2. Global labour market situation

The world enters the year 2012 facing a stark reality: one in three workers in the labour force is currently either unemployed or poor. That is, out of a global labour force of 3.3 billion, 200 million are unemployed and a further 900 million are living with their families below the US$2 a day poverty line. In fact, as these poverty estimates do not include the poor in developed economies, this estimate actually understates the extent of the decent work deficit.

If current economic and labour market trends persist, there is a risk that the deficit will rise further. The ILO projects 400 million new entrants into labour markets over the next ten years. As a result, on top of the challenge of improving labour productivity in developing countries to lift the world's 900 million working poor out of poverty, 400 million new jobs will be needed simply to avoid a further increase in global unemployment. The situation is especially desperate for the world's youth: 75 million young people around the world are unemployed, with the highest youth unemployment rates observed in precisely those regions of the world facing the fastest growth in the labour force. A continuation of current trends risks further undermining the already dim prospects and aspirations of the world's youth, sowing the seeds for continued social unrest and further weakening global economic prospects.

Unemployment and labour force participation

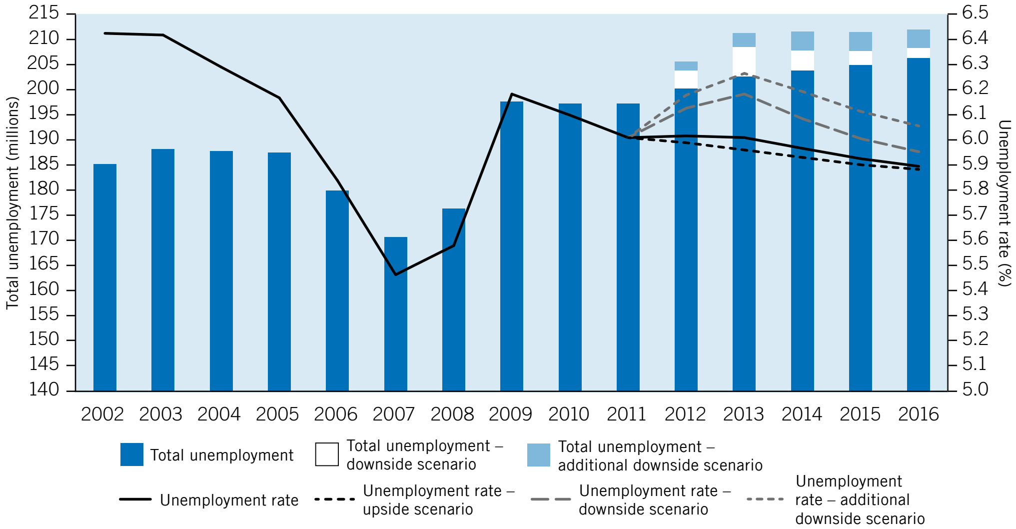
Following four years of elevated unemployment, the ILO's central forecast shows little improvement and significant downside risks

For the fourth consecutive year, global unemployment remained elevated in 2011, with more than 197 million unemployed around the world, a figure unchanged from the year before and still nearly 27 million more than in 2007 (see figure 9 and table A4). The number of unemployed around the world increased by 5.8 million in 2008 and then surged by more than 21 million in 2009, an increase from a rate of 5.5 per cent to 6.2 per cent. Global unemployment remains stuck at a rate of around 6.0 per cent, despite rapid economic growth of 5.1 per cent in 2010 and 4 per cent in 2011. The baseline projection shows no change in the global unemployment rate, which would lead to an additional 3 million unemployed around the world, giving a total of 200 million in 2012.

Downside risks to economic activity have increased substantially since mid-2011, with global growth of below 2 per cent in 2012 a growing possibility (IMF, 2011b). The most notable risks are: the question of debt sustainability in weak sovereigns and exposure of banks in a number of advanced economies, which could spark contagion; in countries such as Japan, the United States and many in the euro area, policies that are insufficiently strong to address the effects of the crisis on the major advanced economies; vulnerabilities (including risks of overheating from surging credit growth) in some emerging market economies; and volatile commodity prices and geopolitical tensions (IMF, 2011b).

As described in Chapter 1, the ILO has produced downside and upside scenarios for global unemployment and employment, in addition to the baseline scenario (Annex 5 provides

Figure 9. Global unemployment trends and projections, 2002–16



Note: 2011 are preliminary estimates; 2012–2016 are preliminary projections.

Source: ILO *Trends econometric models*, October 2011 (see Annex 4); IMF, *World Economic Outlook*, September 2011.

a detailed description of the methodology and assumptions).[4] The downside scenario assumes negative shocks in the euro area (primarily through bank capital reflecting losses on holdings of public debt), the United States (through slower potential output growth and increasing loan losses on mortgage portfolios) and emerging Asia (through losses on non-performing loans). The scenario assumes fallout effects in other regions, for instance through a decline in commodity prices, which impacts commodity exporters. In this scenario, global growth would fall to 1.6 per cent in 2012 and then rise to around 5 per cent in 2013, versus the baseline projection of 4 per cent growth in 2012 and 4.5 per cent in 2013.

In the downside scenario, global unemployment would rise to 204 million in 2012, 4 million more than under the baseline scenario, with a further increase to 209 million in 2013, 6 million more than in the baseline scenario. The largest impact is projected for the Developed Economies and European Union region, which would have an additional 3 million unemployed in 2012 and an additional 4 million unemployed in 2013 versus the baseline scenario. This region's unemployment rate would rise to 9 per cent in 2012 and edge up to 9.1 per cent in 2013, versus projections of 8.5 per cent for 2012 and 8.4 per cent under the baseline scenario. The three Asian regions would together have 1.4 million (nearly 2 per cent) more unemployed in 2013 than under the baseline forecast.

The additional downside scenario presented in figure 9 shows the impact of global growth decelerating to 1 per cent in 2012. In this scenario, global unemployment would rise by an additional 2 million in 2012 (5 million more than in the baseline scenario), and by an additional 3 million in 2013 (9 million more than in the baseline scenario). Global unemployment would rise to 212 million by 2014 and remain elevated through at least 2016.

The upside scenario for global unemployment and employment assumes a relatively benign outcome from the euro debt crisis, which would lead to growth acceleration in the Developed Economies and European Union region (from 1.4 per cent in 2011 to 2.5 per cent in 2012), which in turn would lead to somewhat faster growth in regions with strong ties to Europe and the United States, namely Central and South-Eastern Europe (non-EU) and CIS, Latin America and the Caribbean and the Asian regions.

