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Statement by Mr. Juan Somavia
Director-General of the International Labour Organization



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Economic growth is essential for job creation. Yet, it has been, and will probably continue to be, insufficient to fulfil the commitment we only just renewed in New York – to pursue aggressively an agenda of poverty reduction, the bedrock of sustainable growth and development.

It is consequently all the more significant that the world community has now taken action at the highest political level that makes the inextricable linkage between decent work and development. Heads of state from around the globe have declared that “we strongly support fair globalization and resolve to make the goals of full and productive employment and decent work for all, including for women and young people, a central objective of our relevant national and international policies as well as national development strategies, including poverty reduction strategies, as part of our efforts to achieve the Millennium Development Goals.”

We need to work out of poverty, and decent, productive employment is the surest route to poverty reduction. And since growth is needed for the jobs that, in turn, lead to poverty reduction, we need to re-forge the link between growth and jobs. To do that, we need to rethink it. In my view, if there is one overarching question before us, it is this: how can we pursue the objective of full employment in an open and interdependent world economy? If we don't find answers, we might end up with a considerably less open world economy as protectionist sentiments rise.

Individuals, families and communities have a right to expect that those in positions of public and private authority can come up with a set of policies that give them a fair chance at a decent job. We need to make employment central to economic and social policies if we are to have a globalization where no one is left behind and we need to make decent work a global goal.

The global labour force will grow by over 400 million by 2015, and even a reasonably heady pace of employment creation at 40 million per year would reduce the global unemployment rate by only just over one percent in ten years. Jobs are always being created, of course, yet official unemployment has grown by 26 percent in the last ten years. And global unemployment is only the tip of the iceberg: the number of those who work, but who work in poverty is 8 times as high.

A challenge thus faces us, but so do practical answers. In fact, a wealth of realistic and realizable policy recommendations was put forth in the *Report of the World Commission on the Social Dimension of Globalization*. Chief among these recommendations was an invitation to the “Executive Heads of the relevant UN bodies, the World Bank, the IMF, the WTO and the ILO to address the question of global growth, investment and employment creation, through a Policy Coherence Initiative.”

The ILO is taking a lead in this initiative. Our constituents include not just governments, but workers and employers. Their expertise lies in the real world, they are used to tradeoffs and compromise, and they know first-hand what is at stake if we can't bring growth and jobs back together. No institution has all the answers, but we all have mandates that oblige us to find solutions together. We need a coherent approach. Policy coherence sounds like an obvious public good but all too often does not exist. If the international community, working together, can just deliver the convergence of policies that will allow every woman and man to work their way out of poverty, the rest will follow. It is an encouraging sign that our ongoing initiative has been enriched by the participation of the IMF, the World Bank, and the agencies of the multilateral system. We have our work cut out for us.

This autumn's *World Economic Outlook* offers insights into the issues surrounding the growth, investment, and employment nexus. The first has to do with sustaining global growth itself. IMF projections of 4.3 percent growth in 2005 and 4.4 percent growth in 2006 are not dire, but do represent a decline in the growth rate of 5.1 percent recorded in 2004. The problem is, as I noted in my statement to the IMFC meeting last April, that even 2004's higher growth rate was inadequate to absorb all those looking for work into productive jobs. And this leads to an inescapable conclusion: if growth is 15.5 percent less this year than last, employment creation will be further constrained. In fact, the ILO estimates that the 1.8 percent global employment growth in 2004 could slip to a rate of 1.6 percent in 2005.

And the situation could worsen still more if, as the WEO observes, higher oil prices make a substantial dent in consumption and trigger a reduction in output growth. Already, the WEO's lower growth estimate of 4.3 percent for 2005 was made when oil prices were US\$ 10 – US\$15 lower than they currently are. The ILO estimates that for each 1 percent reduction in the global GDP growth rate, between 9 and 10 million fewer jobs will be created around the world.

These growth forecasts thus suggest that the status quo is simply inadequate for reaching the international community's objective of poverty reduction and that greater emphasis on productive employment for women and men must be a priority. It is a priority, moreover, that I am pleased to see beginning to register more and more within the multilateral system. The WEO notes that growth alone is not enough when it observes that sub-Saharan Africa recorded its strongest growth performance in over a decade in 2004 but that such "growth rates remain well below what is needed to meet the MDGs."

