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Leading the Way to Sustainable and Inclusive Globalization

Statement by Mr Juan Somavia, Director-General

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Summary

- The global employment outlook for 2012 and 2013 is bleak.
- 900 million women and men of working age are unable to earn enough to lift themselves and their families above the \$2 a day poverty line. Had pre crisis trends in poverty reduction been maintained this figure would now be 55 million lower.
- Of the nearly 200 million jobless worldwide, 75 million are 15-24 year old youth.
- In two thirds of the countries for which data are available, the total income of high-income households expanded faster than that of low-income counterparts.
- Businesses and workers are under pressure in many countries to maintain competitiveness by raising productivity and reducing costs. However such efforts by real economy actors can be all too easily nullified by large and sudden fluctuations emanating from turbulence in financial markets.
- There is growing awareness of the need to counter the risk that adverse feedback loops between nervousness concerning sovereign debts in some countries interacts with a still fragile financial sector to stymie recovery in productive investment and decent work creation.
- The latest forecasts of the IMF and others suggest a slight improvement in growth in the latter part of 2012 and in 2013 but not enough to make a dent in the global jobs gap that opened up with the 2008 crisis. It is time for a policy rethink.
- Frustration is rising that national governments are more attentive to financial market confidence while the waning confidence of people in their governments is neglected.
- The multi-polar world economy, however, means that no one country or region, can lead on its own. Furthermore countries were affected differently by the crisis and face differing priorities in building recovery. Policy coordination is more complicated just at the time it has become even more important.
- Nevertheless, global political concern over jobs is a unifying theme for international action that can help the international system meet the challenges of kindling recovery and transitioning into a sustainable strong and balanced path of global development.
- Building on the 2009 ILO Global Jobs Pact, countries should consider introducing a package of measures specific to their needs. These could include support for physical infrastructure and human capital, SMEs, skills development, public employment services, work sharing, targeted support to industry, employment guarantee schemes, minimum wages and social protection floors.
- Today's multi-polar world economy means that no one country or region, can lead on its own. Concern over jobs is a unifying theme for international action that can help the international system meet the policy coordination challenges of ensuring that working women and men, especially youth, can earn a living through decent work.

Risks of Unemployment, Inequality and Volatility

1. The global employment outlook for 2012 and 2013 is bleak. Growth is slowing in developing and emerging economies, many of which must maintain a brisk pace of expansion to meet the demand for decent jobs from a growing working age population. A number of the largest advanced economies face the legacy of a major crisis in the main centres of finance which includes levels of unemployment and inequality not seen since the Great Depression.
2. There are currently some 56 million fewer workers in employment worldwide than would have been the case if pre crisis growth had not been interrupted. Outright unemployment is up by 27 million and labour force participation has fallen, taking a further 29 million out of employment. Of the nearly 200 million jobless, 75 million are 15-24 year old youth. Informal employment remains prevalent in a large number of developing countries. 900 million women and men of working age are unable to earn enough to lift themselves and their families above the \$2 a day poverty line. Had pre crisis trends in poverty reduction been maintained this figure would now be 55 million lower.¹
3. Different regions however show varying trends. In advanced economies employment fell between 2008 and 2011. In emerging and developing countries some growth was maintained albeit below the pre crisis trends and in East Asia and South Asia also below the expansion of the working age population. Productivity growth was also down in nearly all regions but still positive.
4. Projecting forward into 2012 and 2013, there is a high risk that, with a weak recovery and some parts of the world in recession, unemployment will continue to rise, mainly in advanced countries. In emerging and developing countries, employment in conditions that will enable a reduction in poverty may fail to keep pace with still increasing growth in the working age population. The world needs to generate 40 million more jobs every year over the coming decade. And to get back on track for halving world poverty these need to be jobs that earn more than poverty wages.
5. Inequality is on the rise. Between the early 1990s and the mid-2000s, in two thirds of the countries for which data are available, the total income of high-income households expanded faster than that of low-income counterparts. Similar trends have occurred when looking at other dimensions of income inequality such as labour income vis-a-vis profits, or top wages vis-a-vis wages of low-paid workers. In 51 out of the 73 countries for which data are available, the share of wages in total income declined over the past two decades. Likewise, during the same period, the income gap between the top and bottom 10 per cent of wage earners increased in 70 per cent of the countries for which data are available.² Furthermore, within the top 10 per cent, it is the top 1 and even top 0.1 per cent who have seen the most rapid rise in their income shares. In the USA, in 2010, top 1% incomes grew by 11.6% while bottom 99% incomes grew only by 0.2%. Hence, the top 1% captured 93% of the income gains in the first year of recovery.³ There is growing acknowledgement that volatility in economic performance and income and other forms of inequality are interconnected.⁴
6. Successive issues of the IMF's World Economic Outlook have highlighted volatility in the global economy manifested in substantial swings in exchange rates, in flows of portfolio investment, in trade growth and continued turbulence in the financial sector. Businesses and workers are under pressure in many countries to maintain competitiveness by raising

