



## **INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE**

### **Fortieth Meeting October 18–19, 2019**

Statement No. 40-7

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





**Statement by Mr Guy Ryder, Director-General, International Labour Organization  
to the International Monetary Financial Committee  
Washington D.C., 19 October 2019**

**Summary**

- Prospects for strong employment growth and rising incomes have diminished in light of subdued growth and significant downside risks in the global economy. Although the global unemployment rate decreased for two consecutive years from 2016 to 2018 (from 5.2 per cent to 5 per cent), we anticipate no continued decrease in 2019.
- Furthermore, global economic prospects now make our earlier projection of an unemployment rate at 4.9 per cent in 2020 unrealistic. A further decrease in manufacturing activity in the largest world economies could affect employment levels. Assuming the current economic slowdown does not turn into a recession, the global unemployment rate could remain at 5 per cent in 2020.
- The current macroeconomic response risks being inadequate to stop the global economic slowdown. In line with the recommendations of the ILO Global Commission on the Future of Work and the ILO's Centenary Declaration for the Future of Work, we support a stimulus through investment in infrastructure to boost sustainable enterprises in key growth sectors (the care, digital and green economies), and investment in people's capacities – lifelong learning, gender equality, support through transitions and social protection financed through a variety of sources.
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- Recent ILO research demonstrates that self-employment, micro and small enterprises together account for 70 per cent of total employment, making them by far the most important drivers of employment. Accordingly, policies and programmes on job creation, job quality, start-ups, enterprise productivity and job formalization need to focus more on these small economic units.
- In the current context of decreasing global trade, it becomes all the more important to ensure that participation in global value chains (GVCs) contributes to development and decent work. Promoting human rights due diligence in GVCs must be only a first step towards building comprehensive efforts to achieve economic and social upgrading throughout the whole chain, involving employers' and workers' organisations as well as other key stakeholders.
- Getting all the above right would go a long way toward reducing the widening inequalities that we are witnessing within countries. Pro-active and effective measures are needed to promote strong industrial relations, expand social dialogue, strengthen collective bargaining, ensure that minimum wages are adequate and strengthen social security systems.

## The Global Economic Landscape

Global economic growth continues to slow down, and many countries are today a long way from the post-crisis initial surge witnessed in 2010-11. Slow economic growth not only subdues employment and income growth,<sup>1</sup> but poses obstacles to more productive, fulfilling and decent work. We estimate that in 2019, 173.6 million people are unemployed globally, including 59 million youth aged 15 to 24.

A wide variety of reasons account for sluggish growth within individual countries, reinforcing the need to pay attention to the developmental, political and social dynamics of each country. We cannot apply a one-size-fits-all solution to the problem of slow growth. Nevertheless, certain global trends deserve attention.

The continued fall in world trade acts as a brake on world economic growth. While current protectionism and tariff wars undoubtedly block growth opportunities, the slowdown in trade is almost a decade old.<sup>2</sup> It is likely, therefore, that something structural in the world economy has shifted. New profit margins flowing from onshore, automated manufacturing may result in a reduced likelihood of businesses offshoring. Heightened world uncertainty may spur reduced investment in global value chains (GVCs). These shifts provide fewer opportunities for low and middle-income countries to deepen their role as globally integrated suppliers and therefore to create a more diverse and sophisticated base of manufacturing and services.<sup>3</sup> In turn, this impedes fairer distribution of global income and the spread of social justice.

A further worrying trend is the growing accumulation of debt. Total external debt of developing economies has more than doubled since 2008 to almost \$10 trillion. This includes a doubling of debt of low-income countries, up to \$173 billion,<sup>4</sup> the servicing of which means that less money is available for essential public expenditures on schools, hospitals and social protection and for investing in strategic sectors of the economy. We have related concerns about the continued primacy of financial speculation, rising returns to financial assets, and evidence of a huge share of foreign direct investment offshored to “empty corporate shells” in low tax jurisdictions with no activity related to the real economy.<sup>5</sup>

These developments threaten to exacerbate the excessive income and wealth inequalities around the world. Recent research by the ILO on the global labour income share and distribution supports many previous studies about widening inequality within countries.<sup>6</sup> In several high-income countries, a pattern of large gains at the top of the distribution, coupled with losses for the middle and lower-middle class can be observed. However, developing economies tend to have much more unequal labour income distributions,

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<sup>1</sup> ILO. 2019. *World Employment and Social Outlook: Trends 2019* (Geneva, ILO).

<sup>2</sup> Gross exports as a proportion of GDP have been falling since 2011 (FT, 18-07-19, <https://www.ft.com/content/f44093f0-a934-11e9-b6ee-3cdf3174eb89>).

