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Persistent and growing inequality threatens global growth

STATEMENT BY

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SUMMARY

- The rebound in economic growth has strengthened job creation and the global unemployment rate is expected to fall slightly during 2017-19 (after a three-year rise).
- However, the labour market recovery is uneven across country groupings, with continued rises in the numbers of people unemployed in developing and emerging economies.
- Real wages continue to grow slowly and there are concerns that weak social dialogue mechanisms are stifling a stronger connection with productivity growth.
- High and rising levels of inequality impede inclusive development: the high global incidence of low-wage employment is an obstacle to decent household income and to efforts to prevent excessive working hours; and the growing pay gap between the top 1 percent and the rest of the workforce is causing widespread concerns about injustice.
- The productivity growth slowdown is partly caused by declining real wages and growth in non-standard employment, while informal employment remains pervasive, especially in developing countries, and is on the rise in parts of the new digital economy in all regions.
- Encompassing legislation is needed to extend social security coverage, raise decent wages, protect freedom of association and boost sustainable enterprises.
- The global rate of progress in reducing working poverty has slowed. More than 700 million workers still live in poverty in emerging and developing countries, including one in four of the workforce in Africa (no forecast change during 2017-19).
- New policies are required to foster decent jobs for youth in an era of rapid technical change, including promotion of youth entrepreneurship and the protection of rights at work.
- Persistent and pervasive gender inequalities demand a radical step-change in approach by all stakeholders, and strong policy measures will need to address the gap in labour market participation (27 points in 2018), women's higher risk of unemployment and their worse pay prospects.

- The global commitment to universal social protection, including floors, must be embraced by policy makers at all levels.
- Actions to mitigate climate change require complementary labour market measures to deliver a “just transition” for all, including skill investments, pro-active labour market policies and effective mechanisms for social dialogue.
- The Future of Work holds the potential to become the future we want, but only if policies promote sustainable and inclusive growth and deal with the challenges of demography, technology, and climate change by placing decent work at their centre.

The rebound in economic growth has strengthened job creation, but the labour market recovery is uneven across country groupings

1. After hitting a six-year low in 2016, global economic growth rebounded in 2017 and is expected to further strengthen over the next couple of years. The pick-up in global economic prospects is expected to be accompanied by stronger job creation, with the global unemployment rate falling from 5.6 per cent in 2017 to 5.5 per cent in 2018 (193 million persons). This marks a turnaround after three years of rising unemployment rates. However, because population growth is expected to outstrip employment growth, the number of unemployed people is projected to increase by 1.3 million in 2019.
2. Importantly, the labour market recovery remains uneven across country groupings. Much of the forecast decline in global unemployment figures results from progress in developed countries, where the unemployment rate is set to reach the lowest level since the 2008 crisis. Meanwhile, in developing and emerging countries, the unemployment rate is projected to remain relatively stable and numbers of unemployed are likely to continue rising in the years to 2019.

Wage growth is still slow and too often disconnected from social dialogue

3. Real wages in 2017 continued to grow slowly, at less than 1 per cent in many of the major advanced economies. In many cases, the evidence conflicts with expectations: Falling unemployment ought to exert more upwards pressure on earnings, and productivity growth is often outpacing earnings growth. While part of the explanation lies with the adoption of new technologies, intensified global competition and the uncertain economic outlook, sluggish wage growth also results from a changed institutional and business environment.
4. Many countries have witnessed an expansion of jobs with wages fixed outside of collective agreements (and therefore less likely to grow in tandem with labour productivity). On average, ILO analysis identifies a drop in collective bargaining coverage since the economic crisis¹ and highlights both the economic and social justice case for governments to support expansion of bargaining in new sectors, extensions to protect vulnerable workers, and the wider formalisation of employment.

¹ Data on changes in bargaining coverage rates from 2008 to 2013 for 48 countries show that, on average, there has been a drop in bargaining coverage of 4.6 per cent. Significant country exceptions include Australia, Netherlands and Brazil (“Labour Relations and Collective Bargaining”, *ILO Issue Brief No. 1*).

