WHAT WORKS
Research
Brief N°6

International Labour Organization

ILO Research Department

REDUCING DECENT WORK DEFICITS IN PERIODS OF LOW GROWTH

In recent years, the global economy has been gravitating towards what could be considered 'new normal' lower levels of growth. The idea of persistently lower growth has become increasingly important as GDP growth rates continue to remain below expectations, and lower than the rates achieved in the pre-crisis period. Should this protracted period of lower growth prove to be structural rather than cyclical, an adjusted approach to reducing decent work deficits will be called for. Indeed, at current levels of growth, the capacity of the global economy to create a sufficient number of quality jobs and achieve the target of "full and productive employment and decent work for all", as set out in Goal 8 of the Sustainable Development Agenda, may be compromised.

Key findings

- Chronically low growth rates would add to the global tally of unemployed persons and make it difficult to achieve Goal 8 of full and productive employment and decent work for all.
- Coordinated fiscal spending that is responsible (i.e. takes into account respective countries' fiscal space) could lower global unemployment (in comparison to the baseline) by nearly 2 million over the next two years.
- The composition of efforts to stimulate growth is important. What is needed is a multifaceted policy approach that addresses the root causes of secular stagnation, such as inequality, while taking account of country specificities.

Research question

According to the 2017 edition of the World Employment and Social Outlook: Trends, global unemployment is expected to rise by 3.4 million in 2017, bringing the global tally to 201 million (ILO, 2017). This corresponds to an increase in the global unemployment rate from 5.7 per cent in 2016 to 5.8 per cent in 2017. It also reports that 1.4 billion workers worldwide are own-account or unpaid family workers and that, due to an expanding labour force, the number will continue to increase. The report also highlights that reductions in working poverty are slowing, and that nearly half of workers in Southern Asia and nearly two-thirds of workers in sub-Saharan Africa live in poverty.

These recent labour market dynamics reflect a slowing, or even a reversal, of progress relative to the longer-term trends. Moreover, if a wider lens is used to view the economy, economic growth forecasts appear to have been systemically revised downwards, intensification of global supply chains (GSCs) has been slowing, and there are signs of secular stagnation in a number of developed countries, as near-zero growth rates are increasingly unresponsive to monetary policy (see box 1).

Box 1. Entering a protracted period of lower growth

Economic growth forecasts have been consistently revised downward over recent years. For example, table 1 shows that the rate of growth projected for 2017 in successive editions the IMF's October World Economic Outlook fell from 4.6 per cent in 2012 to 3.4 per cent in 2016. While a number of adverse shocks have occurred recently, which have weighed negatively on the global outlook, there remains a general question that needs to be raised: Is potential growth in the world economy gravitating towards 'new normal' levels of lower growth? In Asia and the Pacific, structural rebalancing in China is weighing heavily on emerging and developing countries in the region, but worldwide, lower growth is becoming increasingly indiscriminate by country income group.

Table 1.1. *IMF growth projections for 2017, by October editions of the World Economic Outlook*

2012	2013	2014	2015	2016
4.6	4.1	4.1	3.8	3.4

Source: IMF World Economic Outlook database (various editions)

There are several factors that could explain the slowdown in potential growth. The first is that the weak global import and export growth of recent years does not appear to be entirely cyclical. The intensification of GSCs has slowed down significantly since 2009, compared with the period 2000 to 2008 (Timmer et al., 2016), implying that trade volumes and global production are becoming increasingly disconnected from one another (Hoekman, 2015). Consequently, developed countries see much smaller potential productivity gains deriving from GSC intensification, while developing countries' potential to benefit from technological diffusion and access to quality imports is diminished.

At the same time, many developed countries have experienced low growth in conjunction with extremely low interest and inflation rates, as well as extremely loose monetary policy, for several years in a row. Summers (2016) argues that these are symptoms of secular stagnation, whereby investment demand falls short of savings supply due to structural factors including but not limited to rising inequality, weak labour income growth, slow labour force growth and lower physical capital requirements of the new economy. Subsequently, low investment, being a seemingly cyclical drag on growth, could actually be caused by structural factors. Furthermore, the underlying causes of secular stagnation, as well as the slowdown of potential growth, had already started before the 2008 financial crisis (Summers, 2016; IMF, 2015).