In the upside scenario, global unemployment would be around 1 million lower than in the baseline scenario in 2012 and 1.7 million lower in 2013, however this would not be

[4] Tables in Annex 1 include confidence intervals around the ILO's central estimates for employment and unemployment, while tables in Annex 2 provide confidence intervals around the ILO's central projections for these indicators.

sufficient to significantly alter the trajectory of the global unemployment rate, which is projected to remain stuck at around 6 per cent. The reduction in unemployment would largely occur in the Developed Economies and European Union region, where the unemployment rate would fall from 8.5 per cent in 2011 to 8.3 per cent in 2012 and to 8.2 per cent in 2013.

Youth have been hard hit by the crisis

In 2011, 74.8 million youth aged 15–24 were unemployed, an increase of more than 4 million since 2007. The global youth unemployment rate, at 12.7 per cent, remains a full percentage point above the pre-crisis level. Globally, young people are nearly three times as likely as adults to be unemployed. In this light, the increase in social unrest in many countries and regions around the world is of little surprise (see IILS, 2011, Ch. 1). In the Middle East and North Africa regions, for example, youth are around four times as likely as adults to be unemployed, with youth unemployment rates well in excess of 25 per cent in both regions.

High youth unemployment is likely to cause long-term damage to labour market prospects and potential growth. As noted in a recent ILO report on the topic, "the bad luck of the generation entering the labour market in the years of the Great Recession brings not only current discomfort (from unemployment, underemployment, and the stress and social hazards associated with joblessness and prolonged inactivity), but also possible longer term consequences in terms of lower future wages and distrust of the political and economic system" (ILO, 2011b). As the number and share of unemployed youth is projected to remain essentially unchanged in 2012, and as the share of young people withdrawing from the labour market altogether continues to rise (see discussion below), if the present course is maintained there is unfortunately little hope for a substantial improvement in near-term employment prospects for young people.

Falling labour force participation masks an even worse global unemployment situation

The increase in global unemployment of nearly 27 million since 2007 is unprecedented, and this headline figure provides an indication of the severity of the shock to many labour markets around the world. Nevertheless, the figure substantially understates the extent of the global employment shortfall. In many countries there is evidence of an accelerated decline in labour force participation.[5] In the five years from 2002 to 2007, the global labour force participation rate declined from 65.1 per cent to 64.8 per cent, a drop of 0.3 percentage points. In the four years from 2007 to 2011, the rate dropped to 64.1 per cent, a decline of 0.7 percentage points. The pace of decline in labour force participation at the global level since 2007 has been two-and-a-half times greater than in the five years leading up to the crisis.

In order to gauge the extent of falling participation around the world and to estimate the size of the employment gap that has resulted from this, a scenario was constructed in which labour force participation rates at the country level for four groups (youth males, youth females, adult males and adult females) were projected forward from 2007 to 2011 based on historical trends over the 2002 to 2007 period. Specifically, the average annual change in labour force participation rates between 2002 and 2007 was calculated for each of these four

[5] A country's labour force is equal to the sum of persons in employment and unemployed persons. In order to be counted among the unemployed, an individual must not have worked (even for one hour) during the reference period and must have been actively seeking and available to take up employment. A person who has decided to stop looking for work because they feel they have no chance at finding a job is considered economically inactive (i.e. outside the labour force) and is therefore not counted among the unemployed. This also applies to young people who choose to remain in schooling longer than they had intended and delay seeking employment because of the perceived lack of job opportunities.

groups and participation rates were projected over the 2008 to 2011 period using the historical average annual changes. The difference in participation rates was calculated, and this was multiplied by each group's population to obtain an estimate of the gap (positive or negative) between the actual labour force in 2011 and the expected labour force based on pre-crisis trends. The country-level gaps were then summed across all countries in each region to obtain regional aggregates. Figure 10 provides the results of this analysis.

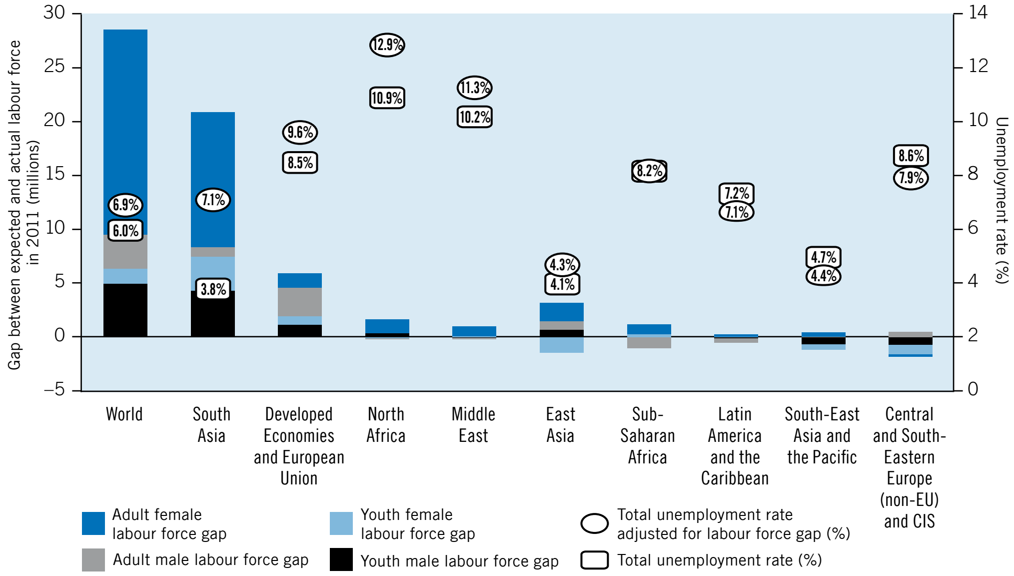
A global labour force gap of 29 million

In the world as a whole, there were nearly 29 million fewer people in the labour force in 2011 than would have been expected based on pre-crisis trends. This number is equal to nearly 1 per cent of the actual global labour force in 2011, and to nearly 15 per cent of the total number of unemployed in the world. Put another way, if all of these potential workers were available to work and sought work, the number of unemployed would swell to over 225 million, or to a rate of 6.9 per cent, versus the actual rate of 6 per cent. Falling participation among adult women accounts for two-thirds of the shortfall – an astounding figure given that adult women comprise less than one-third of the actual labour force. The other hard-hit group is young men, who account for over 17 per cent of the shortfall, versus less than 11 per cent of the global labour force. The share of the total shortfall for both young women and adult men is less than their respective shares in the labour force, implying that these groups have been less hard hit at the global level in terms of unexpectedly large declines in labour force participation. In total, there were 6.4 million fewer youth and 22.3 million fewer adults in the workforce in 2011 than would have been expected based on long-term historical trends.

