Executive summary

The world faces a challenge of creating 600 million jobs over the next decade

The world enters the year 2012 facing a serious jobs challenge and widespread decent work deficits. After three years of continuous crisis conditions in global labour markets and against the prospect of a further deterioration of economic activity, there is a backlog of global unemployment of 200 million – an increase of 27 million since the start of the crisis. In addition, more than 400 million new jobs will be needed over the next decade to avoid a further increase in unemployment. Hence, to generate sustainable growth while maintaining social cohesion, the world must rise to the urgent challenge of creating 600 million productive jobs over the next decade, which would still leave 900 million workers living with their families below the US$2 a day poverty line, largely in developing countries.

Global labour markets show little improvement

Against these labour market challenges, the outlook for global job creation has been worsening. The baseline projection shows no change in the global unemployment rate between now and 2016, remaining at 6 per cent of the global labour force. This would lead to an additional 3 million unemployed around the world in 2012, or a total of 200 million, rising to 206 million by 2016. If downside risks materialize and global growth falls to below 2 per cent in 2012, global unemployment would rise more rapidly to more than 204 million in 2012, at least 4 million more than under the baseline scenario, with a further increase to 209 million in 2013, 6 million more than under the baseline scenario. Alternatively, under a more benign scenario – which assumes a quick resolution of the euro debt crisis – global unemployment would be around 1 million lower than under the baseline scenario in 2012, and 1.7 million lower in 2013. This would still not be sufficient to significantly alter the trajectory of the global unemployment rate, which is projected to remain stuck at around 6 per cent.

Youth are particularly 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 higher than the pre-crisis level. Globally, young people are nearly three times as likely as adults to be unemployed. In addition, an estimated 6.4 million young people have given up hope of finding a job and have dropped out of the labour market altogether. Even those young people who are employed are increasingly likely to find themselves in part-time employment and often on temporary contracts. In developing countries, youth are disproportionately among the working poor. 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, on the present course there is 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

In the world as a whole, there were nearly 29 million fewer people in the labour force in 2011 than expected based on pre-crisis trends, with 6.4 million fewer youth and 22.3 million fewer adults. This is equal to nearly 1 per cent of the actual global labour force in 2011, and nearly 15 per cent of the total number of unemployed in the world. 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. Participation rates have plunged in many countries in the Developed Economies and European Union region, resulting in there being 6 million fewer people in the workforce than 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.

The global economy has substantially reduced its capacity to add new jobs

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). 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 trend 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.

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

As the global economy is slowing down again, the convergence of living standards across countries has also been slowing. The labour productivity gap between the developed and the developing world – an important indicator for the convergence of income levels across countries – has narrowed over the past two decades, but remains substantial: output per worker in the Developed Economies and European Union region was US$72,900 in 2011 versus 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. The three Asian regions have accounted for all of the catch-up in levels of labour productivity between the developing and developed world between 1991 and 2011, with other developing regions lagging behind.

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

Among the 900 million working poor, there were an estimated 456 million workers around the world living in extreme poverty below the US$1.25 a day poverty line in 2011, a reduction of 233 million since 2000 and a decline of 38 million since 2007. 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. Moreover, there has been a marked slowdown in the rate of progress in reducing working poverty since 2008. A projection of pre-crisis (2002 to 2007) trends shows 50 million more working poor in 2011 than expected on the basis of pre-crisis trends. Similarly, there are an estimated 55 million more workers in 2011 living with their families below the US$2 a day poverty line than expected.

Vulnerable employment has increased by 23 million since 2009

The number of workers in vulnerable employment globally in 2011 is estimated at 1.52 billion, an increase of 136 million since 2000 and of nearly 23 million since 2009. The East Asia region has seen a reduction in vulnerable employment of 40 million since 2007, versus 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. The share of women in vulnerable employment (50.5 per cent) exceeds the corresponding share for men (48.2 per cent). 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).

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

There is growing evidence of a negative feedback loop between the labour market and the macro-economy, particularly in developed economies: high unemployment and low wage growth are reducing demand for goods and services, which further damages business confidence and leaves firms hesitant to invest and hire. Breaking this negative loop will be essential if a sustainable recovery is to take root. In much of the developing world, such sustainable increases in productivity will require accelerated structural transformation – shifting to higher value added activities while moving away from subsistence agriculture as a main source of employment and reducing reliance on volatile commodity markets for export earnings. Further gains in education and skills development, adequate social protection schemes that ensure a basic standard of living for the most vulnerable, and strengthened dialogue between workers, employers and governments are needed to ensure broad-based development built on a fair and just distribution of economic gains.