¹ Global Employment Trends 2012, ILO.

² World of Work 2008 and 2011, ILO

³ Striking it Richer: The Evolution of Top Incomes in the United States (Updated with 2009 and 2010 estimates) Emmanuel Saez, March 2, 2012 <http://elsa.berkeley.edu/~saez/saez-UStopincomes-2010.pdf>

⁴ Berg, Andrew, and Jonathan D. Ostry, 2011, "[Inequality and Unsustainable Growth: Two Sides of the Same Coin?](#)" IMF Staff Discussion Note 11/08 .

productivity and reducing costs. However such efforts by real economy actors can be all too easily nullified by large and sudden fluctuations emanating from turbulence in financial markets. As stated in the IMF's January 2012 World Economic Outlook Update this "provides fertile ground for self-perpetuating pessimism and the propagation of adverse shocks."

Threats to recovery call for a policy rethink

7. Since 2008 international policies developed through the G20 and multilateral organizations have gone through three distinct phases and may now be entering a fourth. First, in late 2008 and early 2009 an emergency response to prevent further major banking collapses was mounted. Second, 2009 and the first months of 2010 was a phase of fiscal action aimed at saving and creating jobs as the shock waves of the financial crisis spread around the world. Third, beginning in May 2010 was a shift to fiscal consolidation as worries emerged about the effect of the recession itself and policy responses on government deficits and debts.
8. Now a fourth phase may be beginning with a growing awareness of the need to counter the risk that adverse feedback loops between nervousness concerning sovereign debts in some countries interacts with a still fragile financial sector to stymie recovery in productive investment and decent work creation.
9. Governments and central banks are still cleaning up the wreckage of the 2008 crash and have yet to complete the reform agenda for a safer financial system. The lightly regulated and internationally open systems of a number of the world's major financial centres, that was one of the proudest creations of the new globalization, failed spectacularly at huge cost to working families all over the world. Countries that resisted the pressure to liberalize suffered less damage and are recovering faster.
10. Despite massive injections of liquidity to shore up the international banking and financial system, funding of investments in the real economy and in job creation is weak. It is the ILO's responsibility to point out that the volatility endemic in financial globalization is seriously damaging to productive investment and employment creation. Reforms to the finance sector to make it serve the real economy are urgently needed.
11. The Euro zone countries most exposed to finance market pressures as a result of high ratios of government deficits and debt to GDP are frozen out of international markets despite massive injections of liquidity by central banks to bolster bank's balance sheets. They are cutting public expenditure and increasing taxes. However they are making little or no progress as in consequence output and incomes are falling too. Despite cuts in labour costs and far reaching reforms to try to raise their competitiveness, their main export markets elsewhere in Europe are also not growing. Competitive deflation is spreading with the same disastrous consequences as trade protection. Attempting to pay off financial debts with austerity policies is piling up a social debt that is rapidly becoming unsustainable.
12. The spill over effects of the Euro zone crisis coupled are spreading worldwide and weakening the prospects of emerging and developing countries that had bounced back relatively rapidly in 2010 and 2011. Volatility in exchange rates and capital flows, in part a consequence of easy monetary policies in advanced countries, are damaging growth and jobs in a number of emerging countries. Food and fuel prices remain elevated with at least some part of the price rises also a consequence of cheap credit looking for speculative gains. Weakening export markets especially in Europe are a further worry for developing and emerging countries growth and development plans.
13. The latest forecasts of the IMF and others suggest a slight improvement in growth in the latter part of 2012 and in 2013 but not enough to make a dent in the global jobs gap that opened up with the 2008 crisis and hedged by sizeable risks of a still worse outcome.
14. It is time for a policy rethink.

