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Global employment and social challenges: Emerging trends and role of the ILO

Purpose of the document

The Governing Body periodically reviews global employment and social trends and prospects for internationally coordinated action to strengthen growth. This paper is meant to inform that review. The potential implications for the ILO of the final stages in the preparation of a new United Nations (UN) sustainable development framework are also examined. The Director-General is invited to take into account the Governing Body's discussion on further research and analysis and the ILO's support to the UN's development agenda (see the proposed points for discussion in paragraph 48 and the draft decision in paragraph 49).

Relevant strategic objective: All.

Policy implications: Yes.

Legal implications: No.

Financial implications: No.

Follow-up action required: Yes.

Author unit: Multilateral Cooperation Department (MULTILATERALS) and Research Department (RESEARCH).

Related documents: GB.322/INS/6.

I. Introduction

1. The world economy is undergoing a renewed period of turbulence. Economic recovery is uneven and fragile, particularly in some advanced economies. Growth is also slowing in emerging and developing countries. These trends pose significant employment and social challenges. In particular, a prolonged period of slow economic growth would make it difficult to tackle high unemployment and underemployment, while slowing progress towards the alleviation of working poverty and the creation of formal jobs by sustainable enterprises. Analyses by the ILO and other international organizations suggest that coordinated policy initiatives are essential to tackle these trends.
2. Against the background of weakening global growth, the United Nations (UN) has moved the process of intergovernmental negotiations on the post-2015 development agenda forward. It is expected that a draft outcome document will be ready by the end of July with a view to adoption at a Special Summit of the United Nations General Assembly in September. The July 2014 report of the Open Working Group (OWG) for Sustainable Development Goals, which proposes 17 goals, will be the basis for the negotiations. It will be recalled that the Decent Work Agenda featured strongly in the report of the OWG with Goal 8 entitled “Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all” and in the targets related to the goals on poverty reduction, education and inequalities.¹
3. This document reviews current labour market trends drawing mainly on recent ILO reports,² the prospects for 2015 and 2016 and the challenges facing policy-makers. It also provides an update of the preparation of the post-2015 UN development agenda and highlights the opportunities it may offer the ILO and constituents to place the Decent Work Agenda at the centre of global, regional and national strategies.

II. The outlook for economic growth, employment and wages

An uneven economic recovery

4. The world economy is expected to grow at a considerably slower pace than was the case before the start of the global financial crisis of 2008. According to the latest International Monetary Fund (IMF) projections, the world economy will expand by 3.5 per cent in 2015 and by 3.7 per cent in 2016, a slight increase on 2014, although still almost one percentage point lower than annual average growth for the period 2000–07.³
5. It should be noted that economic projections have consistently erred on the optimistic side over recent years. For example in January 2014, the IMF projected that economic growth would reach 3.9 per cent in 2015.

¹ GB.322/INS/6.

² ILO: *World Employment and Social Outlook – Trends 2015*, 2015.

³ IMF: *World Economic Outlook Update*, Jan. 2015, and UN: *World Economic Situation and Prospects 2015*, 2015. The UN forecasts are calculated in a different way and are slightly lower but show a similar trend.

6. There are significant differences across countries in terms of the economic outlook. Economic growth is expected to accelerate in the United States and a few other advanced economies. However, in most advanced economies, especially in the Euro area, economic growth is expected to remain too modest to make a significant dent on unemployment.
7. In emerging and developing economies, notably in some large Asian economies, Latin America, northern Africa and oil-exporting countries, economic growth is projected to decelerate or remain below that of previous years. Sub-Saharan Africa, taken as a whole, will continue to expand at a brisk 5 per cent rate.

