

“The World at a Crossroads: The employment challenge facing the world today”

Keynote Speech by José Manuel Salazar-Xirinachs

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Mr, Nobuaki Koga, President of the Japanese Trade Union Confederation (JTUC-RENGO) and President of the Council of Workers Welfare Associations of Japan (Rofukukyo).

Colleagues of Rokin,

Ladies and Gentlemen,

I would like to thank Kinki-Rokin for your kind invitation to be with you this afternoon and address this Symposium. For me it is a pleasure and a privilege to be visiting your beautiful country.

I have been invited to talk to you about the world employment challenges, the situation of workers and labour markets in the world today and about remedies and solutions.

Jobs are the overwhelming concern of people around the world today, and quite rightly so. Our jobs strongly determine our income and quality of life, the possibilities of education of our children, our pensions and standards of living after retirement. They influence our own sense of dignity, of contribution to our own families, to our communities, and to the wider societies in which we live. And they also shape our perceptions of fairness and social justice, and our perceptions of whether the social contracts in our societies are inclusive, and are not leaving us behind.

That is why we in the ILO strongly believe that jobs are not only what we do but also a great part of what we are and affect how we feel about ourselves and about society. And this is why our mission is to promote decent work for all and why we strongly believe that creation of decent work is and should be the number one priority for policy makers.

Unfortunately, although the economic crisis as such has receded in most countries, the jobs crisis has not. The world of work is in turmoil.

This is one reason why the world is at a crossroads, but we cannot fully understand the nature of this turning point unless we recognize that the world economy has not just experienced a Great Recession it is also experiencing a Great Restructuring.

This Great Transformation is due to long term, game changing structural megatrends or forces that have major impacts on labour markets globally. It is the combination of these two stories: the continuing uncertainties and risks brought by the economic crisis on the one hand, and the long term transformational trends on the other, what frames the employment challenges facing all countries in the world today.

So let me start with the crisis story, and then move to the transformational megatrends story, to finish with policy agenda.

I. The impact of the global economic crisis on labour markets

Between 2007 and 2009 the global economy experienced the deepest recession since the 1930s. Because policymakers around the world responded in an unprecedented way, in both size and the degree of international coordination, the economic recession was brought to a halt and the global economy grew at a robust rate of 5.1 per cent in 2010. However, as the effects of the extraordinary fiscal and monetary measures waned, global growth slowed to 3.8 per cent in 2011.

(SLIDE 1) As you can see in this slide, while the economic recession formally ended, the global jobs crisis did not. Following its sharp rise in 2008 and 2009, the global unemployment rate barely budged during the next two years, with global unemployment declining by only 1 million during this period. So at the close of 2011, we still had 25 million more unemployed people around the world than in 2007.

(SLIDE 2) Breaking this down into geographies, in this second slide you can see a clear divide between developed and developing regions. 14 of the 26 million people increase in global unemployment occurred in the Developed Economies, where the unemployment rate surged from 5.8 per cent in 2007 to 8.5 per cent in 2011.

(SLIDE 3) This is a shocking figure given that this region only accounts for around 15 per cent of the global workforce. You can see in this slide how the share of increased unemployment is out of proportion for the Developed Economies and Europe compared to other regions. In South-East Asia and the Pacific and the Middle East unemployment rates in fact declined.

(SLIDE 4) Here you can see that in the United States (red line) and Japan (green) unemployment rates continue to decline gradually, however, in the Euro Area (blue), unemployment continues to increase, especially since the second half of 2011.

(SLIDE 5) Yet, the measure of the global labour market situation is not limited to this sharp increase in unemployment. An additional 29 million people dropped out of the labour market mainly due to discouragement. These discouraged workers are not included in official unemployment statistics. So taking this together, this means that there were around 54 million additional unemployed or discouraged workers around the world in 2011 than just 4 years earlier.

(SLIDE 6) Young people were especially hard hit. The number of additional unemployed or discouraged youth rose by nearly 10 million between 2007 and 2011. Young people around the world are nearly 3 times as likely as adults to be unemployed. In the Middle East and North Africa regions, youth are 4 times more likely than adults to be unemployed, and youth unemployment rates are well in excess of 25 per cent. In Japan, youth unemployment, at

above 9 per cent, is also much higher than the average unemployment rate of 5.3 per cent, and youth are over represented among the non-regular workers.