A similar growth / jobs disconnect is also a central theme of the Asian Development Bank's recent report, *Labour Markets in Asia: Promoting Full, Productive, and Decent Employment*, which makes the point that: "unless the objectives of full, productive, and decent employment become central to policy-making...Asia could continue displaying high growth rates of output during the next two decades and still be plagued by huge unemployment, underemployment, and poverty." This year's edition of UNIFEM's flagship publication, *Progress of the World's Women 2005: Women, Work and Poverty* observes with equal resonance that decent work for women in the informal economy is the surest route out of poverty.

Productive investment fuels economic growth and is the engine of employment creation. It is thus all the more worrying, as the WEO points out, that "global saving and investment are near historic lows", and this, for a variety of reasons, not least among them "the slump in investment in Asian economies (excluding China) in the aftermath of the regional financial crisis." In view of the fact that the onset of that crisis is now eight years in the past, the message is a stark one: labour markets and the productive investment that makes them grow take a long time to recover from disturbances in international financial markets. A new policy paradigm needs to focus on a stable climate for investment and entrepreneurship, employment, income generation and decent work for all.

To promote the goal of decent work for all, macroeconomic stability is necessary but not sufficient. As the WEO rightly observes: "with considerable progress having been made toward a stable macroeconomic environment – an essential precondition for sustained growth – the challenge has increasingly become how to improve the quality of domestic institutional frameworks (such as stronger property rights, lower corruption and better governance)." Institutions and the policies that shape them matter for investment and growth and consequently for decent jobs. And the design of such policies and institutions, however historically and culturally determined, begins at home.

The agenda of trade reform, debt relief, and increased aid is of course vital to the aim of promoting productive employment. Institutions can improve the outcomes of this agenda when they are applied to interventions on both the supply and demand sides of the labour market. For example, capital needs to reach those who can make the most efficient use of it in an environment free from excessive regulatory burdens, to be sure, but also one in which property rights are protected. And this is as true of the informal economy as it is of the formal one.

But beyond property rights, human rights are also basic to the development of institutions that govern exchange on free markets. Fundamental principles and rights at work are vital especially to people who have no or few other assets other than their labour. Achieving the right balance between excessive regulation and a regulatory vacuum in which pure market power determines the terms of exchange is a perennial challenge. The institutional framework for employment is particularly important given the social as well as economic significance of the presence or absence of decent work to individuals or families or communities or countries.

The objective needs to be to increase the employment intensity of growth without, however, sacrificing the productivity with which people work. This happens when growth itself is boosted: consider, for example, the favourable impact on jobs, earnings, and growth when workers in the informal economy are provided with better access to credit.

It is true that technology choice, even at the expense of employment creation, is a “given” for those firms in the formal economy which compete in global markets. But the scope for productive employment creation is far broader than whatever might be the constraints of “globalization”. In this regard, both sectoral policy and local initiatives matter. A focus on rural development, both on- and off-farm, as well as on infrastructure are activities that are both labour-absorbing and can have both direct and indirect opportunities for employment expansion is warranted. For example, our work at the ILO shows that labour-based rather than equipment-based methodologies in infrastructure development convey both direct employment and income-generating advantages, as well as indirect advantages for local economic dynamism – the more people with incomes to consume, the more vibrant a local economy, a simple message yet one that policies have often failed to address.

Macroeconomic stability matters, but it is not enough. Growth matters, but it is not enough. There are, in my view, two fundamental needs – two litmus tests for successful governance. The first is that economic policies ought not to be viewed in isolation from their social consequences. The latter cannot be viewed as a residual outcome of the former. States, for example, should proceed cautiously with trade liberalization while enhancing the preparedness of the labour market to adjust. And we need to do a much better job at looking at this bigger picture. Second, and more challenging, all economic and social policies ought in a prior sense to be evaluated with one critical yardstick: how closer do they bring us to the objective of full and productive employment and decent work for all. An “economic outlook”, after all, is an outlook for people, their livelihoods, their families, and their aspirations.

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