



# **Urgent Action Needed to Break Out of Slow Growth Trap**

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**International Labour Organization**

**International Monetary and Financial Committee**

**Washington D.C., April 16, 2016**

## ***Summary***

- The growth of the global economy has slipped gradually but steadily to the weakest pace since the immediate aftermath of the financial crisis. With the latest downward revisions in growth prospects the jobs gap of people not in work who would have had a job if pre-crisis growth had resumed could rise to over 80 million by 2020.
- Weakening growth has slowed the transformation into better work opportunities of low productivity, poorly remunerated jobs. Reductions in the share of working poverty in total employment and the absolute numbers of people living and working in poverty have stalled.
- High and rising inequality impacts on potential growth by undermining consumer demand, reducing skills, capabilities, opportunities and mobility, as well as weakening social and political cohesion. Labour shares in national income are on a downward trend in most large economies in recent years. The declining labour income share in many countries at the same time limits household consumption and reduces overall aggregate demand, which is further weakened by low investment leading to low global economic growth.
- It is vital that current trends of rising inequality and slowing growth are quickly reversed by concerted action to reduce inequality, generate decent jobs and sustainable enterprises, and invest in the infrastructure for faster, greener and more inclusive growth in line with the Paris Agreement on climate change adopted in December 2015.
- With private investment and household consumption weak in many countries and unlikely to revive with sufficient vigour and pace to reinvigorate growth in the near term, governments need to take the initiative.
- While different countries face different constraints and opportunities in taking action, a package of employment and social policies can add to fiscal action to make an important contribution to macroeconomic strategies for inclusive growth especially if pursued in concertation with other countries.
- Work is central to people's lives and the underperformance of the global economy especially in terms of jobs and wages is a major cause of heightened political and social tensions.
- Forced displacement of large numbers of people leads inexorably to the issue of how women and men in this situation are to provide for themselves. Access to decent work has to become part of the international approach to the refugee crisis.
- The consequences of inaction in 2016 will make it harder to escape a low growth trap and put at risk the world envisioned by Leaders at the UN General Assembly last September in the document "Transforming our world: the 2030 Agenda for Sustainable Development."

### ***Slow growth widens global jobs gap and slows progress in poverty reduction***

1. The growth of the global economy has slipped gradually but steadily to the weakest pace since the immediate aftermath of the financial crisis. There are over 70 million people not in work today who would have had a job if pre-crisis growth had resumed. With the latest downward revisions in growth prospects the jobs gap could rise to over 80 million by 2020.
2. Outright unemployment remains high in many advanced countries and is rising in some emerging economies. Participation rates are falling in many countries. Between 1995 and 2015, the global female labour force participation rate decreased from 52.4 to 49.6 per cent. The corresponding figures for men are 79.9 and 76.1 per cent, respectively.<sup>1</sup> Over 70 million of the 200 million unemployed worldwide are young women and men. Overall, two in five economically active youth are either unemployed or working yet living in poverty.
3. Weakening growth has slowed the transformation into better work opportunities of low productivity, poorly remunerated jobs. Reductions in the share of working poverty in total employment and the absolute numbers of people living and working in poverty have stalled. In 2015, an estimated 327 million employed people were living in extreme poverty and 967 million in moderate and near poverty. The share of own account and unpaid family workers in total employment, which accounts for most of those working in the informal economies of the developing world, has stuck at around 46 per cent and is over 70 per cent in sub-Saharan Africa and South Asia.
4. In emerging economies, the size of the middle class (defined as having daily consumption levels ranging between US\$5 and US\$13, in purchasing power parity (PPP) terms) rose from 36 per cent of the total population in 2011 to just under 40 per cent in 2015. However, this trend is projected to slow or even stop unless growth picks up.<sup>2</sup>

### ***Increasing income inequality and falling labour shares damages growth***

5. There is a broad trend toward rising inequality and declining labour income share, although the developments vary across countries. In most advanced economies, income inequality has risen significantly in recent years. This is largely driven by the increasing concentration of income at the very top of the distribution. The bottom 40% has fallen significantly behind in many countries, particularly since the recent crisis. In the emerging economies, recent developments are mixed. Income inequality has fallen in Argentina, Brazil, Mexico and Turkey since the mid-2000s from high levels. In other emerging economies, notably China, India, Indonesia and the Russian Federation, income inequality (as measured by the disposable income Gini coefficient) increased over the same period, albeit at a somewhat slower pace than in advanced economies.
6. Labour shares in national income are on a downward trend in most large economies in recent years. If the dramatically rising “labour incomes” of the senior executives in the top 1 per cent were counted as a return to capital rather than a wage the shift from labour

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<sup>1</sup> Women at Work: Trends 2016 ILO, 2016

<sup>2</sup> World employment and social outlook: Trends 2016 ILO, 2016<sup>2</sup> Women at Work: Trends 2016 ILO, 2016

to capital would be still larger.<sup>3</sup> The declining labour income share in many countries at the same time limits household consumption and reduces overall aggregate demand, which is further weakened by low investment leading to low global economic growth.

