SUMMARY

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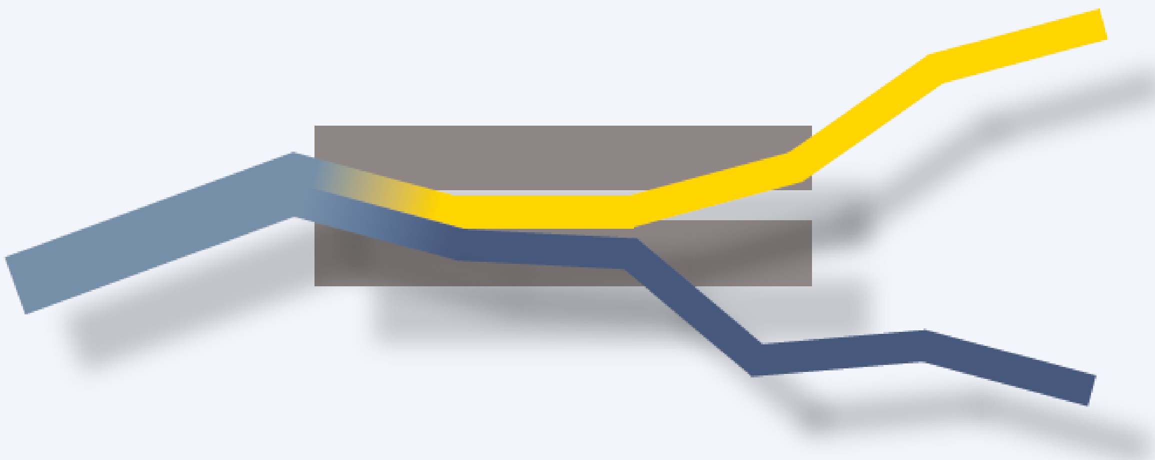
World of Work Report 2012



Better Jobs for a Better Economy

World of Work Report 2012

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Summary

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How to move out of the austerity trap?

The employment situation is deteriorating in Europe and is no longer improving in many other countries ...

Over the past year, labour markets have been affected by the slowdown in global growth. This is all the more problematic because labour markets had not fully recovered from the global crisis that erupted in 2008: there is still a deficit of around 50 million jobs in comparison to the pre-crisis situation (Chapter 1). It is unlikely that the world economy will grow at a sufficient pace over the next couple of years to both close the existing jobs deficit and provide employment for the over 80 million people expected to enter the labour market during this period.

The trends are especially worrying in Europe, where the unemployment rate has increased in nearly two-thirds of these countries since 2010; but labour market recovery has also stalled in other advanced economies, such as Japan and the United States. Elsewhere, employment gains have weakened in terms of the needs of a growing, better educated working-age population, as in China. And jobs deficits remain acute in much of the Arab region and Africa.

... as a result, the global jobs crisis has entered a new, more structural phase.

This is not a normal employment slowdown. Four years into the global crisis, labour market imbalances are becoming more structural, and therefore more difficult to eradicate. Certain groups, such as the long-term unemployed, are at risk of exclusion from the labour market. This means that they would be unable to obtain new employment even if there were a strong recovery.

In addition, for a growing proportion of workers who do have a job, employment has become more unstable or precarious. In advanced economies, involuntary part-time employment and temporary employment have increased in two-thirds and more than half of these economies, respectively. The share of informal employment remains high, standing at more than 40 per cent in two-thirds of emerging and developing countries for which data are available. Women and youth are disproportionately affected by unemployment and job precariousness. In particular, youth unemployment rates have increased in about 80 per cent of advanced economies and in two-thirds of developing economies.

Job instability is, above all, a human tragedy for workers and their families; but it also entails a waste of productive capacity, as skills tend to be lost as a result of excessive rotation between jobs and long periods of unemployment or inactivity. More job instability therefore means weaker productivity gains in the future and less room for prospering and moving up the career ladder.