Global growth is set to weaken in 2012

The recovery that started in 2009 has been short-lived and shallow and a large employment gap remains. Since summer 2011, macroeconomic woes in some advanced economies have worsened as investment and global job creation have remained weak. Financial sector instability and rising risk premiums on the back of an uncertain outlook on sovereign debt have limited private sector access to credit and have cast shadows over business and consumer sentiment. Even though only a few countries are facing serious and long-term economic and fiscal challenges, the global economy has weakened rapidly as uncertainty spread beyond advanced economies. As a result, the world economy has moved even further away from the pre-crisis trend path and, at the current juncture, even a double dip remains a distinct possibility.

A three-stage crisis

Entering the fourth year of global economic turmoil, there is now evidence of a three-stage crisis. The initial shock of the crisis was met by coordinated fiscal and monetary stimulus, which led to recovery in growth and avoided further contraction and higher unemployment, but proved insufficient to bring about a sustainable jobs recovery, most notably in advanced economies.

In the second stage, higher public deficits and sovereign debt problems led to increased austerity measures in an attempt to bring confidence to capital markets. As a consequence, fiscal stimuli started to wane, and support of economic activity in advanced economies concentrated on quantitative easing monetary policies. The combined impact appears to have been a weakening of both GDP growth and employment. GDP growth dropped globally, from 5 per cent in 2010 to 4 per cent over 2011, led by advanced economies, whose forecast for 2011 was revised downwards by the IMF in September 2011 to 1.4 per cent. In the meantime, this also affected emerging economies, where growth remained strong throughout 2011, although the first signs of weakness were seen in the last quarter of 2011 with lower industrial orders.

The tightening of policies and the persistently high levels of unemployment have increased the potential for a dangerous third stage, characterized by increased risk of a second dip in growth and employment in some of the advanced economies, exacerbating the severe labour market distress that has emerged since the onset of the crisis.

Policy space has been diminished

In this third stage of the crisis, policy space has been seriously limited, making it difficult to stop, or even to slow down, the further weakening of economic conditions. At the initial stage of the global crisis, countries had been quick to set up financial sector support measures, as well as stimulus packages. Despite much effort – in some cases up to 90 per cent of additional public spending went into bailing out banks – the financial industry remains highly vulnerable, weakening its capacity to lend to the real economy. Credit conditions have become tighter again in recent months, partly related to the high level of uncertainty about the global economic outlook. At the same time, high levels of sovereign debt in advanced economies have limited the capacity of governments in these countries to implement a further round of stimulus programmes.

Economic conditions have proved to be more resilient in emerging economies in East Asia and Latin America, leaving more policy space there. Nevertheless, some spillover effects resulting from the difficulties in advanced economies are already visible there as well. Sources of global growth have been shifting substantially since the beginning of the crisis, with emerging economies increasingly contributing to world demand. Growing trade between emerging economies has contributed to this gradual decoupling and to the emergence of new centres of growth, which have the potential to stabilize global growth and prevent a double-dip recession. In these countries, favourable economic conditions pushed job creation rates above labour force growth, thereby supporting domestic demand, particularly in larger emerging economies in Latin America and East Asia. However, as emerging economies continue to rely on exports to advanced economies, they too saw their growth rates decelerate in the last quarter of 2011. In this regard, a coordinated effort by policy-makers in both advanced and emerging economies could help benefit the global economy from these new centres of growth and prevent a further global economic slowdown.

Investment remains depressed, weighing on job creation

With growing uncertainty over the global outlook, investment has developed unequally across the globe. In advanced economies and Eastern Europe, the unresolved financial sector problems, high levels of uncertainty regarding global prospects and a lower propensity of households to consume have slowed the recovery in corporate investment. At the beginning of the crisis, business investment declined to historically low levels, often leading to net destruction of the capital stock, with particularly adverse effects on job creation. Given the slow recovery in investment, job creation has been unable to resume, further adding to employment losses. Conversely, emerging economies, on the back of their strong overall performance, have already returned to pre-crisis investment rates and are expected to exceed those rates over the medium term. This slowdown in investment bodes ill for stronger job creation in advanced economies, given the strong links between the two in the past. Indeed, strong investment growth – more than the expansion of production – was a leading indicator for falling unemployment rates. In this regard, the ILO estimates that strengthening incentives for a faster recovery in investment – increasing it by an additional 2 percentage points of global GDP, or US$1,200 billion worldwide – is necessary to fully absorb the employment gap that has been opened by the crisis.