<sup>3</sup> Research at the Growth Lab at Harvard University suggests the indicator of economic complexity is a strong predictor of economic growth (<http://atlas.cid.harvard.edu/growth-projections>).

<sup>4</sup> UNCTAD (2019: 11).

<sup>5</sup> Damgaard, J., Elkjaer, T. and Johannesen, N. (2019), “The rise of phantom investments”, *Finance and Development*, SEPTEMBER 2019, VOL. 56, NO. 3 (Washington DC, IMF). Building on their earlier IMF Working Paper, the authors argue that “Investments in foreign empty shells could indicate that domestically controlled multinationals engage in tax avoidance. Similarly, investments received from foreign empty shells suggest that foreign controlled multinationals try to avoid paying taxes in the host economy.” (page 11).

<sup>6</sup> ILO. 2019. *The Global Labour Income Share and Distribution. Key Findings* (Geneva). [https://www.ilo.org/global/statistics-and-databases/publications/WCMS\\_712232/lang--en/index.htm](https://www.ilo.org/global/statistics-and-databases/publications/WCMS_712232/lang--en/index.htm)

characterised by very large incomes at the top end of the distribution in combination with a large share of the workforce with extremely low labour income at the bottom end.

## **The way forward for Sustained, inclusive and sustainable Growth and Decent Work**

### Investments in strategic sectors

We welcome the IMF's call for fiscal policy to play a role in addressing the current economic slowdown<sup>7</sup>. Pro-employment and pro-environment fiscal policy, designed together with policies for wages, skills, technology and innovation, provide a way forward. This would bring macroeconomic policy in line with the urgent demands of the 2030 Agenda, especially Sustainable Development Goal 8, which calls for decent work with sustained, inclusive and sustainable economic growth. SDG 8 also holds the key to achieving many other of the Sustainable Development Goals<sup>8</sup>.

Moreover, the ILO Centenary Declaration for the Future of Work<sup>9</sup>, adopted by 187 Member States in June 2019, calls for more targeted investments in strategic sectors of the economy, which offer compelling opportunities for decent and sustainable work. New investments in the care economy, which we estimate could generate close to 500 million jobs by 2030, with appropriate regulations and collective bargaining for decent work, could play a critical role in reducing gender inequality worldwide. Investment in a just transition to a carbon-neutral economy for businesses and workers provides another avenue for sustainable growth and to avoid social and economic conflict over fast diminishing resources. The rural economy, long overlooked in too many countries, deserves more investment, as part of a key element of proactive policy interventions designed to boost productivity, bring more businesses into the formal economy, unleash the power of digital technologies (for credit access for example) and lift people out of poverty. Increased investments in social, physical and digital infrastructure would also address fundamental development needs.

Achieving such objectives cannot rely on public sector investment alone, but also needs to involve the private sector, by providing direct incentives for investments in the real economy (e.g. via carefully targeted tax breaks) to support the growth of sustainable enterprises. Blocking illicit financial transfers would also contribute to increasing productive investment. Development financing to assist developing countries must become complementary to the building of domestic social, physical, environmental and digital infrastructures.

### Investments in people's capacities

The ILO Centenary Declaration calls for investments in people's capacities for an inclusive future of work. This includes investing in education, training and lifelong learning, in a transformative agenda for gender equality and in social protection.

Closing the gender gap in labour force participation and pay require that we invest in a transformative agenda that will accelerate progress towards gender equality. It begins at home, as our research shows that the root cause of unequal labour market outcomes between men and women is the unequal burden of unpaid

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<sup>7</sup> IMF. 2019. *World Economic Outlook. Global Manufacturing Downturn, Rising Trade Barriers*. Washington, DC, October.

<sup>8</sup> ILO. 2019. *Time to Act for SDG 8: Integrating Decent Work, Sustained Growth and Environmental Integrity* (Geneva, ILO).

<sup>9</sup> ILO. 2019. *Centenary Declaration for the Future of Work, 2019* (Geneva, ILO).

care work borne by women. Greater public investment in care infrastructure and services and better parental leave policies are needed. Addressing social barriers and stereotypes through awareness raising campaigns are also effective. The elimination of violence and harassment is key to achieve equality at work, as the convention (n° 190) recently adopted by the International Labour Conference demonstrates.

Social protection is a key policy lever for promoting sustained and inclusive growth, full and productive employment and stability in times of crisis. Achieving the 2030 Agenda depends in part on achieving universal social protection. By enhancing income security and effective access to health care and other social services, social protection fosters higher labour productivity and empowers people to take advantage of economic opportunities and engage in decent and productive employment. Social protection helps stabilize aggregate demand in times of crisis, supports the structural transformations of national economies and societies, and facilitates life and work transitions in a rapidly changing world of work.

