



# G20 labour markets: outlook, key challenges and policy responses

International Labour Organization  
Organisation for Economic Co-operation and Development  
World Bank Group

## **G20 labour markets: outlook, key challenges and policy responses**

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## Executive overview

### *Large employment gaps remain in most G20 countries ...*

Despite a modest economic recovery in 2013-4, economic growth is expected to remain below trend with significant downside risks over the foreseeable future. Persistent slow growth will continue to dampen employment prospects, while the employment intensity of growth has also been weakened in many countries. Despite some small improvement recently, the jobs gap is projected to remain substantial in several G20 economies until at least 2018.

### *... and the quality of employment remains a concern.*

Coinciding with the sizeable jobs gap is a deterioration in job quality in a number of G20 countries. Real wages have stagnated across many advanced G20 and even fallen in some. Wage growth has significantly lagged behind labour productivity growth in most G20 countries. The decline in labour's share of income observed in most G20 countries over recent decades has continued in some while in others the labour share has stagnated. Wage and income inequality has continued to widen within many G20 countries, although progress has been made in a few emerging economies. On another positive note, working poverty has declined in many emerging G20 countries, notably China, although informal employment remains a major obstacle to improving job quality, particularly in emerging and developing countries.

### *Jobs are a foundation for economic recovery ...*

Stronger economic growth is a necessary but not sufficient requirement for strong job creation. Re-igniting economic growth also depends on recovery of demand, and this in turn requires stronger job creation and wage growth. Without confidence in their job and income prospects, households will continue to be cautious about consumption and firms will remain hesitant to invest in productive capacity until they see demand rising for their products and services. In the advanced G20 economies, large jobs gap and stagnating wage income have constrained both consumption and investment as sources of aggregate demand. In the emerging G20 economies high levels of under-employment and informality undermine both current consumption and potential output and productivity growth in the long-term. G20 countries need more and better jobs as a foundation for sustained growth and the wellbeing of their societies.

### *... and for achieving sustainable, equitable and inclusive growth.*

Robust economic growth and quality job creation are intertwined goals that can only be achieved through coherent and mutually-reinforcing strategies that use macroeconomic and financial levers to foster stronger growth and employment and social policies to maintain aggregate demand by supporting employment and earnings. In some countries product market reforms may also be needed to accelerate growth. Sustainable, balanced and equitable growth also requires policies that improve employment opportunities and outcomes for the working-age population and in particular for those groups that have suffered most during the recession or face long-term exclusion and vulnerability. In the context of rapid population aging in many countries and rising youth population in others, governments must pay attention to both supply- and demand-side policies to raise participation rates of women and under-represented groups,

provide them with the skills they need to find employment and encourage and support all segments of the population to find jobs that are rewarding and productive while creating sufficient quality jobs for all who want to work.

## 1. Introduction

In the face of below trend growth and large jobs gaps, G20 Leaders have called for each G20 country to develop growth strategies and employment action plans. The Leaders have emphasized the need for coordinated and integrated public policies, including strong and supportive macroeconomic, trade, investment and labour market policies, along with resilient and effective social protection systems, sustainable public finance and well-regulated financial systems. Coordinated policies in these areas are seen as the foundation for sustainable, job-creating economic growth.

This paper reviews the latest trends in the labour market and highlights policies adopted by G20 countries to support growth. It then sets out the main channels through which growth and employment affect each other and summarizes the mix of policy measures needed to achieve strong, sustainable, job-rich and balanced growth. A brief overview of the Employment Plans submitted by G20 countries is also provided. A statistical annex presents additional information on recent labour market trends.

## 2. Recent trends in G20 labour markets

### *Trends in employment and unemployment*

In the last 12 months, the majority of the G20 countries have witnessed a modest reduction in the unemployment rate, with some exceptions (e.g. Australia, Italy, the Republic of Korea and Turkey) (Table 1). These positive developments were largely due to welcome net job creation, especially in the United States, but in some cases resulted in part from declines in the labour force participation rate (e.g. Argentina, Brazil, Spain and the United States). The rate of youth unemployment declined in many countries but still remains at historically high levels in some.

The weak global economic growth observed since the financial crisis has been associated with even weaker employment growth in most G20 countries, so-called jobless growth, although with wide variations (Figure 1). Consequently large jobs gaps have persisted in several G20 countries. Despite some small improvement recently in several countries, the G20 jobs gap is projected to remain substantial until at least 2018, particularly in advanced G20 countries (Figure 2).

In some countries, long-term unemployment has increased as a result of the duration of the jobs crisis (Figure 3). Particularly sharp increases took place in Spain as well as in the United States and countries such as Italy and South Africa have seen further increases in already high rates of long-term unemployment. However, significant declines were recorded in Brazil and the Russian Federation and, albeit from a high base, also in Germany. The median value of long-term unemployment as a share of total unemployment has risen to 30.2 per cent in the first quarter of 2014, up from 24.6 at the end of 2007. In a number of countries, the challenge of long-term unemployment and unemployment more generally is particularly acute among youth (see Statistical Annex, Figures 4A to 7A).