A growing global jobs gap with significant cross-country differences

8. The uneven economic outlook is having an impact on employment and social conditions. More than 201 million women and men around the world were unemployed in 2014, which is an increase of more than 31 million compared with the situation before the start of the global crisis.⁴ Global unemployment is expected to increase by 3 million in 2015 and by a further 8 million in the following four years.
9. The global employment gap, which measures the number of jobs lost since the start of the crisis, currently stands at 61 million. Half of this gap is due to higher unemployment and the other half to falling participation rates (associated with more workers feeling discouraged from looking for work or are exiting the labour market). If new labour market entrants over the next five years are taken into account, an additional 280 million jobs will be needed by 2019 to close the global employment gap which has emerged since the start of the crisis.
10. Young people, especially young women, continue to be disproportionately affected by unemployment. Almost 74 million young people (aged 15–24) were looking for work in 2014. The youth unemployment rate is almost three times higher than the adult unemployment rate. Only 39 per cent of young women participate in the labour market, in other words it is 16 percentage points lower than the participation of their male counterparts. Despite the upward trend in educational attainment, heightened youth unemployment is common to all regions, thereby fuelling social discontent.
11. The beginning of the crisis saw a moderate closing of the gender unemployment gap in several countries, mainly because job losses were concentrated in male-dominated industries. However, the subsequent recovery in employment was also concentrated in male-dominated sectors (such as construction), thereby reopening the gender gap. Overall, women continue to suffer from higher rates of unemployment and lower rates of employment, are less likely to participate in the labour force and face a higher risk of vulnerable employment, for example being self-employed or a contributing family worker.⁵
12. There has been job recovery in advanced economies as a whole, although there are significant differences between countries. Unemployment is falling, sometimes to pre-crisis rates, in Japan, the United States and some European countries. In southern Europe, unemployment is receding slowly from very high rates, with depression-level unemployment persisting in some.

⁴ ILO: *World Employment and Social Outlook – Trends 2015*, op. cit.

⁵ ILO: *World Employment and Social Outlook – Trends 2015*, op. cit.

13. After a period of better performance compared to the global average, job creation has slowed in a number of middle-income and developing regions and economies, including Latin America and the Caribbean, China, the Russian Federation and a number of Arab countries. The employment situation has not improved much in sub-Saharan Africa, despite better economic growth performance. In many developing countries, underemployment and informal employment are expected to remain stubbornly high over the next five years.
14. As a consequence, the improvements in vulnerable employment have stalled in emerging and developing countries. The incidence of vulnerable employment is projected to remain almost constant at around 45 per cent of total employment over the next two years, in contrast to the decline observed during the pre-crisis period. The incidence of vulnerable employment among women is two percentage points higher than among men. The number of workers in vulnerable employment has increased by 27 million since 2012, and currently stands at 1.44 billion worldwide. Sub-Saharan Africa and South Asia account for more than half of the world's vulnerable employment, with three out of four workers in these regions in vulnerable employment.
15. Likewise, progress in reducing working poverty has slowed. At the end of this decade, one out of 14 workers is expected to still be living in extreme poverty.
16. The outbreak of Ebola in Guinea, Liberia and Sierra Leone, in addition to the loss of life and human suffering, has set back progress on a range of economic and social development goals in the affected countries and to some extent the region. The ILO is playing an active role in UN-led international support for the recovery strategies of the affected countries.

Opportunities and uncertainties for enterprises and investment

17. The economic and employment outlooks depend crucially on the extent to which enterprises will be able to seize new opportunities – from new technology, falling oil prices, more stable macroeconomic conditions in many developing countries, low interest rates in advanced economies – and address the emerging challenges.
18. So far, productive investment has been affected by the turbulent economic situation. Since 2010, investment rates have fallen in advanced economies taken as a whole, despite historically low interest rates. Investment rates have remained stable (breaking the upward pre-crisis trend) in emerging and developing economies. These trends result from the environment in which sustainable enterprises have had to operate, characterized by deficits in aggregate demand and continuing difficult credit conditions, especially for small and medium-sized enterprises.
19. Real investment growth and job creation rates are closely linked, as both expanding capacity and replacing existing plant and equipment make it possible to create new jobs. Both, in turn, are strongly affected by the uncertainty faced by employers about where demand will come from. Productivity growth has continued, but is likely to be affected if investment continues to be tepid.