5. In developing and emerging economies, recent real wage growth has been more diverse, slowing in some countries and accelerating in others.² The low wages of millions of workers – including workers in global supply chains - remain a major challenge. In many instances, wages are too low to fulfil the basic needs of workers and their families, which also leads to excessive overtime. In addition, large wage gaps remain between salaried workers in urban formal jobs and workers in rural areas and in the informal economy.

High and rising levels of inequality impede inclusive and sustainable development

6. Labour's share of income is still in long-term decline in the majority of countries for which we have reliable data –although China and the United States recently experienced a small uplift. There are several causes, including a weakening of labour market institutions and growing pressures from financial markets to shift surpluses generated by large businesses towards investors.
7. Wage inequality is a major cause of concern in developed and developing countries; the IMF, for example, believes job and wage polarisation may be undermining popular support for economic integration.³ The *ILO Global Wage Report 2016/17* found that four in five workers in Europe are paid less than the average wage of the enterprise in which they work. Moreover, in Brazil the top 10 per cent receive one third of all earnings, and in South Africa half. The usual skills-related explanation does not hold. These disparities have led to a “pyramid” of highly unequally distributed wages, emphasising the extent of wage inequality both between enterprises and within enterprises. In response, many countries have recently established or strengthened their minimum wages.

The productivity growth slowdown is partly caused by declining real wages and growth in non-standard employment

9. The slowdown in productivity growth in many parts of the world in the last decade reduces the scope to boost real incomes, inhibiting the ability to reduce poverty, and in the longer term is likely to diminish investment and potential growth. At first blush this is difficult to reconcile with advances in artificial intelligence and other technologies, which should have boosted output growth more than growth of labour inputs, accelerating productivity. Explanations for this discrepancy refer to measurement problems and to the role of “frontier” enterprises. The latter hypothesis suggests that only a small elite of firms have implemented new technologies so far and that productivity growth should accelerate in the next few years once the bulk of firms perceive greater investment security in markets for their goods and services.
10. According to ILO research, another cause partly accounts for the slowdown in productivity growth, namely, declining real wages and the rapid growth in non-standard forms of work. Faced with reduced labour costs, employers have lesser incentives to substitute capital for labour, especially in labour-intensive sectors, which hinders diffusion of artificial intelligence and other technologies.

² Analysis in the *ILO Global Wage Report 2016-17* estimates that in Latin America and the Caribbean real average wage growth declined in 2013 and turned negative in 2014 and 2015, and in Africa and the Arab States much reduced real wage growth is estimated for 2015 compared to the 2010-14 period. By contrast China and India experiences real wage growth during this period.

³ “Diminished prospects for household income growth in advanced economies, coupled with trends of higher polarization in jobs and incomes, have fuelled a widespread political backlash hostile to traditional political modalities.” (IMF, *World Economic Outlook*, April 2018, p.15).

Informal employment remains pervasive, especially in developing countries, and is on the rise in parts of the new digital economy in all regions

11. During the last decade (2006-16), significant progress occurred in reducing the share of workers in two major segments of informal employment (own-account work and contributing family work). However, the forecast for 2017-19 suggests a halt in this trend (see *World Employment and Social Outlook 2018*). This calls for urgent policy attention.
12. Income growth is not a sufficient condition for formalization, as the persistent high share of informality in some middle income countries suggests. Instead, the transition to formality requires an integrated policy framework with the aim of improving decent work, eradicating working poverty, contributing to a country's fiscal base, boosting sustainable enterprises and advancing development.