The social and political fallout of prolonged economic weakness

15. The stark numbers on unemployment, underemployment, working poverty and income inequality translate into major setbacks for the aspirations of hundreds of millions of women and men and their families and communities.
16. As the head of the Gallup Poll Research Company writes, “Whether you and I were walking down the street in Khartoum, Cairo, Berlin, Lima, Los Angeles, Baghdad, or Istanbul, we would discover that the single most dominant thought on most people's minds is about having a good job.”⁵
17. The lack of decent work opportunities for young women and men is particularly damaging for their life chances and for the productive potential of their societies. Among the most significant risks identified by the World Economic Forum’s 2012 Global Risks Report are chronic labour market imbalances and severe income disparity. The report concludes that “the signs already exist that the world is becoming more fragmented, inconsistent and mistrustful.”
18. Frustration is rising that national governments are more attentive to financial market confidence while the waning confidence of people in their governments is neglected. Banks are deemed too big to fail but people are treated as too small to matter.
19. The disconnect between the preoccupations of people and global political elites is deepening with many damaging consequences for democracy, the rule of law, social cohesion and human development. International cooperation and policy coordination is becoming more difficult as nations turn inward just at the time when it is needed most.

Connecting with people: decent work and social protection at the heart of strategies for recovery and development

20. With flows of commerce, finance and information much more open internationally, national policy levers are less effective in steering economies to high levels of employment. The coordination of policies internationally is vital to recovering the capacity of governments collectively to meet what world opinion surveys have confirmed is the people’s priority of decent work.
21. More tools are needed in the macroeconomic policy toolbox alongside fiscal, monetary and financial policies. Building on the 2009 ILO Global Jobs Pact, countries should consider introducing a package of measures specific to their needs. These could include:
 - **Physical infrastructure and human capital.** New infrastructure projects have contributed to sustaining production and incomes, as in Australia, China, Indonesia and Sweden. As part of a broad fiscal and monetary stimulus, China also increased expenditure on housing, education and health.
 - **SMEs** benefitted from lower interest rates, microcredit programmes in rural areas, temporary non-wage labour costs and tax rate reductions. Indonesia, for instance, combined a reduction of income taxes to sustain household demand with the strengthening of an existing project of infrastructure investment to support employment and growth over the crisis.
 - Investment in human capital in the form of **skills development**, upgrading and re-skilling and vocational training has contributed to preserving and improving the employability of workers. A particular focus on disadvantaged groups, as recommended in the Pact, has helped reduce long-term unemployment and inequalities.
 - **Public employment services** have been reinforced in Germany and China to reduce the incidence of long-term unemployment and the loss of skills and provide re-skilling to support recovery. India’s National Policy on Skill Development has

⁵ Jim Clifton. 2011. *The Coming Job’s War*. Gallup Press (October 4, 2011)

focused on combining school-based training with workplace training, involving social partners and paying special attention to sectoral needs.