**Table 1: Recent labour market changes: An overview (year-to-year change)**

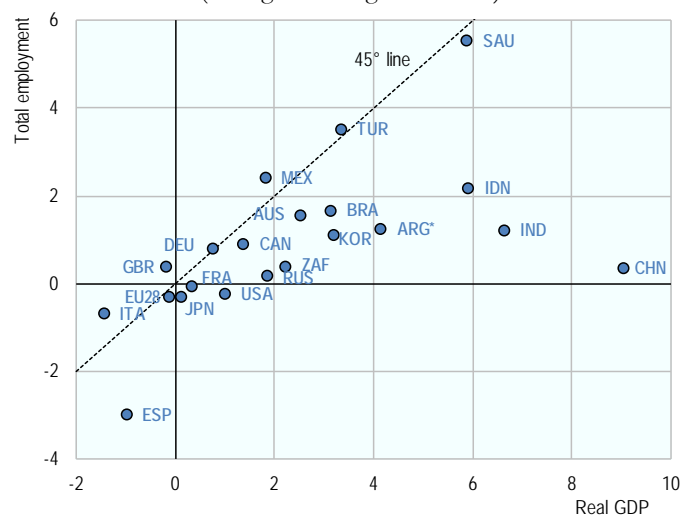
	Latest values <sup>1</sup>	Labour force participation rate				Total employment			Total unemployment			Youth unemployment	
		Men	Women	Total	%-points change	Level	Rate	%-points change	Level	Rate	%-points change	Rate	%-points change
Argentina*	Q4 2013	73.1	48.2	60.0	-0.6	11,097	56.1	-0.2	758	6.4	-0.5	18.0	1.3
Australia	Q2 2014	70.9	58.6	64.7	-0.4	11,569	60.8	-0.6	727	5.9	0.3	13.3	1.5
Brazil*	Q1 2014	71.9	52.6	60.8	-1.6	23,058	57.8	-1.2	1,249	4.9	-0.6	13.5	-0.1
Canada	Q2 2014	70.6	61.7	66.1	-0.5	17,818	61.5	-0.4	1,347	7.0	-0.1	13.4	-0.6
China <sup>2</sup>	2012/2010	78.2	63.7	71.0	..	715,480	69.7	..	21,183	4.1	..	6.4	..
European Union	Q1 2014/Q2 2014	64.5	51.3	57.7	0.1	218,072	51.7	0.3	25,614	10.5	-0.4	22.1	-1.5
France	Q1 2014/Q2 2014	61.5	52.1	56.6	0.0	25,837	51.0	0.1	2,968	10.2	-0.1	22.5	-2.6
Germany	Q1 2014/Q2 2014	66.4	54.7	60.4	0.1	40,706	57.3	0.2	2,176	5.2	-0.2	7.8	0.0
India	2011-12	78.9	27.2	53.4	..	393,013	51.5	..	14,500	3.6	..	10.7	..
Indonesia	Q3 2014	85.0	53.4	69.2	0.0	118,170	65.2	0.1	7,147	5.7	-0.2	17.1	-0.5
Italy	Q1 2014/Q2 2014	58.8	39.7	48.9	-0.2	22,317	42.8	-0.6	3,207	12.5	0.7	42.6	3.4
Japan	Q2 2014	70.5	49.1	59.4	0.2	63,470	57.3	0.5	2,377	3.6	-0.4	6.4	-0.6
Korea, Republic of	Q2 2014	73.8	51.1	62.2	0.9	25,445	59.9	0.5	972	3.7	0.5	10.3	1.0
Mexico	Q2 2014	78.6	43.8	60.3	0.4	49,409	57.3	0.4	2,545	4.9	-0.1	9.8	0.3
Russian Federation	Q1 2014	74.5	63.1	69.3	0.2	72,027	65.8	0.4	3,838	5.1	-0.2	13.4	-1.1
Saudi Arabia	Q1 2014	78.2	20.4	54.0	-0.4	10,900	50.8	-0.5	700	6.0	0.3	30.6	1.1
South Africa	Q1 2014	48.7	51.2	57.3	1.0	15,136	43.0	0.7	4,999	24.8	0.1	52.5	-0.1
Spain	Q1 2014/Q2 2014	64.9	53.1	58.9	-0.7	17,109	44.0	0.0	5,792	25.3	-1.0	53.1	-2.7
Turkey	Q1 2014	71.5	30.0	50.6	0.1	26,089	46.0	-0.3	2,572	9.1	0.4	16.1	-0.8
United Kingdom	Q1 2014	69.1	57.0	63.0	0.2	30,346	58.8	0.9	2,168	6.7	-1.1	18.7	-1.8
United States	Q2 2014	69.1	56.9	62.8	-0.6	145,901	58.9	0.3	9,675	6.2	-1.3	13.1	-3.0

.. Not available \* Selected urban areas.

Note: All indicators refer to the persons aged 15/16 and over excepted for the Russian Federation (aged 15-72) and for South Africa (aged 15-64). (1) For France, Germany, Italy, Spain, Turkey and the United Kingdom, unemployment figures refer to the harmonised unemployment data (Eurostat estimation based on labour force survey and registered unemployment figures) from the Short-term Indicators published by Eurostat, while the other indicators are based on the European Union Labour Force Survey (EULFS). For Mexico, the unemployment rate ("Tasa de desocupación, serie unificada") is based on the monthly results of the ENOE (Encuesta Nacional de Ocupación y Empleo), while the other indicators are based on the quarterly results of the ENOE; (2) Unemployment rate refer to registered unemployment in urban areas only (2012). All other indicators are based on Census data (years 2005 and 2010).

Source: ILO Short-Term Indicators Database, OECD Short-Term Labour Market Statistics Database and national labour force surveys. Cut-off date: 8 August 2014.

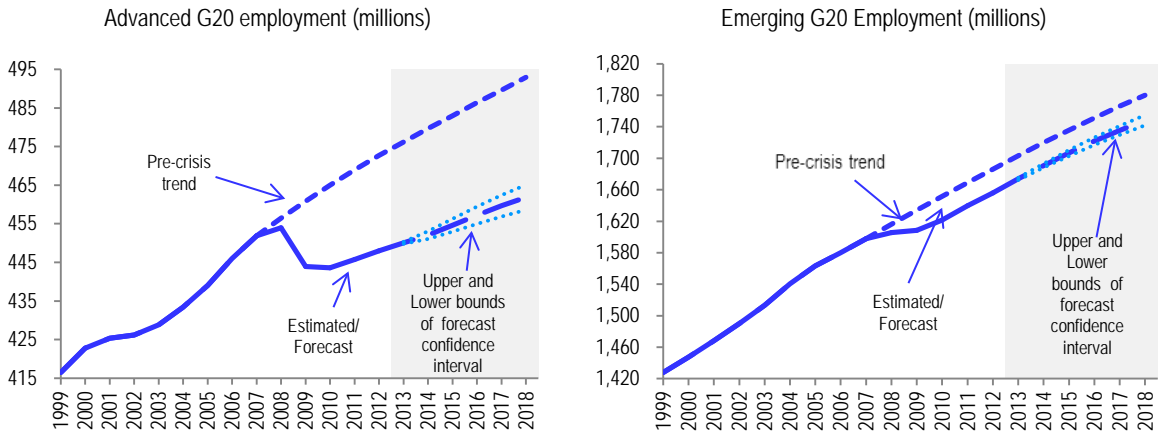
**Figure 1: Real GDP and total employment growth since the onset of the crisis, 2008-2013**  
(average annual growth rates)



\* Selected urban areas.

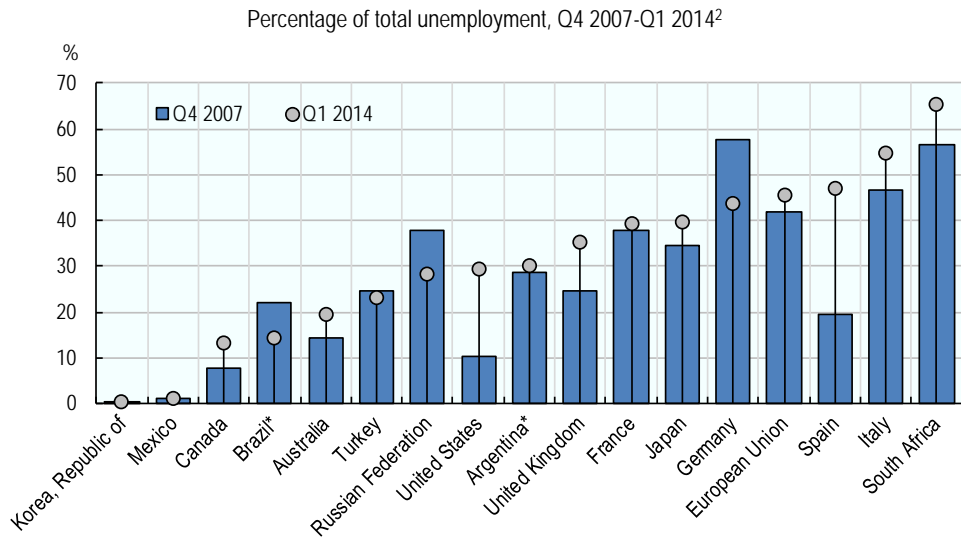
Source: OECD Quarterly National Accounts Database; OECD Labour Force Statistics Database, Eurostat, Annual national accounts for the European countries, ILO, ILOSTAT Database and results from national labour force surveys for Argentina and India.