The rate of progress in reducing working poverty has slowed and even halted in some regions

14. Despite significant progress, in 2017 there were still more than 700 million workers living in poverty in emerging and developing countries, unable to lift themselves above the US\$3.10 per person daily poverty threshold. The rate of progress has slowed, and in many developing countries is failing to keep pace with the growing labour force.
15. In Africa, working poverty is forecast to stall at 24 per cent of the workforce during 2017-19, with numbers rising from 104 to 110 million. In Asia and the Pacific the share will drop only marginally from 16 to 15 per cent and the number of workers in poverty will still be close to 300 million by 2019. The slowdown in progress threatens not only workers' individual well-being, but also our global ambition to eradicate poverty by 2030.

New policies are required to foster decent jobs for youth in an era of rapid technical change

16. The ILO estimates that 67 million young women and men are unemployed globally, and around 145 million young workers in emerging and developing countries live in extreme or moderate poverty.⁴ New automation and digital technologies pose further challenges. The opportunities they present will demand innovative policy solutions.
17. Proper infrastructure and equal access to information and technology should complement investment in education and skills and effective approaches towards lifelong learning.⁵ In addition, the promotion of youth entrepreneurship and the protection of rights at work for young people will be crucial in the new context. Designing evidence-based labour market programmes will ensure disadvantaged youth are not excluded from the benefits of technological advances.

Only a radical change in approach will achieve gender equality in the workplace

18. Despite global commitments to secure further improvement,⁶ women continue to fare much worse in the workplace than men. This presents major obstacles to global economic growth. In 2018, the gender gap in global labour market participation is 27 percentage points, rising to 31 points in emerging countries. The gap has narrowed at a slow rate since the economic crisis and, more worryingly, the

⁴ ILO, 2018, *World Employment and Social Outlook – Trends 2018*, Geneva ILO

⁵ ILO, 2017, *Global Employment Trends for Youth*

⁶ Including for example the *Equal Pay International Coalition (EPIC)*, launched in September 2017 during the United Nations General Assembly, which aims to achieve equal pay between men and women for work of equal value by 2030.

ILO forecasts halting or even a reversal of progress during 2018-21.⁷ Similarly, while the gender pay gap has narrowed in most countries there is still a striking variation in women's relative pay, varying from close to zero to up to 45 per cent.⁸ Women's greater investment in education, as well as some shifts in cultural attitudes, have not removed major obstacles to progress, and the pervasive harassment and violence that have come to light demonstrate how much progress remains to be done.⁹

19. Several components of a more fundamental approach to equality require urgent attention. We need an alternative, "high road" approach to decent care work, which requires re-engineering social protection systems, a care-centered approach to fiscal policy and extending rights and benefits to all care workers, paid and unpaid¹⁰. We must end violence and harassment against women in the workplace. This year, the ILO's International Labour Conference will begin to draft a new international labour standard on violence and harassment with the aim of improving women's freedom to participate and succeed in the world of work. In addition, both men and women must have the right to exercise choice over their working hours. Greater freedom to balance work and family life would improve well-being and bring benefits for the economy and society.

International trade must benefit everyone

20. The combined growth of international trade and private investment were key factors behind the generalised economic recovery in 2017. Policy makers must ensure that workers in advanced, emerging and developing countries all benefit from a global trading system that produces fair outcomes. Failure to do so risks the multilateral system, as the IMF warns,¹¹ with significant economic costs and political risks for all nations. Key to restoring faith are policies to ensure fairer distribution of the benefits of trade. Stronger labour market institutions, including minimum wages, sustainable enterprises, collective bargaining and freedom of association, are the right answers to political populists who exploit income disadvantages to undermine open economies and open borders.
21. In recent years a growing number of bilateral and regional trade agreements include references to the ILO's international labour standards.¹² The ILO's research shows that including such provisions does not divert or diminish trade. In addition, labour provisions ease labour market access, particularly for working age women. Moreover, there is country evidence of the impact of labour provisions on the narrowing of the gender wage gap.¹³

A global commitment to universal social protection systems for all, including floors

22. Despite progress in recent years, 55 per cent of the world population are still not covered by social protection.¹⁴ The global commitment to universal social protection, including floors,¹⁵ should be supported by governments, international organizations, and the International Financial Institutions.

