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**Statement by Mr. Hougbo
International Labour Organization**



Statement by Mr Gilbert Houngbo, Director-General, International Labour Organization, to the International Monetary and Financial Committee (IMFC)

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Summary

In addition to claiming millions of lives, the COVID-19 pandemic has caused an unprecedented loss of jobs and livelihoods and exacerbated income insecurity around the world. The consequences of the war in Ukraine have exposed fragilities in global food and energy systems, triggering a cost-of-living crisis around the world. These crises have emerged within the context of the accelerating climate crisis and its adverse impacts on economies and societies. Constrained by rising debt burdens and shrinking fiscal space, many countries now face an even more daunting policy landscape.

In this context, the following policy responses should be prioritised:

- **Universal social protection is essential** to sustain the purchasing power of the most vulnerable. It is therefore important to adjust social assistance and other social protection benefits to inflation where needed to raise benefits to an adequate level. Concerted international support is critical for fast-tracking progress in countries lacking fiscal and economic capacities, especially in low-income countries with marked underinvestment in social protection.
- **Adequate adjustments of the minimum wage** are needed that would help significantly to improve the living standards of low-income households in the current cost-of-living crisis. As nominal wages are not catching up with inflation, there is scope in many countries for increasing wages without fear of generating a wage-price spiral.
- **Increased support for vulnerable economies** amid high and rising debt is urgent in the current context of tighter monetary policy and rising interest rates.
- The **UN Global Accelerator on Jobs and Social Protection for Just Transitions** is oriented to providing a robust and effective level of support to invest in the creation of productive employment and adequate social protection systems. Joining forces through the Accelerator would enable transition from a position of simply reacting to crises to pro-actively anticipating and managing the different transitions that are underway – environmental, social and economic.
- **The respect of labour rights and promotion of sustainable enterprises** and better working conditions in global production can be a catalyst for economic development and poverty reduction and contribute to reducing income inequality between countries.
- **Collective efforts to address the interrelated and mutually reinforcing crises are required**, which would at the same time support far-reaching transformations to attain sustainability and an equitable sharing of the benefits of such efforts, within and between countries.

► The cost-of-living crisis

As global growth momentum remains weak and global growth is projected to remain subdued in the second half of 2022, before slowing further in 2023¹, the ILO expects the number of hours worked globally to remain significantly lower in 2022 than the pre-pandemic level.

Inflationary pressures are broadening out beyond food and energy markets in very many countries. The greater-than-expected overshoot of inflation targets is driving the generalised tightening of monetary policy, which is a key factor slowing global growth. Despite such measures annual inflation in 2023 is expected to remain well above central bank targets almost everywhere according to the OECD².

Significantly higher prices and an expected sharp slowdown in the economic recovery are fuelling a cost-of-living crisis and exacerbating existing employment challenges. Indeed, this cost-of-living crisis comes on top of significant losses in the total wage bill for workers and their families during the COVID-19 crisis, which in many countries had the greatest impact on low-income groups.

Available evidence for 2022 suggests that rising inflation is causing real wage growth to dip into negative figures in many countries³, reducing the purchasing power of the middle class and hitting low-income groups particularly hard. Minimum wages, a widely used instrument around the world to protect the incomes and the purchasing power of low-paid workers and their families, have decreased in real terms in several countries – even when measured against the average CPI⁴.

In the absence of adequate policy responses, the near future can be expected to see a sharp erosion of the real incomes of workers and their families and an increase in inequality. Reduced purchasing power also means reduced demand, which puts businesses under strain. Many are facing additional challenges caused by disruption to their supply chains. This situation has knock-on implications for economic growth, threatening the economic recovery. And after two years of pandemic, increasing interest rates and depreciating currencies, many countries – and particularly the lower-income ones – have limited fiscal space left to cushion the impact of these blows on their people, possibly fuelling further social unrest.

All this calls for urgent global action and additional resources to tackle the cost-of-living crisis.

► The needed policy response

Fiscal policy and social protection

Fiscal policy, while designed in a way to avoid adding to high inflationary pressures, must therefore address vulnerabilities and rebuild buffers to cushion living standards and assist enterprises.

Adjusting social assistance and other social protection benefits to inflation is one avenue to sustain the purchasing power of the most vulnerable. A recent ILO analysis of adjustment rules for social protection benefits in the world shows, however, that more than half of the schemes for which information is available have no specific rule to adjust benefit levels to inflation, real wages, or a combination of the two. This means that the real value of the benefits in these schemes cannot keep up with inflation. It is therefore important to ensure that in countries that have no adjustment rules, adjustments take place now to raise benefits to an adequate level immediately and a process for the inclusion of such rules in existing schemes starts, in line with the Social Security (Minimum Standards) Convention, 1952 (No. 102). Such measures can efficiently cushion the impact of inflation on the most vulnerable and protect them from poverty and hunger.

¹ IMF. World Economic Outlook, Update July 2022; OECD Economic Outlook, Interim Report September 2022.

² OECD. Economic Outlook, Interim Report September 2022.

³ ILO. Global Wage Report 2022/23. Forthcoming (28 November 2022)

⁴ Ibid.

Universal social protection is essential to sustain the purchasing power of the most vulnerable. Concerted international support is critical for fast-tracking progress in those countries lacking fiscal and economic capacities, especially in low-income countries with marked underinvestment in social protection.