**Figure 2: Jobs gaps in G20 countries compared to pre-2007 trend**



Source: Calculations based on ILO Global Employment Trends database and IMF World Economic Outlook April 2014 projections.

**Figure 3: Long-term unemployment<sup>1</sup> since the onset of the crisis**

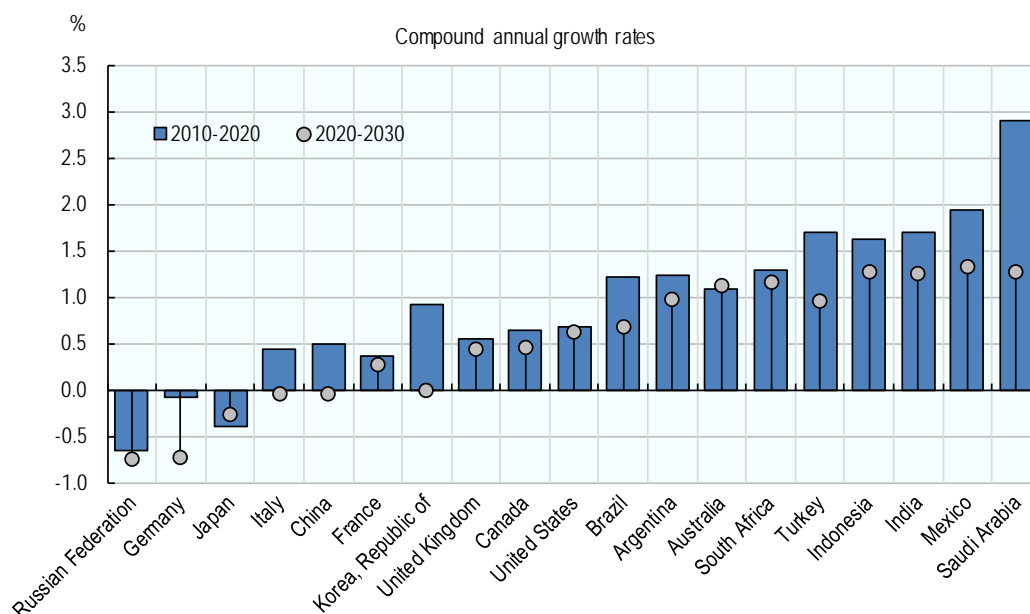


\* Selected urban areas. <sup>1</sup> Persons unemployed for one year or more; <sup>2</sup> Q3 2007 Q3 2013 for the Russian Federation; and Q1 2008 Q1 2014 for South Africa.

Source: OECD estimates based on various national surveys and ILO Statistics, Short-Term Indicators Database.

Demography will exercise a constraining influence on labour markets in the coming decades, through a marked decline in the expected rate of growth of the economically active population between 2020 and 2030 in all G20 countries except Australia (Figure 4). In the Russian Federation, Germany and Japan, the economically active population has already started to contract and this will accelerate markedly in Germany.

**Figure 4: Expected growth in economically active population**



Source: ILO Economically Active Population (Estimates and projections), July 2013 Update.

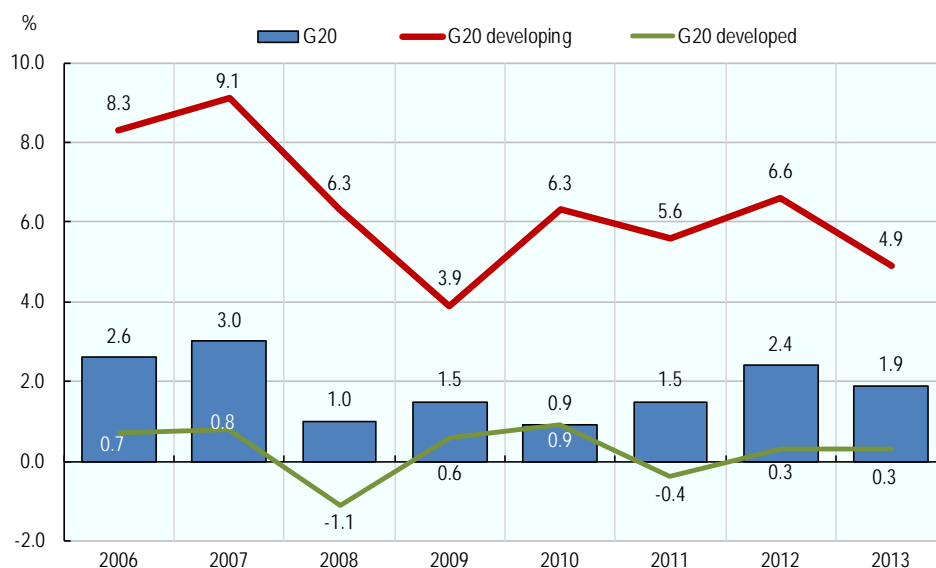
### *Trends in wages, productivity and earnings inequality*

The deep global financial and economic crisis and slow recovery in many G20 countries has resulted not only in higher unemployment but also in slow and fragile wage gains for G20 workers. On average, the crisis brought down the growth rate of average real wages to about 1 to 2 per cent (Figure 5). That modest growth was attributable almost entirely to emerging economies, particularly China, while wage growth in advanced economies has been fluctuating around zero since 2008 and been negative in some countries (e.g. Spain).

The stagnation in wages cannot be explained solely by weak economic growth. This trend also reflects a widening gap between growth in wages and labour productivity. In the advanced G20 economies, the gap began before the crisis and has not narrowed since, apart from a short reversal during the depth of the crisis in 2008-9 (Figure 6). The gap has grown wider since 2010, as wages in many advanced economies continue to stagnate while productivity has recovered in the group as a whole. For many of the advanced economies, the moderation in wage growth was greater than that which would have been predicted by the relationship between rising unemployment and changes in wage growth observed prior to the crisis.<sup>1</sup>

<sup>1</sup> *Employment Outlook 2014*, OECD, Chapter 2.

**Figure 5: Trends in real average wages, 2006-2013 (year-to-year change, %)**



Note: The 2013 estimate is preliminary. The G20 sample is restricted to 18 out of 19 individual countries for which data is available (Argentina identified some inconsistencies in its wage series for some years and has been excluded).

