

Expert Opinion

The G20's Promise to Create More and Better Jobs: Missed Opportunities and a Way Forward¹

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Abstract

The Group of 20 (G20) was launched as a leaders' forum in the midst of the 2008 financial crisis and quickly agreed to undertake coordinated economic stimulus efforts. While those early measures helped stabilize the global economy, the negative impacts of the crisis on employment continued to mount through 2009. The leaders turned their attention to labour market issues; labour and employment ministers met in 2010 and thereafter. However, the G20 and a number of other countries erroneously reversed the stimulus approach beginning in Toronto in 2010, leading to weak recovery, entrenchment of unemployment and stagnation of wages. Labour ministers increasingly advocated more robust labour market policies, but were resisted by finance ministers. The leaders themselves agreed to increasingly strong statements on wages, inequality and social issues but most G20 countries did not implement them. When the political backlash against globalization emerged in 2016 the G20 was seen by many as part of the out-of-touch elite that failed to address the difficulties and economic anxiety suffered by many G20 member households. The G20 should adjust course by implementing, in a coordinated manner, policies that can increase employment and incomes and reverse growing inequality. This paper lays out two practical examples of such policies. The first is a coordinated increase in minimum wages across the G20 to provide direct support to low-wage workers, restart overall wage growth and increase demand. If implemented by the entire G20 this would provide a serious stimulus to global demand, which still remains weak, and avoid competitive undercutting among G20 members. The second is a coordinated increase in financing for programmes to help those who have lost as a result of globalization. Losers often suffer very harsh economic effects and few G20 countries compensate them adequately. A well-advertised, coordinated effort including policies such as these could demonstrate the relevance of the G20 to populations that have benefited little from the group's efforts to date.

Key words: G20; international policy coordination; economic impacts of globalization; wages and incomes; international political economy

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Introduction

The launch of the Group of 20 (G20) as a leader's forum in 2008 represented an ambitious, potentially game-changing approach. It set out to address the global financial crisis through coordination of economic policies across the largest economies in the world, thus setting aside the exclusionary Group of 7 (G7) model in favour of a more representative coordinating body that for the first time included emerging economies and all regions. Based on its early success in coping with the crisis, the G20 leaders designated it as the premier forum for their international economic cooperation.

However as has now been widely noted, the accomplishments of the G20 since then have been disappointing. Its subsequent actions did not restore global economic growth to pre-crisis levels and the leaders' repeated promises to take steps that would create more and better jobs for the populations of G20 members have not been realized.

These failures occurred despite repeated discussions of macroeconomic and employment policies at G20 summits and ministerial meetings which produced pledges to address inequality and labour market exclusion. Now the G20 finds itself in the middle of the backlash against globalization, a backlash founded in significant part on popular dissatisfaction with stagnant incomes and widening inequality in the economies of many members.² This paper reviews the history of the group's promises and failures in this regard and lays out a potential path forward.

The History of Employment Issues in the G20's Agenda and Institutions

The G20 was established in 1999 as a finance ministers' forum, created to coordinate responses to the Asian financial crisis. There was recognition that the crisis could be more effectively addressed if macroeconomic policies could be coordinated. Equally, there was recognition that the G7 was not up to the task since it did not include the affected countries and was largely oriented toward the West. Eight years later, when the global financial crisis hit in 2007–2008, the G20 configuration was again seen as a useful format, incorporating countries accounting for a large share of the global economy at both advanced and developing levels. It was appropriated to serve as a coordination mechanism at the leaders' level, with preparatory work done at finance ministerial level.

At the first leaders' summit in Washington in November 2008, the discussion and agreements were focused almost exclusively on the financial aspects of the crisis. However, by early 2009 the impact of the crisis on the real economies of members was mounting dramatically and in many of the G20 countries unemployment was rising rapidly. Unemployment, especially a sharp and visible increase in unemployment, is always a very significant domestic political issue in any country and therefore commanded the attention of the leaders.