Strengthening investment requires adequate fiscal resources and capacity to deliver government programmes effectively. We can only succeed to mobilize the resources needed for universal, comprehensive, adequate and sustainable social protection by relying on a combination of taxes and contributions. Contributory mechanisms, such as social insurance are essential for ensuring adequate levels of protection, taking into account the contributory capacities of different population groups. Many countries have adapted social insurance to cover new or non-standard forms of employment so as to ensure higher levels of protection based on sustainable and equitable financing mechanisms.

Accelerated investments require a systemic approach and the active contribution of national and international stakeholders. The ILO will continue to promote multi-stakeholder partnerships, including with international financial institutions, to mobilize resources, improve policy coherence and increase impact. For example, the Global Partnership for Universal Social Protection (USP2030), jointly led by the ILO and the World Bank, will be central to building economically and financially sustainable and socially just social protection systems.

### Global Value Chains

In the current context of increased protectionism and rising trade tensions, economic integration through trade and participation in GVCs is at risk. Participation in GVCs can be a driver of industrialization and development, facilitating structural transformation, the transfer of technology and the adoption of new production practices<sup>10</sup> as well as an important vector for inclusive growth and for small and medium-sized enterprises and other actors to access opportunity. We therefore welcome the World Development Report 2020's thematic focus on global value chains<sup>11</sup>.

At the same time, research shows that in GVCs where competition is high and price-driven, returns for suppliers are likely to be low and/or decrease over time<sup>12</sup>. Under this scenario, the potential social gains that

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<sup>10</sup> ILO. 2016. *Reports of the Committee on Decent Work in Global Supply Chains: Resolution and conclusions submitted for adoption by the Conference*, Provisional Record 14-1, International Labour Conference, 105th Session, Geneva, 2016 (Geneva).

<sup>11</sup> World Bank. Forthcoming. *World Development Report 2020: Trading for Development in the Age of Global Value Chains* (Washington, DC, World Bank).

<sup>12</sup> UNCTAD. 2013. *World Investment Report 2013: Global value chains: Investment and trade for development* (Geneva).

arise from an increase in exports can be more than offset by lower prices and may jeopardise progress towards decent work.<sup>13</sup>

Maximizing the positive contribution of GVCs to development and decent work requires a mix of national policies that focus on initial entry as well as progression into higher value-added production, ensuring that this contributes to sustainable long-term development<sup>14</sup> and creating an enabling environment for decent work. An effective regulatory framework for labour standards, including respect for fundamental principles and rights at work, and the monitoring of implementation in law and practice, are crucially important to ensure that social and economic development go hand in hand.

Most policies and programmes directly targeting the role of supply chain actors in tackling decent work deficits or focusing on employment generation, skills, or preparedness for supply chain participation tend to concentrate on the top tiers of supply chains. Much less attention is paid to intermediate steps in the production process. New research by the ILO, OECD, UNICEF and IOM<sup>15</sup> shows that one third of child labour in supply chains in Sub-Saharan Africa occurs in the lower tiers of GVCs, in industries that provide the raw materials and other inputs to traded goods and services. This rises to 38 per cent in Central and Southern Asia, 40 percent in Latin America and the Caribbean and 43 per cent in Eastern and South-Eastern Asia. Thus, the current focus of due diligence on the final stage of production fails to reach the most vulnerable. We urgently need more comprehensive, sectoral and whole-of-chain approaches to decent work in GVCs involving workers' organisations and other key actors. The UN Guiding Principles on Business and Human Rights provide a framework for the respective roles and responsibilities of governments and private enterprise, and are particularly important when considered together with the ILO Tripartite Declaration on Multinational Enterprises and Social Policy.

### Getting all the above right would go a long way in reducing inequality

In recent years, most international and regional economic institutions have focused attention on the economic, social and political consequences of widening inequality, demonstrating considerable policy coherence across the international system on the importance of this issue. At the same time, policy solutions vary widely, impeding action at national level. Dialogue to identify key common principles and coordinate action on the ground could present an effective starting point. In light of the many calls for strengthened multilateral coordination, all international and regional organizations need to make the time and commitment for meaningful collaboration. Only in this way will we be able to play a role in avoiding the disastrous global consequences of widening inequalities, and help achieve the 2030 Agenda.

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<sup>13</sup> ILO. 2018. *Global value chains for an inclusive and sustainable future*. Issue Brief No. 10.

<sup>14</sup> World Bank. Forthcoming. *World Development Report 2020: Trading for Development in the Age of Global Value Chains* (Washington, DC, World Bank).

<sup>15</sup> ILO, OECD, IOM and UNICEF. Forthcoming. *Ending child labour, forced labour and human trafficking in global supply chains* (Geneva and Paris).