In Spain and Greece youth unemployment rates have exceeded 50 per cent. This is likely to have devastating long-term consequences, as research and experience have shown that high youth unemployment leads to lower future wages and reduced employment prospects for those affected. In addition, such labour market distress also increases the likelihood of social unrest and feeds distrust in economic and political systems.

(SLIDE 7) Another important measure of labour market strain is long term unemployment – those without work for a year or more. Long-term unemployment rose between 2007 and 2011 in the majority of countries, as you can see in this slide.

This is likely to lead to structural problems in the labour market, as it causes skills obsolescence and reduced employability. And this also impacts negatively on the broader economy. In the short-run, by sapping aggregate demand through reduced consumption; in the long-run by reducing human capital and increasing skills mismatches, it leads to lower potential rates of economic growth.

Therefore, the wounds that the great recession is leaving on labour markets could be very long lasting, setting the global economy on a lower growth trajectory that could limit progress toward broader economic development goals.

Besides increased joblessness and deeper structural labour market problems, the world faces what we in the ILO call “the crisis before the crisis”: the continuing incidence of poverty, particularly, but not exclusively, in developing countries.

(SLIDE 8) Out of a global labour force of 3.3 billion in 2011, the ILO estimates that 900 million workers were living with their families below the US\$2 poverty line. If we add to this the number of unemployed around the world, an alarming statistic emerges: ***Entering the year 2012, one out of every three workers in the global labour force was either poor or unemployed.***

A global decent work deficit of this magnitude is morally unacceptable and economically inefficient. This is not a recipe for increased aggregate demand and higher growth going forward. To the contrary, it is a recipe for economic stagnation.

II. Recent developments and prospects

Let me now focus on 2012 and prospects for 2013.

(SLIDE 9) As this slide shows, global growth in 2012 has seen a further substantial deterioration. The IMF’s latest estimates indicate that growth will slow to 3.3 per cent this year, the lowest growth rate since 2008. The Developed Economies and European Union region will see growth fall from 1.6 per cent in 2011 to 1.3 per cent in 2012 – less than half the rate of growth of 2010.

The Euro Area is facing an outright recession, as it is expected to shrink by minus 0.4 per cent. The situation in Greece has reached depression conditions. 2012 was the fifth consecutive year of falling output in the country since 2008. Altogether, the Greek economy has contracted by around 20 per cent since 2007. But Greece is not alone, seven out of the Euro area's 17 economies are expected to see an outright contraction this year.

Growth is expected to decelerate also to 7.8 per cent in China this year – the lowest rate since 1999, and the Indian economy to 4.9 per cent, the lowest growth rate in the country in a decade. Latin America and the Caribbean and the Middle East also are expected to see a substantial deceleration.

So what is happening?

A key reason for the weak recovery is that policies in the advanced economies have not managed to rebuild investor and consumer confidence, and fiscal austerity has been overdone, particularly in Europe.

The IMF has recognized that the size of the fiscal multipliers used by many governments who embarked on austerity measures had been underestimated, which means the damage to the economy of fiscal austerity is larger, and conversely, that the benefits of earlier stimulus measures have been higher than previously thought. This was a major topic of discussion in the IMF-World Bank Meetings here in Tokyo last October.

In the US growth in 2012 is expected to be 2.2 per cent and 2.1 per cent in 2013 assuming the US avoids the so called “fiscal cliff”, some 700 billion of automatic tax increases and spending cuts, equivalent to 5 per cent of GDP. So much austerity so quickly would suffocate the US recovery. Over the next two months the world will continue to live with this additional source of uncertainty

But the main source of continuing uncertainty is the Eurozone. European policy makers have not come up with a good solution to the debt problems of the Southern countries. As the IMF has argued in its October World Economic Outlook, “...the crisis in the euro area remains the most obvious threat to the global outlook”.

The IMF is recommending that Euro Area programme countries should be allowed to stretch out their deficit reduction efforts. But EU governments continue to argue about the scale and pace of fiscal consolidation and about how to distribute the burden of paying for a longer adjustment period.

A major brake on growth, which economists have shown is intrinsic after banking crises is the fact that the process of deleveraging continues, households and firms continue paying off their debts, and banks continue writing off bad debts.

