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**Statement by Mr. Ryder  
International Labour Organization**





## **Weak outlook for jobs at heart of uncertain global economic prospects**

**Statement by Mr Guy Ryder, Director-General**

**International Labour Organization**

**International Monetary and Financial Committee**

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### ***Summary***

- Despite a mild pick-up compared to 2016, global economic growth in 2017 and 2018 is insufficient to start reducing global unemployment, which the ILO expects to reach over 200 million this year.
- Progress in reducing vulnerable employment in developing countries has slowed risking the achievement of the 2030 Sustainable Development Goals.
- The prolonged period of slow growth since the global financial crisis is damaging productivity. Demand-side as well as supply-side policies are needed to rekindle the positive relationship between productivity and real wage growth through increased investment, innovation, sustainable enterprise creation and decent work.
- One in eight of the global youth workforce, more than 70 million young women and men, are expected to be unemployed in 2017.
- Real wage growth in 2015 averaged 1.7 per cent but was only 0.7 per cent excluding China. 2016 is likely to record a pick-up in advanced economies but declines in several large emerging economies. In many countries, the averages mask an uneven distribution with most workers experiencing very little rise in real wages.
- Since the 1990s a gap between real wage growth and productivity growth has resulted in declining labour income shares in many advanced and emerging economies. ILO research suggests a correlation between declining labour income shares, rising income inequality and slow growth.
- Gender inequality persists in global labour markets, in respect of opportunities, treatment and outcomes. As well as an issue of social justice, gender inequality reduces the productive potential of economies.
- People's perceptions of the fairness of globalization are closely connected to the realities of job prospects. Investing in employment and social policies to facilitate adjustment constitutes a key aspect of the social pillar of open market economies.
- Enhanced employment and social policy packages can make growth and development more inclusive and stronger and are key macroeconomic tools especially when cyclical and structural constraints are inhibiting full recovery of the global economy.
- Grasping the opportunity to shape a global path to faster and more inclusive growth and development must not be missed. A much stronger focus, nationally and internationally, on employment and social policies that address directly widespread concern about prospects for jobs and living standards is essential.

### ***Mild pickup in growth insufficient to revive employment growth***

1. Despite a mild pick-up compared to 2016, global economic growth is expected to remain below long term trends in 2017 and 2018. Against this background 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 increase in global unemployment is concentrated in emerging economies and reflects the continuing effects of deep recessions in 2015 and 2016 in several countries. Developments in Latin America and the Caribbean are of particular concern as the unemployment rate is expected to rise by 0.3 percentage points, to reach 8.4 % in 2017.<sup>1</sup>
2. Unemployment is expected to decline in advanced economies. A slow downward trend in much of Europe masks, however, a rise in long term unemployment. In the EU-28 the number of unemployed who have been searching for a job for 12 months or longer has risen sharply over the last four years to reach 47.8 per cent of total unemployment in mid-2016.
3. The prolonged period of slow growth since the global financial crisis is damaging productivity. Demand-side as well as supply-side policies are needed to rekindle the positive relationship between productivity and real wage growth through increased investment, innovation, sustainable enterprise creation and decent work.

### ***Slow growth in decent work brakes poverty reduction in developing countries***

4. Most workers in developing countries are not covered by social protection systems. When labour markets slacken these workers need to join or remain in the informal economy to try to earn some income. Vulnerable employment, which measures the share of own-account workers plus contributing family workers in total employment, is a widely available measure of the scale of such informal work. Between 2000 and 2010 significant progress was made in reducing the proportion of workers in vulnerable employment, contributing to the parallel reduction in the incidence of extreme poverty. This was a period of robust growth and rising incomes in most developing countries. 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, 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. South Asia and Africa, where the age profile is still young, account for three quarters of working poverty. In absolute numbers working poverty is increasing in these two regions although as a share of the working population it is slowly falling to just under half in South Asia and around 60 per cent in Africa. The absence of enough decent work opportunities is dangerously destabilizing for economic, social, environmental and political development and jeopardizes realization of the 2030 Sustainable Development Goals.

### ***Lack of decent employment prospects for youth rings a global alarm***

6. Youth unemployment is a major concern in all regions because of the immediate and longer term social and political costs. Both the absolute level and the rate of global youth unemployment increased marginally in 2016. The ILO projects a further increase in youth unemployment to more than 70 million in 2017, or one in eight of the global youth workforce. Much of the increase is concentrated in Latin America, the Caribbean and sub-Saharan Africa. Furthermore, ILO School to Work Transition Surveys show that in low income developing countries three quarters of young people are only finding work in the informal economy.