At their next meeting in London in April 2009, the leaders went beyond the financial system to address the overall economic contraction and rise of unemployment. They agreed upon an unprecedented, coordinated fiscal stimulus. In their communiqué from that summit the leaders addressed the issue of employment explicitly and have continued to do so in all subsequent declarations. At the summit in Pittsburgh in September 2009, President Obama announced that the U.S. secretary of labour would invite her counterparts to the first G20 labour and employment ministerial in early 2010 to discuss ways to create more jobs.

² These trends have been analysed in both popular and academic work covering a number of G20 countries. For example, see Frieden [2018].

That first ministerial took place in April 2010 and marked the start of substantive discussion and recommendations from the G20 on labour and social issues. It also began a gradual institutionalization of an employment track. A labour and employment ministers' meeting (referred to as LEMMs) has been held every year since then. The ministers issue a declaration after each year's meeting and these have tended to be relatively robust, with detailed calls for action that would genuinely improve labour markets if adopted.³ In 2014 a formal, standing G20 Employment Working Group was established.

It is interesting to note that despite the very different economies of the members and the different political character of their governments, the labour and employment ministers converged on the need for a working group on labour and on a broad range of employment issues. These ministers face the difficult challenge of stimulating job creation, responding to unemployment and managing policies on wages and social protection; they are accountable for achieving goals and targets. As a result, the discussions, agreements and declarations of the LEMMs are usually concrete and ambitious in terms of addressing the need for more and better quality employment, household incomes and economic security. The ministers have generally been open to learning from each other's policies and practices.

By contrast, there has often been disagreement between the views of the labour ministers as a group and the finance ministers' group, including about the critical question of coordination of macroeconomic, labour and social policies. It is also worth noting that the lack of policy coherence between the finance track and employment track is often reinforced by a divergence between the views and influence of the invited international organizations, for example between the International Monetary Fund (IMF) and the International Labour Organization (ILO).

In 2013 Russia took a bold step by hosting the first joint meeting of finance ministers with labour and employment ministers to encourage more coherence in economic policymaking [G20 Labour and Employment and Finance Ministers' Meeting, 2013]. However in practice, the labour ministers' views had little observable impact on the finance ministers' final decisions.

The Substance of G20 Debates and Recommendations Regarding Employment and Social Policies

Turning to the substance of the policy debates, it is important to situate these discussions within the overall political dynamics of the G20. All policy debates, including those on employment, are overseen by the sherpas. The relative convergence of labour and employment ministries' views is not always shared by the sherpas, who are typically aligned either with the strategic arms of economic policymaking in their governments or with their finance ministries and treasuries. At the same time, the sherpas represent their leaders, who must deal with the politically sensitive topics of employment and incomes. There is often a struggle at the sherpa level between those who – genuinely or cynically – want to see strong statements in the leaders' communiqué about jobs, incomes and inequality and those who want to keep these issues out of the statement because they could be read domestically as criticism of their government's policies or lack thereof.

The specific topics of debate evolved from 2010 onwards, with an early focus on policies to address overall unemployment and youth unemployment in particular.⁴ Gradually the debate was broadened to include the quality of job creation and wages and the closely related topics of

³ A wide selection of G20 documents related to employment issues is available at: <http://www.ilo.org/global/about-the-ilo/how-the-ilo-works/multilateral-system/g20/leaders-summits/lang--en/index.htm>.

⁴ For example, see G20 Labour Ministers Meeting [2010].

inequality and the declining labour share in the overall income of almost all G20 countries.⁵ This shift was a result of the interests and political preferences of host governments as well as the efforts of ad hoc coalitions of members, the influence of international organizations and civil society groups and the widening anxiety among publics in many G20 countries about stagnant living standards, employment insecurity and growing inequality.⁶

The host government plays a significant role in setting the agenda and establishing the relative attention paid to different topics as well as holding the pen in drafting the outcome statements. The host's priorities reflect its own domestic political ideology, the challenges of the moment and its assessment of what it can accomplish during its turn on the world stage. It is important to note that a country's stance is determined in part by the differences in views and bargaining between its finance, labour and other ministries. Other members may also make efforts at agenda setting based on their own key issues and, like the host, will work to build ad hoc coalitions to achieve their goals.

