



International Monetary and Financial Committee

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



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Summary

- While the overall economic outlook is improving, the global labour market still remains weak and fragile.
- Global unemployment is expected to rise by 2.8 million in 2018, with diverging trends at country and regional level.
- Wages are also subdued for both economic and institutional reasons and the slow wage growth may have significant economic and social consequences.
- Progress in formalizing the informal economy and reducing poverty has slowed down in recent years.
- The benefits of trade need to be shared more inclusively. While importing and exporting firms tend to pay higher wages than firms not engaged in trade, their productivity premiums outstripped wage gains to workers.
- Gender inequality at work reduces the productive potential of economies and is a critical macroeconomic issue. Reducing the gender gap in labour force participation rates by 25% by 2025 could boost global employment by 189 million and raise global annual GDP growth by almost half a percentage point. However, progress remains too slow to reach this goal.
- Youth unemployment continues to creep up, and in developing and emerging economies millions of employed youth still live in poverty.
- Commitments to a comprehensive social protection floor must be implemented.
- The ILO's 2017 *World Employment and Social Outlook* emphasizes the importance of sustainable enterprises that invest in their workforces through on-the-job training, promoting equity in employment opportunities and securing worker protections, highlighting the recognition in the UN 2030 Agenda for Sustainable Development of the central role that sustainable enterprises play in productive and equitable growth.

Growth has strengthened, but the global labour market remains weak

1. While recent reports show that the economy is gaining strength, particularly in some advanced countries, this has not yet translated into noticeable improvements in the aggregate global labour market picture. In fact, global unemployment levels remain elevated at 5.8 percent, with no prospect of decline in the near term.¹ The ILO is projecting that global unemployment will increase by 3.4 million in 2017 to reach a level in excess of 201 million. The ILO expects global unemployment to increase in 2018 by a further 2.7 million as the expansion of the labour force continues to outstrip employment creation.
2. Global labour market trends mask sharp contrasts at the regional and country level. In the last six months, slightly better-than-expected labour market outcomes in some advanced economies have been offset by worse than expected trends in a few large developing and emerging economies.

Continuing subdued wage growth has important economic and social implications

3. Along with sluggish improvements in employment, wages are depressed in many countries. The ILO has been closely monitoring global wage developments, not only for their economic consequences, but also for their social and political implications.² In this respect, we welcome the analysis of recent wage trends in the October 2017 World Economic Outlook (WEO). We agree that recent wage growth has often lagged behind labour productivity growth. If this trend continues, it will have significant impacts on inflation rates and other macroeconomic variables.³ While these wage developments have a close relationship to overall weak growth, they are also associated with the expansion of non-standard forms of work, and in particular with involuntary part-time work, as the analysis in the WEO report demonstrates. Recent technological changes are expected to further diversify employment patterns, and there is a growing need for careful monitoring and policy actions to ensure that these developments do not lead to the erosion of wages, particularly for workers in low-paid and vulnerable employment.
4. Institutional factors also underly low wage growth. These factors include the continued weakening of collective bargaining worldwide and the decline in trade union strength.
5. It is now well understood that stagnating real wages and a declining wage share have had both social and economic consequences. On the social side, the disparity between economic growth and wage growth means that workers and their families are not receiving their fair share of the gains they have helped to generate. This fuels frustration, hampers social cohesion, and leads to the political populism we are witnessing across the world. On the economic side, low wage growth dampens household consumption and investment, which can reduce aggregate demand, particularly when wages stagnate in many large economies at the same time.⁴

Slow progress in formalization and poverty reduction hinders sustainable development

6. In developing countries, informal employment remains pervasive. However, significant progress has been made in reducing the proportion of workers in vulnerable employment (a subset of informal work that includes own-account workers plus contributing family workers), and this has contributed to the reduction in the incidence of extreme poverty.
7. More recently, this progress has slowed significantly or stalled altogether. The rate of vulnerable employment is expected to decline by less than 0.2 percentage points a year in 2017 and 2018,

¹ ILO, 2017, *World Employment and Social Outlook: Trends*, Geneva, ILO,

² ILO, 2017, *Global Wage Report 2016/17*, Geneva, ILO

³ IMF, 2017, *World Economic Outlook* (October 2017), Chapter 2 “Recent wage dynamics in advanced economies: Drivers and implications”.

⁴ Recently, there seems to be an emerging consensus, including among central bankers, that higher nominal wage growth is desirable in most advanced economies. Financial Times, “Unions look to Draghi as unlikely ally”, 29 September, 2017.

leaving some 1.4 billion people world-wide in chronically poor quality jobs.⁵ Globally, 760 million women and men are working but not able to lift themselves and their families above the \$3.10 a day poverty threshold. The absence of decent work opportunities is dangerously destabilizing for economic, social, environmental and political development and jeopardizes realization of the 2030 Sustainable Development Goals.