(SLIDE 10) Labour productivity growth also slowed sharply in 2012. Globally, output per worker grew by only 1.9 per cent in 2012, down from 2.8 per cent in the two prior years and well below the pre-crisis rates of 2.3 per cent. The main factor behind the deceleration in

productivity growth is weak investment.¹ Diminished spending on capital equipment, infrastructure and research and development is now holding back potential productivity growth and reducing aggregate demand in developed and developing economies alike.

Another break on growth, which the ILO has been pointing out, is the negative feedback loop between labour markets and the macro-economy. With each passing day in which we face high rates of joblessness, growing numbers of long-term unemployed, increased detachment from labour markets, slowing labour productivity and employment growth, growing numbers of workers in vulnerable employment and below the poverty line, the world inches closer to allowing the vicious circle of weak economic growth and labour market distress to become more entrenched, more structural. And the more entrenched and structural the problems, the more difficult it is for recovery policies to be effective.

This vicious circle, is also contributing to slower wage growth, which threatens to hinder consumption and further sap aggregate demand.

And yet, instead of the strong international policy coordination that helped arrest the global economic crisis in 2009, “go it alone” strategies seem to predominate today.

III. Long term Megatrends: The Great Restructuring

As I said at the beginning, the impacts and uncertainties of the Great Recession interact with the forces of the Great Restructuring to shape the employment challenges of our era.

(SLIDE 11) There are at least six major forces that are impacting labour markets, changing the nature of work and influencing the levels of employment:

- technological change,
- the emergence of the BRICs,
- demographic changes,
- skills mismatches,
- the energy efficiency/green growth imperative, and
- growing income inequality.

There is one implication of these trends I want to underline. They suggest that even though fiscal and monetary stimulus are important for growth and jobs, simply restoring aggregate demand is not enough to bring back pre-recession employment levels and will not prepare the workforce for the new jobs of the next decades. In other words, the jobs challenge for any country today, is not only to generate a certain volume of jobs, but to do so under the fast labour market churning, structural changes and job redesign conditions induced by this Great Restructuring.

¹ The *Global Employment Trends* 2012 report highlighted the global investment gap that has opened up and has adversely affected employment generation and productivity growth. The ILO argued that growth in investment equal to 2 percentage points of global GDP would be needed to start making a substantial dent in the global jobs gap. Instead, investment growth has fallen further over the past year, with weakness spreading even to regions such as East Asia, where investment had been holding up well.

1. Technology is changing the nature of work

The first force is technology, a new wave of technological change is sweeping manufacturing and services sectors. Robots, computers, automation are changing the potential of manufacturing to create jobs. The implication is that manufacturing can be a major contributor to GDP and productivity, but with a more modest contribution to job creation. Several countries, including Japan have experienced declining manufacturing employment.

Partly because of this, in developed countries, including Japan, the fastest-growing categories of employment are the jobs of the knowledge economies, the so called interaction jobs in services: managers, engineers, salespeople, doctors, lawyers, and teachers.²

New technologies and internet are bringing a new wave of redesign in these jobs: some aspects are positive for employers and workers, but some present great challenges in terms of skills policies, contractual arrangements, and social protection.

2. Globalization's new phase: the emergence of the Brazil, Russia, India and China (BRICs)

The second force is the rise of emerging economies. By 2030 China and India will have 35% of the world's population and 25% of the world's GDP.³

The rise in demand from the vast and expanding Chinese and Indian middle classes will be one of the main drivers of global demand, Stephen Roach has called it "the greatest consumption story in modern history!"

But, it is not just a new geography of growth and consumption, it is also a new geography of skills! Because the rising education levels in the BRICs and other developing countries is changing the nature of global competition for talent.

In just ten years from 1996 to 2007 the numbers of undergraduate and postgraduate enrolments increased from 72 million to 136 million in a group of 113 emerging and developing countries. Some authors call this the *Great Doubling*.

Therefore the idea that developed economies have the monopoly of having smart people doing smart things in smart ways is no longer applicable, at least automatically.⁴ With the spread of knowledge in emerging countries the idea that in developed countries the next generation of young people will have good jobs and social mobility assured if they invest in education and that "learning equals earning" is being increasingly questioned.

Emerging economies increasingly have high-skill, low-wage workforces, capable of competing successfully for high-tech, high-valued added employment. This is influencing patterns of location of production and outsourcing.

² McKinsey Global Institute, *Help Wanted : The future of work in advanced economies*, March, 2012.

³ The weight of non-OECD countries as a percentage of world GDP was 40% in 2000, it was 49% in 2010 and is expected to be 57% in 2030.

