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Reducing social inequalities for a brighter employment outlook

by Ilaria Armaroli

The ILO report *World Employment and Social Outlook 2015 – Trends 2015*, published on January 20, 2015, deals with the employment and social implications of the recent slowdown in global economic activity.

The jobs gap

Since global growth struggles to recover the pre-crisis trends, **employment creation appears unable to close the jobs gap, opened up in 2008**. According to the ILO, the jobs lost since the outburst of the crisis are currently 61 million, but it is likely to increase, following the short expansion in the labour force and the steady rise in the unemployment rates.

The report foresees, over the next few years, an acceleration in the growth of the labour force, thanks to the moderate recovery in employment occurred in the sectors where men are predominantly employed. In order to absorb these new labour market entrants and finally close the employment gap, **277 million jobs should be created** in the following years. However, since employment growth is not expected to accelerate to this extent, the jobs gap is doomed to rocket up to 80 million by 2019. Conversely, in the long run, the ageing of the world population will determine a deceleration in the growth of the labour force and a subsequent decline in economic activity rates, which may be offset only through immigration.

Economic activity slowdown and employment implications

The global economic growth has been recently affected by the lack of aggregate demand, structural vulnerabilities linked to specific regions, disorderly adjustment of financial markets, stagnation in the euro zone, rising inequalities and slowing labour force growth. Therefore, **the ILO warns that the recent slowdown in the global economy will contribute to the drop in world employment over the following years.** More precisely, the largest slowdowns in labour supply growth are projected to occur in the Middle East, North Africa, Latin America and the Caribbean. On the contrary, Sub-Saharan Africa will be the only region to experience a continuous rise in labour force growth.

Unemployment rates and the decrease in labour force participation

Global unemployment stood at 201,3 million (close to 5,9 per cent of the labour force) in 2014 and it is expected to increase by 3 million in 2015 and by a further 8 million in the following four years. More specifically, unemployment rates are likely to progressively decline in developed economies, particularly in the European Union, but no relief is attended in the Middle East and North Africa, which will continue to experience the highest unemployment levels worldwide. **Youth**

unemployment rate, which stood at 13,0 per cent in 2014, **is almost three times higher than the unemployment rates for adults and still represents a global concern, together with the gender gap in the labour market.** The ILO suggests policies that encourage female employment, in order to offset both shrinking labour supply and labour force ageing, hence making national economies less vulnerable to economic growth slowdowns.

As a consequence of the demographic changes, such as increasing education and reduced female participation rates, in emerging economies and of the demoralisation effects due to the persistent economic stagnation in developed economies, **labour force participation rates have been declining over the recent decades**. Moreover, they will see further falls, dropping below 63 per cent of the global working-age population by 2030.

Growing tertiarisation

Pursuant to the report, **the service sector is likely to represent the most dynamic area of job creation**. Particularly, private sector services will employ more than a third of the global workforce over the next five years and public services in health care, education and administration will also experience smaller increases. Consequently, **there will be a growing incidence of high-skilled occupations** and a declining need in low and medium-skill workers. Therefore, the ILO expects that the employment share of manufacturing jobs in advanced economies will decrease below 12 per cent by the end of 2019. This trend may contribute to increasing social inequalities in developed countries.

Stagnant global wages

Employment creation has not triggered global wage growth to date. World wages have still not recovered the pre-crisis levels and trail behind productivity increases, registered in most advanced economies (e.g., the United States, Canada, Australia and New Zealand). Subsequently, a decline in the labour income share has been observed in most countries. The scarce households' disposable income, which significantly reduces private aggregate demand, fosters the current cycle of slow economic growth and contributes to making deflationary threats realistic, especially in Europe and in Japan.

The lower is investment the lower is productivity

Finally, the significant fall in job creation rates, the slow labour market turnover and the delayed benefits of a larger skilled labour force might have affected productivity growth, which has been declining over the past decades in advanced economies, and more recently, in developing countries. On the other hand, **productivity growth has significantly slowed because of the drop in private investment** following the onset of the crisis.

Social developments

Even though almost half of the world's employed population are still working in precarious conditions, particularly in South Asia and Sub-Saharan Africa, **vulnerable employment has experienced a modest decline in most regions**, notably in East Asia and the Middle East. As a consequence, more than 34 per cent of the total workers have overcome poverty and reached a middle-income status in emerging and developed economies. However, the rising number of employees in the middle class or in the upper-middle class has been insufficient to considerably boost global aggregate demand and reduce income inequalities in developing economies as well as in advanced countries. Specifically, Western economies have witnessed deepening income inequalities in the aftermath of the crisis. As a matter of fact, in 2011 almost 25 per cent of total income went to the richest 10 per cent in developed countries. The ILO asserts that **the recent increase in income inequality can be associated to the persistent stagnation in advanced economies and a smaller incidence of growth spurts among developing countries**.

Income inequalities' political drawbacks

Rising inequalities have compromised trust in political authorities in most countries. In the Middle East and North Africa youngsters affected by low wages and high joblessness have become protagonists of violent waves of social unrest, but confidence in government has been weakening also in advanced economies, East Asia and Latin America. The ILO states that, as long as governments find it difficult to mobilise economic resources to address the sources of this discontent, it is unlikely to reverse these developments.

Lately, due to **the proved correlation between income inequalities and economic downturns**, the ILO recommends a determined government intervention against social vulnerabilities, with the aim of accelerating global economic growth and improving market labour conditions.

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