Widening inequalities

20. Global real wage growth dropped sharply during the crisis in 2008 and 2009, recovered somewhat in 2010 and then decelerated again. Average monthly real wages grew globally by 2 per cent in 2013, down from 2.2 per cent in 2012, and have yet to rebound to

pre-crisis rates of around 3.0 per cent growth in 2006 and 2007. Overall, in the group of developed economies, real wage growth lagged behind labour productivity growth over the period 1999 to 2013. This was already the case before the crisis in 2007 and – after a brief narrowing of the gap during the depth of the crisis – labour productivity has continued to outstrip real wage growth since 2009. Many studies have documented the decline in the labour share in many developed economies since the 1980s and more recently in several large emerging economies for which information is available.⁶

21. On average, in the countries for which data are available, the richest 10 per cent earn 30–40 per cent of total income. By contrast, the poorest 10 per cent earn around 2 per cent of total income.⁷
22. In several advanced economies, income inequalities have worsened rapidly in the aftermath of the crisis. Inequality has fallen in some emerging and developing economies, however typically from very high levels.
23. Underpinning some of these developments is the decline in medium-skilled routine jobs in recent years. This has occurred in parallel to rising demand for jobs at both the lower and upper ends of the skills ladder. As a result, relatively educated workers that used to undertake these medium-skilled jobs are now increasingly forced to compete for lower-skilled occupations. These occupational changes have shaped employment patterns and have also contributed to the widening income inequality recorded over the past two decades.
24. Shortcomings in employment creation, wages and job quality are significant causes of the continuing low levels of consumption and aggregate demand. These factors, in turn, have induced longer term structural weaknesses in the global economy. In advanced economies, workers stay out of work longer, through unemployment or discouragement, with a risk of skill erosion. In both advanced and developing countries young people find it difficult to find first-time employment and hence may be scarred throughout their careers. Either way these losses may be difficult to reverse, even if growth accelerates. Women and migrants are disproportionately affected by widening inequalities and decent work deficits.
25. The *Global Wage Report 2014/15*⁸ analysed wage gaps between men and women, as well as between national and migrant workers and formal and informal workers in a range of countries. These wage gaps can be “explained” in part by observed human capital and labour market characteristics; the “unexplained” part captures wage discrimination and includes characteristics (such as having children) that should have no effect on wages. The report shows that if this unexplained wage penalty was eliminated, the mean gender wage gap would nearly disappear in about half the countries in the sample of developed economies. The analysis points, among other things, to the need for a strengthening of policies such as parental leave and childcare. A similar analysis comparing the wages of migrants with those of national workers, and comparing the wages of workers in the formal and the informal economy shows that the unexplained parts of the wage gap are significant.

⁶ ILO: *Global Wage Report 2014/15: Wages and income inequality*, 2014.

⁷ ILO: *World Employment and Social Outlook – Trends 2015*, op. cit.

⁸ ILO *Global Wage Report 2014/15*, op. cit.

III. Overcoming the risks of a prolonged period of slow growth and development

Factors behind the uneven recovery

26. The uneven job recovery reflects a combination of factors. In some regions, notably in Europe, policies have focused primarily on tackling debt, fiscal deficits and competitiveness, despite the persistent lack of aggregate demand and deflationary pressures. This policy mix has adversely affected economic growth, employment creation and social protection systems. In advanced economies where priority was given to growth and employment goals, as in North America, economies have recovered more quickly from the crisis.
27. In developing regions where overall economic growth was stronger before and after the crisis, such as in parts of Asia and sub-Saharan Africa, progress in reducing decent work deficits has been slow. In Latin America, the Arab region and some European and Central Asian economies, reliance on natural resources has made economies vulnerable to fluctuations in commodity prices. The significant decline in oil and gas prices is a case in point. More diversified economies have tended to fare better.
28. Most economies are also affected by the failure of the financial markets to channel resources to enterprises in the real economy. This has disproportionate effects on small firms and new start-ups. Emerging economies have been affected by the sudden fluctuations of international capital flows – a problem which may have intensified as a result of the large liquidity injections by the monetary authorities of advanced economies. New financial and property price bubbles have emerged in Asian, Latin American and some Central and Eastern European economies, exposing these labour markets to new risks.
29. More fundamentally, the widening of decent work gaps and income inequalities tend to exert downward pressure on global demand, thereby contributing to delayed and uneven recovery. In addition, current investment trends may affect the potential of the global economy to prosper and to seize the opportunities that the accelerated pace of technological change and the need to green the economy offer.