⁴ Brown, Lauder, Ashton, *The Global Auction*, 2010.

3. Demographic changes: Societies are ageing

Third, demography. In many developing countries there is a youth bulge, and their main challenge is to provide jobs for their rapidly rising cohorts of young people.

(SLIDE 12) In contrast, as you can see in this eloquent slide, European countries, Japan and China are in an “age of ageing”. The ratio of the old-age population to the working-age population (15-64 years) is increasing rapidly in these countries. In Europe from 17% in 1980 to 21% in 2012, and is projected to reach 40% in 2050. This is a doubling in less than 40 years!

In Japan, the rate has already tripled from 13.4% in 1980 to 38.4% in 2012, and is projected to surge to nearly 70% by 2050.

An ageing population defines a very specific agenda or set of challenges for growth and jobs. Because of ageing, countries like Japan will have to figure out:

- how to manage and prosper with not having enough children to become tomorrow’s workers;
- how to get more age-related spending from the welfare state—in areas such as pensions, or education and training, or healthcare-- and how to pay for it;
- how to boost productivity of the fewer people in working age;
- how to confront labour and skills shortages when you have a shrinking population? Policies for this include increasing the labour force participation of women, of young people and of the elderly, and also the possibility of accepting more immigration.

In this respect, it is very appropriate and encouraging that the *Strategy for the Rebirth of Japan* contains as one of its 11 growth strategies, a Strategy for Employment and Welfare that includes specific targets and plans to increase the participation in the labour force of young people, women and the elderly. I have had the opportunity to read the *Action Plan for Economic Revitalization through Promotion of Women* and I find it very forward looking and certainly a key pillar for the much needed growth revival in Japan, especially when one considers that in Japan, the labour force participation of women is only 63.5% compared to 84.3% for men.

There is a connection between youth unemployment and ageing, but it is not the popular fallacy of thinking that raising the retirement age will reduce job opportunities for young people. Instead, it is that if ageing societies allow the cohort of today’s youth to be blocked from finding productive jobs, then these societies will not be well placed to support retirees in the future. In other words, youth unemployment today is a huge potential loss of productivity with potentially disastrous consequences on the capacity to finance national social security systems. So increasing youth employment today is a way of confronting the challenge of ageing societies.

4. Skill mismatches

A fourth force is the persistent and in some cases growing gap between the skills the employers seek and those workforce has. The paradoxical situation is the coexistence of higher unemployment and skills shortage.

Surveys show the high percentage of employers having difficulties in filling jobs, despite the high unemployment.

Skills mismatch can occur because people are overskilled or underskilled for the jobs available, or market job offers do not meet the expectation of job seekers.

And skills mismatch is also influenced by skills obsolescence, which is due mostly to age and to interruption in the career. Skills obsolescence due to career interruption is in fact the main reason why cyclical unemployment can become structural, with permanent damage to human capital and long term competitiveness of economies.

5. Energy efficiency/green growth imperative

The fifth force is related to the increasing global consensus around the objective of shifting to energy-efficient, low carbon growth paths. Green growth paths will induce major adjustments in labour markets, creative destruction similar to trade.

There are great opportunities in green jobs, but also job destruction in non-competitive, unsustainable technologies. Green growth and climate change also pose major challenges for skills development, as skills bottlenecks and mismatches can be a major obstacle to green growth.

Again, it is a very positive development that the *Rebirth of Japan Strategy* articulates a clear Green Growth Strategy for Japan.

6. Growing Income inequality: a threat to social cohesion

A sixth trend is growing income inequality, which is also true of Japan. This is due to many factors, and one of them is that high and low-skill workers face very different demand and opportunities in the labour market.

Workers with the strong cognitive, communication and problem solving abilities that are required for the most sophisticated types of work are in high demand, and have experienced low unemployment and rising wages, even during the recession, while the opposite has been happening to low skilled workers.

In Europe, the most vulnerable Europeans –the young, the low-skilled, the part-time and temporary workers- were also the most susceptible to lose their jobs in the crisis, which exacerbated inequality.

Increasing inequality runs the risk of affecting social cohesion, putting a break on growth and exacerbating the public finances and debt crisis.