Figure 10 shows the gaps between the actual size of the labour force in 2011 and the expected labour force based on pre-crisis trends, with the gap disaggregated into four population groups: youth males, youth females, adult males and adult females. These gaps are represented by the bars in the figure. In addition, the figure shows the actual unemployment rate in each region in 2011 along with the rate that would result if the labour force gap in each region was added to the number of unemployed. The region with the largest gap between the actual and expected labour force is South Asia, in which the labour force in 2011 was 21 million fewer than expected (see figure 10). This region therefore accounts for the bulk of the global employment gap. It is important to note that the large labour force gap in South Asia is unlikely to have been a direct consequence of the global economic crisis, given that the region was not severely impacted. Identifying the root causes of the drop in participation will be crucial for designing and implementing appropriate labour market policies to promote employment creation in the region. Adult women have been particularly affected, accounting for 60 per cent of the region's labour force shortfall while comprising less than 22 per cent of the labour force. Youth – both young women and young men – account for a further 35 per cent of the shortfall though they comprise only 20 per cent of the labour force. Adding this labour force shortfall to the region's unemployed would dramatically raise the unemployment rate: from 3.8 per cent to 7.1 per cent. Trends for this region are heavily influenced by India, which accounts for 74 per cent of the region's labour force (the South Asia region section in Chapter 3 provides more detail on trends in employment and labour force participation in India).

Participation rates have also plunged in many countries in the Developed Economies and European Union region, resulting in 6 million fewer people in the labour force than would have been expected based on pre-crisis trends. Adding this cohort to the unemployed would raise the region's unemployment rate from 8.5 per cent to 9.6 per cent. Youth in developed economies have been hardest hit: youth comprise one-third of the labour force shortfall versus less than 12 per cent of the region's labour force, with a total of 2 million fewer youth in the labour force than would have been expected.

Figure 10. Gap between actual and expected labour force in 2011, total unemployment rates and unemployment rates adjusted to account for reduced labour force participation, world and regions, 2011



Source: Authors' calculations based on ILO, *Trends Econometric Models*, October 2011 (see Annex 4); and ILO, Economically Active Population Estimates and Projections database, Version 6.

The Middle East and North Africa regions have also seen falling participation rates, which could raise unemployment rates by as much as 1 percentage point if this cohort of inactive persons were added to the ranks of the unemployed. In both regions, the most affected group is adult women, which is disconcerting given the very low female participation rates in the regions and is potentially indicative of women being locked out of a labour market that was already very difficult for them to enter.

In East Asia, South-East Asia and the Pacific, Latin America and the Caribbean and Sub-Saharan Africa, changes in participation were not far from expectations based on pre-crisis trends. The outlier is Central and South-Eastern Europe (non-EU) and CIS, where participation rates among youth in the Russian Federation and, to a lesser extent, in Turkey rose between 2007 and 2011, leading to more young workers in the labour market.

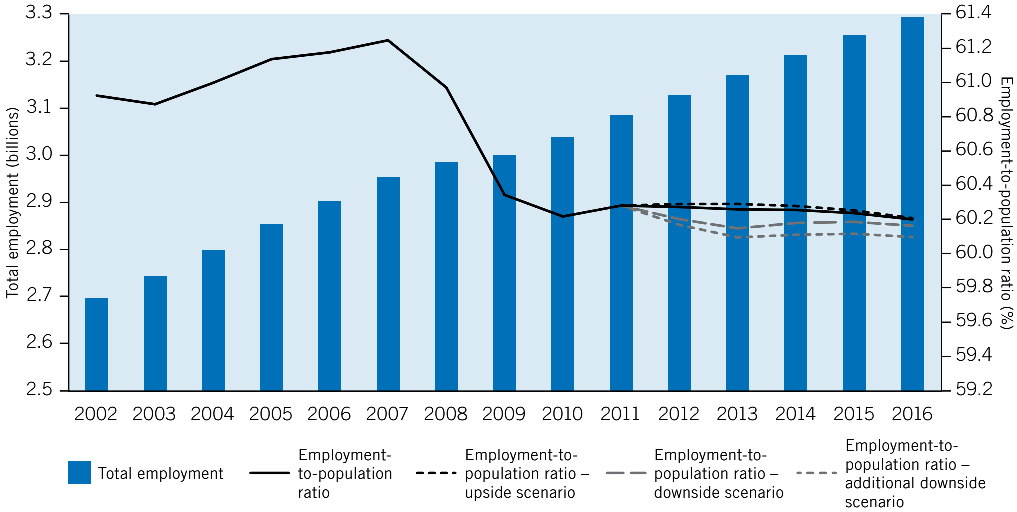
While participation rates have declined in many countries as discouragement has been on the rise, it is important to note that the global labour force is projected to expand by 400 million over the decade beginning in 2012 (ILO, 2011c). The Middle East, North Africa and Sub-Saharan African regions are projected to experience the fastest growth in the labour force. In these regions nearly 15 million new jobs will be needed each year to avoid a further increase in unemployment. In South Asia, over 12 million new jobs will be needed each year.

Employment and labour productivity

A sharp decline in the employment-generating capacity of the global economy

The number of workers around the world continues to increase, though the pace of increase has slowed in recent years (see figure 11). After an average increase in global employment of 52 million workers each year over the four years from 2004 to 2007, job expansion decelerated sharply to an average of only 33 million over the crisis years from 2008 to 2011. In 2008, it reached a record low of only 14.2 million, which is the lowest level of global employment growth ever recorded (with estimates available since 1991). The number of workers

Figure 11. Global employment trends and projections, 2002–16



Note: 2011 are preliminary estimates; 2012–2016 are preliminary projections.

Source: ILO, *Trends econometric models*, October 2011 (see Annex 4).

around the world grew by 38.1 million in 2009, the year in which global economic growth contracted by 0.7 per cent. Despite the sharp upturn in global economic growth in 2010, to a rate of 5.1 per cent, the number of employed around the world increased by only 37.5 million – still well below the pre-crisis trend. While employment growth picked up somewhat in 2011, thus far the world has failed to return employment generation to the levels achieved before the crisis.