The benefits of trade must be shared more broadly

8. International trade can stimulate employment growth by providing firms more and better access to the global market. However, as a recent ILO report shows, the economic benefits derived from trade are not shared in an inclusive manner.⁶ On average, exporting and importing firms are more productive and pay higher wages than non-trading firms. Yet, the productivity premium for exporting and importing outweigh the wage premium by 13 and 5 percentage points, respectively.
9. This further explains why, in many open economies, real wage growth has not kept pace with productivity improvements, and the labour share of output has declined. Effective policies that address the distributional impacts of trade are needed to realize the full potential of the global trading regime.

Close gender gaps to boost employment and growth

10. Gender inequality at work reduces the productive potential of economies and is a critical macroeconomic issue. Recent ILO estimates suggest that achievement of the G20 leaders' commitment to reduce the gap in participation rates between men and women by 25 % by 2025 could boost global employment by 189 million and raise global annual GDP growth by almost half a percentage point over the next eight years. Most of these benefits would be concentrated in large emerging economies because of their population and their wide gender gaps.
11. Given the importance of social norms in explaining gender gaps, policy responses must address the root causes of occupational segregation, diversify employment opportunities for both women and men, and address the needs of workers to balance the demands of work and family. Policy responses must also address discrimination both within and outside the workplace and promote equal remuneration for work of equal value.

Increased public expenditure is required to tackle youth unemployment

12. Youth unemployment continues to creep up. In 2017 and 2018 the ILO expects global youth unemployment to exceed 70 million, which represents one in eight persons in the global youth workforce.⁷ Young people in the labour force are three times more likely to be unemployed than adults.
13. The employment prospects of young people are more sensitive than those of older workers to the business cycle. This increases the need for counter-cyclical macroeconomic policies, including automatic stabilizers. ILO's recently published report on youth⁸ also calls for actions for a comprehensive strategy reflecting the interaction and interdependence of policies and programmes and appropriately designed wage subsidies to enhance skills, offer meaningful work experience and improve long-term employment prospects for youth. Self-employment programmes – with formalisation as a conditionality - can make formal employment an attractive alternative for young people and their enterprises, both disproportionately represented in the informal economy.

⁵ ILO, 2017, *World Employment and Social Outlook: Trends 2017*, Geneva, ILO

⁶ ILO, 2017, *World Employment Social Outlook: Sustainable enterprises and jobs*, Geneva, ILO.

⁷ ILO, 2017, *World Employment social outlook: Trends*, Geneva, ILO.

⁸ ILO, 2017, *Rising to the youth employment challenge: new evidence on key policy issues*, Geneva, ILO, forthcoming

Commitments to a comprehensive social protection floor must be maintained

14. Social protection is not yet a reality for a majority of the world's population, despite some progress over the last few years.⁹ Achieving inclusive labour markets and inclusive growth requires a comprehensive, equitable, and sustainable social protection system, as specified in ILO's Social Protection Floors Recommendation, 2012 (No. 202). The 2030 Agenda underscores the importance of social protection: SDG Target 1.3 focuses on implementing nationally appropriate social protection systems as an essential ingredient in eliminating poverty. Reinforcing this approach, G20 countries have recognized the importance of comprehensive social protection systems by adopting Policy Recommendations for Promoting More Equitable and Sustainable Social Protection Systems (2016), which recommend formulating "effective policies for expanding social security coverage, particularly as required by Goal 1.3 of the 2030 Agenda for Sustainable Development ... as well as the ILO's Social Protection Floors Recommendation, 2012 (No. 202)."

The Global Deal to promote social dialogue provides a platform for progress

15. The former Chief Economist of the IMF, Olivier Blanchard, demonstrated that consultations and negotiations between trade unions and employers at the firm or industry level could help economies adjusted to economic shocks and mitigate any adverse consequences for employment. Increasing evidence shows how social dialogue can help economies withstand economic shocks and mitigate any adverse consequences for employment. Building on this evidence, the ILO and the OECD together with the Government of Sweden have recently produced a new publication as part of the Global Deal, setting out the business case for social dialogue.¹⁰

Sustainable enterprises boost growth

16. The ILO's 2017 *World Employment and Social Outlook* provides evidence to inform the international debate about the contribution of enterprises to decent work and economic growth. It finds that firms that invest in the sustainability of their workforce - through on-the-job training, promoting equity in employment opportunities and securing workers' protection – and also invest in other important factors of production such as innovation, and engage in external markets, can be highly competitive without sacrificing decent work. Its conclusions highlight the recognition in the UN 2030 Agenda for Sustainable Development of the central role that sustainable enterprises play in productive and equitable growth.

⁹ ILO, 2017, *World Social Protection Report 2017-19*, Geneva, ILO, forthcoming

¹⁰ ILO and OECD, Thematic Brief, "Achieving decent work and inclusive growth : The Business case for social dialogue", September 2017.