to have profound, lasting effects on the world economy and human condition. The reverberations of the crisis in the world economy are likely to be compounded by the structural transformations of it already underway driven by automation, geopolitics, aging, migration and climate change. A combination of crisis-related and structural pressures could create a perfect storm of challenges for employment, household income and other aspects of human security in many countries over the next decade. These are the ultimate determinants of consumer and investor confidence, aggregate demand and economic growth and development.

Most temporary macroeconomic stimulus, while critically important, is essentially a holding action, a short-term stabilization strategy. It cannot be relied upon to durably *reverse* such a scenario. A more direct, human-centered approach to boosting the level and quality of employment as well as its wider social benefits is required for countries to navigate their way out of the immediate crisis and through the structural transformations of their economies in the years ahead, including in respect of climate action. Experience has shown that decisive climate action cannot be sustained if it is perceived as coming in the absence – let alone at the expense – of broad socioeconomic progress.

Thus, the world economy needs to find a new, or at least supplemental, engine of economic recovery. The longer the pandemic lasts, the greater its disruptive force will be on the fundamental building blocks of economic and social progress: widely available employment for all, skilling opportunities, decent working conditions, adequate social protection and increased gender equality, with all of the contributions to productivity growth, purchasing power and consumer and investor confidence these bring. An extraordinary collective effort focusing more directly on strengthening these cornerstones of national economic strength and social cohesion will be required if the world is to achieve its stated ambition of building back better – and faster – from the crisis.

A coordinated effort to significantly boost public and private investment in women and men – their economic opportunity, productivity and security – would provide the world with the basis for the coordinated strategy it needs to emerge from this crisis faster, stronger and more politically cohesive. If countries could mobilize greatly increased public and private investment in

employment-intensive sectors of their economies and the skilling, workforce transitions and basic protections of their people, the resulting increase in employment, median household income, labor productivity and consumer confidence would raise aggregate demand and economic growth within and among them, creating a virtuous circle of more rapid and resilient global recovery.

This is the human-centered approach to mobilizing economic and social progress that is reflected in both the ILO's Centenary Declaration for the Future of Work (2019) and the Sustainable Development Goals (SDGs). The SDGs, with their emphasis on employment-intensive sustainable infrastructure – both physical and social – and sustainable enterprise is a massive job creation agenda in waiting. Implementation has been slow due mainly to a lack of financing for these sustainable infrastructure and enterprise investment opportunities. This should be a top priority for the IMFC and the World Bank Development Committee in relation to the goal of building back better and faster from the crisis. The ILO therefore welcomes the IMF's call to increase public investment and plan for subsequent new capital spending on digital infrastructure and green technology to spark a strong economic recovery from the coronavirus pandemic<sup>17</sup>.

It is essential that we build back better and “forward”, to cite the IMF Managing Director Kristalina Georgieva<sup>18</sup>, in light of the deep-rooted inequalities the COVID-19 crisis has exposed. Without profound structural changes these will merely intensify, with consequences that would be very difficult to predict.

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<sup>17</sup> IMF. *Fiscal Monitor: October 2020*. Chapter 2: Public Investment for the Recovery.

<sup>18</sup> Kristalina Georgieva. *No lost generation: can poor countries avoid the COVID trap?* Open Letter. The Guardian. 29 September 2020. See also the IMF Twitter account: <https://twitter.com/imfnews/status/1271869972285927431>