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<sup>1</sup> World Employment and Social Outlook: Trends 2017, Geneva, ILO, 2017

7. Looking at longer term trends, between 1996 and 2016 the global youth labour force participation rate declined by 10 percentage points. In many countries after the global economic crisis, young people became discouraged by the lack of decent job opportunities and gave up searching for a job. A longer running and more positive development is that young people are remaining longer in education. But this has implications for the ability of societies to support both the young and the old who are not working or making a significant contribution to output and the tax base. Urgent priorities are therefore to create decent jobs for both the youth who are officially unemployed plus those who have stopped searching for work as well as ensuring a high quality of education and training.<sup>2</sup>

### ***Wage growth remains subdued for all but the very highly paid***

8. In the wake of the financial crisis of 2008–09, global real wage growth started to recover in 2010, but has decelerated since 2012, falling from 2.5 per cent to 1.7 per cent in 2015, its lowest level in four years. If China, where wage growth was faster than elsewhere, is not included, real wage growth has fallen to 0.9 per cent in 2015.<sup>3</sup> In 2016, real wages declined in a number of large emerging economies and commodity exporters such as Brazil, Indonesia, Mexico, Russia, South Africa and Australia. In some countries, significant cuts in real wages led to marked deteriorations in living standards.
9. Among developed G20 countries, real wage growth rose from 0.2 per cent in 2012 to 1.7 per cent in 2015, the highest rate of the last ten years, mainly driven by increases in the USA and Germany. In 2016 a number of other advanced G20 economies, including the United Kingdom, France and Italy joined this trend and recorded modest increases in average real wages.
10. Average wages do not tell the story of how wages are distributed among different groups of wage earners. During recent decades wage inequality has increased in many countries around the world and is frequently correlated with greater household income inequality and declining labour shares. In many countries, average wages are pulled up by significant increases at the very top of the wage distribution often in the form of bonuses and benefits.
11. The ILO has tracked the trend in average wages and productivity in a sample of 36 advanced economies since the late 1990s. Over this period labour productivity growth exceeded average real wage growth by roughly 10 percentage points. This gap between real wage growth and productivity growth has resulted in declining labour income shares. Similar long term trends are evident in the majority of emerging and developing countries where data is available. Recent ILO research suggests a correlation between declining labour income shares, rising income inequality and slow growth.
12. At the macroeconomic level, sustainable wage growth is central to maximizing aggregate demand. Weak wage growth for the bulk of workforce represents a drag on household consumption and domestic demand – a prospect that is particularly relevant in the current global economic context characterized by subpar and fragile growth. In most countries the post-tax and benefit income distribution is less unequal than the “market” distribution, however it too has widened in many countries as redistributive policies have failed to counteract increased wage inequality and higher incomes to capital. Excessive inequality tends to contribute to lower economic growth and less

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<sup>2</sup> Global employment trends for youth 2015: scaling up investments in decent jobs for youth, Geneva, ILO, 2015

<sup>3</sup> Global Wage Report 2016/17: Wage inequality in the workplace, Geneva, ILO, 2016

social cohesion.<sup>4</sup> As the April 2016 IMF World Economic Outlook pointed out, in some countries the nature of political discussions has shifted as a result of “growing income inequality as well as structural shifts, some connected with globalization, that are seen as having favoured economic elites while leaving others behind.”<sup>5</sup>

13. The ILO welcomes the analysis in the April 2017 World Economic Outlook of how the intertwined forces of technology and trade have tended to lower labour’s share of national income in many countries. Its policy conclusions focus on active labour market policies, greater tax progressivity, more effective investment in education, and changes to housing and credit markets that facilitate worker mobility. These are important, but policies that act directly on wages are also needed. These include minimum wages and the promotion of collective bargaining, which IMF as well as ILO research has shown to reduce wage inequality and enable a closer alignment of wage and productivity development.<sup>6</sup>

### ***Gender inequality at work***

14. Inequality between women and men persists in global labour markets, in respect of opportunities, treatment and outcomes. Over the last two decades, women’s significant progress in educational achievements has not translated into a comparable improvement in their position at work. In many regions in the world women are more likely to become and remain unemployed, have fewer chances to participate in the labour force and – when they do – often have to accept lower quality jobs. Progress in surmounting these obstacles has been slow and is limited to a few regions across the world. The unequal distribution of unpaid care and household work between women and men and weaknesses in social care are important determinants of gender inequalities at work.<sup>7</sup>
15. Gender inequality at work reduces the productive potential of economies and is a macro-critical issue. “Economic growth and stability are necessary to broaden women’s employment opportunities, but at the same time, their participation in the labour market is an important driver of growth and stability. In rapidly aging economies in particular, higher female labour force participation can mitigate the negative impact of a shrinking workforce on potential growth.”<sup>8</sup>
16. In 2015, the global gender gap in the employment rate amounted to 25.5 percentage points in women’s disfavour, only 0.6 percentage points less than in 1995. Furthermore, women are over-represented in low paid sectors and the informal economy. Among wage and salaried workers, substantial gender wage gaps are narrowing slowly. Among 37 countries and territories with data for two periods between 1999 and 2013, the gender wage gap has declined from 21.7 to 19.8 per cent. Without targeted action, at the current rate of decline, pay equity between women and men will not be achieved before 2086.
17. A job that prevents workers from balancing their work commitments with the need to care for their family members is not a decent job. A 2016 global survey as part of the ILO’s Women at

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<sup>4</sup> Ostry, J.D.; Berg, A.; Tsangarides, C.G. 2014. “Redistribution, inequality, and growth”, IMF Discussion Note SDN/14/02, International Monetary Fund.

