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

On behalf of the International Labour Organization



Avoiding the Risk of a Slow Growth Trap

Statement by Mr Guy Ryder, Director-General

International Labour Organization

International Monetary and Financial Committee and Development Committee

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Summary

- With expectations for growth weak or weakening in most parts of the world economy, the global employment rate has slipped to 55.7 per cent, almost a full percentage point below the pre-crisis rate. Global unemployment is expected to reach 202 million in 2013, of whom 73 million are young women and men. Diminished growth as forecast by the IMF will widen further the global jobs gap.
- In addition, some 870 million women and men are not earning enough to lift themselves and their families out of poverty, measured at the \$2 a day per person line. The ILO welcomes the focus of the World Bank Group's new strategy on the goals of ending extreme poverty by 2030 and promoting shared prosperity by fostering income growth of the bottom 40 per cent of the population in every country. Reaching these twin goals can only be achieved by creating more and better jobs.
- An essential condition for moving out of a prolonged global slow growth trap is the rise in purchasing power that would be released by a sustained increase in the share of the world's workforce earning enough to escape the risk of severe poverty. A positive trend in this regard is that by 2017 the share of "middle class" workers is expected to have risen to 33 per cent while those living on under \$4 a day will have fallen to 48 per cent from 92 per cent since 1991.
- However, the slow pace of overall job creation, and in some countries continuing net job destruction, coupled with falls in real wages in some countries and a lag behind productivity growth in most others, has kept consumption in check and exacerbated the global weakness in demand stemming also from weak investment and fiscal consolidation.
- Following a brief pause in the immediate aftermath of the crisis, the highest incomes have resumed their upward rise in most advanced economies. In many developing countries, growth has also been accompanied by rising inequality and disparities, often with a geographic dimension in the form of lagging regions.
- Evidence is accumulating that shifts in the distribution of labour income between households and in factor shares between capital and labour have affected the strength, sustainability and balance of growth. Negative feedback loops between labour market developments and private sector investment and fiscal balances risk a vicious spiral of slowing growth. Integrating macroeconomic and financial policies with employment and social policies that foster inclusive growth is now widely recognized as the way forward.
- G20 Leaders stated in St Petersburg that, "Strengthening growth and creating jobs is our top priority and we are fully committed to taking decisive actions to return to a job-rich, strong, sustainable and balanced growth path." Jobs are central to a new framework for both macroeconomic policy for recovery and long term development. In order to deliver growth and rising living standards, those jobs have to be productive and of a quality that enables working families to put the spectre of dire poverty behind them – what the ILO has called decent work.

Slowing global growth increases the scale of the global jobs challenge

1. With expectations for growth weak or weakening in most parts of the world economy, the global employment rate has slipped to 55.7 per cent, almost a full percentage point below the pre-crisis rate. Global unemployment remains substantially above its pre-crisis level and is expected to reach 202 million in 2013, of whom 73 million are young women and men. The crisis has led to a rise of 32 million in the number of unemployed over the past five years.
2. On current growth forecasts unemployment will continue to drift up in 2014 and on average, there will be 2.5 million more unemployed every year until 2018. Adding together the increase in unemployment with the drop out from employment, the 2013 jobs gap compared to 2007 is over 70 million.¹ The diminished growth prospects forecast in the latest IMF World Economic Outlook will lead to a further widening of this global jobs gap. Slower growth in emerging economies will reduce the pace of job creation needed by a growing labour force with adverse consequences for first time job seekers.
3. The youth unemployment rate is expected to reach 12.8% in 2013, as high as during the peak of the crisis in 2009, and will continue to rise, reaching 13.0% in 2015, with a growing share out of work for more than six months. Furthermore, the numbers of young people not in employment, education or training has increased to 15.8 per cent of the youth cohort in industrialized countries in 2012. Young women and men in work are also often only able to find low paid temporary and part-time jobs.
4. Looking beyond 2015, the world's labour force is expected to grow in the period up to 2030 by some 470 million. As argued by Managing Director Christine Lagarde², it is essential to lift the rate of women's participation in the work force. Together with narrowing the jobs gap that has grown since 2007, the longer term global challenge is creating 600 million new jobs in the next fifteen years. The IMF has stepped up its analytical work on employment and growth and the ILO looks forward to working together to support countries in addressing the jobs challenge and in building and strengthening social protection systems.
5. Furthermore, some 870 million women and men are not earning enough to lift themselves and their families out of poverty, measured at the \$2 a day per person line. The twin goals of eradicating extreme poverty and lifting the incomes of the lowest 40 per cent of the world's population, as forcefully proposed by the World Bank President Jim Yong Kim³ can only be achieved by tackling the jobs challenge directly. The quality as well as quantity of jobs matters greatly.