Additional policies that can ease the impact of the cost-of-living crisis on households and complement the protection afforded by existing social protection systems range from temporary measures targeting specific groups, such as energy vouchers provided to low-income households to help them cope with the current increase in energy prices, to more general interventions aimed at reducing the cost of living for all households, such as the (often temporary) reduction of indirect taxation on goods and services.

Protecting the purchasing power of the most vulnerable

Even before the pandemic 327 million wage earners, or 1 in 5 wage employees worldwide, earned at or below the applicable hourly minimum wage⁵. An adequate adjustment of the minimum wage would help significantly to improve the living standards of low-income households in the current cost-of-living crisis. 90 per cent of ILO Member States have minimum wage systems in place, and they can protect low-paid workers against losses of purchasing power at times of high inflation. However, for this mechanism to be effective, it is necessary that minimum wages be adjusted regularly to take into account the needs of workers and their families, along with relevant economic factors. This adjustment process should be undertaken with the full participation of the social partners and entails evidence based social dialogue, in line with the Minimum Wage Fixing Convention, 1970 (No. 131).

Furthermore, strong social dialogue, including collective bargaining, can be instrumental in achieving wage adjustments that compensate inflation with regard to wages above the minimum wage. There would appear to be scope in many countries for increasing wages without fear of generating a wage–price spiral. Nominal wages are not catching up with inflation and the gap between wage growth and labour productivity growth in high-income countries is continuing to widen, with labour productivity increasing in the first half of 2022 and wages falling in real terms⁶. The success of this process requires that employers' and workers' positions be adequately considered, and that sound empirical evidence inform the bipartite or tripartite negotiations. In the recent past, the use of relevant data to examine how the COVID-19 crisis impacted the labour market outcomes of wage employees, for example, has helped disentangle the employment composition effects on wage outcomes, leading to a more accurate understanding of how the crisis affected employees across the wage distribution and therefore better designed policy responses.

Financing employment and social protection strategies to prevent scarring and enable the transition to greener economies

Increased support for vulnerable economies amid high and rising debt is urgent in the current context of tighter monetary policy and rising interest rates. This needs to be complemented by longer-term measures to attain the green transition required to tackle climate change. A just transition is needed if such measures are to be economically, socially, and politically feasible. That is why international economic cooperation needs to turn increasingly to supporting countries' efforts to generate quality employment and improve social protection systems as they transform to reduce CO2 emissions.

Over and above the immediate policy measures detailed above, a more robust and effective level of support is needed for the integrated national planning and financing of the critical social enablers of the green transition. To this end, the Global Accelerator on Jobs and Social Protection for Just Transitions coordinated by the International Labour Organization, as part of a UN-wide effort, can play an important role. It aims to galvanize the creation of 400 million productive employment opportunities, including in the green, digital and care economies, and to extend social protection to the 4 billion people currently excluded.

⁵ ILO. 2020. [Global Wage Report 2020-21: Wages and minimum wages in the time of COVID-19](#).

⁶ ILO. Global Wage Report 2022/23. Forthcoming (28 November 2022).

The Global Accelerator aims to harness Integrated National Financing Frameworks to support more investments for productive employment and adequate social protection – boosting domestic resources and expanding the tax base as well as mobilizing further development cooperation assistance and international support. Complementary interventions aim to create a more effective use and stronger alignment of current financial flows (both public and private) for the social investments needed to support an inclusive and sustainable recovery in low-income countries. Thereby, the Global Accelerator has the potential to bring together the multilateral system and move from a position of simply reacting to crises to pro-actively anticipating and managing the different transitions that are underway – environmental, social and economic.

Through such measures, the Global Accelerator supports enhanced policy coherence to ensure that countries receive sufficient technical and financial support. It will be a valuable contribution to the objective of strengthening the level and coherence of the multilateral system's support for developing countries as they grapple with recovery from the COVID-19 pandemic, current food and energy crises, rising debt and climate change.

Promoting sustainable global production with decent work

As supply-demand imbalances drag down economic activity and push prices up, the COVID-19 pandemic and the war in Ukraine have underlined both the fragility of global trade and the ongoing importance of well-functioning supply chains. These crises have also served as a reminder that workers in supply chains often lack access to social protection, adequate protections to perform their work in safe conditions or a voice to bargain for adequate working conditions.

To weave a new economic and social fabric, as the IMF Managing Director has said⁷, it is necessary to address the many persisting challenges to the achievement of decent work for all in supply chains. A smart mix of national and international mandatory and voluntary measures is necessary. This includes the promotion, respect and realization of the fundamental principles and rights at work, including respect for freedom of association and effective recognition of the right to collective bargaining, as well as the elimination of child and forced labour in supply chains.

Collective action and policy coherence to promote rules-based international trade that respects labour rights and promotes fair wages and working conditions can be a catalyst for economic development, sustainable enterprises and poverty reduction and can contribute to reducing income inequality between countries.

Conclusions

At this challenging time, it is essential to seize the initiative. We must shape the future so that it delivers a better, more equitable and sustainable world that will contribute to lasting peace. We need to reinvigorate our collective efforts to address the interrelated and mutually reinforcing crises that we are facing and collectively support the far-reaching transformations that are required. And we must collectively ensure that the benefits of these efforts are equitably shared, within and between countries. Only by advancing social justice can we ensure lasting peace.

⁷ Kristalina Georgieva's [2022 Annual Meetings Curtain Raiser Speech](#). Georgetown University, 6 October 2022.