

# **World of Work Report 2013**

## Repairing the economic and social fabric

### **Summary**

INTERNATIONAL LABOUR ORGANIZATION

INTERNATIONAL INSTITUTE FOR LABOUR STUDIES



# Repairing the economic and social fabric

## The labour market and income situation is uneven...

The employment and social outlook differs considerably both across countries and within them. Over the past three years, the majority of emerging and developing economies have posted positive employment gains (Chapter 1). In addition, they have managed to reduce income inequalities somewhat – albeit from relatively high levels. The result is a growing middle-income group, with particularly encouraging progress in some Latin American and Caribbean countries, as well as in parts of Asia and some sub-Saharan countries.

The situation among advanced economies, however, is more complex. In the aftermath of the global financial crisis which erupted in 2008, some advanced economies have managed to recover some of the jobs lost. This is particularly the case in Australia, Canada, New Zealand and the Republic of Korea. More recently, encouraging signs of recovery have also been observed in the United States and in Japan. Europe, by contrast, is still confronted with significant challenges and in many respects its labour market and social outlook continues to deteriorate.

On the present course, global unemployment is expected to approach 208 million in 2015, up from 200 million today. And long-standing labour market imbalances - such as high levels of labour market informality in developing countries and long-term unemployment in advanced economies - will remain acute.

This report highlights the crucial role of well-designed employment and social policies both in consolidating the gains where a recovery is underway and in kick-starting job creation in countries still severely affected by the crisis.

## ... but can be improved by consolidating the rebalancing process in emerging and developing countries...

Countries that are already on the path to a job recovery would benefit from continuing to implement well-designed social protection and to boost labour incomes. The success of many of these countries lies in their attempts to undertake a rebalancing process that

stimulates domestic sources of growth. Reinforcing these efforts will be critical to consolidating the progress to date because exports to advanced economies will no longer provide the same stimulus as they did during the two decades preceding the global crisis. Investment in key infrastructure projects, along with measures to facilitate the transition to formal employment and to expand well-crafted social protection and minimum wages would help to further that objective. Such policies would not only boost growth now, but would also consolidate the emergence of a large and growing middle-income group –which is essential for ensuring genuinely autonomous economic growth (Chapter 2). If well-crafted, they will also help tackle under-unemployment, which is still pervasive in most of the developing countries.

The report focuses particular attention on the role of carefully designed minimum wages (Chapter 3). About half of the 151 countries for which data are available do not have a comprehensive system of minimum wages. And, in those countries where minimum wage legislation does exist, stronger action is often needed to improve compliance.

Well-designed systems of minimum wages can provide an effective income floor for both formal and informal workers. They can also provide an incentive to unlock low-productivity traps and, combined with social protection floors, can contribute to enhancing the capabilities of low-income women and men. Yet, at a time when hiring remains weak, the level at which the minimum wage is set requires careful coordination in order to make it both binding and consistent with the creation of formal jobs. Too low a level reduces the relevance of minimum wages; too high a level runs the risk of firms refusing to comply. Importantly, the report highlights the point that regular updates and the engagement of workers' and employers' organizations in minimum wage setting are crucial to leveraging the benefits of minimum wages and ensuring that they pave the way for decent work opportunities.

### **...and finding the right balance between employment and macroeconomic goals in advanced economies.**

In advanced economies, the challenge is to stimulate job creation while addressing macroeconomic imbalances. The two goals are connected. Growing long-term unemployment and child poverty entail significant social and economic costs, complicating the achievement of macroeconomic goals. Likewise, tight credit conditions and the weak demand prospects associated with high unemployment adversely affect productive investment, especially among small enterprises, which typically account for a considerable share of employment (Chapter 4). This, in turn, reduces growth potential as well as the ability of governments to repay their debts.

A better balance between employment and other macroeconomic objectives will therefore be necessary to achieve a lasting and inclusive recovery. First, this means

ensuring an adequate pace of fiscal consolidation measures, where they are necessary, and more attention to the employment and social impact of different macroeconomic policies (Chapter 5). On the expenditure side, maintaining and reinforcing labour market and social policies are of critical importance. On the revenue side, a widening of the tax base –not to weigh disproportionately on labour and productive investment-- and greater emphasis on addressing tax evasion would help to secure additional financing. Certain countries that were significantly affected by the financial crisis - notably the United States and, more recently, Japan - have moved in this direction. The experience of Nordic economies in the 1990s is also an important case in point.

Second, moving quickly with yet-unresolved inefficiencies in the financial system would be instrumental in supporting the achievement of both employment and macroeconomic objectives. A key barrier to productive investment can be found in the failure of financial systems to play their role in distributing credit, which is especially problematic with respect to small firms. Chapter 4 illustrates the links between credit problems, investment and decent work. It also highlights policy and regulatory measures to improve financial functioning in a manner which is more employment-friendly. Thus, of the 30 countries with available information, only 10 have put in place provisions for a systemic risk regulator.

### **Progress towards reducing economic and social inequalities would pave the way for a lasting recovery.**

Economic and social inequalities remain high or are rising in most regions. This situation is affecting long-term recovery prospects.

From the economic point of view, indicators show that profitability and stock markets have recovered in a majority of countries. Unspent cash in the accounts of large enterprises has reached USD 5 trillion in advanced economies and USD 1.4 trillion in emerging and developing countries, in both cases exceeding pre-crisis levels. Executive pay is also on the rise, following a pause in the immediate aftermath of the crisis. Therefore, the key issue is how to translate profits into productive investment, especially in advanced economies. Public investment initiatives that crowd in private investment, tax measures and stepping up financial reforms would help. But ensuring that labour incomes grow in line with productivity gains would also significantly contribute to boosting productive investment.

The gap between small and large enterprises is widening. The position of small firms has deteriorated vis-à-vis that of their larger counterparts. Sustainable small firms depend heavily on bank credit and cannot grasp the benefits of globalization to the same extent as larger ones. This is an issue which will require more attention in policy making.

The social fabric has been affected by growing or persistent income gaps between rich and poor. Progress has been made in many emerging and developing countries but more efforts are needed to consolidate the gains. Meanwhile, income inequalities are widening in advanced economies, Central and Eastern Europe and in a number of Arab countries.

Almost everywhere, young people and women find it difficult to obtain jobs that match their skills and aspirations. It is crucial to ensure that the spectacular advances in educational attainment in recent years are matched by commensurate decent work opportunities for young people. This is a major global challenge for the years to come. Meanwhile, the risk of social unrest is on the rise in most regions.

According to the Global Jobs Pact adopted by the ILO in 2009, the global crisis called for both short-term recovery measures and longer-term reforms to repair the underlying imbalances that had led to the crisis. Four years on, a lesson learned from experience is that short-term recovery measures are all the more effective when implemented as part of a comprehensive reform package along those lines. Thus, several Latin American and Asian countries have successfully managed to boost growth and tackle economic and social inequalities.

Moving in the direction of such rebalancing requires overcoming certain barriers, notably distributional issues, entrenched beliefs that government intervention will negatively affect competitiveness and economic growth, and insufficient policy coordination, which is especially important in areas like taxation and at times of weak global aggregate demand. This is a complex endeavour, but pursuing it will be rewarded with a renewed economic and social fabric.