The stagnation in global employment generation is made clearer by an examination of the employment-to-population ratio. The employment-to-population ratio is the proportion of the working-age population (aged 15 and above) in employment and provides a picture of the employment-generating capacity of economies. Globally, the employment-to-population ratio declined sharply during the crisis, from 61.2 per cent in 2007 to 60.2 per cent in 2010. This represents the largest such decline on record (since 1991). As shown in figure 11, based on current macroeconomic forecasts, the ILO's baseline projection for the employment-to-population ratio is not encouraging, with a flat to slightly declining ratio projected to 2016.

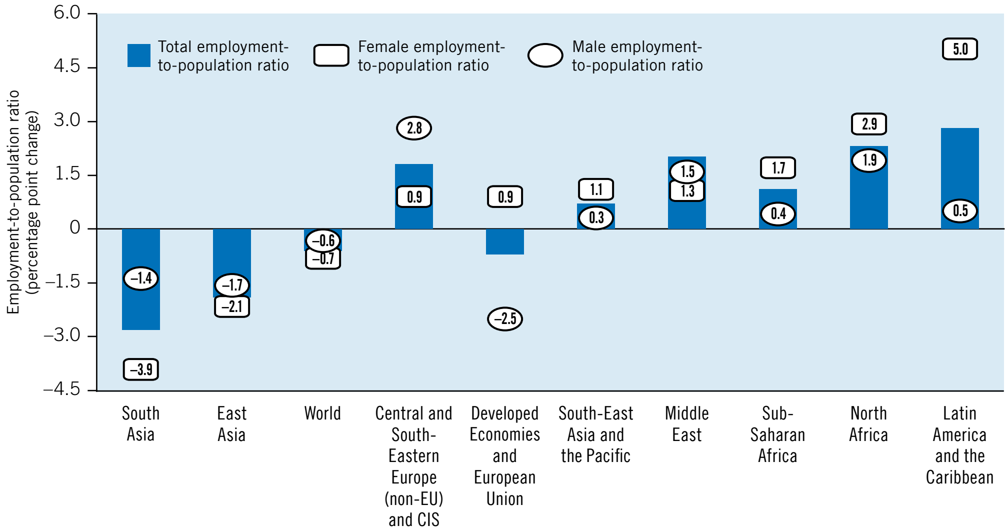
The ILO's downside scenario would result in a double dip in the global employment-to-population ratio, with the ratio likely to fall to the lowest rate on record around 2013. The upside scenario also would not result in growth rates sufficient to bring about a substantial rise in the global employment-to-population ratio, which would remain well below pre-crisis levels for the next several years.

Employment trends differ widely across regions and between the sexes

While the global employment-to-population ratio has declined sharply in recent years, looking at longer term trends from 2002 to 2011 reveals substantial heterogeneity in trends across regions as well as between the sexes (see figure 12). Over this period, the decline in the global employment-to-population ratio was driven by declines in three regions: the Developed Economies and European Union, East Asia and South Asia, with the latter two regions having registered particularly large drops.

In the other regions of the world, employment-to-population ratios actually rose after 2002, driven in part by increasing numbers of women in the workforce. In four of the six regions with rising employment-to-population ratios – Latin America and the Caribbean, North Africa, South-East Asia and the Pacific and Sub-Saharan Africa, employment-to-population

Figure 12. Changes in employment-to-population ratios by region and sex, 2002–11



Source: ILO, *Trends econometric models*, October 2011 (see Annex 4).

ratios for women rose faster than the corresponding ratios for men, resulting in a narrowing of the gender employment gap. This was particularly noteworthy in Latin America and the Caribbean, in which the employment-to-population ratio among women rose by 5 percentage points between 2002 and 2011.

In most regions, the crisis has impacted on employment to a greater extent than on labour productivity – a key factor behind the sharp rise in unemployment

GDP growth can be broken down into employment growth and changes in labour productivity, measured as the average output per worker. Viewing employment and productivity growth rates together sheds light on whether the economic downturn has been characterized more by impacts on employment or by impacts on productivity and whether employment growth or productivity growth are likely to lead a recovery. Table 3 provides average annual growth rates in employment and labour productivity for the world as a whole and for the nine major regional groupings, over the pre-crisis period from 2002 to 2007, the crisis period from 2008 to 2011, short-run projections for the 2012 to 2013 period and longer run projections for the 2014 to 2016 period. Cells are coloured according to the extent to which growth rates deviate from historical trends over the 2002 to 2007 period. Dark grey indicates growth rates more than one standard deviation below the average annual growth rate achieved over the 2002 to 2007 period, light grey indicates growth that is less than one standard deviation below trend, light blue indicates growth that is less than one standard deviation above trend and dark blue indicates growth that is more than one standard deviation above trend.

Below trend employment growth is the predominant trend across regions and over time. Globally, employment grew at an average annual rate of 1.1 per cent between 2008 and 2011 and is projected to accelerate to 1.4 per cent growth in 2012–13, compared with historical growth of 1.8 per cent. The longer run projection over 2014 to 2016 is for continued sluggish growth of 1.3 per cent. These figures provide further evidence of a global slowdown in employment generation – one that is expected to persist for the foreseeable future based on current macroeconomic forecasts.

In contrast to this, while labour productivity growth for the world as a whole did decelerate – averaging only 1.6 per cent between 2008 and 2011 – and was on a decelerating trend

Table 3. Employment and labour productivity growth, world and regions (% p.a., selected periods)

	Average annual employment growth				Average annual labour productivity growth			
	2002–07	2008–11	2012–13	2014–16	2002–07	2008–11	2012–13	2014–16
WORLD	1.8	1.1	1.4	1.3	2.5	1.6	2.6	3.2
Developed Economies and EU	1.0	–0.3	0.4	0.6	1.4	0.5	1.5	2.0
CSEE (non-EU) and CIS	1.1	0.8	0.5	0.3	6.1	1.1	3.5	4.0
East Asia	1.2	0.6	0.6	0.3	8.6	7.8	7.5	8.1
South-East Asia and the Pacific	1.8	1.9	1.6	1.4	4.1	2.6	3.5	4.0
South Asia	2.2	1.0	2.0	1.9	5.4	6.1	4.8	5.4
Latin America and the Caribbean	2.5	1.9	1.8	1.7	1.4	1.0	1.7	1.8
Middle East	4.5	3.2	2.8	2.5	0.9	0.9	1.2	2.0
North Africa	3.4	2.0	2.2	2.3	1.4	1.8	0.8	2.8
Sub-Saharan Africa	3.1	2.8	3.0	3.0	2.5	1.5	2.3	1.9

Note: Based on *Trends econometric models* estimates; 2011 are preliminary estimates; 2012–13 and 2014–16 are preliminary projections. CSEE = Central and South-Eastern Europe.