Structural imbalances are dragging down medium-term trends in employment growth

Structural imbalances that have built up over the past decade are further worsening the employment outlook. Housing and other asset price bubbles prior to the crisis created substantial sectoral misalignments that need to be fixed and which will require lengthy and costly job shifts, both across the economy and across countries. Strong liquidity growth created housing and financial sector booms, which are still ongoing in some economies, leading to misallocation of resources and creating structural problems in the labour market that are likely to take time to be fully absorbed. These structural frictions are also responsible for the low employment response to growth, particularly in those economies where the boom has already been followed by a bust, such as the United States, Spain and Ireland. Going forward, the re-adjustment of these imbalances is likely to limit the effectiveness of policy interventions as traditional macroeconomic policies may be less effective when it comes to rebalancing sectoral growth patterns. To address these obstacles, additional policy levers are needed in order to allow a more rapid reallocation of jobs and workers across the economy to allow for faster job growth.

To address these issues, policies need to coordinate globally, …

To address the protracted labour market recession and put the world economy on a more sustainable recovery path, several policy changes are necessary. First, global policies need to be coordinated more firmly. Deficit-financed public spending and monetary easing simultaneously implemented by many advanced and emerging economies at the beginning of the crisis is no longer a feasible option for all of them. Indeed, the large increase in public debt and ensuing concerns about the sustainability of public finances in some countries have forced those most exposed to rising sovereign debt risk premiums to implement strict belt-tightening. However, cross-country spillover effects from fiscal spending and liquidity creation can be substantial and – if used in a coordinated way – could allow countries that still have room for manoeuvre to support both their own economies as well as the global economy. It is such coordinated public finance measures that are now necessary to support global aggregate demand and stimulate job creation going forward.

…repair and regulate the financial system, …

Second, more substantial repair and regulation of the financial system would restore credibility and confidence, allowing banks to overcome the credit risk that has dogged this crisis. All firms would gain from this, but especially SMEs, which not only need the credit more, but also end up creating more than 70 per cent of jobs. An encompassing reform of financial markets, including larger safety margins in the domestic banking sector, would substantially help the labour market and could add up to half a percentage point in employment growth, depending on country circumstances.

…target stimulus measures to employment…

Third, what is most needed now is to target the real economy to support job growth. Faltering employment creation and ensuing weak growth in labour incomes have been at the heart of the slowdown in global economic activity and the further worsening of public finances. The ILO's particular concern is that despite large stimulus packages, these measures have not managed to roll back the 27 million increase in unemployed since the initial impact of the crisis. Clearly, the policy measures have not been well targeted and need reassessment in terms of their effectiveness. Indeed, estimates for advanced economies regarding different labour market instruments show that both active and passive labour market policies have proven very effective in stimulating job creation and supporting incomes. Country evidence across a range of labour market policies – including the extension of unemployment benefits and work sharing programmes, the re-evaluation of minimum wages and wage subsidies as well as enhancing public employment services, public works programmes and entrepreneurship incentives – show impacts on employment and incomes.

…and encourage the private sector to invest…

Fourth, additional public support measures alone will not be sufficient to foster a sustainable jobs recovery. Policy-makers must act decisively and in a coordinated fashion to reduce the fear and uncertainty that is hindering private investment so that the private sector can restart the main engine of global job creation. Incentives to businesses to invest in plant and equipment and to expand their payrolls will be essential to stimulate a strong and sustainable recovery in employment.

…without putting fiscal stability at risk

Fifth, to be effective, additional stimulus packages must not put the sustainability of public finances at risk by further raising public debt. In this respect, public spending fully matched by revenue increases can still provide a stimulus to the real economy, thanks to the balanced-budget multiplier. In times of faltering demand, expanding the role of government in aggregate demand helps stabilize the economy and sets forth a new stimulus, even if the spending increase is fully matched by simultaneous rises in tax revenues. As argued in this report, balanced-budget multipliers can be large, especially in the current environment of massively underutilized capacities and high unemployment rates. At the same time, balancing spending with higher revenues ensures that budgetary risk is kept low enough to satisfy capital markets. Interest rates are therefore likely to remain unaffected by such a policy option, allowing the stimulus to develop its full effect on the economy.