⁷ ILO, 2018, *World Employment and Social Outlook: Trends*, Geneva, ILO.

⁸ ILO, 2017, *Global Wage Report 2016-17*, Geneva, ILO.

⁹ ILO Director-General's Report to 107th Session of the International Labour Conference, 2018 (forthcoming), *The Women at Work Initiative: The Push for Equality*.

¹⁰ ILO, 2018, *Care Jobs and the Care Economy in a Changing World*, Geneva, ILO.

¹¹ "The multilateral rules-based trade system that evolved after World War II and that nurtured unprecedented growth in the world economy needs strengthening. Instead, it is in danger of being torn apart." (IMF, *World Economic Outlook*, April 2018, p.14).

¹² Notably, one of the key motives to establish the ILO 99 years ago was to establish a comprehensive set of international labour standards that would underpin fair trade and eliminate labour exploitation as a means of securing unfair comparative advantage

¹³ ILO, 2016, *Assessment of Labour Provisions in Trade and Investment Arrangements*, Geneva, ILO

¹⁴ ILO, 2017, *World Social Protection Report 2017-19*, Geneva, ILO.

¹⁵ As agreed in the SDGs as well as in internationally agreed Conventions and Recommendations, including the Social Protection Floors Recommendation, 2012 (No. 202).

Countries generally achieve universal coverage progressively, by a combination of public social insurance and social assistance. Pressures to focus on narrow targeting undermine the national social protection strategies that aim to extend coverage.

23. Social security and pension reforms must consider equity, inclusivity and sustainability, rather than solely focus on short-term fiscal goals. In many countries, old-age poverty and insecurity are increasing due to ill-designed pension reforms. Calls to reduce employer social security contributions should be carefully appraised since this can shift risks disproportionately to workers and undermine the sustainable financing of social protection.

Actions to mitigate climate change require complementary labour market measures to deliver a “just transition” for workers

24. The long-term social and economic damage of unmitigated climate change is still not sufficiently acknowledged.¹⁶ Frequent natural disasters undermine productivity; during 2000-15, natural disasters reduced the average annual volume of working hours by almost 1 per cent. Projected temperature rises will exacerbate heat stress and reduce working hours by 2 per cent globally by 2030. Ecosystem services sustain 1.2 billion jobs worldwide but rely on sustained political commitment, including to air/water purification, soil renewal, moderating extreme temperatures, and protecting against storms and floods. Environmental degradation of air, water and soil will also damage workers’ health, income, food and fuel security, and productivity.
25. Actions by all stakeholders are essential to limit global warming and ensure a “just transition”. With appropriate mitigating actions, the world will enjoy a net positive effect on the quantity and quality of jobs.¹⁷ The ILO estimates that key actions, including the adoption of sustainable practices in the energy sector (e.g. changes in the energy mix, promoting the use of electric vehicles and improving the energy efficiency of buildings), will create 24 million new jobs globally by 2030, offsetting job loss in carbon intensive industries. Supplementary policies include skill investments for transitioning to greener economies and social dialogue to reconcile socio-economic goals with environmental concerns. Positive industry cases show social dialogue can reduce adverse environmental effects and ensure improvements in jobs and working conditions.

Only by implementing policies that place work at the center of global development will we create the future of work that benefits everyone

26. The future of work is often framed today as a one-dimensional challenge of responding effectively to the fast pace of innovation in labour-saving automation and new business models driving the digital economy. Other dimensions demand urgent attention also. For example, as knowledge becomes the most valuable asset, the data giants raise concerns of a fast-moving, new form of business that is harder to regulate and tax. The rise in non-standard forms of employment and the segmentation of jobs into tasks (in crowd-work for example) raise concerns about job quality and fundamental rights at work. A sustainable, global response will require the mainstreaming of decent work as central to inclusive development.

¹⁶ ILO, 2018, *World Employment and Social Outlook: Greening with Jobs*, Geneva, ILO.

¹⁷ ILO, 2018, *op. cit.*