



# **International Monetary and Financial Committee**

Twenty-Third Meeting  
April 16, 2011

**Statement by Juan Somavia**  
Director-General  
International Labour Organization



## **Social Justice Sustains Balanced Growth and Development**

**Statement by Mr Juan Somavia, Director-General, International Labour Office**

**International Monetary and Financial Committee and Development Committee**

**Washington, D.C., 16 April 2011**

1. The consequences of years of unbalanced growth, exacerbated by the global financial crisis, are increasingly apparent in rising social tensions in many parts of the world. I am extremely concerned that current policies are not addressing deep seated imbalances and inequalities within and between countries. The present form of globalization, dominated by a financial services sector that is ill-serving the global public interest, is unsustainable economically, socially and politically.
2. As ILO Director-General I have a duty to warn the International Monetary and Financial Committee and Development Committee that persistent weak growth in opportunities for decent work and widening social gaps threaten to undermine the still fragile recovery of the global economy. I rejoin the Managing Director of the IMF when he cautions “In too many countries, the lack of economic opportunity can lead to unproductive activities, political instability, and even conflict. Just look at how the dangerous cocktail of unemployment and inequality—combined with political tension—is playing out in the Middle East and North Africa.”<sup>1</sup>

### ***Jobs and rights key to sustainable growth and development***

3. On 2 February 2011, in a statement on the situation in Egypt, I recalled that “for many years, the ILO has been pointing to the gravity of the decent work deficit in Egypt and a number of other countries in the region, where unemployment, underemployment and informal work have remained among the highest in the world.” I pointed out that “the failure to address this situation effectively, with all of its consequences for poverty and unbalanced development, together with limitations on basic freedoms, has triggered this historic outpouring of popular demands.” In this regard, I stressed the fundamental concern of the ILO that “no person should suffer discrimination or reprisals of any type for having practised their fundamental rights.”
4. At the joint invitation of the Minister of Finance, Mr Samir Radwan, and the Minister of Manpower and Migration, Mr Ahmed El Borai, I subsequently visited Egypt from 11 to 13 March 2011, meeting the Prime Minister, Mr Essam Sharaf and senior government officials, as well as representatives of the independent trade unions, youth leaders of the revolution and civil society actors. I welcomed the Declaration by Minister El Borai which guarantees that all trade unions will be registered and can freely pursue their legitimate activities. I stated on that occasion that “the fact that the ministers of finance and labour are inviting the ILO to work together indicates the important policy convergence of the issues on which they are requesting our contribution: freedom of association, wages, social protection and employment,

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<sup>1</sup> *The Global Jobs Crisis— Sustaining the Recovery through Employment and Equitable Growth*, Speech by Dominique Strauss-Kahn, Managing Director, International Monetary Fund, Washington, D.C., 13 April 2011

especially for youth". The ILO is similarly engaged in other countries in North Africa and the Middle East.

5. I am convinced that if countries are to grow on a more equitable, sustained and balanced basis, the macroeconomic policies will also have to target jobs creation on a priority basis. This is the central policy challenge we face in 2011 worldwide. The harsh reality is that the tools of conventional economic analysis, such as GDP growth, are failing to capture the underlying imbalances in societies not only in North Africa but in many other parts of the world. Restrictions on freedom of association, high un- and under-employment, wide income and social gaps are indications that issues of central importance to people's lives are being neglected. Financial stability is an ephemeral goal if it is bought at the price of social instability.
6. It is time to re-conceive adjustment policies as policies that adjust to people's needs and aspirations for decent work and a better life for themselves and their children. All too often policies are putting the burden of adjustment on to working families when onerous public and private debt originated in the disastrous lending practices of major financial institutions.
7. Such policies are pushing us to the brink of social, economic and political unsustainability.

***Macroeconomic indicators pick up but not jobs or wage incomes, except at the very top***

8. The number of unemployed worldwide stood at 205 million in 2010, essentially unchanged from the year earlier and nearly 30 million higher than in 2007, with little hope for this figure to revert to pre-crisis levels in the near term. At the global level, the employment-to-population ratio, measuring the employment-generating capacity of a country or region, declined from 61.7 in 2007 to 61.2 in 2009 and is estimated at 61.1 per cent in 2010. Around 1.2 billion working women and men are living with their families on less than \$2 a day per person. This is 39 per cent of the global labour force. Many economies are simply not generating sufficient decent employment opportunities to absorb growth in the working-age population and reduce poverty.
9. Real wage growth slowed in 2008 and 2009 to below 1 per cent in most countries with many workers having to take reduced hours. Furthermore this crisis came after several years of wages failing to keep pace with productivity growth. Overall, for the period 1980–2007, 7 out of 10 countries for which data are available registered a fall in the share of wages in national income. The recent global trends in wages and in the wage share should also be seen against a backdrop of widespread and rising wage inequality, characterized by rapidly increasing wages at the very top and stagnating wages at the median and bottom of the distribution. The distance between the lowest paid 10 per cent of workers and the best paid 10 per cent has increased in 17 out of 30 countries for which data to compare the last three years with the mid-nineties are available.<sup>2</sup>
10. Furthermore the rise of the top decile's share in income is overwhelmingly accounted for by what has happened to the earnings of the top 1 per cent of earners in the country – and, sliced even more thinly, what has happened to the earnings of the top 0.1 per cent of the distribution. By 2007, the top 1 per cent of earners in the United States accounted for 23.7 per cent of total income in the country. Moreover, between