- **Work-sharing schemes.** Work-sharing programmes that are complemented by partial unemployment benefits, such as the *Kurzarbeit* scheme in Germany, have reduced job losses and helped support enterprises over the most severe phase of the crisis, limiting firing and hiring costs for firms and preserving workers' employability and income as well as firm productivity.
 - **Targeted support to industries,** to both enterprises and workers, has also shown large employment and productivity returns. A combination of support to consumer demand, suppliers and auto communities helped the United States car industry preserve jobs, return to profitability and increase productivity while innovating and improving vehicle technologies.
 - **Employment guarantee schemes.** The Mahatma Gandhi National Rural Employment Guarantee Scheme has helped stabilize the income of the most vulnerable and promote inclusive and equitable growth. It offers employment for one hundred days at minimum wages to one member per rural household, with no distinction of gender, age or physical capacity. South Africa's Expanded Public Works Programme is another innovative scheme aimed at tackling pervasive unemployment by building communities.
 - **Minimum wages** were significantly increased in real terms in Australia, Brazil and Canada. The recent growth pattern of Brazil and its resilience to the crisis appears to be attributable in part to a reduction of informality, inequality and poverty showing the crucial interconnection between the promotion of labour standards, the provision of social protection and labour market policies directed to preserving and enhancing workers' employability.
 - **Well-designed social protection mechanisms.** Many developed countries have expanded existing schemes typically by extending eligibility criteria, duration, level of benefits, work sharing schemes, and training and retraining programmes. Emerging market economies such as Argentina, Brazil, Thailand and Uruguay also reinforced their systems and Viet Nam implemented a new unemployment scheme.
22. The crisis has marked a noticeable shift in social protection policies. Contrary to the 1990s when residual and temporary social relief safety net measures were implemented to compensate the impacts of the structural adjustments, now many countries are investing in permanent social protection floors to protect and empower people both to cope with the effects of crises and also to serve as economic stabilizer and driver for economic growth. In this new social protection floor approach, social protection is not residual, but an integral part of the inclusive growth strategy.

A new inclusive and sustainable globalization is needed to decisively exit the crisis

23. As the ILO supported World Commission on the Social Dimension of Globalization said in its 2004 report, "Wisely managed, it [globalization] can deliver unprecedented material progress, generate more productive and better jobs for all, and contribute significantly to reducing world poverty." But it is still not delivering its potential. And the near melt down of 2008 demonstrates very clearly that there are major gaps in the governance of globalization that 4 years later are not yet fixed.
24. Governance of globalization requires the collective action of governments. This is especially urgent at time when as the IMF Managing Director said in a speech in Berlin on 23 January 2012, "It is not about saving any one country or region. It is about saving the world from a

downward economic spiral. It is about avoiding a 1930s moment, in which inaction, insularity, and rigid ideology combine to cause a collapse in global demand.”⁶

25. In that 1930s moment, Keynes highlighted the paradox of thrift where if everyone tries to save more money during times of recession, then aggregate demand will fall and will in turn lower total savings in the population because of the decrease in consumption and economic growth. The weakness of the mechanisms for the governance of globalization has led us into a global paradox of thrift, which as Keynes argued, calls for the simultaneous pursuit of policies directed towards generating optimum levels of employment by all countries together which is capable of restoring economic health and strength internationally.
26. The ILO representing - employment and labour ministers, business and unions – is acutely aware of the risks the Managing Director sees. Each job is both a cost to an employer and spending power to a household. If employers are forced into situations where they have to cut jobs and wages to survive, it diminishes consumption which feeds back to weaker purchasing orders and more trimming of labour costs. And the public budget suffers too from reduced tax revenues and pressures to support families and communities no longer able to earn a living.
27. The global economy is vastly changed compared to the nearly 70 years since the design of the IMF and World Bank at Bretton Woods. But being able to earn a decent living remains at the centre of people’s concerns just as it was in 1944 and as is reflected in the Articles of Agreement.⁷ It is fitting that the Bank has decided to make jobs the theme of the next World Development Report.
28. Today’s multi-polar world economy means that no one country or region, can lead on its own. Furthermore countries were affected differently by the crisis and face differing priorities in building recovery. Policy coordination is more complicated just at the time it has become even more important. Nevertheless, global political concern over jobs is a unifying theme for international action that can help the international system meet the challenges of kindling recovery and transitioning into a sustainable strong and balanced path of global development.
29. Organizing collective action requires leadership and connecting to people’s priorities: imagination not ideology. It requires dialogue, negotiation and a capacity to see ways of accommodating different interests in a package of agreed actions that moves everybody forward. Today’s priority all around the world is ensuring that working women and men, especially youth, can earn a living through decent work.

⁶ IMF: *Global challenges in 2012*, speech by the IMF Managing Director at the German Council on Foreign Relations, Berlin, 23 Jan. 2012. Available at www.imf.org/external/np/speeches/2012/012312.htm.

⁷ IMF Article I ii “To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.”