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



Time to reinvigorate strategies for sustainable growth and development

Statement by Mr Guy Ryder, Director-General

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Summary

- The risks to economic, social and political stability as a result of inaction in the face of persistent sub-par growth are rising. Growth in the global economy in 2015 is disappointing and prospects for 2016 do not look much better. Slow employment growth, stagnant wages and widening inequality are depressing consumption and deterring investment in many countries.
- On current trends the 60 million global jobs gap opened up by the crisis will widen to around 80 million jobs in 2019. Weakness in labour markets is inhibiting overall growth which in turn feeds back into an uncertain business environment and a further slowing of employment and wage growth. Evidence is piling up from many sources that increased inequality, a reduced labour share and slower and more volatile growth are interconnected.
- Breaking out of a slide into a global slow growth trap requires the mobilization of the full range of policies with a focus on urgent concerted action to fill the global demand deficit. The major component of demand is consumption, so wages, taxes and social benefits should be the focus.
- 2015 is the year in which concerted action on the policy options that both reduce inequality and also boost jobs and growth could lead the global economy away from the risks of low growth for a long time that Managing Director Lagarde has highlighted.
- A new framework for inclusive sustainable development through full and productive employment and decent work is central to a renewed post-2015 global drive to eradicate extreme poverty, reduce inequality and reverse damage to the environment.
- Alongside a rebalancing of fiscal and monetary policies to rekindle growth, investment in infrastructure, skills development, incentives for research and innovation and availability of credit for investment in the real economy are needed to create an enabling environment for the growth of sustainable enterprises.
- Action in 2015 by a significant number of countries, especially the largest economies, to boost global aggregate demand by improving wages and social protection would reactivate investment, reduce precautionary saving, reinforce still fragile recoveries, ease fiscal pressures and reduce risks of deflation. Increased consumption would also have positive spillover effects around the world, transmitted through an increase in the current low rates of trade growth.

Weakness of global growth threatens to become entrenched

1. Growth in the global economy in 2015 is likely to prove disappointing with improved performance in some major countries counteracted by weakening in others. Prospects for 2016 do not look much better.

Financial instability with large swings in exchange rates continues to create major uncertainties. Despite record low interest rates and widely available liquidity, private investment in the real economy is not responding to the easy financing conditions and large cash reserves of the biggest companies. Governments in many countries appear to remain cautious about expanding public investment despite pressing infrastructure needs. Investment has been falling as a share of national income in many countries and in advanced economies is below 20 per cent of GDP, compared to over 25 per cent in the 1990's.

2. Since 2010 successive IMF forecasts of recovery have proved to be over optimistic with the expected results of the prevailing policy stance failing to materialize. The effects of the near crash of the global financial system in 2008 have not yet been overcome and important underlying imbalances that contributed to boom and near-bust remain. Income inequality remains high and the labour share of national income has declined in many countries.¹ Households, after years of stagnant real wages, worries about job security and in some countries burdensome debts, are reluctant to spend. An exception is the very highest income groups who have taken a disproportionate share of the weak recovery. Luxury goods are one of the few sectors of buoyant demand.

3. There were more than 61 million fewer jobs worldwide in 2014 than would have been expected on pre-crisis trends. This short-fall in jobs is a reflection of both increased unemployment and lower labour force participation rates, as many people have dropped out of the labour market. Global employment grew at an average annual rate of 1.7 per cent between 1991 and 2007 but slowed to 1.2 per cent per year between 2007 and 2014. On current trends, the global jobs gap will continue to widen, to around 80 million jobs in 2019.²

4. The prospect of still more young women and men not being able to find a job that sets them on a path that utilizes their capabilities and shields them from the risk of unemployment and poverty is extremely disturbing. The risks to economic, social and political stability as a result of inaction in the face of persistent sub-par growth are rising.

Increased inequality, reduced labour share and weak and volatile growth interconnected

5. Weakness in labour markets is inhibiting overall growth, which in turn feeds back into a further slowing of employment and wage growth. On average, the crisis brought down the 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 and been negative in some countries. 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.

6. Inequality in wage incomes has increased in many countries driven by rises at the very top and stagnation across a broad range of middle to lower income groups. Capital incomes are more unequally distributed and have been rising as a share of total incomes. Evidence is piling up from many sources, including research by the IMF and OECD as well as the ILO, that increased inequality, a reduced labour share and slower and more volatile growth are interconnected.