Source: ILO, forthcoming, *Global Wage Report 2014/5*.

**Figure 6: Productivity and wage index (G20 advanced economies)**



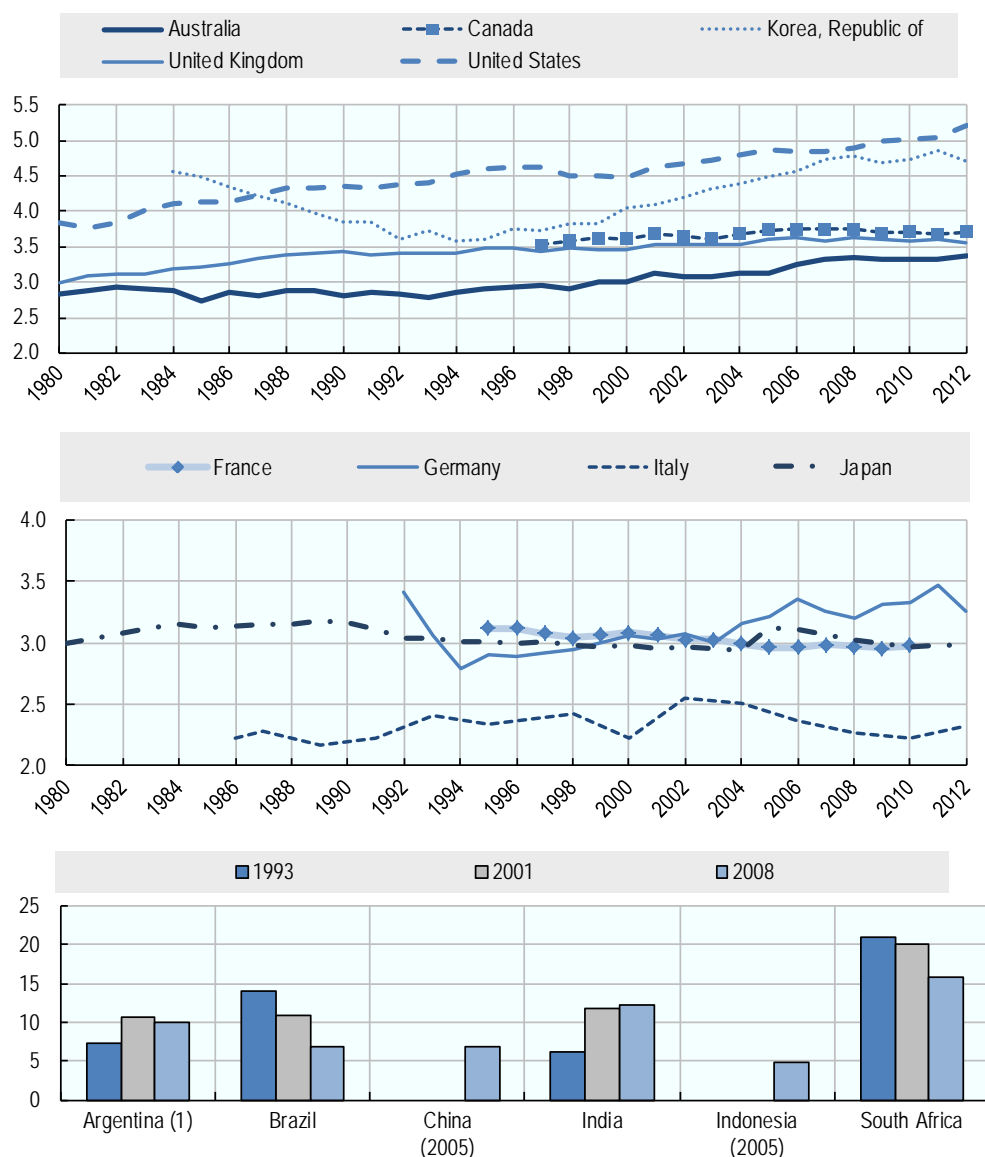
Note: Labour productivity is defined as GDP per employed person and uses GDP in constant 2005 PPP\$ for all countries. G20 advanced economies include: Australia, Canada, France, Germany, Italy, Japan, the Republic of Korea, the United Kingdom and the United States. Both indices are based on a weighted average of all the countries in the group that takes into account labour productivity and the size of paid employment.

Source: ILO staff estimation, using data from the ILO Global Employment Trends reports and the ILO Global Wage Database, revised and updated.

Earnings inequality, measured by the ninth to first decile (D9/D1) ratio, has been broadly stable since the start of the crisis in most advanced G20 economies following a trend rise in many of them over past decades, in some cases rising sharply (Figure 7). Earnings inequality remains high in emerging economies, although significant declines have occurred in Brazil and South Africa.



**Figure 7: Trends in earnings inequality, 1980-2012 (ratio D9/D1)**



<sup>1</sup> 1996 instead of 1993.

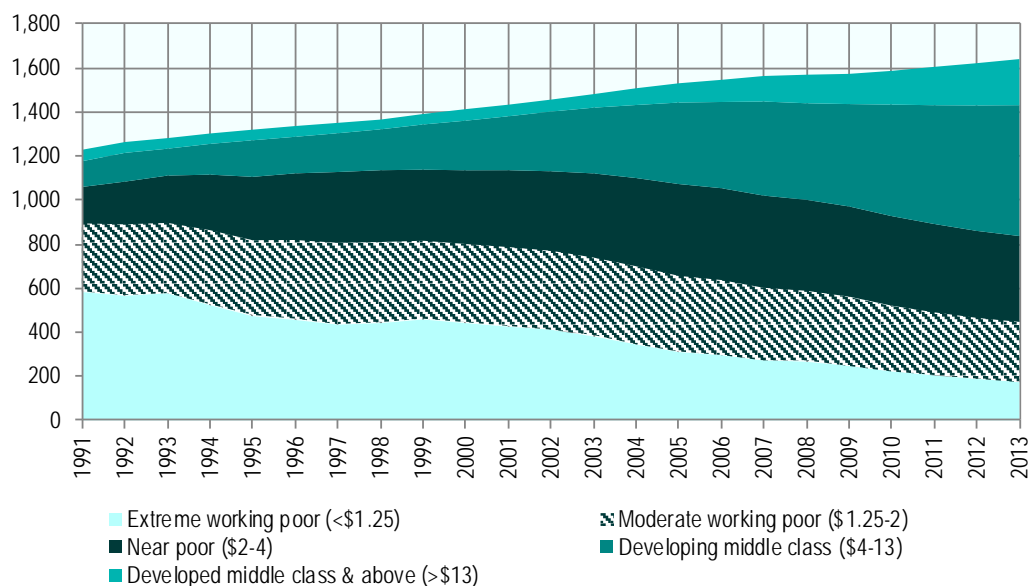
Source: OECD Earnings Database, ILO Global Wage Database and OECD-EU Database on Emerging Economies for Brazil, China, India, Indonesia and South Africa.