Boosting sustainable, job-rich recovery

30. Boosting sustainable, job-rich recovery requires tackling the constraints identified above. Aggregate demand has been affected by unemployment, stagnant wages, private-sector deleveraging and fiscal consolidation.⁹ However, recent successful experiences suggest that it is possible to combine job-friendly approaches to monetary, fiscal, labour market and social protection policies.
31. Besides its important price stability target, monetary policy also has an important role to play vis-à-vis employment. An increasing number of central banks include full employment as an overarching goal. This is important when judging the extent to which the economy needs to be supported, considering not only inflation but also the state of the labour market. Consideration of employment may also influence the choice of policy tools. For instance, improving the availability of credit to viable small enterprises is crucial for job creation.

⁹ IMF: *World Economic Outlook Update*, Jan. 2015, op. cit.

32. There is also growing recognition that income policies can form a useful complement to macroeconomic policies. Policies such as minimum wages and strengthened collective bargaining can help restore the connection between labour incomes and productivity, and in turn boost demand and speed up job recovery. The experience of European countries such as Belgium, the Netherlands and several Nordic countries, and the strategic use of minimum wage policy as a tool to reduce poverty and stimulate domestic demand in China and Brazil, for example, illustrate how such strategies can be implemented in practice.
33. ILO constituents can benefit from the lessons that can be drawn from evidence-based analysis of policies that work. Such evidence shows that sustained and inclusive development is not possible without decent work.¹⁰ The promotion of formal employment, stronger labour market institutions and a favourable environment to sustainable enterprises are essential for tackling low productivity traps which are at the core of weak development. Social protection and workers' rights are important in and of themselves, but they also reinforce internal sources of economic growth. Recent evidence also shows how policies can help reduce entrenched gender inequalities, though progress has been slow in most countries.¹¹ Social dialogue is key to improving policy design while addressing the distributional conflicts that typically arise in the process of development.
34. In advanced economies, a considerable body of research highlights the importance of well-designed labour market policies, employment regulations and social protection in sustaining more and better jobs.¹² These policies also help tackle growing inequalities.
35. Improved policy coordination across countries could be particularly valuable in the present situation, which is characterized by a global demand shortage that cannot easily be tackled through conventional monetary policy instruments. Ensuring a closer link between labour incomes and productivity would be especially effective if countries collectively were to move in the same direction.¹³ A coordinated investment plan is being considered by the European Commission. The ILO estimates that, if well designed, the plan could help create 2.1 million jobs over three years.¹⁴ There are also calls for stronger action to tackle climate change, which also involves investment. The G20 would be an important forum to consider the different policy options and strengthen a coordinated approach.

IV. The Global Policy Agenda

36. The annual G20 Summit held in Brisbane on 16–17 November 2014, which the Director-General attended, concluded with the adoption of a communiqué which stated that “raising global growth to deliver better living standards and quality jobs for people

¹⁰ ILO: *World of Work Report 2014: Developing with jobs*, 2014.

¹¹ ILO: *Global Wage Report 2014/15*, op. cit.

¹² European Commission: *Employment and Social Developments in Europe 2014*, 2015; ILO: *Global Employment Trends 2014*, 2014; ILO: *Studies on growth with equity: Productive Jobs for Greece*, 2014; OECD: *Boosting jobs and Incomes: Policy lessons from reassessing the OECD jobs strategy*, 2006.

¹³ OECD, ILO, World Bank: *G20 labour markets: outlook, key challenges and policy responses*, 2014 (available at: <https://g20.org/past-presidencies/>).

¹⁴ ILO: *Studies on growth with equity: An employment-oriented investment strategy for Europe*, 2015.

across the world is our highest priority”.¹⁵ The Brisbane Action Plan sets out a series of commitments aimed at lifting global growth by more than 2 per cent above the level forecast for 2018 by the IMF in October 2013. The commitments were made in individual country growth strategies and employment plans published at the time of the G20 Summit. A common element in most of the growth strategies was increased investment in infrastructure. Overall, fiscal policy stances were not changed significantly. The decision by the United States Federal Reserve to phase out its programme of quantitative easing was seen as positive, but the G20 was “mindful of other potential impacts of such normalisation, such as excessive volatility in exchange rates and asset prices that can be damaging to growth”.