The employment issues that have been debated can be broadly divided into what are called active and passive labour market policies, with active policies including measures to train unemployed workers and help them find jobs, while passive measures provide income support in the form of unemployment benefits or other income assistance. One could say that an emphasis on active measures aligns well with a neoclassical economic perspective that focuses on supply while passive measures align with a Keynesian view that overall demand is equally or more important in determining labour market outcomes.

This debate evolved against the backdrop of a false complacency in the G20, beginning in 2010, that demand was recovering; this complacency was reinforced by projections by the IMF and the Organisation for Economic Co-operation and Development (OECD) that predicted a fairly rapid return to growth [G20 Toronto Summit Declaration, 2010]. The stimulus measures to increase demand that were the foundation of the economic recovery up to that point were discarded prematurely and fiscal consolidation was instead put forward as the appropriate next step. This consolidation constrained government demand and compounded the problem of insufficient consumer and investor demand. Emphasis was also placed on structural reforms to increase growth by stimulating the supply side. In the labour market context, the structural reforms advocated by some countries (as well as by the IMF and OECD) included labour market deregulation, weakened employment security protections, reduced unemployment benefits and restrictions on other income support programmes in order to increase labour supply. However, several governments (and the ILO) continued to insist that the problem in labour markets was lack of demand rather than insufficient supply. As a result, there was not a strong consensus on how to address the lingering problems in employment and incomes and the final leaders' statements reflect ambiguity on these points.

The Employment Working Group and its subcommittees also addressed questions of sustainable social protection systems, productivity, technology and demographic change.⁷ They have examined a range of policy analyses and experience to make recommendations in those areas, many of which were endorsed by ministers and are reflected in leaders' statements.

From a labour and social perspective, the most progressive and ambitious texts at both the LEMM and leaders' levels came during the Turkish presidency in 2015.⁸ They placed

⁵ For example, see G20 Labour and Employment Ministers Meeting [2013].

⁶ A useful summary of the issues and citations to a wide range of academic and other studies can be found in the report prepared by the International Labour Organization, International Monetary Fund, Organisation for Economic Co-operation and Development and the World Bank Group [2015].

⁷ As noted above, many G20 documents related to employment issues are available in a document prepared by the G20 Labour and Employment Ministerial Declaration [2017].

⁸ G20 Leaders' Communiqué [2015].

a strong emphasis on the need to improve the quality of jobs, address inequality, raise wages and strengthen social protection systems. Host Turkey was receptive to these issues because of its own domestic policies and Argentina benefited from this receptivity by pushing successfully for the creation of a subgroup of the Employment Task Force to work extensively on inequality and the declining share of labour income in most G20 economies.

The pivotal text from the 2015 leaders' communiqué reads:

Para 6. We are committed to ensure that growth is inclusive, job-rich and benefits all segments of our societies. Rising inequalities in many countries may pose risks to social cohesion and the well-being of our citizens and can also have negative economic impact and hinder our objective to lift growth. A comprehensive and balanced set of economic, financial, labour, education and social policies will contribute to reducing inequalities. We endorse the Declaration of our Labour and Employment Ministers⁹ and commit to implementing its priorities to make labour markets more inclusive as outlined by the G20 Policy Priorities on Labour Income Share and Inequalities.¹⁰ We ask our Finance, and Labour and Employment Ministers to review our growth strategies and employment plans to strengthen our action against inequality and in support of inclusive growth. Recognizing that social dialogue is essential to advance our goals, we welcome the B20 and L20 joint statement on jobs, growth and decent work [G20 Leaders' Communiqué, 2015].

The Chinese and German presidencies retained some elements of these commitments in weaker form but broke no new ground on employment, inequality and social issues in the G20 countries.