### *Trends in job quality*

In a number of G20 countries, and particularly in emerging economies, there are two important elements which deserve special attention: working poverty and informal employment. With respect to working poverty, emerging G20 economies have made tremendous progress in reducing both extreme working poverty (below the US\$ 1.25 poverty line) and moderate working poverty (between US\$1.25 and US\$2 per day). Overall, an estimated 447 million workers in emerging G20 economies were extremely or moderately poor in 2013, a reduction by half since 1991 (Figure 8). Yet working poverty and near poverty remains a large and wide-spread challenge for these countries. Taking into account these near-poor workers, some 837 million workers in emerging G20 countries—over half of the workforce—were either poor or just above the poverty line in 2013.

Progress in reducing working poverty has been uneven among emerging G20 economies, with the poverty reduction in China accounting for around 80 per cent of the aggregate reduction in extreme working poverty in emerging G20 countries and for almost 100 per cent of the reduction in the number of moderate working poor.

**Figure 8: Aggregate employment by economic group in G20 emerging countries (millions), 1991-2013**



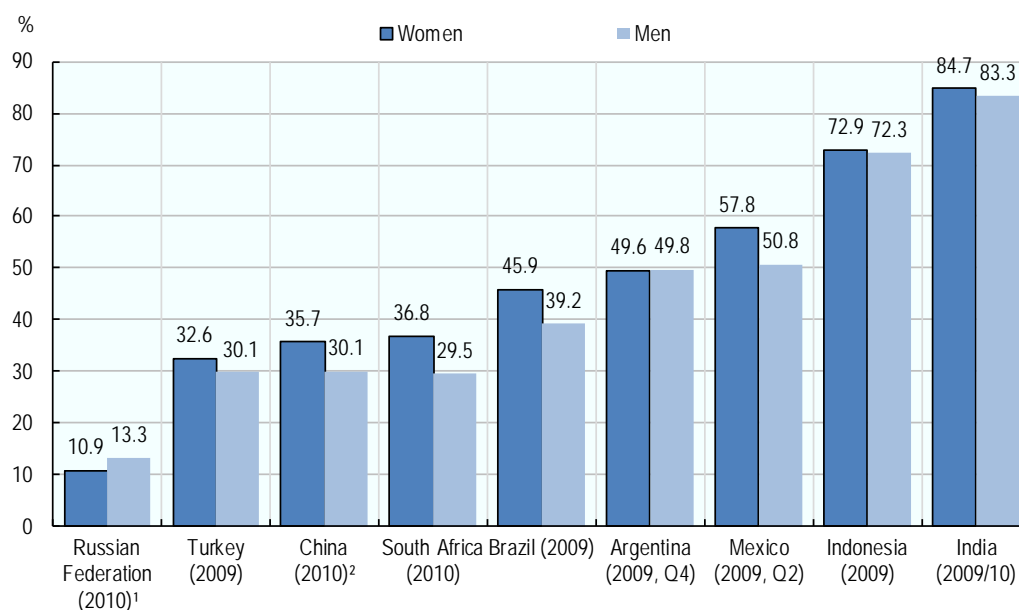
Note: Aggregate includes Argentina, Brazil, China, India, Indonesia, Mexico, Russian Federation, Saudi Arabia, South Africa and Turkey.

Source: S. Kapsos and E. Bourmpoula, “Employment and economic class in the developing world”, ILO Research Paper No. 6 (Geneva, 2013); ILO, Trends Econometric Models, April 2014.

In the emerging economies low quality jobs are often concentrated in the informal economy. The share of non-agricultural informal employment varies from between 30 and 33 per cent in Turkey to over 80 per cent in India. Women are more likely than men to be in informal employment (Figure 9). The majority of informal employment occurs in the informal sector, that is, in unregistered firms. For instance, two out of three informal jobs are in the informal sector in India. However a significant number of workers are informally employed in formal enterprises.<sup>2</sup>

<sup>2</sup> The concept of informality has evolved substantially since the 1970’s, when the term “informal sector” was coined for the first time, to today’s broader notion of the “informal economy” as agreed at the 2002 International Labour Conference (ILC). Based on the 2002 ILC conceptual framework, the Seventeenth International Conference of Labour Statisticians (ICLS) in 2003 adopted “Guidelines concerning a statistical definition of informal employment”. According to the new guidelines, informality can be found in both wage employment and self-employment and across various economic sectors. It can be present in the “informal sector” in informal economic units as well as in formal establishments.

**Figure 9: Informal non-agricultural employment (per cent), by gender**



<sup>1</sup> Corresponds only to persons employed in the informal sector.

<sup>2</sup> Six cities only.

Source: ILO, *Women and Men in the Informal Economy: A Statistical Picture*, Geneva, 2013.

Job quality issues are also a challenge in the advanced G20 economies. Although informal employment also exists in the advanced economies and is rising in some, there are more widespread problems of low wages, job insecurity and the quality of the work environment. Recent OECD and ILO work suggests that there are large differences across countries in each of these dimensions but there does not appear to be any necessary trade-off between job quality and job quantity: some countries manage to do well on both counts.<sup>3</sup> There are also considerable differences in job quality between socioeconomic groups within countries. Youth, low-skilled workers and those with temporary jobs appear to cumulate many disadvantages.

