Executive summary

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International Labour Organization

GLOBAL EMPLOYMENT TRENDS 2014

Risk of a jobless recovery?

Executive Summary

Global unemployment increased by 5 million people in 2013…

The uneven economic recovery and successive downward revisions in economic growth projections have had an impact on the global employment situation. Almost 202 million people were unemployed in 2013 around the world, an increase of almost 5 million compared with the year before. This reflects the fact that employment is not expanding sufficiently fast to keep up with the growing labour force.

The bulk of the increase in global unemployment is in the East Asia and South Asia regions, which together represent more than 45 per cent of additional jobseekers, followed by Sub-Saharan Africa and Europe. By contrast, Latin America added fewer than 50,000 additional unemployed to the global number – or around 1 per cent of the total increase in unemployment in 2013.

Overall, the crisis-related global jobs gap that has opened up since the beginning of the financial crisis in 2008, over and above an already large number of jobseekers, continues to widen. In 2013, this gap reached 62 million jobs, including 32 million additional jobseekers, 23 million people that became discouraged and no longer look for jobs and 7 million economically inactive people that prefer not to participate in the labour market.

… and, on current trends, it would rise by a further 13 million people by 2018…

If current trends continue, global unemployment is set to worsen further, albeit gradually, reaching more than 215 million jobseekers by 2018. During this period, around 40 million net new jobs would be created every year, which is less than the 42.6 million people that are expected to enter the labour market every year. The global unemployment rate would remain broadly constant during the next five years, at half a percentage point higher than before the crisis.

… affecting young people disproportionately…

Young people continue to be particularly affected by the weak and uneven recovery. It is estimated that some 74.5 million young people – aged 15–24 – were unemployed in 2013; that is almost 1 million more than in the year before. The global youth unemployment rate has reached 13.1 per cent, which is almost three times as high as the adult unemployment rate. Indeed, the youth-to-adult unemployment ratio has reached a historical peak. It is particularly high in the Middle East and North Africa, as well as in parts of Latin America and the Caribbean and Southern Europe.

Importantly, in the countries for which information exists, the proportion of young people neither in employment, nor in education or training (NEET) has continued the steep upward trend recorded since the start of the crisis. In certain countries, almost one-quarter of young people aged 15 to 29 are now NEET.

… intensifying long-term unemployment in advanced economies…

As the recovery remains weak, the average length of unemployment spells has increased considerably, a further sign of feeble job creation. In many advanced economies, the duration of unemployment has doubled in comparison with the pre-crisis situation. In the crisis countries in the euro area, for instance, the average duration of unemployment has reached up to 9 months in Greece and 8 months in Spain. Even in countries where encouraging signs of an economic recovery have appeared, such as the United States, long-term unemployment affects more than 40 per cent of all jobseekers.

Such long unemployment spells are detrimental to the speed of labour market recovery even when economic activity is set to accelerate. First, they constitute a considerable burden for the public purse, requiring governments to raise taxes or cut spending elsewhere if they do not want to or cannot increase the fiscal deficit. More importantly, jobseekers who have been out of employment for long periods lose their skills at an accelerating pace, making it more difficult for them to find alternative employment at a similar occupation or skill level.

… and interrupting earlier progress in terms of, first, participation rates…

Labour force participation rates are not improving and remain more than 1 percentage point below their pre-crisis level. The drop in participation rates has been particularly pronounced in East and South Asia, where many women have left the labour market. At the same time, as educational attainment improves, young people enter the labour market at a higher age in these regions, strengthening their future labour market prospects. In the Developed Economies region, on the other hand, participation rates have dropped as young workers in particular do not see opportunities in the labour market. Other regions, such as Central and Eastern Europe, experienced an increase in participation rates. There, and in other countries with less well developed social security systems and which suffered from large losses in (formal) employment, many previously economically inactive people returned to the labour market, often to take up informal employment in order to make up for loss in household income.