Declining Poverty and an expanding “middle class” in emerging economies

6. One positive trend that has persisted through the crisis is the reduction in the numbers of people living in extreme poverty in developing economies. There has also been an expansion of the middle-income group albeit at a slower pace than during the previous decade. In 1991, an estimated 12.7 per cent of developing country workers lived on incomes of between US\$4 and US\$13 per day. By 2017 this share of “middle class” workers is expected to have risen to 33 per cent while those living on under \$4 a day will have fallen to 48 per cent from 92 per cent.⁴
7. Nevertheless, in emerging and developing countries, the share of informal employment still remains high, standing at more than 40 per cent in two-thirds of countries for which data is available. The policy challenge for many countries is to consolidate earlier gains, notably by facilitating the transition

¹ In addition to the rise in recorded unemployment since 2007 of 32million, some 39 million people have dropped out of the labour market as job prospects proved unattainable, leaving a jobs gap of over 70 million in addition to the 170 million existing level of unemployment in 2007.

² Women can help grow the world economy

<http://blog-imfdirect.imf.org/2013/09/23/lagarde-women-can-help-grow-the-world-economy/>

³ World Bank Group Strategy, (DC2013-0009), September 18, 2013

⁴ Employment and Economic Class in the Developing World, Steven Kapsos and Evangelia Bourmpoula, ILO Research Paper No. 6, International Labour Office, June 2013

to the formal economy and building adequate and sustainable social protection systems. An essential condition for moving out of a prolonged global growth trap is the rise in purchasing power that would be released by a sustained increase in the share of the world's workforce earning enough to escape the risk of severe poverty. Slowdown in emerging economies threatens to stop or reverse this trend.

Increasing inequality contributing to weakening growth

8. Income inequalities within countries have widened over the past two years, resuming the trend that preceded the onset of the global financial crisis. Evidence suggests a widening of wage inequalities, as following a brief pause in the immediate aftermath of the crisis the highest incomes have resumed their upward rise in most advanced economies. The World Bank has also confirmed that in many developing countries, growth has been accompanied by rising inequality and disparities, often with a geographic dimension in the form of lagging regions.⁵
9. Some countries have however bucked this trend by introducing determined strategies to raise the incomes of those at the lowest end of the spectrum. Between 1999 and 2010, the share in the Brazilian population in the middle income ranges increased by 16 percentage points, poverty rates fell and income inequality narrowed. Ambitious labour and social policies, such as minimum wage increases, extension of social protection, the formalization of employment, public employment programmes, and increased investments in health, education and infrastructure drove this important progress.⁶
10. The slow pace of overall job creation, and in some countries continuing net job destruction, coupled with falls in real wages in some countries and a lag behind productivity growth in most others, has kept consumption in check and exacerbated the global weakness in demand stemming also from weak investment and fiscal consolidation. Weak labour market performance in many countries is thus an additional drag on recovery and a contributory factor to the growing risk of a prolonged period of sub-par economic growth.