### 3. Many G20 countries have adopted policies to address these challenges

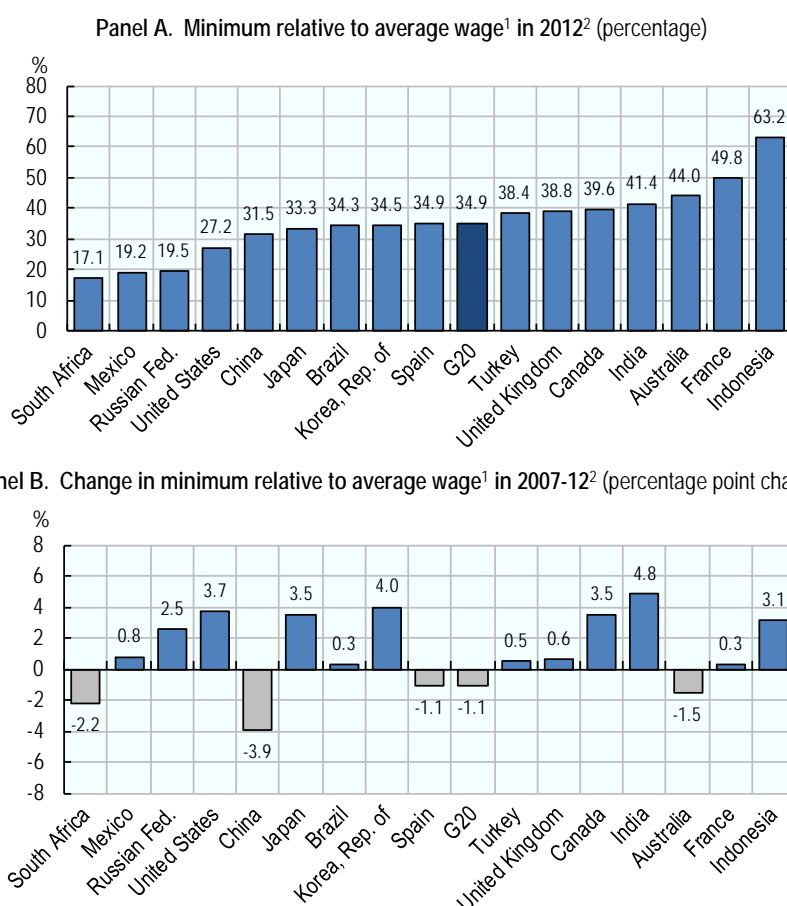
Policy efforts in many G20 countries, particularly emerging G20, have addressed income inequality and the vulnerability of low income households, through measures such as minimum wages and social protection. In 12 countries the ratio of the minimum wage relative to the average wage has increased (Figure 10, panel B), reflecting the increased recognition of its role in alleviating working poverty and boosting household income and consumption. China has aggressively raised minimum wages. Russia, South Africa, Brazil, Argentina, Indonesia and Turkey have pursued a range of wage growth policies, such as minimum wage increases and collective bargaining, in order to rebalance their sources of growth toward more domestic consumption and to address inequality and working poverty. Yet the ratio of the minimum wage relative to the average wage declined in four countries. In China, although minimum wage adjustments have been large and persistent over more than a decade, the minimum wage failed

<sup>3</sup> See Chapter 3 of the OECD *Employment Outlook 2014* for a conceptual framework for measuring job quality and country comparisons.

to keep up with even more rapid average wage growth and as a result, the relative level of minimum wages fell in recent years.

The US, Germany and Saudi Arabia, among others, have also launched initiatives to establish or increase minimum wages in order to address working poverty and inequality. Japan has encouraged significant wage increases through collective bargaining and other wage setting processes as a key component of its effort to fight deflation.

**Figure 10: Minimum relative to average wages in G20 countries**



<sup>1</sup> Average wage of full-time workers for Australia, Canada, France, Japan, Korea, Mexico, Spain, Turkey, the United Kingdom and the United States; average wage of all employees for the Russian Federation; average wage of employees in the business sector for South Africa; average wage of all employees in urban areas for Argentina and Brazil; average wage of employees of the manufacturing sector for India (firm with 10 employees or more) and Indonesia (firms with 20 employees or more); and average wage of employed persons of the state owned, urban collective, and other ownership units in urban units for China.

<sup>2</sup> (2007-)2010 for Argentina, China, India and Indonesia, and (2007-)2011 for Brazil, the Russian Federation and South Africa in Panel A (B).

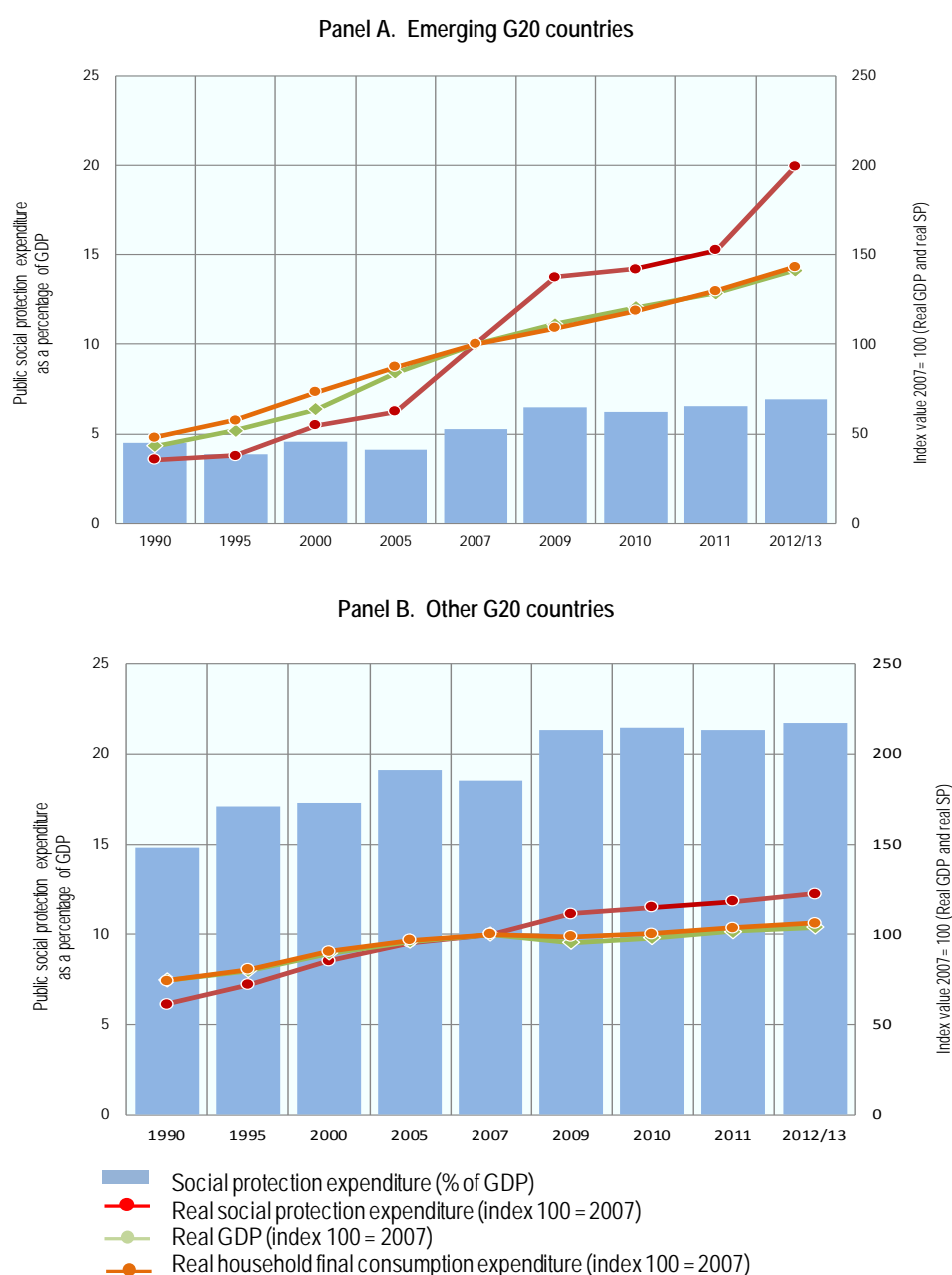
Source: OECD Earnings Database and ILO Global Wage Database 2012.