The jobs deficit is going hand-in-hand with a prolonged investment deficit – another sign that the crisis has entered a new phase. The amount of uninvested cash in the accounts of large firms has reached unprecedented levels (Chapter 4) while, in the case of advanced economies, small firms continue to have difficulty accessing credit that would allow them to invest and create jobs. Importantly, the Report finds that investment has become more volatile, and that this has exacerbated job precariousness in advanced economies as well as in emerging and developing ones.

Finally, society is becoming increasingly anxious about the lack of decent jobs. In 57 out of 106 countries, the Social Unrest Index, developed for the purposes of this Report, increased in 2011 compared to 2010. Europe, the Middle East, North Africa and sub-Saharan Africa show the most heightened risk of social unrest. On average, Latin America – where there has been a degree of employment recovery and, in a few cases, improvements in job quality – has experienced a decline in the risk of social unrest.

The worsening situation reflects the austerity trap in advanced economies, primarily in Europe ...

Since 2010, and despite the job-friendly statements in successive G20 meetings and other global forums, the policy strategy has shifted its focus away from job creation and improvement and concentrated instead on cutting fiscal deficits at all costs. In European countries, cutting fiscal deficits has been deemed essential for calming financial markets. But even in countries which have not suffered from the effects of the crisis this remedy is being applied for pre-emptive reasons – fiscal deficits are being reduced to avert any negative reactions from financial markets. This approach was intended to pave the way for greater investment and growth, along with lower fiscal deficits.

In addition, as part of the policy shift, the majority of advanced economies have relaxed employment regulations and weakened labour market institutions (Chapter 2), and more deregulation measures have been announced. These steps are being taken in the hope that financial markets will react positively, thereby boosting confidence, growth and job creation.

However, these expectations have not been met. In countries that have pursued austerity and deregulation to the greatest extent, principally those in Southern Europe, economic and employment growth have continued to deteriorate. The measures also failed to stabilize fiscal positions in many instances. The fundamental reason for these failures is that these policies – implemented in a context of limited demand prospects and with the added complication of a banking system in the throes of its "deleveraging" process – are unable to stimulate private investment. The austerity trap has sprung. Austerity has, in fact, resulted in weaker economic growth, increased volatility and a worsening of banks' balance sheets leading to a further contraction of credit, lower investment and, consequently, more job losses. Ironically, this has adversely affected government budgets, thus increasing the demands for further austerity. It is a fact that there has been little improvement in fiscal deficits in countries actively pursuing austerity policies (Chapter 3).

With regard to deregulation policies, the Report finds that they will fail to boost growth and employment in the short term – the key time horizon in a crisis situation. Indeed, the employment effects of labour market reforms depend heavily on the business cycle. In the face of a recession, less stringent regulation may lead to more redundancies without supporting job creation. Likewise, the weakening of collective bargaining is likely to provoke a downward spiral of wages, thereby delaying recovery further.

In general, the Report confirms findings from earlier studies that show there is no clear link between labour market reforms and employment levels. Interestingly, within the range in which the majority of countries lie, adequate employment regulations tend to be positively associated with employment. Beyond that, badly designed regulations may adversely affect labour market performance. In these cases, there are grounds for considering reforms as part of social dialogue and in conjunction with social protection measures. This policy has been successfully pursued in the recent past in countries such as Austria and Brazil.

... but spreading to other countries.

Many emerging and developing countries pursued a strategy of boosting domestic demand in order to compensate for weaker prospects for exporting to advanced economies. There are signs that in some of these countries, such as India, Latin America, South Africa and, more recently, China, wages have grown to catch up with productivity. Public investment and social protection have also been reinforced and regional integration has proved helpful.

Nevertheless, even in these countries, labour markets and real investment are not immune to the global economic weakening. Volatile capital flows has also aggravated the instability of the real economy and the possibility for creating better jobs.

It is therefore crucial to pursue further the present approach of boosting domestic demand, complementing it with better enforcement of core labour standards and measures to avoid destabilizing capital flows.

An alternative approach exists ...