Urgent concerted action to fill the global demand deficit

¹ Global Wage Report 2014/15: Wages and income inequality, ILO, January 2015

² World Employment and Social Outlook: Trends 2015, ILO, January 2015

7. Breaking out of a slide into a global slow growth trap requires the mobilization of the full range of policies with a focus on urgent concerted action to fill the global demand deficit. The major component of demand is household consumption so a focus on wages as well as taxes and social benefits should take centre stage. This will in turn create investment opportunities and reactivate the channels that should link the financial sector to the real economy. 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.

8. Country circumstances are of course very different and appropriate policy responses will vary. However in the absence of a stronger coordinated effort, particularly from the largest advanced and emerging economies, some countries may turn to wage and price competition policies that would further undermine global demand and growth. Overreliance on export market share to boost domestic growth could lead into a descent into the “beggar-thy-neighbour policies” that the post-1945 architecture of international institutions was designed to avoid.

9. Thus despite the differences that characterize the major economies, it is important to align policy stances with the most urgent objective being 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. 2015 is the year in which concerted action on the policy options that reduce inequality and boost jobs and growth could lead the global economy away from the risks of low growth for a long time that Managing Director Lagarde has highlighted.

2015 must be the launch pad for enhanced global action for sustainable development

10. The multilateral system is devoting considerable effort to the design and launch of a post-2015 agenda for sustainable development with a horizon of 2030. The emerging sustainable development goals are ambitious but the consequences of not realizing them would be grave for the peoples of the United Nations and their planet. A new framework for inclusive growth through full and productive employment and decent work is central to a renewed global drive to eradicate extreme poverty and reduce inequality while at the same time reversing the damage current growth patterns cause to the environment.

11. The march to 2030 begins now. Unless the risk of persistent slow growth can be avoided by ambitious global strategies for inclusive, strong, balanced and sustainable growth, the scale of the 2030 challenges will become ever more daunting.

12. The global labour force is currently growing by around 40 million a year mainly in the developing world and with the largest numbers in South Asia and Sub-Saharan Africa. The annual rate of growth will slowly decline over the next 15 years. Most of these young women and men are only able to find work in the informal economy where they are unlikely to benefit from any social benefits or labour law protections. Although most youth now have more years at school than their parents, they may not have the skills needed to find the jobs that hold the prospect of an escape from the threat of poverty. They will thus risk joining the 780 million women and men working hard and long but unable to earn enough to lift themselves and their families out of \$2 a day poverty.

13. Increased female participation in employment and an end to discrimination at work are essential foundations for achieving gender equality by 2030. Reducing the global gap in female participation in employment by 25 per cent by 2030 would require over 200 million new jobs.

14. Together with closing the global jobs gap caused by the financial crisis these trends point to the need to ensure that by 2030 some 800 million new decent jobs are created and a further 780 million existing poverty level jobs are transformed into productive employment that yields an income at least above the

levels needed for family subsistence. The bulk of the decent jobs needed are in developing countries, especially Africa and South Asia.

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. 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.³

Time to reinvigorate strategies for sustainable growth and development

17. The multilateral system in which the IMF plays a key role was built to avoid low growth and economic instability through “the promotion and maintenance of high levels of employment and real income and the development of the productive resources of all members as primary objectives of economic policy...”⁴ Alongside a rebalancing of fiscal and monetary policies to rekindle growth, underlying structural weaknesses in labour markets that have weakened the consumption driver of demand and led to an excess of savings over investment need to be addressed with urgency. The following actions would both reduce inequality and boost jobs and growth and if taken by many countries would form an agenda for strong, inclusive, balanced and sustainable growth:

- Increasing minimum wages (this addresses working poverty and puts money in households with high propensity to consume)
- Tackling gender discrimination in employment, increasing female participation (reducing pay gaps, improving affordability and quality of child and elder care, improving parental leave)
- Addressing weakened workers’ bargaining power by strengthening collective bargaining systems (this would counteract stagnation of middle range of incomes)
- Boosting active labour market policies to support groups with low employment participation rates, such as persons with disabilities, ethnic minorities
- Increasing investment/employment incentives in regions of high unemployment/low participation
- Increasing the progressivity of tax systems and eliminating inequality-increasing taxes and tax loopholes and incentives
- Extending/improving social protection systems, including health, unemployment insurance, pensions, child support, public employment programmes
- Improving education and health services to low income groups to reduce inherited disadvantage

18. Action in 2015 by a significant number of countries, especially the largest economies, to improve wages and social protection would boost global aggregate demand, reactivate investment, reduce precautionary saving, reinforce still fragile recoveries, ease fiscal pressures and reduce risks of deflation. 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.

³ World Social Protection Report 2014/15, ILO, 2014.

⁴ Article 1 (ii) of the IMF’s Articles of Agreement.