… second, vulnerable employment, expected to have reached 48 per cent of total employment…

Vulnerable employment – that is, either self-employment or work by contributing family workers – accounts for almost 48 per cent of total employment. Persons in vulnerable employment are more likely than wage and salaried workers to have limited or no access to social security or secure income. The number of people in vulnerable employment expanded by around 1 per cent in 2013, which is five times higher than during the years prior to the crisis.

… third, working poverty, with 839 million workers living on less than US$2 a day…

The number of working poor continues to decline globally, albeit at a slower rate than during previous decades. In 2013, 375 million workers (or 11.9 per cent of total employment) are estimated to live on less than US$1.25 per day and 839 million workers (or 26.7 per cent of total employment) have to cope with US$2 a day or less. This is a substantial reduction in comparison with the early 2000s when the corresponding numbers of working poor below US$1.25 and US$2 were more than 600 million and more than 1.1 billion, respectively. However, the progress in reducing working poverty has stalled. In 2013, the number of workers in extreme poverty declined by only 2.7 per cent globally, one of the lowest rates of reduction over the past decade, with the exception of the immediate crisis year.

… and finally, stubbornly high informal employment.

Informal employment remains widespread in most developing countries, although regional variations are sizeable. In Eastern Europe, CIS countries and a few advanced economies, informal employment still accounts for over 20 per cent of total employment. In Latin

America, some countries have made good progress in maintaining informality rates below 50 per cent but low-income Andean and Central American countries continue to experience rates of 70 per cent or more. Significantly higher informality rates can be found in economies in South and South-East Asia. In some countries in these regions, informality rates reach up to 90 per cent of total employment. Even though progress in reducing poverty has been strongest in these regions, the lack of formal employment opportunities is likely to constitute a barrier to a sustainable further reduction in poverty.

Tackling the employment and social gaps requires job-friendly macroeconomic policies…

A faster recovery in global labour markets is held back by a deficit of aggregate demand. In this respect, the fiscal consolidation currently under way in many advanced economies constitutes a drag on faster expansion of output growth, in addition to weak private consumption. This report shows that a rebalancing of macroeconomic policies and increased labour incomes would significantly improve the employment outlook. Simulation results suggest that in high-income G20 countries, such a rebalancing could reduce unemployment by 1.8 percentage points by 2020, which corresponds to 6.1 million additional jobs. These achievements would also support fiscal goals. Indeed, simulation results suggest such a policy approach would result in a significant improvement over the baseline *status quo* scenario.

Monetary policy continues to be accommodative, providing a beneficial stimulus to aggregate demand. Estimates of the impact of the current monetary policy regime show that unemployment would have been 1–2 percentage points higher in large advanced economies if policy-makers had not undertaken swift monetary action in the face of the financial crisis. Recent trends, however, indicate that an increasing share of the additional liquidity generated by such accommodative monetary policy is flowing into asset markets rather than into the real economy. This is generating the risk of future stock and housing price bubbles, potentially weighing on sustainable job recovery.

Given weak demand, uncertain sources of future demand and ample liquidity, large firms have tended to buy back shares and increase dividend payments to shareholders, rather than investing in the real economy. Estimates show that in certain countries hiring uncertainty can exercise upward pressure on unemployment over and above weak aggregate demand, an effect that can persist even when the recovery in economic activity is taking up. The result is a further constraint on employment creation.

… and greater attention to labour market and social policies.

With 23 million people estimated to have dropped out of the labour market due to discouragement and rising long-term unemployment, active labour market policies (ALMP) need to be implemented more forcefully to address inactivity and skills mismatch. Indeed, with more and more potential workers becoming discouraged and remaining out of the labour force, the risk of skills degradation and obsolescence is increasing. However, currently only small amounts of public spending go into active labour market measures. Even in OECD countries, which tend to have relatively advanced institutions and practices in this respect, an average of less than 0.6 per cent of GDP was spent on such measures in 2011. Estimates show that by bringing spending up to 1.2 per cent of GDP, similar to those countries that spend the most on ALMP, an additional 3.9 million jobs could be created in the Developed Economies and European Union region. Regions that currently spend the least on active labour market policies are likely to benefit the most in terms of an improved functioning of their labour markets.