Source: ILO, *Trends econometric models*, October 2011 (see Annex 4); World Bank, *World Development Indicators*, 2011.

prior to the crisis (see Chapter 1), the impact of the crisis on labour markets has been skewed more towards weak employment generation than towards reduced labour productivity growth and this trend is projected to persist over the next several years. As labour productivity growth is projected to rebound to above trend growth rates over the projection period, this provides evidence that, based on the projected rates of economic growth, there is space to accelerate employment generation globally while still maintaining levels of productivity growth in line with pre-crisis trends.

In terms of regional trends, the Developed Economies and European Union and Central and South-Eastern Europe (non-EU) and CIS regions were the hardest hit regions in terms of economic growth, but the way in which the crisis unfolded in the regions' labour markets differs substantially, as do the regions' projected recovery paths. In the Developed Economies and European Union region, employment growth was negative during 2008 to 2011, but it is projected to recover to about half of the rate achieved prior to the crisis. Labour productivity growth in the region dropped sharply during the crisis, but is projected to roughly equal the pre-crisis rate over the 2012 to 2013 period and to surpass this rate between 2014 and 2016. Given the projected rates of economic growth, this baseline projection reveals scope to increase employment growth in the region while still maintaining productivity growth rates in excess of those achieved in the pre-crisis period. This will depend largely on firm-level developments in terms of boosting investment and accelerating hiring, as opposed to a continuation of the current extreme caution in terms of hiring and efforts to maintain or boost output without expanding employment.

In contrast to this, in the Central and South-Eastern Europe (non-EU) and CIS region, employment growth fell to 0.3 percentage points below the pre-crisis trend, but labour productivity growth plunged to only 1.1 per cent, compared with an average of 6.1 per cent between 2002 and 2007. The baseline projection calls for a further slowdown in employment growth, reaching a low of 0.3 per cent annual growth in the 2014 to 2016 period, coupled with accelerating, but still well below trend, labour productivity growth. The outlook for the region in both the short term and longer term is for a sluggish recovery, with weak employment generation and slowly accelerating labour productivity growth.

In East Asia, employment growth fell sharply during the downturn and is projected to remain well below pre-crisis trends. Labour productivity growth was impacted to a much lesser extent and is expected to remain above 7 per cent during the two forecast periods.

Annual employment growth is projected to fall to only 0.3 per cent between 2014 and 2016, which raises some concerns; however, this fall is due in part to changing demographics in the region, coupled with a decline in labour force participation from the previous historically high rates, which is occurring alongside the region's rapid development.

The South-East Asia and the Pacific region achieved slightly faster employment growth over the 2008 to 2011 period than in the period from 2002 to 2007 and is the only region to have seen employment growth accelerate during the crisis. Employment growth is expected to decelerate steadily during the projection periods. Labour productivity growth fell sharply in the region during the crisis and is projected to remain well below the pre-crisis level during the 2012 to 2013 period before recovering in the longer term.

The South Asia region saw a sharp reduction in employment growth in 2010, owing largely to trends in labour force participation and employment in India (see the South Asia region section in Chapter 3), but employment growth is projected to be just slightly below the pre-crisis growth rate over both the short-term and longer term projection periods. Labour productivity growth in the region actually accelerated during the crisis, as the region's economic growth bounced back strongly in 2010 and 2011, but it is expected to moderate over the projection period.

In Latin America and the Caribbean, the reduction in output growth between 2008 and 2011 was reflected in a deceleration in both employment and productivity growth. Productivity growth is projected to rebound faster than employment growth in the region, with projected productivity growth rates in excess of rates achieved before the onset of the crisis.

In both the Middle East and North Africa regions, employment growth fell sharply during the downturn and is projected to remain well below pre-crisis trends. Labour productivity growth was not adversely impacted during the crisis in either region. In the Middle East, productivity growth is projected to accelerate over the forecast period. In North Africa, with the ongoing political upheavals, productivity growth is expected to fall over 2012 to 2013, but subsequently to rise faster than trend.

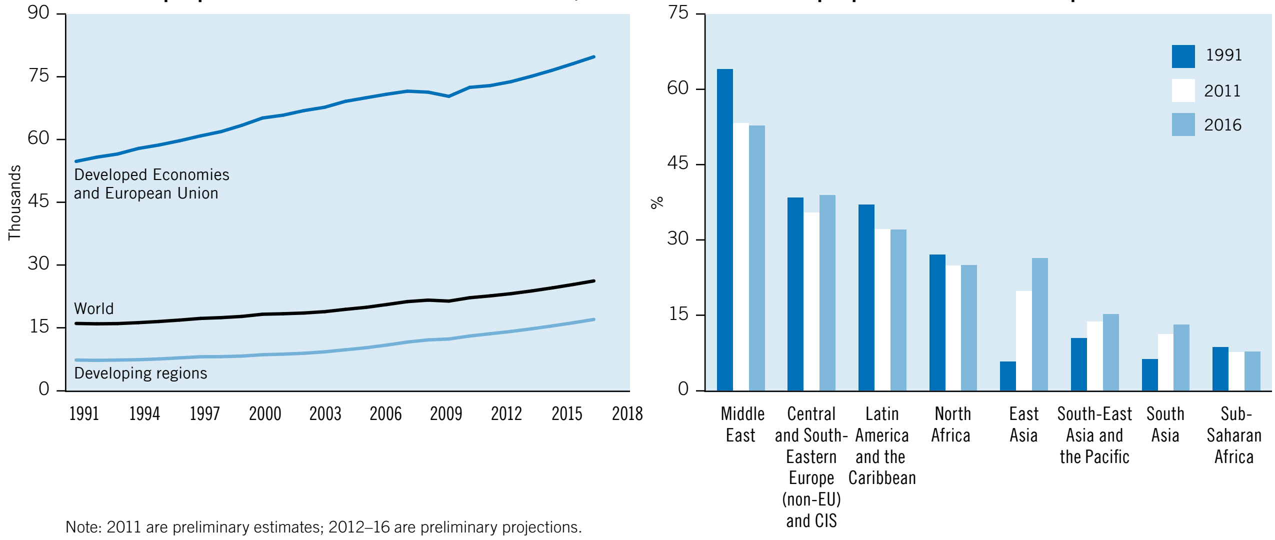
In Sub-Saharan Africa, both employment and productivity growth decelerated during the crisis. However, the region has rebounded sharply, beginning in 2010, and is projected to register economic growth rates of over 5 per cent throughout the forecast period. In this baseline scenario, employment growth would nearly return to pre-crisis levels. Productivity growth is projected to average 2.3 per cent over the 2012 to 2013 period, decelerating to 1.9 per cent over the period 2014 to 2016.