It is possible to move away from the austerity trap. Last year's World of Work Report offered a three-pronged approach, which remains valid today. First, labour market institutions should be strengthened so that wages grow in line with productivity, starting in surplus economies. In the current situation, consideration could be given to a careful and coordinated increase in the minimum wage. Further efforts to implement core labour standards would also be helpful, especially in emerging and developing countries where gaps exist. Ratifying ILO core Conventions in all G20 countries would give a positive signal in this respect.

Second, it is critical to restore credit conditions and create a more favourable business environment for small enterprises. The issue is particularly pressing in the Euro-zone countries, where the policy of the Central Bank to provide liquidity to banks has failed to boost credit to the real economy. There may also be a case for higher taxation of firms that do not reinvest profits, and/or lower taxation of firms that emphasize investment and job creation.

Third, it is possible to promote employment while meeting fiscal goals. The Report shows that a fiscally neutral change in the composition of expenditures and revenues would create between 1.8 and 2.1 million jobs within 1 to 2 years. In the case of emerging and developing countries, efforts should be centred on public investment and social protection to reduce poverty and income inequality and to stimulate aggregate demand. For advanced economies, the focus should be on ensuring that unemployed people, especially youth, receive adequate support to find new jobs.

More fundamentally, it is high time for a move towards a growth- and job-orientated strategy. This would help to coordinate policies and avert further contagion caused by fiscal austerity. In Europe, the strategy could include a coordinated approach to solving the debt crisis, for which innovative funding mechanisms and improved utilization of European Structural Funds – properly reformed in order to better tackle present job deficits — would be instrumental.

... which requires embracing the perception that job-friendly policies have a positive effect on the economy and that the voice of finance should not drive policy-making.

The current policy approach reflects the premise that growth follows austerity and that, in turn, jobs follow growth. According to this view, the main thrust of efforts to date has therefore focused on cutting deficits and restoring global growth to positive territory with the view that, soon thereafter, job creation would follow. As a consequence, more direct efforts to stimulate job creation and boost the incomes of those most vulnerable to the crisis have been of secondary importance.

Since there are now indications that these premises have proved counterproductive, it is vital to demonstrate that an alternative, job-centred approach outlined above exists. It is also imperative to nurture this alternative approach with concrete examples of policies that work, in which ILO has played a key role via the adoption of the Global Jobs Pact and could play a greater role as a forum for policy analysis.

Another factor at work has been the imbalance between the voice of the real economy and that of the financial sector. Both are important, but both need to be heard. To remedy this, consideration could first be given to the creation of national employment and social observatories. This step could help to identify an upper bound to the level of unemployment beyond which new measures will be needed – in much the same way as for inflation or fiscal targets. The task could be facilitated by the establishment of independent and authoritative observatories to monitor and forecast trends in the labour market, which could be charged with providing independent evaluations of the employment impact of policy proposals. Their remit would be to forewarn governments against the adoption or continuation of policies that are unlikely to achieve the unemployment goals.

Second, there is a strong case for establishing consultative national forums, where economic and social policies are discussed by government and the social partners. Although outcomes will not be binding, such consultations can provide important feedback to governments on the current state of the labour market and outlook for unemployment. The forum could also play a central role in collaborating and consulting with the national observatory or agency created to monitor and assess labour market developments and policy impacts.

Finally, national efforts to shift to policies that will ensure higher levels of employment will be greatly facilitated by reforms in the governance of the global economy. The key objective of this reform is to provide a high and stable level of effective demand in the global economy. This will entail: (i) ensuring effective global coordination of economic policies to eliminate "beggar-my-neighbour" policies that lead to global imbalances and restrict potential global growth; (ii) removing the constant threat to global economic stability from volatile and unregulated cross-border financial flows; and (iii) developing coordinated macroeconomic policies for dealing with future global economic crises.

In short, this Report calls for countries to put in place the necessary conditions for a dramatic shift in the current policy approach. It highlights the need for an approach that recognizes the importance of placing jobs at the top of the policy agenda and the need for coherence among macroeconomic, employment and social policies. This requires a significant change in domestic and global governance, which is a complex task. Though the task is demanding, even progressive steps in this direction will be rewarded with better job prospects and a more efficient economy.