World of Work Report 2012

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Better jobs for a better economy

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The **International Institute for Labour Studies** was established by the International Labour Organization in 1960 as an autonomous centre for advanced studies in the social and labour field.

Who are the authors of World of Work Report 2012?

The report has been prepared by staff of the International Institute for Labour Studies, with inputs from other ILO colleagues, and is published under the responsibility of the Institute's Director. Chapter authors are:

- Editorial: Raymond Torres
- Uma Rani, Federico Curci and Pelin Sekerler Richiardi (Chapter 1)
- Sandrine Cazes (Employment Sector), Sameer Khatiwada and Miguel Angel Malo (Universidad de Salamanca) (Chapter 2)
- Verónica Escudero and Elva López Mourelo (Chapter 3)
- Marva Corley-Coulibaly and Daniel Samaan (Chapter 4)

Raymond Torres edited and coordinated the Report. Steven Tobin provided contributions to Chapters 2 and 3. Matthieu Charpe and Stefan Kühn developed simulations of different policy options, based on the Global Economic Linkages (GEL) model.

We are grateful to the ILO Director-General for his stimulating guidance.

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Editorial

How to move out of the austerity trap?

Raymond Torres
Director
International Institute for Labour Studies

The employment situation is deteriorating in Europe and is no longer improving in many other countries …

Over the past year, labour markets have been affected by the slowdown in global growth. This is all the more problematic because labour markets had not fully recovered from the global crisis that erupted in 2008: there is still a deficit of around 50 million jobs in comparison to the pre-crisis situation (Chapter 1). It is unlikely that the world economy will grow at a sufficient pace over the next couple of years to both close the existing jobs deficit and provide employment for the over 80 million people expected to enter the labour market during this period.

The trends are especially worrying in Europe, where the unemployment rate has increased in nearly two-thirds of these countries since 2010; but labour market recovery has also stalled in other advanced economies, such as Japan and the United States. Elsewhere, employment gains have weakened in terms of the needs of a growing, better educated working-age population, as in China. And jobs deficits remain acute in much of the Arab region and Africa.

… as a result, the global jobs crisis has entered a new, more structural phase.

This is not a normal employment slowdown. Four years into the global crisis, labour market imbalances are becoming more structural, and therefore more difficult to eradicate. Certain groups, such as the long-term unemployed, are at risk of exclusion from the labour market. This means that they would be unable to obtain new employment even if there were a strong recovery.

In addition, for a growing proportion of workers who do have a job, employment has become more unstable or precarious. In advanced economies, involuntary part-time employment and temporary employment have increased in two-thirds and more than half of these economies, respectively. The share of informal employment remains high, standing at more than 40 per cent in two-thirds of emerging and developing countries for which data are available. Women and youth are disproportionately affected by unemployment and job precariousness. In particular, youth unemployment rates have increased in about 80 per cent of advanced economies and in two-thirds of developing economies.

Job instability is, above all, a human tragedy for workers and their families; but it also entails a waste of productive capacity, as skills tend to be lost as a result of excessive rotation between jobs and long periods of unemployment or inactivity. More job instability therefore means weaker productivity gains in the future and less room for prospering and moving up the career ladder.

The jobs deficit is going hand-in-hand with a prolonged investment deficit – another sign that the crisis has entered a new phase. The amount of uninvested cash in the accounts of large firms has reached unprecedented levels (Chapter 4) while, in the case of advanced economies, small firms continue to have difficulty accessing credit that would allow them to invest and create jobs. Importantly, the Report finds that investment has become more volatile, and that this has exacerbated job precariousness in advanced economies as well as in emerging and developing ones.

Finally, society is becoming increasingly anxious about the lack of decent jobs. In 57 out of 106 countries, the Social Unrest Index, developed for the purposes of this Report, increased in 2011 compared to 2010. Europe, the Middle East, North Africa and sub-Saharan Africa show the most heightened risk of social unrest. On average, Latin America – where there has been a degree of employment recovery and, in a few cases, improvements in job quality – has experienced a decline in the risk of social unrest.

The worsening situation reflects the austerity trap in advanced economies, primarily in Europe …

Since 2010, and despite the job-friendly statements in successive G20 meetings and other global forums, the policy strategy has shifted its focus away from job creation and improvement and concentrated instead on cutting fiscal deficits at all costs. In European countries, cutting fiscal deficits has been deemed essential for calming financial markets. But even in countries which have not suffered from the effects of the crisis this remedy is being applied for pre-emptive reasons – fiscal deficits are being reduced to avert any negative reactions from financial markets. This approach was intended to pave the way for greater investment and growth, along with lower fiscal deficits.

In addition, as part of the policy shift, the majority of advanced economies