The G20 and Inclusive Globalization – A Missed Opportunity

With regard to labour market and social issues, as with many other issues, there has been a significant difference between commitments made by G20 leaders and ministers and the actual implementation of those pledges. The negotiated statements, reflecting the consensus or compromises worked out by the sherpas regarding the issues on the table, may or may not change behaviour by members. Most often they do not change policy or practice, but instead are used selectively to reinforce already-decided stances. Even in cases where explicit numerical targets have been agreed, for example to increase women's participation in the labour force, the approach by member governments has typically been to recast existing policies as instruments to achieve their commitments rather than adopting new or additional policies.

That said, the evolving statements by labour ministers and leaders on employment and social issues has served to shift the overall policy stance of the G20 in the direction of acknowledging the rise of inequality, wage stagnation and other sources of working and middle-class economic insecurity in the high-income countries and continued informality, inequality and poverty in most of the emerging G20.

Given this evolution of the discussion and explicit recognition of these problems, it is fair to say that the G20 leaders have failed to effectively seize the opportunity to address the economic insecurities of their publics. The G20 as a group has not devoted political will to pro-equity policies of the sort that the Employment Working Group has advocated. In short, the G20 wasted very good opportunities to get out ahead of the backlash against globalization.

In order to understand the reasons for that failure one must examine the political equilibrium among G20 governments, that is, the distribution of views on these issues across the

⁹ G20 Labour and Employment Ministerial Declaration [2015].

¹⁰ G20 Policy Priorities on Labour Income Share and Inequalities, Annex 1 to the G20 Labour and Employment Ministerial Declaration [2015].

group. Throughout 2015 the then-incumbent governments of Brazil, Argentina and Turkey were generally supportive of pro-employment, pro-equity policies. They were usually joined by China, Russia and South Africa on these issues and occasionally by the U.S. and France. Meanwhile most of the G7 countries gave lip service at best to these policies, despite the fact that it is those countries that have experienced the strongest erosion of public confidence in the liberal international order and rising antiglobalization sentiment. If the G7 countries had acknowledged these trends and devoted more political will to the issues, there would have been a working majority through 2016 for stronger coordinated action to make growth more inclusive and to build their publics' confidence in international cooperation. In this light, the G20 as a whole came to be seen by many as part of the syndrome of out-of-touch elites that failed to recognize the difficulties and economic anxiety suffered by many households.

Looking Forward, How Can the G20 Better Harness Macroeconomic, Social and Labour Policies to Create Good Jobs and Improve Public Confidence?

Recent political surprises in the U.S., UK, Italy, France and Korea (and to a lesser extent in other G20 countries) share a common foundation in the sentiment felt by large portions of the publics that governing elites have been unresponsive to their economic anxieties. In many high-income countries inequality, wage stagnation and employment insecurity had been building well before the crisis but have been exacerbated by a recovery that favours the wealthy, investors and financial sectors over – and indeed often at the expense of – the large majority of working households. These households' fears about their economic security and their children's employment prospects have been compounded by the spread of involuntary part-time, temporary and other nonstandard working arrangements, the rise of low-paid work and the advent of platform-based work, robotization and artificial intelligence.

In emerging G20 countries there has been more growth and some spillover of its benefits to middle-income households, but inequality is generally rising and poverty alleviation has slowed in most of them.

In this environment there is a renewed urgency for governments to address the economic well-being of their citizens and for intergovernmental organizations like the G20 to provide an overarching framework for coordinated action to achieve more inclusive growth. In the absence of such leadership, the widespread weakness of household incomes and demand will continue to constrain global growth or lead to increased household indebtedness to maintain living standards, feeding future financial crises.

The response of the G20 going forward must take into account two overarching changes of recent years. First is the changing distribution of economic weights (in particular the increase in the size of the Chinese and some other emerging economies). Second is the shift in geopolitical behaviour based both on this changing economic foundation and the reaction against globalization that has disrupted politics in many countries and brought new and unpredictable individuals or parties into power. The realignment struggles that we are witnessing at the geostrategic level will also play out in the G20.

