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PRESS RELEASE

Globalization failing to create new, quality jobs or reduce poverty

ILO report sees wide gaps in wages, productivity gains

GENEVA (ILO News) – Global economic growth is increasingly failing to translate into new and better jobs that lead to a reduction in poverty, according to a new report issued by the International Labour Office (ILO) here today. In the report, the ILO points out that within this global trend, different regions show mixed results in terms of job creation, productivity results, wage improvements and poverty reduction.

Taking a global view, the 4th Edition of *Key Indicators of the Labour Market (KILM)* ^{*/} says that currently, half the world's workers still do not earn enough to lift themselves and their families above the US \$2 a day poverty line.

“The key message is that up to now better jobs and income for the world's workers has not been a priority in policy-making”, said ILO Director-General Juan Somavia. “Globalization has so far not led to the creation of sufficient and sustainable decent work opportunities around the world. That has to change, and as many leaders have already said we must make decent work a central objective of all economic and social policies. This report can be a useful tool for promoting that objective.”

The study finds that while in some areas of Asia economic expansion is fostering solid growth in jobs and improvements in living conditions, other areas such as Africa and parts of Latin America are seeing increasing numbers of people working in less favorable conditions, especially in the agricultural sector. The KILM also says that for millions of workers, new jobs often provide barely enough income to lift them above the poverty line, or are far below any adequate measure of satisfying and productive work. The total number of working women and men living on less than \$2 a day has not fallen over the past decade although at 1.38 billion it is a smaller share of global employment at just below 50 per cent, a decline from 57 per cent in 1994.

The report emphasizes that in many developing economies the problem is mainly a lack of decent and productive work opportunities rather than outright unemployment. Women and men are working long and hard for very little because their only alternative is to have no income at all.

The new KILM paints an in-depth picture of both the quantity and quality of jobs around the world by examining 20 key indicators of the labour market. The KILM covers quantitative topics such as labour force participation, employment, inactivity, employment elasticities, sectoral employment, labour

productivity and unemployment, and qualitative issues such as hours worked, wages, employment status, unemployment duration and others.

Economic growth is not leading to job creation

In recent years there has been a weakening relationship between economic growth and employment growth, meaning that growth is not automatically translating into new jobs. The report's "employment elasticities" indicator allows one to look at the relationship between economic growth – measured in GDP – and two of growth's contributory variables, the positive or negative change in employment and productivity. The biennial study found that for every 1 percentage point of additional GDP growth, total global employment grew by only 0.30 percentage points between 1999 and 2003, a drop from 0.38 percentage points between 1995 and 1999.

With employment growing between 0.5 and 0.9 percentage points for each additional percentage point of GDP growth, the most employment-intensive growth has taken place in the Middle East and in Northern and sub-Saharan Africa. A review of other indicators, however, shows that much of the employment growth in these regions is in the category of "self-employment" which includes most women and men in the informal economy where working conditions are often poor. While more jobs are being created in economies where agriculture dominates employment such as those in sub-Saharan Africa, many of the jobs are in the informal economy, at low-levels of productivity, and fail to provide workers enough income to pull themselves or their families out of poverty. For example, the number of workers living on less than US\$1 per day increased by 28 million in sub-Saharan Africa between 1994 and 2004.

By contrast, economic expansion in East Asia was sufficient to generate employment growth, productivity growth and a reduction in the high incidence of poverty in the region. Latin America, however, experienced a decline in the employment intensity of growth between 1999 and 2003. At the same time, the number of working poor in the region at the US\$1 a day level increased by 4.4 million. In recent years, economic growth in Latin America has been relatively more employment intensive for females than for males, which reflects a substantial narrowing of the labour force participation gap between men and women in the region.

In both Western Europe and North America, the services sector has experienced the most robust growth – both in terms of value added and employment growth. Between 1991 and 2003, for every 1 percentage point of growth in the services sector, employment increased by 0.57 per cent in North America and by 0.62 per cent in Western Europe. However, the report finds evidence of a divergence in employment performance between North America and Western Europe between 1991 and 2003, with the employment intensity of growth decreasing in the former and increasing in the latter between 1991 and 1999, with a further significant reduction in North America and a mild reduction in Western Europe between 1999 and 2003.

Global wage inequality on the rise

The 4th Edition KILM shows that between 1990 and 2000, wages increased faster in high-skilled occupations than in low-skilled occupations globally. Although these findings do not show a general deterioration of the wage position for low-skilled workers, they do suggest widening wage inequality between high- and low-skilled workers during the 1990s.