Outside of Asia, developing regions have lagged behind developed economies in labour productivity growth, raising the risk of a further divergence in living standards and limiting prospects for poverty reduction

In terms of labour productivity levels, the gap between labour productivity in the developed and developing regions has narrowed over the past two decades, but it remains substantial: output per worker in the Developed Economies and European Union region was US$72,900 in 2011, compared with an average of US$13,600 in developing regions. This means that, adjusted for differences in prices across countries, the average worker in a developing country produces less than one-fifth of the output of the average worker in a developed country (see figure 13, panel A).

However, the developing world is not homogeneous: there are large differences in productivity levels and growth rates across the developing regions (see figure 13, panel B). The level of output per worker in the Middle East region was 53 per cent of the corresponding level in the developed economies region in 2011; however, the Middle East has had slower productivity growth than the developed economies region and consequently the ratio has fallen from

Figure 13. Labour productivity (output per worker), constant 2005 international $, 1991–2016 and % of productivity level in developed economies, 1991, 2011 and 2016



Note: 2011 are preliminary estimates; 2012–16 are preliminary projections.

Source: ILO, *Trends econometric models*, October 2011 (see Annex 4); World Bank, *World Development Indicators*, 2011.

64 per cent in 1991. The three regions with the next highest levels of labour productivity: Central and South-Eastern Europe (non-EU) and CIS (with output per worker equivalent to 35 per cent of the level in the developed region in 2011), Latin America and the Caribbean (32 per cent of the productivity level in the developed region in 2011) and North Africa (25 per cent of the productivity level in the developed region in 2011) have all seen their productivity levels fall relative to the Developed Economies and European Union region over the period 1991 to 2011. The same is true for Sub-Saharan Africa, where output per worker stood at only 8 per cent of the level in the developed economies. Among these regions, between 2011 and 2016, the Central and South-Eastern Europe (non-EU) and CIS region is the only region projected to narrow the productivity gap with the Developed Economies and European Union region, with a projected rise from 35 per cent to 39 per cent of productivity levels in the developed economies.

Asia accounts for all of the catch-up in productivity levels between the developing and developed regions

The three Asian regions, in contrast, have seen tremendous productivity growth and have been on a strong path of convergence with the developed economies, albeit from very low initial productivity levels. The Asian regions have therefore accounted for all of the catch-up in levels of labour productivity between the developing and developed regions between 1991 and 2011. This, in turn, was driven largely by productivity growth in East Asia, where output per worker stood at 20 per cent of the level in the developed economies in 2011, against only 6 per cent in 1991. This figure is projected to climb to 26 per cent in 2016. The figure for South Asia increased from 6 per cent of the level in the developed economies in 1991 to 11 per cent in 2011 and is projected to rise to 13 per cent in 2016. In South-East Asia and the Pacific, output per worker stood at 14 per cent of the level in the developed economies, up from 10 per cent in 1991. The level is projected to rise only slightly to 15 per cent in 2016. The relatively weak productivity growth in much of the developing world outside of Asia is one key factor explaining the persistence of working poverty, as discussed in the next section.

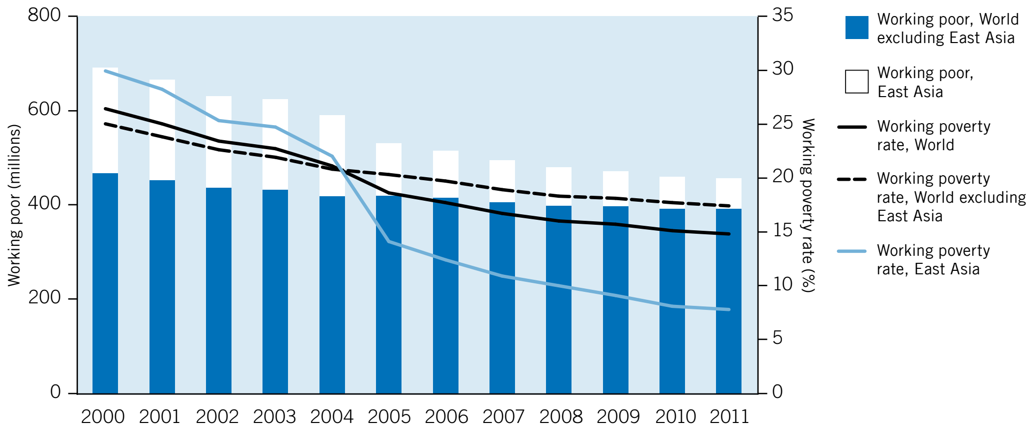
Working poverty and vulnerable employment

Progress in reducing extreme poverty among workers at the global level, but working poverty remains widespread

In October 2011, the ILO released new estimates of the working poor, based on over 60 national household surveys and an updated and improved econometric estimation model (see ILO, 2011d, Ch. 1, sec. A and box 3). According to the results from this new methodology, there were an estimated 456 million workers around the world living below the US$1.25 a day poverty line in 2011, a reduction of 233 million since 2000 and of 38 million since 2007 (see figure 14). However, this global aggregate is heavily influenced by the dramatic decline in extreme working poverty in the East Asia region, where, owing to rapid economic growth and poverty reduction in China, the number of poor workers has declined by 158 million since 2000 and by 24 million since 2007. In terms of rates, while in the world as a whole the share of workers living below the US$1.25 poverty line declined from 26.4 per cent to 14.8 per cent between 2000 and 2011, in the world excluding East Asia, the decline over the same period was far less: a reduction of 7.6 percentage points, from 25 per cent to 17.4 per cent.