The tensions in an array of bilateral relationships will also affect the ability of sherpas to fashion coalitions and forge agreement on policy commitments. For example, tensions have increased in bilateral relations between U.S.-China, U.S.-Mexico, U.S.-Germany, Germany-Turkey, Turkey-EU, Japan-Korea and so on. The next period will also involve complex negotiations to revise the terms of previously settled arrangements, for example Brexit and NAFTA. The countries involved will engage in "strategic behaviour" (or, more correctly, tactical beha-

viour) to enhance their bargaining position in those negotiations. In general, some countries may become more wary of aligning with the United States. Elections in Germany, Mexico and Brazil could affect the political orientation in those countries, including on key questions facing the G20. And of course, beyond changes in political administrations and philosophies, the G20 sometimes becomes hostage to bargaining over the crises of the moment and this can involve trading support, particularly from less powerful countries, for something unrelated, and perhaps not even on the G20's agenda.

All of this makes it harder for the G20 governments to act cooperatively and means that there is heightened unpredictability about outcomes, underscoring the indeterminacy of prospects for the G20 to fulfill its role as "the premier forum for international economic co-operation."

That said, the G20 *could* provide leaders with a prestigious international forum in which to agree on policies that would address domestic political needs and demands of disaffected publics while gaining collective synergies and avoiding competitive undercutting.

A practical example of a very meaningful step that leaders could take would be to agree on a coordinated increase in the minimum wage in all G20 countries.¹¹ The minimum wage sets the wage floor in the labour market and affects the lowest paid while also nudging up wages above the minimum. Even in countries with large informal sectors, research shows that minimum wage increases also lift wages in the informal sector. Productivity has been growing faster than minimum wages in almost all G20 countries, sometimes dramatically. If the benefits of economic growth and technology are to be shared, this broken connection between productivity growth and wage growth must be repaired. Research also shows that lifting wages drives productivity. Despite claims by some, most studies show negligible effects on employment of minimum wage increases because rising wages increase overall demand and lead to increases in productivity.¹² By agreeing to a step change across the huge G20 economies which account for most global production and consumption, there would be little competitive disadvantage to those participating and potential large gains in terms of expanded global demand. The G20 could also use its bully pulpit, aid and trade incentives to persuade non-G20 countries such as Bangladesh, which set global wage floors in low-skill sectors, to follow suit and raise their minimum wages.

Another practical example would be an agreement to spend a target percentage of gross domestic product (GDP) on compensation for those who lose from economic integration. It is well established in trade theory and practice that there are gains from economic openness but they are not evenly distributed.¹³ The losers may lose a lot, as has happened in deindustrialized communities in many advanced economies [Autor, Dorn, Hanson, 2016]. The winners, such as financial investors, may win a lot. In theory, the winners could compensate the losers but in practice the redistribution does not take place, or if it does it is at such de minimus levels that there is no rebalancing of pain and gain. The G20 could buttress its stated goals of maintaining global integration and trade openness in the face of the strong backlash by agreeing to increase redistribution by a certain percentage increment of GDP, adapted and applied in ways that are appropriate to the specific patterns of growth, trade and inequality in each country.

As with other aspects of the highly interconnected global economy, the benefits to any one country that implements such policies would be greatly enhanced and any potential competi-

¹¹ A useful review of the effects of minimum wages along with citations to a range of academic studies on the topic can be found in Kuddo, Robalino and Weber [2015].

¹² A series of meta studies of research on the impact of minimum wage increases on employment find small or insignificant and sometimes positive effects. Examples of such meta studies include Betcherman [2014] and Leonard, Stanley and Doucouliagos [2013].

¹³ A clear presentation of the issues can be found in Rodrik [2018].

tive disadvantages would be mitigated by coordinated action across the other G20 economies, particularly the largest ones.

The work already done by the Employment Working Group and its subcommittees provides many other sound and practical recommendations that could foster creation of better jobs and incomes based on a coherent mix of macroeconomic, labour and social policies. Actually adopting these or other policies yet to be developed would allow the G20 to turn promises of inclusiveness into reality and to lead a meaningful and effective response to the backlash against globalization.

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