INTERNATIONAL MONETARY FUND (IMF)

Contribution to the
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UNITED NATIONS ECONOMIC AND SOCIAL COUNCIL
2015 INTEGRATION PROGRAMME
THE 'BIG THINK' ON JOBS AND GROWTH

IMF BACKGROUND NOTE

The outlook for growth and jobs remains a major concern. Unemployment is expected to stay at unacceptably high levels in many advanced and emerging market and developing economies. Structural reforms are needed to bolster growth and avoid the world from falling in a new mediocre.

Decisive structural reforms are needed to bolster growth and avoid falling into the new mediocre.

- Work at the Fund's Fiscal Affairs Department finds areas ripe for reform include **labor markets** (moving toward protection of workers rather than jobs through job protection reforms), and **product markets** (liberalization of retail trade and professional services, reduction in barriers to entry in network industries).
- Recent work at the Fund (WEO, RES) indicates increased public infrastructure investment raises output in both the short and the long term, particularly during periods of economic slack and when investment efficiency is high. For countries with clearly identified infrastructure needs and efficient public investment processes **the time is right for an infrastructure push.**

There is room for policies to be more supportive of job-rich and inclusive growth, even in countries undergoing fiscal consolidations. The Fund's most recent *Fiscal monitor*, for example, suggests:

- Public expenditure can be better directed, for example, by reducing untargeted energy subsidies and reallocating such resources to better education and training programs (which allow for upward income mobility), and improved safety nets (protecting workers, not jobs, in times of crises).
- Lower labor taxes (in particular targeted cuts to employer social security contributions), and other active labor market policies (training and job creation programs as well as effective placement services), can have a substantial impact on the distribution of income and the creation of jobs.
- For countries undergoing fiscal consolidations, fiscal measures can also be designed to mitigate possible adverse effects on inequality. For example, governments can protect the most progressive and efficient redistributive spending during the fiscal adjustment and improve targeting. Similarly, greater reliance on progressive revenue taxation can help avoid cuts in social transfers.

More on current and planned Fund work in this area

- A Board **paper and subsequence guidance note** for Fund staff on *Jobs and Growth* set out key operational considerations to enhance the Fund's effectiveness in helping members achieve their inclusive growth objectives. Following this work, the Fund has developed a "**surveillance toolkit**" that provides key diagnostic and policy questions, indicators, data sources, tools and country examples of "best practices." Other recent work includes a **Board paper on "Fiscal Policy and Income Inequality,**" which discusses how fiscal policy can be used to lessen income inequality without undermining growth (for example, boosting labor supply through lower labor taxes and demand through hiring/wage subsidies and lower business taxes).
- There is a growing body of analytical work done by Fund staff on these issues. Included are the **SDN "Fair Play: More Equal Laws Boost Female Labor Force Participation,"** which finds that restrictions on women's (legal) rights—such as inheritance and property, or impediments to open a bank account or access to certain professions—are strongly associated with large gender gaps in labor force participation. The gender gaps caused by these restrictions also have, according to this study, macro-critical effects, in terms of an impact on GDP. Also, and closely related, a **SDN on "Women, Work, and the Economy: Leveling the Playing Field,"** discussing policies in support of higher female labor force participation. On the topic of inequality and growth, **"Redistribution, Inequality, and Growth,**" finds lower net inequality is correlated with faster and more durable growth, and redistribution appears generally benign in terms of its impact on growth except in extreme cases. Finally, the 2014 Fiscal Monitor considers the relationship between fiscal consolidation design and employment; and how labor taxes and other fiscal tools can best support employment and economic activity.
- **The 2014 Triennial Surveillance Review found increasing coverage of jobs and inclusive growth issues in Article IV reports**. For instance, labor market reforms are discussed in 70 percent of reports for advanced economies and emerging market economies, and 20 percent for LICs. Fund staff has also begun a new initiative to operationalize inequality/jobs, gender, and energy issues in Article IV reports, beginning with a set of pilot countries in each region. Pilot country cases will elevate discussions with country authorities, coverage in country reports, and bring practical insights to strengthen our policy work on these issues.
- Work on growth-enhancing reforms to avoid "a new mediocre" figure prominently in the **2015 Board work program**. This includes *Fiscal Policy and Long-Term Growth*, which will examine contributions to growth of sound fiscal policy and reduced distortions in tax systems; as well as *Making Public Investment More Efficient*, which will assess reforms to public investment frameworks to maximize growth impact, while taking into account fiscal sustainability. A new work stream on structural reforms will in time help the Fund to provide more granular advice on jobs and growth issues.