37. The employment plans, called for by the previous G20 St Petersburg Summit, were presented by Ministers of Labour and Employment to the Brisbane Summit.¹⁶ Among the commitments highlighted by the Summit was the agreement on “the goal of reducing the gap in participation rates between men and women in our countries by 25 per cent by 2025, taking into account national circumstances, to bring more than 100 million women into the labour force, significantly increase global growth and reduce poverty and inequality”. The Summit also committed the G20 “to reducing youth unemployment, which is unacceptably high, by acting to ensure young people are in education, training or employment”. The G20 restated their focus “on addressing informality, as well as structural and long-term unemployment, by strengthening labour markets and having appropriate social protection systems”. A new priority was improving workplace safety and health. The former ad hoc Task Force on Employment was upgraded to an Employment Working Group, an indication of the increasing importance placed on employment and social policy by the G20.
38. Turkey issued a statement of its priorities when it assumed the G20 Presidency in December 2014: “2015 will be a year where G20 will focus its efforts on ensuring inclusive and robust growth through collective action. This can be formulated as the three I’s of the Turkish Presidency: Inclusiveness, Implementation, and Investment for Growth.”¹⁷ The statement also summarizes the global economic outlook: “growth is sluggish and fragile, unemployment remains high and inequalities are on the rise. Lower confidence levels hinder consumption and investment. Therefore, in 2015, discussions on the necessary policies to raise the pace of global growth will be continued.” It expresses the view that the “trend of persistent unemployment further exacerbates the economic performance of the G20 countries”. Under the theme of inclusiveness, Turkey is also focusing attention on small and medium-sized enterprises and low-income countries. Turkey has also stressed the importance it attaches to effective dialogue with the Business 20 (B20) and Labour 20 (L20) and other groups.
39. The risks of a deteriorating global economic outlook are a major preoccupation for the G20. Among the main downside risks are the threat of deflation taking hold in the Euro area and persisting in Japan, the threat of secular stagnation, in which aggregate savings exceed investment, and a downward spiral of employment, consumption and production. The trend towards rising inequality described in section II of this report exacerbates these

¹⁵ An extensive archive of G20 documents is available at: <https://g20.org/past-presidencies/> including the Summit Declaration and accompanying statements, one of which was on Ebola. ILO reports prepared during the year at the request of the Presidency can also be found on this site.

¹⁶ G20 Labour and Employment Ministerial Declaration, “Preventing structural unemployment, creating better jobs and boosting participation”, Melbourne, 10–11 September 2014.

¹⁷ Available at: <https://g20.org/>, where a schedule of meetings can also be found.

risks. Working towards a common diagnosis of the causes of the deteriorating outlook and how to reverse it is a major challenge in global policy discussions to be held in 2015.

V. Sustainable development: Shaping the post-2015 framework

40. Formal intergovernmental negotiations on the post-2015 development agenda began on 19 January 2015 following agreement in the UN General Assembly on the timetable and modalities of the process. The main basis for integrating sustainable development goals into the post-2015 development agenda will be the proposals of the OWG which put forward 17 possible goals, including Goal 8 entitled “Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”. A first draft of an outcome document will be prepared by the co-facilitators of the process, the Ambassadors of Ireland and Kenya, following a series of meetings to discuss the main components of the agenda, namely a declaration, sustainable development goals and targets, means of implementation and global partnership for sustainable development, and follow-up and review. The draft will be finalized in negotiations ending in July. The outcome document will be adopted at a special UN Summit in September. Alongside discussions on the draft outcome document, the President of the UN General Assembly will hold six interactive dialogues on the overarching theme of “Transforming the world: Realizing the post-2015 development agenda”.¹⁸
41. Early in December 2014, the Secretary-General issued his synthesis report, “The Road to Dignity by 2030: Ending Poverty, Transforming All Lives and Protecting the Planet”. Building on the OWG report, it identified six essential elements: dignity – to end poverty and fight inequalities; people – to ensure healthy lives, knowledge and the inclusion of women and children; prosperity – to grow a strong, inclusive and transformative economy; planet – to protect our ecosystems for all societies and our children; justice – to promote safe and peaceful societies and strong institutions; partnership – to catalyse global solidarity for sustainable development. Decent work is mentioned several times as a key component in relation to prosperity.
42. Since the discussion at the Governing Body in November 2014 on the post-2015 framework, the ILO has continued to be active in promoting the role of decent work in development, including at ambassadors’ meetings of the Group of Friends of Decent Work for Sustainable Development where the evidence-based analysis in the ILO’s *Developing with jobs* report¹⁹ and implementation of the decent work targets were discussed. Further opportunities to discuss the matter will be provided by the theme for the annual integration segment of the Economic and Social Council on “Achieving sustainable development through employment creation and decent work for all” which will take place in New York from 30 March to 1 April 2015.
43. Two separate but closely connected discussions are also under way at the UN this year. A UN Conference on Financing for Development will be held in Addis Ababa from 13 to 16 July which will have important implications for the means of implementation section of the agenda. The 21st Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change will be held in Paris in December, the conclusions of which will have a key impact on the sustainable development agenda.