Rising wage inequality in the developed economies has been mainly attributed to greater demand for higher-skilled labour, which is in short supply and to lesser demand for workers with lower-level

education. Other explanatory factors, although of less impact, include increased trade with developing countries and increased immigration of low-skilled workers. In developing countries, factors impacting on rising wage inequality include industry wage premiums resulting from changes in trade policy that favour workers in specific industries, the increasing size of the informal economy, which generally has lower wages and less favorable working conditions, and a shortage of high-skilled workers.

Labour costs and labour productivity bring unequal results in terms of global competitiveness

The report concludes that the competitiveness of a high-wage economy is not immediately threatened by lower labour costs elsewhere, as countries with low labour costs are usually also characterized by lower productivity levels. The report demonstrates how competitiveness is determined by the combined outcomes of elements of the productive process – the cost of utilizing labour (labour compensation) and labour productivity (output per person employed) – and by exchange rate fluctuations. The report’s analysis of competitiveness in the “unit labour costs” indicator shows the following:

- In the European Union-15, it is not so much high labour costs but lower productivity in the manufacturing sector and appreciation in the Euro that has threatened the competitive position of the region vis-à-vis the United States.
- The manufacturing unit labour cost level in Japan has not only been high relative to the United States, but also in comparison with that of the EU-15. However, since the mid-1990s, the gap has decreased due to a moderation in wage growth in Japan, a weakening of the yen-US\$ exchange rate in 2005 and an improvement in the comparative productivity performance of Japanese manufacturing.
- The Republic of Korea has shown rapid improvement in labour productivity relative to the United States, but unit labour costs in the country have increased due to rapid wage increases during the early 1990s.
- Productivity has weakened in Mexico, but because labour compensation levels are lower, unit labour costs have also remained lower than in the United States.

The United States continues to show the highest labour productivity levels measured as value added per person employed. Despite faster productivity growth rates in some European Union countries, especially the new EU Member States, the productivity gap, measured in value-added per person employed, between the United States and most developed economies continues to widen. One exception is Ireland where this measure of the productivity gap with the US has been steadily narrowing since 1980. A slightly different picture emerges if productivity is measured by value-added per hour. This shows that some European countries are more productive than the US and for others the gap is less wide. However, most Europeans work shorter hours and have longer holidays than their US counterparts.

In Central and Eastern Europe, the transition to a market economy led to an increase in productivity but a fall in employment. The new EU Member States show a significant advantage in terms of international competitiveness with unit labour cost levels at approximately 70 per cent of the US level. Increased competitiveness, however, is not benefiting the population in terms of job creation and wages. The region shows some of the world’s highest unemployment rates and many of those not working have simply given up the job search, as reflected in the region’s high inactivity rates.

In other key findings, the KILM shows that:

- Women are continuing to catch up to men in terms of participation in labour markets throughout the world. Nevertheless, women continue to be disproportionately engaged in low-

wage, low-productivity and part-time jobs, and in many regions such as the Middle East, North Africa and South Asia, women's participation in the labour market still lags far behind.

- While the most severe working poverty is growing in Africa, it is declining in Asia and Central and Eastern Europe.
- Youth unemployment rates are typically at least twice as high as adult rates and are sometimes much higher. However, in most countries, the illiteracy rates of adults are higher than those of youth, suggesting that young people are increasingly better prepared for the labour market.
- Developed economies and the European Union are faced with a growing number of "underutilized" labour resources, including the unemployed and involuntary part-time workers looking for a full-time job. In both France and Italy, the rate of "underutilized" labour reached 21 per cent in 2004, up from 17 per cent in 1994 in France and 12 per cent in Italy.

^{*}/ Key Indicators of the Labour Markets, 4th Edition, ILO, Geneva, 2005, CD-ROM version; ISBN: 92-2-017568-1. The print version will be available in April 2006. For additional information visit <http://kilm.ilo.org/2005/press>.

For further information, contact:

- Lawrence J. Johnson, Chief, Employment Trends, ILO and main author of the report, through Tel: +41 22 799 7012, Mobile phone: +41 79 753-4426, Email: johnsonl@ilo.org.
- For other interviews, contact Sara Elder or Steve Kapsos through the EMP/TRENDS office, +41 22 799-6386, or leej@ilo.org , kapsos@ilo.org or elder@ilo.org .