7. There is a rapidly growing body of evidence that high income inequality can have adverse consequences for the pace and sustainability of economic growth. An IMF study found that increases in income for the top 20% of the income distribution are negatively associated with overall economic growth, while increases for the bottom 20% positively correlate with growth.<sup>4</sup> Globally, the gender wage gap is estimated to be 23 per cent; in other words, women earn 77 per cent of what men earn. Widening income inequality can lead to larger gaps in educational outcomes and weaker social mobility.<sup>5</sup> High and rising inequality impacts on potential growth by undermining consumer demand, reducing skills, capabilities, opportunities and mobility, as well as weakening social and political cohesion.
8. Private investment is well below usual levels especially in advanced economies and notably the Euro Area, despite extraordinarily low interest rates and accommodative monetary policies. In addition, stagnant wages lead to reduced government tax revenue.
9. Cyclical weakness is thus feeding into structural constraints with weak investment inhibiting productivity growth. It is vital that current trends of rising inequality and slowing growth are quickly reversed by concerted action to reduce inequality, generate decent jobs and sustainable enterprises, and invest in the infrastructure for faster, greener and more inclusive growth. Such urgent international action can also help to diminish the social and political tensions in many parts of the world which are both a cause and a consequence of increased economic uncertainty.

#### ***Policy packages for inclusive growth***

10. The design of labour market policy and collective bargaining frameworks for inclusive and sustained growth benefits from the full engagement of workers' and employers' organizations in policy design and implementation. Different policy configurations will suit different countries. Employment protection law and practice interacts with unemployment insurance, training and job placement systems to provide a framework to facilitate worker mobility from less to more productive and better remunerated employment.
11. Cutting social security contributions is a much-touted quick fix to either reduce employer costs or increase workers' disposable income. If nonetheless undertaken, the potential outcomes need to be offset by tax increases elsewhere to maintain the sustainability of social protection systems. If cuts in contributions were to lead to cuts in benefits, in many cases the impact could have a serious repercussion in terms of poverty and equity outcomes. Cuts in social security contributions and other labour market reforms aimed at

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<sup>3</sup> Global Wage Report 2014/15: Wages and income inequality ILO, 2015

<sup>4</sup> Causes and consequences of income inequality: A global perspective, IMF Staff Discussion Note. 2015

<sup>5</sup> In it Together: Why less inequality benefits all, OECD 2015

generating an “internal devaluation” can lead to competitive “internal devaluations” in which everyone loses and no one wins.

12. With private investment and household consumption weak in many countries and unlikely to revive with sufficient vigour and pace to reinvigorate growth in the near term, governments need to take the initiative. The immediate challenge is weak global demand. All available policy tools including fiscal and labour market measures need to be used. Existing accommodative monetary policies should be kept in place but while preventing a further deterioration in growth seem ineffective in accelerating it. While different countries face different constraints and opportunities in taking action, a package of employment and social policies can add to fiscal action to make an important contribution to macroeconomic strategies for inclusive growth especially if pursued in concertation with other countries.
13. Low interest rates permit the financing of growth-enhancing sustainable infrastructure investments such as communications, low carbon emissions transport, renewable energy, fuel-efficient housing and public buildings, clean water and sanitation systems.
14. Narrowing income inequalities and boosting household consumption can be realized by:
  - Strengthening labour market institutions, such as collective bargaining
  - Reducing wage inequality, through for example minimum wages
  - Improving employment outcomes for vulnerable groups in the labour market, with particular attention to youth unemployment
  - Taking decisive measures to increase women’s participation and ensure equal pay and working conditions for women and men
  - Improving job quality by fostering the transition of workers from the informal to the formal economy, and tackling labour market segmentation.
  - Ensuring equality of opportunities to participate in quality education, training and lifelong learning
  - Promoting universal social protection

***Prolonged underperformance of the global economy is undermining the multilateral system***

15. Work is central to people’s lives and the underperformance of the global economy especially in terms of jobs and wages is a major cause of heightened political and social tensions and political uncertainty. People are increasingly questioning the capacity of the institutions and actors of public life to provide solutions to their most pressing concerns or even the sincerity and legitimacy of their attempts to do so. Simple answers to complex questions are in demand and some of those on offer do violence to the values of democracy, human rights, tolerance and solidarity.
16. The global refugee crisis has highlighted the importance of filling the gap between the efforts of the international community to alleviate humanitarian crises and its longer term development strategies. Forced displacement of large numbers of people leads inexorably to the issue of how women and men in this situation are to provide for themselves. Access to decent work has to become part of the international approach to the crisis. This in turn requires detailed work on appropriate labour market policies that enable both refugees and host communities to have access to decent work opportunities.

17. The world needs strong frameworks for collective action more than ever but political leaders in many countries seem to be turning inward making the construction of a concerted international programme to break out of the low growth trap even more difficult.
18. The 2030 Agenda for Sustainable Development adopted on 25<sup>th</sup> September 2015 by world leaders at the UN Summit is a beacon of hope for the multilateral system. It addresses the major global challenges that must be tackled by 2030 if our societies are to hold together and offer a decent future for the world's citizens. Implementing the Sustainable Development Goals (SDGs) will require the mobilization of the institutions of the multilateral system in support of member States national strategies.
19. A key driver of progress across the SDGs is a shift towards more inclusive growth patterns which generate decent work and decouple economic growth from environmental degradation. Achieving gender equality, in line with the 2030 Agenda, is an indispensable precondition for the realization of a sustainable development that leaves no one behind and ensures that the future of work is decent work. Investing in new infrastructure for greener growth coupled with policies to increase the spending power of lower and middle income groups and increase employment are needed both to rekindle growth and transform the dynamics of growth for sustainability and a just transition in line with the Paris Agreement on climate change adopted in December 2015.
20. The consequences of inaction in 2016 will make it harder to escape a low growth trap and put at risk the world envisioned by Leaders last September in adopting the document, "Transforming our world: the 2030 Agenda for Sustainable Development."