¹⁸ General Assembly, document A/69/L.46.

¹⁹ ILO: *World of Work Report 2014: Developing with jobs*, 2014, op. cit.

44. It is essential that constituents and the Office follow the formal negotiations closely with a view to maintaining the prominence of the Decent Work Agenda in the final outcome document. It will be necessary to ensure tripartite engagement in national decision-taking on the positions that delegations will take in New York. Although some delegations have expressed concern that 17 goals and the large number of associated targets is too many to be communicated and implemented, it is increasingly accepted that the OWG report reflects a broad consensus on the range of issues involved in a comprehensive and universal agenda that embraces the three dimensions of sustainability, namely the economic, social and environmental dimensions. There is an understanding that a short list of global indicators should be linked to future targets to enable a tracking of progress. It is likely that the UN Statistical Commission, on which the ILO is represented, will play a role in proposing suitable indicators. National follow-up of the global agenda may require a longer list of indicators attuned to national priorities.
45. In light of the progress made in placing the Decent Work Agenda at the heart of the emerging new framework for sustainable development, it will be important for constituents and the Office to make an early start on preparing for closer involvement in the global, regional and national implementation of the agenda. UN Country Teams are likely to be invited to support national governments in the preparation of programmes using the framework. The Organization will need to position itself to play a leading role in relation to the decent work-related goals, targets and indicators. For example, emphasis should be placed on the value of tripartite social dialogue, underpinned by respect for fundamental principles and rights at work²⁰, in the effective and coherent implementation of the new framework. Linking an ambitious and universal global framework to effective national action has triggered a major discussion within the UN system about how to become “fit for purpose”. The issues raised strongly resemble those addressed in the ILO’s own field review, including improved information and support to ILO area offices and an increased emphasis on integrating employment and social policy analysis into the sustainable development framework.

VI. Conclusions and issues for discussion

46. The immediate outlook in relation to reducing unemployment and underemployment, raising investment in productive enterprises, accelerating poverty reduction and addressing inequality is uneven and fragile. Differences in immediate challenges facing countries are compounding the difficulty in coordinating international action to lift aggregate demand and tackle obstacles to job creation and productive investment. There is, nevertheless, increasing recognition that closing the jobs gap opened by the financial crisis and narrowing inequalities are top priorities.
47. Looking further ahead to the potential of a new comprehensive sustainable development framework under the auspices of the UN, there is currently recognition of the central role that decent work plays in economic, social and environmental development. This represents a major opportunity for the ILO as it prepares for a new programme and budget and strategic policy framework.

²⁰ *ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up* (1998).

Proposed points for discussion

48. The Governing Body may wish to discuss:

- (i) how the ILO can best support global action to strengthen job-rich recovery, notably in the G20 and other global forums;
- (ii) how the ILO can best support the negotiation of the outcome document on a new UN development agenda and prepare to play a leadership role in its implementation; and
- (iii) which areas most urgently require further ILO research in order to support constituents' decent work goals.

Draft decision

49. *The Governing Body requests:*

- (i) *the Director-General to maintain and strengthen the ILO's engagement in the G20 process, other international economic policy forums and the post-2015 sustainable development agenda taking into account the views expressed during the discussion; and*
- (ii) *the constituents to engage in national policy-making discussions on reinforced international action to promote decent work, urgent recovery policies and the longer term UN sustainable development framework as set out in the ILO Declaration on Social Justice for a Fair Globalization.*