Social protection expenditures have also been increased by many G20 countries, particularly by emerging economies (Figure 11, panel A). Many emerging economies began to expand social protection expenditure and coverage between 1995 and 2005. Notable expansions occurred in Argentina, Brazil, China, Indonesia and Mexico, for example through non-contributory “social” pensions for low-income households and cash transfer programmes. India established a highly successful national rural employment guarantee that directly provides job opportunities in rural areas to build infrastructure and an income floor for vulnerable households. South Africa created a public employment programme to address high unemployment and poverty. In the face of the crisis, many emerging economies greatly accelerated spending on such programmes,

which also helped to prevent declines in household consumption and thus to sustain aggregate demand. As a result, stable or expanding domestic consumption helped to prevent further declines in economic growth and employment.

In advanced G20 countries, income support to the unemployed generally rose as the number of jobseekers rose (Figure 11, panel B). Expenditures on unemployment benefits typically kept pace with unemployment – thus acting as an important automatic stabiliser by limiting the negative impact of the crisis on household incomes. However in a number of countries workers who lost atypical or precarious jobs, or recent hires, notably youth, did not have access to unemployment benefits or received them only for a short period of time.

**Figure 11: Public social protection expenditure and household consumption, 1990-2013**



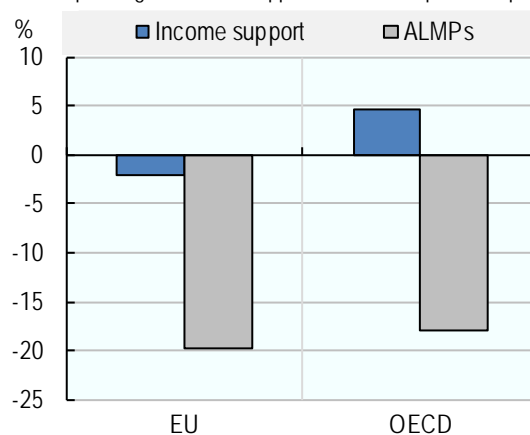
Note: ILO estimates.

Sources: World Development Indicators and ILO Social Protection Department database.

At the same time, expenditure on active labour market programmes (ALMPs) failed to keep pace with the rise in unemployment in many countries following the start of the crisis, despite their potential benefits in promoting a quick re-integration of job seekers into employment (Figure 12). For both the EU and the OECD area as a whole, real expenditure on ALMPs per unemployed person fell by 20% and 18%, respectively, over the period 2007-2011.

**Figure 12: ALMP expenditure and income support expenditure**

Percentage change in real spending on income support and ALMPs per unemployed person, 2007-11



Notes: OECD is the weighted average of 32 OECD countries (excluding Iceland and Turkey).

Source: OECD estimates based on the OECD Labour Market Programmes and OECD Short-Term Labour Market Statistics Database.

## 4. Achieving strong, sustainable, and job-rich growth

### *Supporting aggregate demand*

The G20 has repeatedly discussed the current deficit of aggregate demand at the global level, which many economists consider a major factor in explaining the weak and uneven recovery and slow overall growth. The substantial jobs gap and persistent weakness in job quality, wages and incomes are among the factors contributing to the shortfall of aggregate demand via their negative impact on aggregate consumption, investment and government revenue and expenditure.

### Consumption

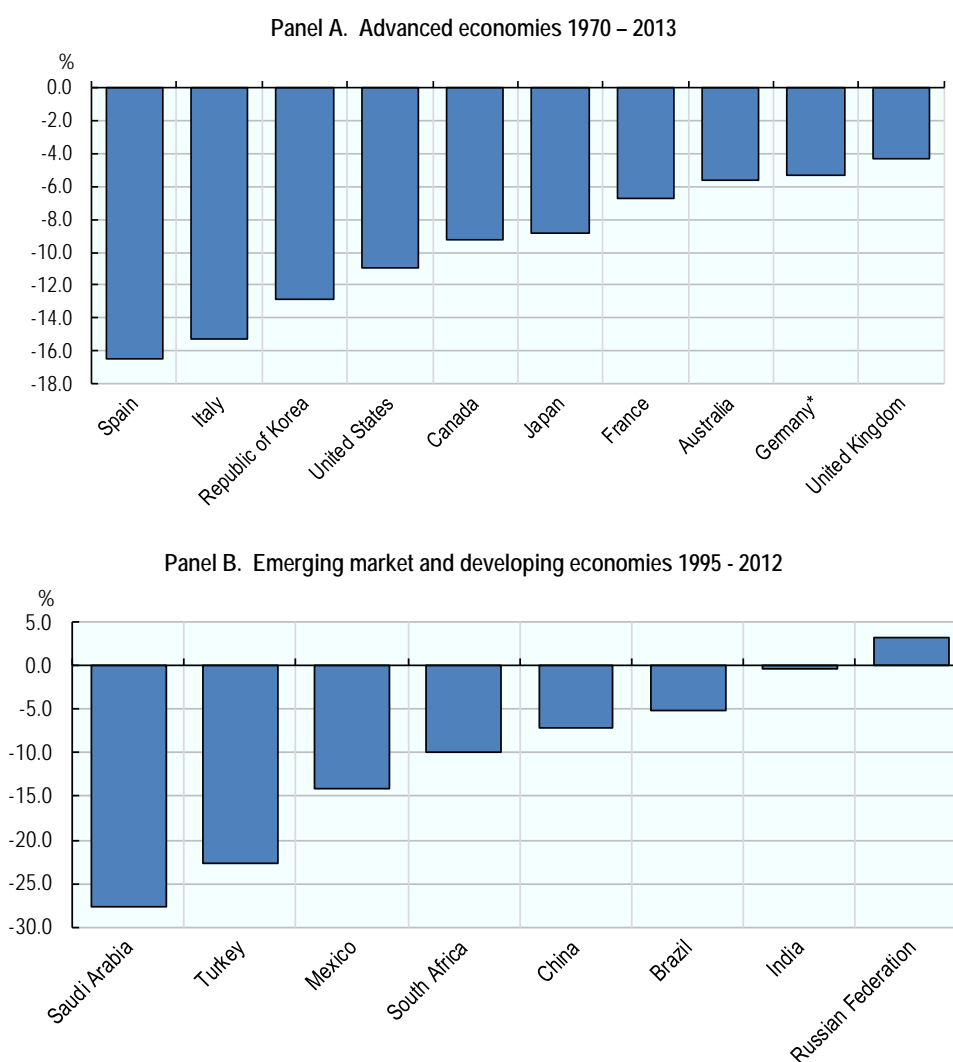
Domestic consumption accounts for the largest share of total demand in most economies, rising to two-thirds or more in large advanced economies. Many analysts point to the deficit in consumer demand in G20 economies as one of the main factors behind the current shortfall in global demand. Constrained consumer demand in large advanced economies has in turn reduced demand for imports, thereby transmitting slower growth to export-oriented emerging economies and onward to exporters of raw materials and energy.