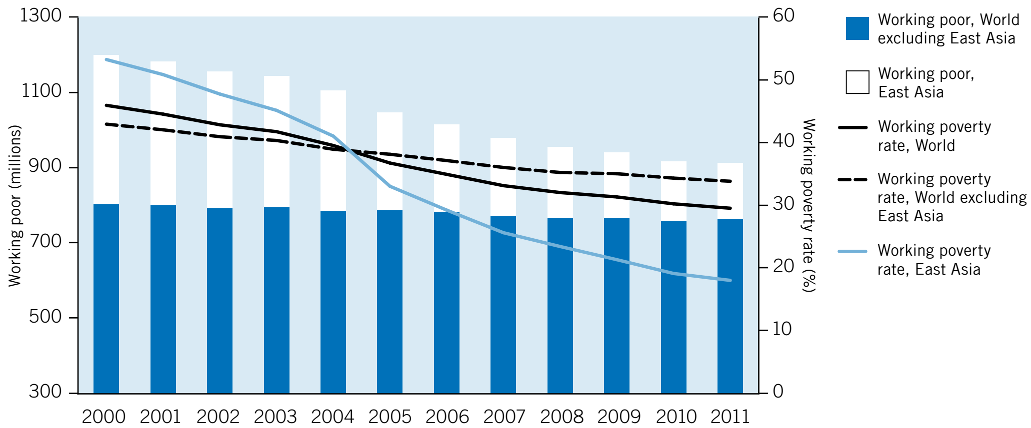
Nearly 30 per cent of all workers in the world – more than 910 million – are living with their families below the US$2 a day poverty line (see figure 15). These workers and their dependants remain highly vulnerable to further economic shocks. While the global share

Figure 14. Global working poverty trends, 2000–11 (US$1.25 a day)



Note: 2011 is a preliminary estimate.
Source: ILO, *Trends econometric models*, October 2011 (see Annex 4).

Figure 15. Global working poverty trends, 2000–11 (US$2 a day)



Note: 2011 is a preliminary estimate.
Source: ILO, *Trends econometric models*, October 2011 (see Annex 4).

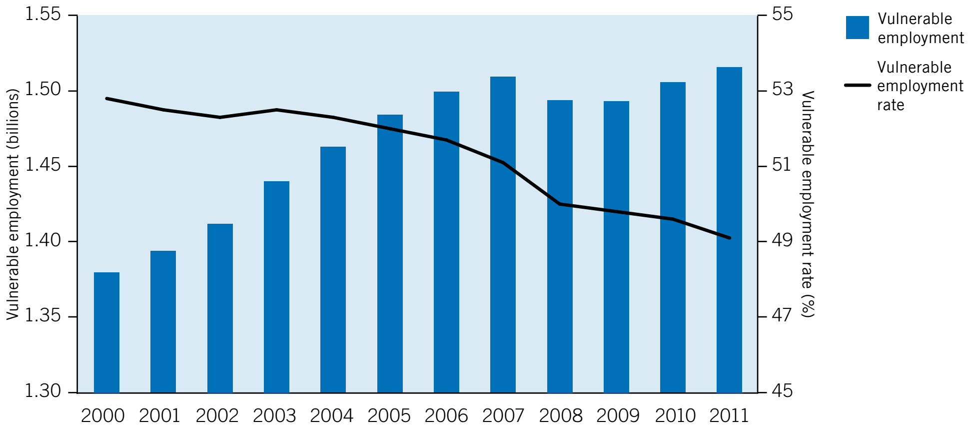
has declined from 46 per cent in 2000, progress has again been far faster in East Asia than in the rest of the developing world. East Asia has managed to reduce the number of working poor that live below the US$2 poverty line by 247 million since 2000, which is more than six times the level of poverty reduction in the developing world excluding East Asia, where the rate of poverty reduction has been mixed. In Sub-Saharan Africa, North Africa, South Asia and the Middle East, the number of workers living with their families on less than US$2 a day continues to grow.

While working poverty has been on the decline, there has been a marked slowdown in progress since 2008. A projection of pre-crisis (2002 to 2007) trends in the incidence of working poverty shows a difference of 1.6 percentage points in 2011. This amounts to 50 million more working poor in 2011 than projected based on pre-crisis trends. Similarly, there are an estimated 55 million more workers in 2011 living with their families below the US$2 poverty line than expected on the basis of pre-crisis trends.

Vulnerable employment increases by 23 million since 2009

Strongly linked to the working poverty indicator is the indicator on "vulnerable employment", defined as the sum of own-account workers and unpaid family workers. This indicator provides valuable insights into trends in overall employment quality, as a high share of workers in vulnerable employment indicates widespread informal work arrangements, whereby workers typically lack adequate social protection and coverage by social dialogue arrangements.[6] Vulnerable employment is also often characterized by low pay and difficult working conditions, in which workers' fundamental rights may be undermined.[7] As shown in figure 16, the number of workers in vulnerable employment globally in 2011 is estimated at 1.52 billion, an increase of 136 million since 2000. This corresponds to a trend decline of the global vulnerable employment rate to 49.1 per cent, down from 52.8 per cent in 2000. This moderate decline

Figure 16. Global vulnerable employment trends, 2000–11



Note: 2011 is a preliminary estimate.

Source: ILO, *Trends econometric models*, October 2011 (see Annex 4).

[6] The vulnerable employment indicator is one of the official Millennium Development Goals (MDG) employment indicators, under "Goal 1: Eradicate extreme poverty and hunger", together with the employment-to-population ratio, the labour productivity growth rate and the share of the working poor in total employment. For a full list of indicators, see: http://unstats.un.org/unsd/mdg/Host.aspx?Content=Indicators/OfficialList.htm. The MDG employment indicators are described in detail in ILO, *Guide to the new Millennium Development Goals Employment Indicators* (Geneva, 2009); www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_110511.pdf.

[7] As noted in *Global Employment Trends 2010*, the vulnerable employment indicator has some limitations: (1) wage and salary employment is not synonymous with decent work, as workers may carry a high economic risk despite the fact that they are in wage employment; (2) the unemployed are not included in the indicator, though they are vulnerable; (3) a worker may be classified in one of the two vulnerable status groups but still not carry a high economic risk, especially in the developed economies (see ILO, 2010).

was, however, not sufficient to prevent the absolute number of workers in vulnerable employment from increasing by nearly 23 million since 2009 due to a continuous expansion of the labour force in those countries most heavily affected by vulnerable employment conditions.

