



Statement by Mr Guy Ryder, Director-General

International Labour Organization

Development Committee

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Summary

- While the overall economic outlook is improving, the global labour market still remains weak and fragile and global unemployment is expected to rise by 2.8 million in 2018, with diverging trends at country and regional level.
- The ILO projects that the number of workers in vulnerable employment (own account workers plus contributing family workers) will increase by 11 million per year in 2017 and 2018. This will result in roughly one in two workers being in vulnerable employment in emerging economies, rising to nearly four out of five in developing countries.
- While some progress in poverty reduction has occurred in recent decades, around 780 million workers still do not earn sufficient wages to lift themselves out of extreme or moderate poverty. South Asia and Africa account for three quarters of working poverty.
- Youth unemployment continues to creep up, and in developing and emerging economies millions of employed youth still live in poverty. New automation and digital technologies provide both opportunities and challenges in the youth labour market.
- Preliminary ILO estimates indicate that real wage growth in G20 emerging economies accelerated somewhat in 2016 after a prolonged and steep deceleration between 2012 and 2015. However, real wage growth in China continued to slow last year.
- Despite the economic upturn, workers' wages lag behind productivity growth. This fuels resentment against a global trading system whose shares are distributed unequally. Reinvigorated collective bargaining would serve multiple economic goals, including the attainment of inflation targets while arresting the erosion of public support for global integration and technological advances.
- Gender gaps remain one of the most pressing labour market challenges. Reducing the gap in labour force participation rates between men and woman by 25 % by 2025 could boost global employment by 189 million and raise global annual GDP growth by almost half a percentage point.
- Commitments to implement a comprehensive social protection floor must be maintained.
- The ILO's 2017 *World Employment and Social Outlook* emphasizes the importance of sustainable enterprises investing 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. In 2018 the ILO expects global unemployment to increase by a further 2.7 million as the expansion of the labour force continues to outstrip employment creation.
2. However, global labour market trends masks 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.

Continued subdued wage growth has important economic and social implications

3. Along with sluggish improvements in employment, wages are depressed in many countries. In addition, 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,² as well as social and political implications.³ 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 economic growth, which fuels frustration, hampers social cohesion, and results in political populism. 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
4. 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. 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.
5. Institutional factors also underlie low wage growth. These include the continued weakening of collective bargaining worldwide and the decline in trade union strength.
6. The ILO agrees with the emerging consensus, including among influential central bankers, that higher nominal wage growth is desirable in most advanced economies.⁵ Progressively restoring the labour share of output will assist policymakers reach the inflation targets they have established, sustain aggregate demand and ensure that any remaining deflationary dangers are eradicated.

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

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

³ ILO, 2017, *Global Wage Report 2016/17*, Geneva, ILO

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.

⁵ Financial Times, *Unions look to Draghi as unlikely ally*, 29 September, 2017.

Slow progress in formalization and poverty reduction hinders sustainable development

7. When labour markets slacken in developing and some emerging economies, where most workers are not covered by social protection systems, families have little choice but to join or increase their participation in the informal economy. 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. The ILO projects that vulnerable employment is expected to decline by less than 0.2 percentage points a year in 2017 and 2018, increasing the number of workers in vulnerable employment globally by 11 million per year in 2017 and 2018, and leaving some 1.4 billion people world-wide in chronically poor-quality jobs.⁶ Roughly one in two workers in emerging economies will be in vulnerable employment, rising to nearly four out of five workers in developing countries. The situation is particularly severe in Southern Asia and sub-Saharan Africa.
8. 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 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 percent in Africa. 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 should be shared more broadly

9. 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.⁷ 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 outweighs the wage premium by 13 and 5 percentage points, respectively.
10. 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. In other words, workers are not sharing fully in the benefits of globalization or economic growth. Effective policies that address the distributional impacts of trade are needed to realize the full potential of the global trading regime. Without urgent action by policymakers to expand decent work opportunities and reduce income inequality, the modest pick-up in economic activity now taking place may intensify, rather than diminish, political and social tensions.

Close gender gaps to boost employment and growth

11. Women are substantially less likely than men to participate in the labour market. The current global labour force participation rate for woman is just over 49 percent, which is roughly 27 percentage points lower than the rate for men. The ILO is projecting no improvement in this gap in 2018 and only limited improvements in a few regions between now and 2021. Participation rates for both men and woman have been gradually declining over the last two decades. Where the gap in participation rates has narrowed, it has been because the male rates fell more substantially than female rates.⁸ The gaps are widest in the Arab States, Northern Africa and

⁶ ILO, 2017, *World Employment and Social Outlook: Trends 2017*, Geneva, ILO

⁷ ILO, 2017, *World Employment Social Outlook: Sustainable enterprises and jobs*, Geneva, ILO.

⁸ ILO, 2017, *World Employment Social Outlook, Trends for Woman*, Geneva, ILO.

Southern Asia. The gap in unemployment rates between men and women has widened in emerging economies over the last decade from 0.5 percentage points in 2007 to 0.7 percentage points in 2017.

12. 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 percent 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 the benefits of such changes would be concentrated in large emerging economies because of their size and large gender gaps. Without intensified policy measures this goal will not be reached.
13. Given the importance of social norms in explaining gender gaps, policy responses must address the root causes of occupational segregation and diversify employment opportunities for both women and men. This means combating discrimination both within and outside the workplace and promoting equal remuneration for work of equal value. It also means adopting policies that allow women and men to balance work and family so that more women can participate in the labour market.

Increased public expenditure is required to tackle youth unemployment

14. Youth unemployment continues to creep up. The ILO expects global youth unemployment to exceed 70 million in 2017 and 2018, which represents one in eight persons in the global youth workforce.⁹ Young people in the labour force are three times more likely to be unemployed than adults.
15. 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 youth¹⁰ 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. 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.

Commitments to a comprehensive social protection floor must be maintained

16. Social protection is not yet a reality for a majority of the world's population, despite some progress over the last few years.¹¹ Achieving inclusive labour market and inclusive growth for all requires a social protection system which is comprehensive, equitable, and sustainable as specified in ILO's Social Protection Floors Recommendation, 2012 (No. 202). This is reaffirmed in the 2030 Agenda, as SDG Target 1.3 focuses on policies that implement nationally appropriate social protection systems as an essential ingredient in eliminating poverty. Reflecting this approach, G20 countries adopted 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).”

⁹ ILO, 2017, *World Employment social outlook: Trends*, Geneva, ILO.

¹⁰ ILO, 2017, *Rising to the youth employment challenge: new evidence on key policy issues*, Geneva, ILO, forthcoming.

¹¹ ILO, 2017, *World Social Protection Report 2017-19*, Geneva, ILO, forthcoming.

The Global Deal emphasizes the importance of social dialogue

17. The former Chief Economist of the IMF, Olivier Blanchard, made a significant contribution to the economic literature on social dialogue during his academic career. He 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. Building on this type of 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.¹²

Sustainable enterprises play a key role in boosting growth

18. 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 workforces - through on-the-job training, promoting equity in employment opportunities and securing workers' protection – as well as investing in other important factors of production such as innovation, and engaging in external markets, can be highly competitive without sacrificing the creation of 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.

¹² ILO and OECD, Thematic Brief, *Achieving decent work and inclusive growth: The Business case for social dialogue*, September 2017.