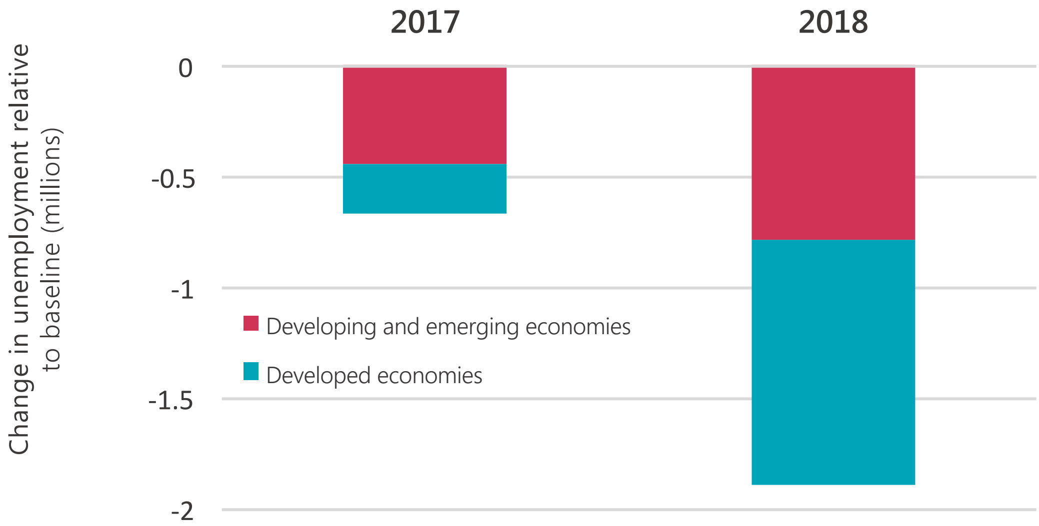
The implications of secular stagnation for the labour market are potentially substantial. Using the ILO's Trends Econometric Models and Oxford Economics' Global Scenarios Service, the ILO estimates that a scenario of intensified secular stagnation (i.e. even lower consumption and investment demand) could result in global unemployment rising by an additional 0.3 million in 2017 and almost 1 million in 2018, relative to baseline projections. Developed economies are affected the most in the first year, while emerging and developing countries may benefit initially from higher capital inflows, but then suffer from negative spillover effects caused by lower levels of trade and investment. Additionally, progress in reducing vulnerable employment and working poverty in emerging and developing countries would likely slow in the face of intensified secular stagnation. Ultimately, the situation under this scenario would be a self-reinforcing cycle of lower investment, consumption and productivity.

The question is how to prevent or even offset such a scenario by stimulating more inclusive growth, that leads to the creation of more and better jobs.

What works

A comprehensive approach to addressing cyclical and structural macroeconomic factors is needed to improve labour market and social outcomes on a sustainable basis. To demonstrate the potential gains that can be achieved from adopting pro-employment growth policies, a scenario that assumes that countries increase their public investment outlays according to their available fiscal space. The notion is that such fiscal loosening can provide an immediate jump-start to the global economy, which in the medium term could remove fears of low growth and thereby raise investment demand. Under such a scenario, global unemployment could be lowered significantly, by 0.7 million in 2017 and 1.9 million by 2018, relative to baseline projections (figure 1).

Figure 1. *Net unemployment impact from coordinated fiscal loosening, 2017 and 2018*



Source: World Employment and Social Outlook, Trends 2017

Policy considerations

Boosting economic growth in an equitable and inclusive manner requires a multifaceted policy approach. Indeed, well-designed and coordinated fiscal loosening could move the world economy into a self-sustaining (economic, social and environmental) cycle of increased aggregate demand. However, such an approach needs to be complemented by policies that address the root causes of secular stagnation, such as inequality, while also taking account of country specificities. Importantly, it is not just about the level of growth, but how to ensure the equitable distribution of the gains, so that equity and growth are supported in a complementary way. The long-term benefits of achieving the Sustainable Development Goals, particularly Goal 8 (productive employment and decent work for all), would yield significant social benefits, while also contributing to a strengthening and rebalancing of the global economy. The following are important elements of a multifaceted policy approach.

Pro-employment macroeconomic policies

Policies aimed at overcoming structural barriers to growth must have a sufficient focus on job creation if they are to result in output gains that are both stable and inclusive. For example, fiscal policy can support job growth, at least in the short run, and can help improve the climate for private investment – leading to greater net employment gains and more lasting and inclusive outcomes (ILO et al., 2015). In particular, infrastructure investment can strengthen the link between growth and quality job creation, often with relatively high multiplier effects (ibid.). In addition, these policies can be targeted in a manner that addresses some of the causes of secular stagnation, such as low participation rates among women. Quality of jobs is a central consideration

Strengthened labour market institutions and policies

There is a strong case for strengthening labour market institutions and policies, such as minimum wages and active labour market policies, with an eye towards combatting drivers of inequality. Such measures can help to address inequality by raising skills levels and providing an adequate wage floor. This can have positive spillover effects on consumption, which would stimulate investment and, in turn, aggregate demand. In this respect, policies of this nature could break the perpetual cycle of slow growth, low investment and low job creation while addressing inequality.