<sup>5</sup> World Economic Outlook April 2016: Too slow for too long, International Monetary Fund

<sup>6</sup> Inequality and Labor Market Institutions, Florence Jaumotte and Carolina Osorio Buitron, IMF SDN 15/14

<sup>7</sup> Women at Work: Trends 2016 International Labour Office ILO, 2016

<sup>8</sup> Women, work, and economic growth: leveling the playing field, edited by Kalpana Kochhar, Sonali Jain-Chandra, and Monique Newiak. International Monetary Fund, 2016. (page 3)

Work Centenary Initiative of perceptions about women and work found that 70 per cent of women and 66 per cent of men would prefer that women work at paid jobs. This view notably includes a majority of women who are not currently in the workforce and holds true in almost all regions worldwide, including several regions where women's labour force participation is traditionally low, such as the Arab States. People in the vast majority of countries mention "balance between work and family" as one of the top challenges facing women who work at paid jobs.<sup>9</sup> Affordable and accessible child and elder care is essential for working women and men with family responsibilities and makes an important contribution to the performance of the economy.

### ***Discontent with globalization rooted in shortfall in decent work and increased inequality***

18. People's perceptions of the fairness of globalization are closely connected to the realities of job prospects. The weakness of global labour markets and their failure to recover fully from the financial crisis has led to a widespread frustration with the seeming inability of "globalization" to offer a realistic chance of decent work for all.
19. Recent research on the impact of imports from China and Mexico on jobs in the USA shows that in localities where a major industrial employer has become exposed to increased imports, employment and wages fell both in the affected industry and the local economy.<sup>10</sup> When the economy is growing most job leavers find a new job quickly but in periods of slow growth it takes longer. Strong investments in employment and social policies that help workers through periods of unemployment and facilitate their adjustment are necessary to counteract the significant losses that some workers may otherwise sustain in a globalized economy.
20. Regardless of whether widening income inequality results from globalisation or technological change the most economically efficient and rapid way to counteract the recent widespread rejection of open economies and societies is by strengthening labour market institutions. This includes stronger efforts to promote freedom of association, collective bargaining, minimum wages and social protection floors. Upgrading education and skills also has an important role to play, but these policies will only have an impact on income distribution in the long term.

### ***Employment and social policies: key macroeconomic measures for inclusive growth***

21. Enhanced employment and social policy packages can make growth and development more inclusive and stronger. They are key macroeconomic tools alongside fiscal and monetary policies especially at a time when cyclical and structural constraints are inhibiting a full recovery from the lingering effects of the global financial crisis. Countries will need different policy mixes but a common agenda for national policy dialogues among governments, workers and employers includes:
  - Infrastructure investment, in water and sanitation, transport, energy, ICT connectivity and housing
  - Quality education and training
  - Improved job search and matching services

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<sup>9</sup> Towards a better future for women and work: Voices of women and men, ILO and Gallup, 2017

<sup>10</sup> The China Shock: Learning from Labor-Market Adjustment to Large Changes in Trade, David H. Autor, David Dorn, and Gordon H. Hanson, Annual Review of Economics, August 8, 2016; Looking For Local Labor Market Effects of NAFTA, Shushanik Hakobyan and John McLaren, The Review of Economics and Statistics, October 2016,

- Support for the development of sustainable Small and Medium-sized Enterprises
- Integrated policies to facilitate transition by informal workers and enterprises to formality
- Strengthened social protection systems
- Improved access to health care
- Promotion of green jobs as part of efforts to reduce climate change
- Well-balanced labour laws which encourage stable employment relationships
- Counteracting gender and other forms of discrimination at work
- Affordable and accessible child and elder care
- Minimum wage setting systems and collective bargaining between strong and representative unions and employers
- Respect for fundamental principles and rights at work.

***Opportunity to shape faster and more inclusive growth and development must not be missed***

22. Managing Director Lagarde has described a cyclical recovery that holds the increased promise of more jobs, higher incomes, and greater prosperity but she has also warned of the risks of a weak productivity trend that continues to be a severe drag on strong and inclusive growth.<sup>11</sup> Grasping the opportunity to shape a global path to faster and more inclusive growth and development must not be missed. The ILO's Future of Work Centenary Initiative is giving in-depth examination to the several drivers of change in the world of work and how to meet the global challenge of ensuring decent work for all women and men. A much stronger focus, nationally and internationally, on employment and social policies that address directly widespread concern about prospects for decent jobs and living standards is essential.

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<sup>11</sup> Building a More Resilient and Inclusive Global Economy, Speech by Christine Lagarde, Managing Director, IMF, Brussels, April 12, 2017