(SLIDE 13) In a country like Japan, the rise in inequality has been driven by the rising share of non-regular workers in total employment, which affects in particular women and young people. This has been growing also in Europe but is particularly strong here in Japan, where it doubled since 1990 to almost 34 per cent of total employment in 2010. Non-regular workers are paid substantially lower wages, tend to work fewer hours and change jobs frequently. Only 28% of firms provide on-the-job training for them, less than one-half the proportion for regular workers. Only two-thirds pay employment insurance contributions for non-regular workers, and less than half pay work-related health and social insurance contributions.

Non-regular employment is a serious problem: for those affected as it increases their likelihood of lower living standards for their lifetimes and deprives them of fundamental rights and social protection; for society as it undermines social cohesion, and for the economy, as their difficulties in obtaining on-the-job training leads to a decline in Japanese, productivity and growth.

It is therefore very appropriate that the Ministry of Health, Labour and Welfare (MHLW) of Japan is making full scale efforts to support the so called “freeters” get regular employment, and that 200 special support windows have been opened and other measures have been taken as part of an integrated plan to reduce the number of “freeters” to half of the peak level of 2.17 million persons by 2020.

In conclusion, the challenge for growth and jobs policies, is better understanding how these different trends are changing the nature of work and the demand for skills, and finding ways to prepare workers of all ages, and women as well as men, for the jobs of the future.

IV. Where do we go from here: Addressing the key risks facing the global economy and the world of work

Where do we go from here? What policies can move the world forward?

I have already provided some specific comments on policies for an ageing society and on the issue of non-regular work.

Let me finish by returning to the big picture. I have argued that a combination of global uncertainties, brakes on growth due to vicious circles in the aftermath of the crisis, and long term transformational trends, have placed the world economy at a pivotal moment, a turning point. It is a moment full of risks but also of opportunities that must be seized.

Both the cyclical shocks and the long term megatrends I have presented have a differentiated incidence according to the structural and other specificities of each country. Therefore, each country has its own specific employment and jobs agenda. But clearly there is also a global policy agenda that requires cooperation.

The overriding objective is to avoid a situation in which the global economy slips back into recession. That would have devastating consequences for the world of work. This will require immediate action to address the main risks facing the global economy in 2013 and beyond:

(SLIDE 14)

- First, the crisis in the Euro Area. How fast and how effectively Europe sorts itself out will impact global scenarios in a fundamental way. As the Financial Times put it in a recent editorial: “under the hammer of austerity, national unity and social cohesion are crumbling” in some countries. The current discussion in Europe is about both, how to extinguish the fire and how to redesign the burning house. In other words, how to balance and share the costs of the severe adjustments in highly indebted countries, and how to solve the original design failures of the Euro area: whether and how to advance towards banking union, fiscal union and more political union, and whether Europeans will manage to put in place a successful economic growth strategy.
- Second, the so called “fiscal cliff” facing the United States represents a significant, though certainly avoidable risk.
- Third, policy leadership and international coordination are needed to avoid protectionism and boost global aggregate demand and trade growth.
- Finally, tensions in the Middle East remain a serious wild card, in terms of both the risks of escalating military conflict, and through potential commodity price shocks and supply disruptions.

(SLIDE 15) Beyond these risks, what is needed most is a large-scale effort to target the real economy and support job growth. 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.

Additional fiscal stimulus packages are likely to be needed in some countries. A systematic review of fiscal targets to boost demand, coupled with continued monetary easing, would have substantial multiplier effects that could, if taken simultaneously, put the global economy back into a sustainable recovery and growth path.

In his recent statement to the IMF International Monetary and Financial and Development Committee, in Tokyo on the 13th of October, ILO Director General, Guy Ryder, urged that attention be given to four priority policy areas, that were included in a joint Report by the ILO, OECD, IMF and World Bank to leaders in the Los Cabos G20 meeting: i) supporting infrastructure investment; ii) improving access to bank funding for SMEs; iii) extending the coverage of social protection; and iv) investing in job prospects for youth.

These are the types of policies needed to promote a sustainable recovery from the crisis.

These policies should also be mixed with appropriate policy responses to the six long term megatrends I mentioned. In Japan, for instance, the ageing of society poses a unique set of challenges and agenda for employment and social protection policies. The “Rebirth of Japan” strategy, with its 11 growth plans, seems a very solid and detailed set of plans that, if well

implemented, can go a long way in their objectives of reviving growth; building a strong economy; gradually achieve fiscal sustainability and strong social security.

Once again, I thank you for the invitation to speak at this Rokin International Symposium, and for your kind attention.