Well-designed social protection systems

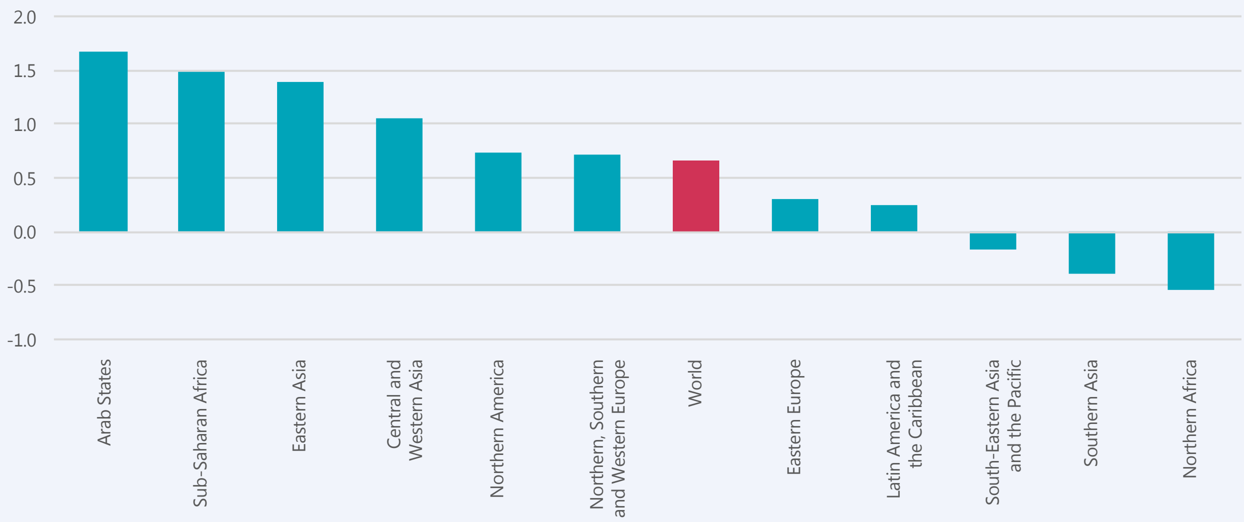
The effectiveness of fiscal loosening in overcoming structural obstacles to growth depends largely on the existence of progressive redistributive social transfers. Accordingly, sufficient provision of social protection can be achieved if fiscal redistribution takes place in an efficient, effective and equitable manner and social protection systems are designed to be indiscriminate, so they are available to all regardless of, for example, job status or formality of employment. In this way, social protection systems can provide much needed income support for low-income households while also providing a means for those individuals to smooth their consumption in the face of economic shocks. As such, these measures can also serve as automatic stabilizers to sustain demand at the aggregate level.

Box 2. Without action the socio-economic situation will continue to drive social unrest

As a response to the ongoing global uncertainty and the persistence of major economic challenges, the risk of social unrest or discontent has heightened across almost all regions. Based on the ILO's social unrest index, which measures the expressed discontent with the socio-economic situation in countries, the average global social unrest score increased between 2015 and 2016 (figure 2). This level – albeit lower than the post-crisis peak – remains above the long-term average (since 1980).

In terms of regional developments, only three regions experienced declines in the index between 2015 and 2016, most notably Northern Africa. In contrast, eight regions experienced increases, with the largest rise taking place in the Arab States, followed by sub-Saharan Africa and Eastern Asia. However, regional averages can often hide large inter-country variations. For instance, the average index score for Latin America and the Caribbean increased only marginally, but there was a relatively large increase in the score for Brazil.

Figure 2. *Change in the social unrest index, 2015 to 2016*



Note: The chart shows the change in the weighted average of the social unrest index from 2015 to 2016 by ILO region. The social unrest index is based on the share of protest events in total events, using Global Database of Events, Language, and Tone (GDELT) categories, and ranges from 0 (low) to 100 (high).

Source: World Employment and Social Outlook, Trends 2017.

Further reading

International Labour Organization (ILO). 2017. *World Employment and Social Outlook: Trends* (Geneva).

—. 2015. *An employment-oriented investment strategy for Europe* (Geneva).

—. **OECD; World Bank Group**. 2015. *G20 Labour Markets in 2015: Strengthening the Link between Growth and Employment*. Document prepared for the G20 Labour and Employment Ministers Meeting and Joint Meeting with the G20 Finance Ministers, Ankara, 3–4 Sep.

International Monetary Fund (IMF). 2015. "Where are we headed? Perspectives on economic growth", in *IMF World Economic Outlook: April 2015* (Washington, DC), pp. 69–110.

Hoekman, B. (ed.). 2015. *The global trade slowdown: A new normal?*, VoxEU.org eBook (London, Centre for Economic Policy Research).

Summers, L. 2016. *The age of secular stagnation.* Available at: http://larrysummers.com/2016/02/17/the-age-of-secular-stagnation/ [1 Dec. 2016].

Timmer, M.P.; Los, B.; Stehrer, R.; de Vries, G.J. 2016. *An anatomy of the global trade slowdown based on the WIOD 2016 release*, GGDC Research Memorandum 162 (Groningen, Groningen Growth and Development Centre).

For more information or clarification please contact Stefan Kühn (kuehn@ilo.org) or Richard Horne (horne@ilo.org) of the Labour Market Trends and Policy Evaluation Unit of the ILO Research Department. Further information is available at: www.ilo.org/weso.