There is wide regional variation in both the incidence of vulnerable employment and the extent to which overall employment generation is occurring in the vulnerable employment groups. The East Asia region has seen a reduction in vulnerable employment of 40 million since 2007, compared with increases of 22 million in Sub-Saharan Africa, 12 million in South Asia, nearly 6 million in South-East Asia and the Pacific, 5 million in Latin America and the Caribbean and more than 1 million in the Middle East. Vulnerable employment accounted for nearly 70 per cent of all employment growth in Sub-Saharan Africa since 2007, for more than half of all employment growth in South-East Asia and the Pacific and for more than a

Box 3. New ILO estimates of the world's working poor

The ILO's *Key Indicators of the Labour Market* (KILM), 7th edition, released in October 2011, includes new estimates of the working poor for 54 countries, based on national household surveys. Table 18b in the KILM provides estimates of the number of working poor and their share in total employment, with all estimates disaggregated by age group (total, youth and adult) and sex. Being the first international database of national working poverty estimates, the data series is intended to improve the understanding of the linkages between poverty, employment and decent work around the world. It also represents a new set of information to monitor progress toward the Millennium Development Goals (MDGs). One of the four indicators under MDG 1B to "achieve full and productive employment and decent work for all, including women and young people" is the proportion of the working poor in total employment.

Chapter 1a in the KILM, entitled "Working poverty in the world: Introducing new estimates using household survey data", serves two main purposes: (1) to utilize household survey data to identify some of the key characteristics of the world's working poor; and (2) to present an updated set of global and regional estimates of the working poor and to provide an updated report of progress being made to achieve MDG 1B.

With regard to key characteristics of the working poor, the chapter finds that young people aged 15–24 account for a disproportionate share of poor workers – comprising 23.5 per cent of the working poor in the countries with available data, compared with only 18.6 per cent of non-poor workers. Nearly eight out of ten working poor at the US$1.25 level live in rural areas, compared with four out of ten non-poor workers. The bulk of these workers are employed in the agricultural sector and in own-account or unpaid family work. Although educational data are more limited, it is clear that the working poor are trapped in a vicious circle of low levels of education and low-productivity employment.

The data also provide a glimpse of a large cohort of children in employment – nearly 50 million in the 48 countries with available data. More than four out of five of these children are estimated by the surveys to be among the working poor at the US$2 level. Importantly, these poor working children are not counted among the global and regional estimates of the working poor, which are based on the working-age population (aged 15 and above).

The new global estimates of the working poor presented in the paper were 140 million lower than the previous estimate at the US$1.25 level and 233 million lower at the US$2 level for the year 2010. The differences are primarily due to two factors: (1) the extensive use of newly available household survey-based estimates of the working poor produced using a consistent methodology; and (2) the development of an improved econometric model for estimating poverty rates among workers, made possible because of the newly available data.

The new econometric model introduced in the paper utilizes labour productivity, population age structure and the share of workers in agricultural employment as explanatory variables to estimate and project working poverty rates in countries and years for which data are unavailable. The paper finds that labour productivity growth is strongly associated with declining poverty among workers, and the relationship was found to be particularly strong in the Asian regions and in sub-Saharan Africa. A larger share of the prime-age population in the total population is associated with a reduction in the incidence of working poverty, particularly extreme working poverty at the US$1.25 level – indicating that countries with the largest shares of working poor and at the lowest stages of economic development have the most to gain from a demographic transition. This also points to significant benefits in terms of poverty reduction from factors that can lead to favourable demographic trends, such as reduced child and maternal mortality. A reduction in the share of workers in agriculture – typically representative of a structural shift in the labour market into higher value added activities – is associated with reductions in working poverty. Thus, policies that can serve as a catalyst for this type of shift – among them investments in basic education and skills training, so that workers are equipped to take up new employment opportunities in the industrial and services sectors – can also help to reduce poverty among workers and their families.

Source: ILO, 2011d, Ch. 1, sec. A.

quarter of all new employment in Latin America and the Caribbean. Overall in the world excluding East Asia, vulnerable employment has increased by 34 million since 2009.

The share of women in vulnerable employment, at 50.5 per cent, exceeds the corresponding share for men (48.2). Women are far more likely than men to be in vulnerable employment in North Africa (55 per cent versus 32 per cent), the Middle East (42 per cent versus 27 per cent) and Sub-Saharan Africa (nearly 85 per cent versus 70 per cent).

A high incidence of vulnerable employment is often associated with a large share of workers in (often subsistence) agriculture. Indeed, in South Asia, the region with the highest vulnerable employment rate in 2011 (at 77.7 per cent), 51 per cent of workers are in the agricultural sector. In the two regions with the next highest shares of vulnerable employment, Sub-Saharan Africa (76.6 per cent) and South-East Asia and the Pacific (61.6 per cent), the agricultural sector remains the largest in terms of employment. While vulnerable employment is also widespread in the services sector in many developing economies, a major reduction in the incidence of vulnerable employment in developing regions will require a further shift of employment out of agriculture and into higher value added manufacturing and services sector activities.

A grim outlook for global labour markets

Job-poor growth in the developed world and weak productivity in developing regions threatens a broader recovery and limits economic development prospects

Based on the above analysis of trends in unemployment and participation, employment and labour productivity, and working poverty and vulnerable employment, two particularly disconcerting trends become apparent. First, especially in many developed economies, economic growth remains painfully weak, and the little growth that is being achieved is being driven more and more by increased labour productivity rather than by employment creation. Essentially, output is growing because firms have been able to produce the same or more output without increasing employment, by squeezing more out of the existing workforce (for instance, workers working longer hours). This, in turn, has resulted in a massive jobs gap, which has remained despite a pickup in economic activity.

The persistence of this problem has led to a negative feedback loop between the labour market and the macro-economy: high unemployment and low wage growth adversely affect both consumption and investment – two main drivers of economic growth. Workers are consumers, and as they suffer from increased unemployment and have less disposable income, their demand for goods and services is reduced. This further reduces business confidence and firms remain hesitant to invest and hire. Breaking this negative loop will be essential for a sustainable recovery.

The second disconcerting trend is that productivity growth in much of the developing world remains below what is needed in order to have convergence with developed economies and to foster widespread increases in job quality and reduced poverty and vulnerability. Sustainable increases in productivity will require accelerated structural transformation in much of the developing world – shifting to higher value added activities while reducing subsistence agriculture as a main source of employment and reducing reliance on volatile commodity markets for export earnings. This, in turn, calls for further gains in education and skills development, social protection schemes that ensure a basic standard of living for the most vulnerable, and strengthened dialogue between workers, employers and governments to ensure broad-based development underscored by a fair and just distribution of economic gains.