Inclusive growth key to recovery

11. Negative feedback loops between labour market developments and private sector investment and fiscal balances increase the risk of a vicious spiral of slowing growth. Evidence is accumulating that shifts in the distribution of labour income between households and in factor shares between capital and labour have affected the strength, sustainability and balance of growth.⁷ The prolonged period of productivity growth exceeding wage growth, coupled with policy changes that have reduced the redistributive effects of social transfers and taxes, has weakened consumer demand or led to unsustainable household borrowing in many countries. This is a fundamental cause of the weakness of investment in the real economy; a trend that persists despite low interest rates, readily available liquidity and business-friendly reforms.
12. A key foundation for sustained growth and development is therefore a path of productivity growth (supply) that is matched by increased household purchasing power (demand), coupled with a savings ratio that supplies sufficient investment finance to generate the innovations and structural changes needed to fuel employment and productivity growth. While national economies can grow through exports, the world economy cannot. A coordinated effort to reverse rising inequality and un- and underemployment is essential if a slow growth trap is to be avoided.
13. Productivity growth is driven in large measure by shifts in employment from lower to higher productivity jobs as well as by investments that increase the quality and quantity of capital in an economy. Growth is thus facilitated by the adaptability of employment patterns which in turn depends upon the ease with which workers are able to change to better jobs without risk of prolonged unemployment and becoming trapped in poverty. Investment in training and the entry of young workers into secure employment are critical areas. Social dialogue and collective bargaining are important mechanisms for ensuring that the benefits and costs of structural change are fairly shared.

⁵ *ibid*

⁶ Repairing the social fabric: World of Work report 2013, ILO

⁷ Global Wages Report 2012/3: Wages and Equitable Growth, ILO

14. Recent adjustment programmes in a number of countries hard-hit by the crisis have undermined collective bargaining and reduced employment security. Especially at the present time of weak economic growth it is important that adjustment policies do not entrench unemployment/underemployment or further weaken the contribution of wages to recovery.

Integrated policies for sustained and inclusive development and growth

15. The mix of integrated policies for sustained and inclusive development and growth will vary between countries at different levels of development. Institutional structures especially in the labour market also display a wide range of characteristics. However, the policy agenda for urgent action to avoid the risk of becoming trapped in a slow growth trough contains many features common to most countries. The challenge of integrating macroeconomic, financial, and labour market policies to foster growth and employment was recently addressed at a joint meeting of Employment and Labour and Finance Ministers of the G20.⁸ They highlighted:

- Fostering a sound domestic investment and business climate, especially for SMEs, start-ups, and venture business;
- Delivering reforms to foster growth and job creation, address labour market segmentation, reduce informality, and promote inclusive labour markets, while fully respecting workers' rights and social protection;
- Implementing labour market and social investment policies that support aggregate demand and reduce inequality, such as broad-based increases in productivity, targeted social protection, appropriately set minimum wages with respect to national wage-setting systems, national collective bargaining arrangements, and other policies to reinforce the links between productivity, wages, and employment;
- Implementing policies to increase labour force participation, including among youth, women, older workers, and people with disabilities, as well as reducing structural unemployment, long-term unemployment, underemployment, and job informality;

Promoting well-targeted cost-effective and efficient active labour market programmes, focused on skills training and upgrading, especially for the vulnerable groups.

A global framework for sustainable development

16. Governments, multilateral development organizations and a wide range of business, labour, academic and civil society bodies are engaged in a profound reflection on the shape the global framework for sustainable development should take after 2015. The World Bank's debate about its strategy, initiated by President Jim Yong Kim, comes at a time when ambitious goals can be set and strengthened policies and delivery mechanisms designed.
17. Widespread public consultations and expert analysis led by the UN system has confirmed that jobs must be central to a new framework.⁹ Furthermore, the jobs have to be productive and of a quality that enables working families to put the spectre of dire poverty behind them – what the ILO and UN has called decent work. The ILO welcomes the focus of the World Bank Group's new strategy on the goals of ending extreme poverty by 2030 and promoting shared prosperity by fostering income growth of the bottom 40 per cent of the population in every country. The emphasis on strengthened engagement and partnership is equally encouraging.
18. The stress placed by the World Bank's new strategy on "Progress in building shared prosperity is incompatible with increasing inequality"¹⁰ matches the ILO's long standing mandate for the promotion of social justice. The ILO will step up its work with the World Bank to support country specific policies and investments that strengthen growth, job creation, social inclusion, and sustainability. Recognition of mutual competencies and strengths in team solutions will be vital. An encouraging start has already been made on shaping collaboration on research and enhanced statistical capacities.

⁸ Communiqué of the July 19th G20 Labour and Employment and Finance Ministers' Meeting in Moscow

⁹ A Million Voices: The World We Want : A Sustainable Future with Dignity For All, UN, 2013

¹⁰ World Bank Group Strategy, p 2.