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<sup>2</sup> ILO: *Global Employment Trends 2011*, January 2011

1976 and 2007: “the share of an even wealthier group – the top 0.1 per cent – has more than quadrupled from 2.3 per cent to 12.6 per cent over this period.”<sup>3</sup>

***Enriching the policy toolbox***

11. The uneven recovery described in the IMF’s latest World Economic Outlook poses major policy challenges for many countries and for the coordination of mutually reinforcing policies globally. Large fiscal deficits and growing public debt will have to be reduced but the major cause of these problems, collapsing tax revenues as a result of recession, will only be addressed fully by private sector recovery which in too many countries is weak and dependent on continued public policy support. The dilemma of balancing a credible medium-term fiscal consolidation with short-run support for a still weak recovery is particularly acute in countries that were hit hardest by the successive waves of disruption in international financial markets that followed the bursting of the credit bubble in 2008.
12. With fiscal policy options constrained and monetary policy in danger of falling into a “liquidity trap” in which low interest rates feed new asset bubbles rather than productive investment, governments need to diversify their policy toolbox. The IMF Managing Director put it well “we need financial sector reform and repair, to put the banks back in the service of the real economy, and direct credit to small and medium-term enterprises—key drivers of employment and indeed of growth. ... But growth alone is not enough. We need direct labour market policies. The crisis taught us that well-designed labour market policies can save jobs.”<sup>4</sup>
13. The employment challenge is often defined narrowly in supply-side terms of the need to maintain competitiveness in the context of the resumption of rapid globalization and a continuation of rapid technological change. This of course is important but the over-riding problem many countries face is on the demand-side. In this context it is important to align wage developments more closely to changes in productivity. Divergent trends in relative unit labour costs have been one of the underlying problems brought to the fore by the ongoing sovereign debt crisis on the Eurozone.<sup>5</sup> Allowing wages to rise faster than increases in productivity courts the risk of a loss of competitiveness and painful subsequent adjustments. Equally, however, a policy of wage compression in order to increase competitiveness entails costs in terms of a lower level of effective demand and an adverse shift in wage shares.
14. These considerations underscore the importance of effective institutions of social dialogue and collective bargaining for ensuring stable growth in output and employment. It is also relevant to note that a high level of social protection in the form of employment protection laws, collective wage agreements, and unemployment insurance has played a significant role in dampening the extent of contraction of effective demand in the aftermath of the financial crisis.<sup>6</sup>
15. The adjustment required in highly indebted countries will inevitably involve significant social pain. But the extent of this pain can be mitigated if governments

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<sup>3</sup> Anthony Atkinson, Thomas Piketty, and Emmanuel Saez: “Top Incomes in the Long Run of History”, *Journal of Economic Literature*, 2011, Vol. 49, No. 1

<sup>4</sup> Ibid

<sup>5</sup> J. Filipe and U. Kumar: *Unit Labour Costs in the Eurozone: The Competitiveness Debate Again*, Working Paper No. 651, Levy Economics Institute, February 2011

<sup>6</sup> Paul De Grauwe: *Flexibility is out: now we see rigidity’s virtues*, Centre for European Policy Studies, February 2009

give high priority to employment and social justice in the design and implementation of adjustment programmes rather than focus exclusively on fiscal consolidation. Maintaining expenditures on active labour market and other programmes to boost employment is vital. Such programmes are important not only for preventing a rise in long-term unemployment but also for facilitating the structural shifts in the economy that are required as part of the adjustment process. In addition, ensuring that the burden of adjustment is fairly distributed across all income groups can do a great deal to lessen the hardship faced by the poor. This will also be important for building broad social support for programmes.

***Deepening policy coherence***

16. An uneven global recovery is likely to produce increasing tensions within and between countries. Faster growing countries are likely to become increasingly concerned by risks of inflation or asset bubbles. But a policy-induced slow down in the growth poles of recovery will make it even harder for deficit countries to adjust without deepening the jobs and social crises they face. Not only do countries need to enrich their policy toolbox, they also need to deepen international cooperation to reduce the imbalances that threaten recovery. It is urgent to deepen and broaden the dialogue and cooperation between ministers of finance and ministers of employment and labour.
17. Unbalanced labour market and employment developments lead to a situation where the gains from productivity growth are not broadly shared, where income is increasingly concentrated at the top, with consequences for the sustainable growth of domestic effective demand. This can lead to pressures to stimulate demand by expansionary fiscal policies, very low interest rates and/or via exchange rates. These pressures on macroeconomic policies can in turn lead to asset bubbles as well as global trade tensions and competitive devaluations. All countries have a shared interest to achieve high levels of employment and labour force participation, with wages growing at rates close to productivity growth, in order to sustain strong effective demand without the need for ultimately unsustainable stimulation policies.
18. Macroeconomic frameworks, and the degree of expansiveness or restrictiveness of fiscal and monetary policies, need to be responsive to the employment outlook. Balanced development of labour markets, employment and social protection is an indispensable pillar of balanced global growth.
19. I invite the International Monetary and Financial Committee and Development Committee Members to take account of these inter-relationships in their deliberations and future actions.