While the financial crisis and weak recovery have been a large factor in the slump in consumer demand in many countries, a long-term decline in the labour share has also served to put a limit on consumption, as labour earnings are typically the main source of income for most households.<sup>4</sup> The cumulative, long-term decline in labour share has been substantial and

<sup>4</sup> Labour share is the ratio of labour compensation to total domestic output. It includes wages, salaries and benefits and thereby reflects both the level of employment (quantity) and the wages and benefits paid (price).

widespread (Figure 13) and has been widely seen as a structural problem. For example, the OECD warned that “the shift of income away from labour (and, in particular, away from low-wage workers) towards capital (and top earners) might also have a negative impact on aggregate demand, to the extent that workers with below-average pay tend to have a higher consumption propensity . . . which might result in a particularly adverse effect on the speed of recovery.”<sup>5</sup> The Governor of the Bank of England recently noted that “a greater shortage of demand tomorrow will develop unless the income of those who have taken on the debt picks up.”<sup>6</sup> ILO also pointed out the strong negative spill-over effects of these simultaneous declines in the labour share on the global aggregate demand.<sup>7</sup>

**Figure 13: Change in the adjusted labour share**



\*Prior to 1991, the adjusted labour income share for Germany refers to West Germany.

Notes: Figures refer to the change in the labour share between 1970-2013 for advanced economies and 1995-2012 for emerging market and developing economies. Exceptions include: Republic of Korea: 1991-2013, South Africa: 1995-2011, Brazil and India: 1995-2009, Saudi Arabia: 1995-2004 and China: 1995-2009. Data refer to the adjusted labour income share, except for the Russian Federation, Saudi Arabia, South Africa and China where the unadjusted labour income share is used. Data for Argentina and Indonesia are not available. \*Prior to 1991, the adjusted labour income share for Germany refers to West Germany. Source: AMECO Database and ILO Databases.

<sup>5</sup> *Employment Outlook* OECD 2012, Chapter 3.

<sup>6</sup> Mark Carney, Governor of the Bank of England, 9 December 2013. Available at: [www.bankofengland.co.uk/publications/Pages/speeches/default.aspx](http://www.bankofengland.co.uk/publications/Pages/speeches/default.aspx)

<sup>7</sup> *Global Wage Report 2012/2013: Wages and equitable growth*, ILO 2013; *World of Work Report: Developing with Jobs*, ILO 2014, Chapter 8.

### Investment

Investment, another key source of aggregate demand, has been below pre-crisis trends at the global level, and particularly so in advanced economies, with important negative consequences for job creation. Low rates of investment persist despite historically low interest rates and the recovery of profitability in many countries and economic sectors. As noted in G20 Framework Working Group (FWG) discussions, consumption generally leads investment. The “accelerator effect”, which describes the multiplier impact of firms’ investment in capital goods in response to demand for their products, can lead to a virtuous circle of demand and growth. For the G20 to effectively address deficits in investment, it must also address the underlying deficit in consumer demand and its sources in unemployment, underemployment, stagnant wages and declining labour share.

### Government revenue and spending

The G20 adopted a course of strong, coordinated fiscal stimulus in response to the crisis in 2009, which helped to contain the damaging effects of the financial crisis on economic activity and to provide support to the most vulnerable groups. However beginning in 2010, many governments, some facing large fiscal imbalances, reversed course and adopted fiscal consolidation measures. There are considerable differences in fiscal positions across the G20 countries and the challenge for each is to find the appropriate balance between achieving or maintaining a sound fiscal position and sustainable debt levels while using available fiscal space to support economic recovery and job creation.<sup>8</sup> The timing, scale and pace of any needed consolidation can be debated but it is also important to acknowledge that persistent unemployment and underemployment could further squeeze countries’ revenues and therefore decrease fiscal space in the risk of a downward spiral in income and spending. This is a particular danger in countries where tax structures have become more regressive in recent times, with government revenue depending even more heavily on working households’ income and consumption taxes.

The potential impact on employment of a reduction in government spending can differ considerably depending on the type and composition of the spending cut. The impact is particularly large and immediate in the case of cuts in public sector employment and wages and reductions of investment in sectors with large employment multipliers such as infrastructure, education and health facilities and services. Plans for fiscal consolidation in these areas need to take into account the potential short and medium-term impact on job creation as well as the negative longer term consequences on the accumulation of physical and human capital and future productivity growth.

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<sup>8</sup> *Coping with Crises: Policies to Protect Employment and Earnings*, Paci, P., A. Revenga and B. Rijkers, World Bank Research Observer 27 1: 106-141. (2012).



## ***Reducing unemployment, underemployment and informal employment***

Long spells of unemployment and under-employment can lead to skills erosion, ill health and a loss of motivation to seek work, thus permanently damaging the future job prospects and productivity of the individuals concerned and potentially undermining productivity and economic growth. This form of labour market “scarring” can be particularly severe for youth starting out in the labour market and they, along with low-skilled workers more generally, were hit hardest by the crisis in many G20 countries.

As stressed by the G20 Ministers of Labour and Employment in 2013, it is essential that adequate resources are devoted to cost-effective ALMPs that can both help and encourage the unemployed to find work and to strengthen their skills through training, as required. In particular, for the unemployed with low skills more in-depth and individualised support should be provided.

In emerging G20 economies innovative public employment programmes have a role to play in avoiding prolonged periods of joblessness. If well designed they can bring wider benefits for disadvantaged communities by building local infrastructure and demand and contributing to self-sustaining growth. They typically benefit the most vulnerable groups in the labour market and thus help to address inequality as well.

As noted in the previous section, income support to the unemployed can be an important automatic stabilizer, especially during a deep crisis. Apart from this role, well-designed systems of income support can also help ensure that the unemployed are able to engage in more optimal job search and ensure a better match between their skills and those required in the job and thus achieve more sustainable and productive jobs for them and higher growth for their countries. There is evidence that in some emerging economies job matching has improved when the social protection system has been expanded.<sup>9</sup>

In order to maximise the prospects for future growth it is important to balance adequate income support with work incentives, activation policies and complementary labour market programmes such as training and job-search assistance.

In emerging economies, a broad strategy of labour market and other measures is also required to tackle the high incidence of informal work. Innovative policies to tackle informal work have been developed by Argentina, Brazil and Turkey and are proving effective. The examples of countries which have made sustained progress on curbing informality show the need for coordinated policies across a range of issues. They have encouraged employment-centred growth in the formal economy together with adequate regulatory framework and reinforced compliance measures to address evasion of taxes and social protection systems. They have also extended social protection to informal worker, and developed tailor-made responses to specific sectoral or target group needs. The successful country experiences show that policies to encourage the transition to formality can be implemented gradually and can achieve mutually reinforcing effects such as poverty reduction and formalization. What is needed is a comprehensive and integrated approach across a range of policy areas, and policy coherence among these measures.

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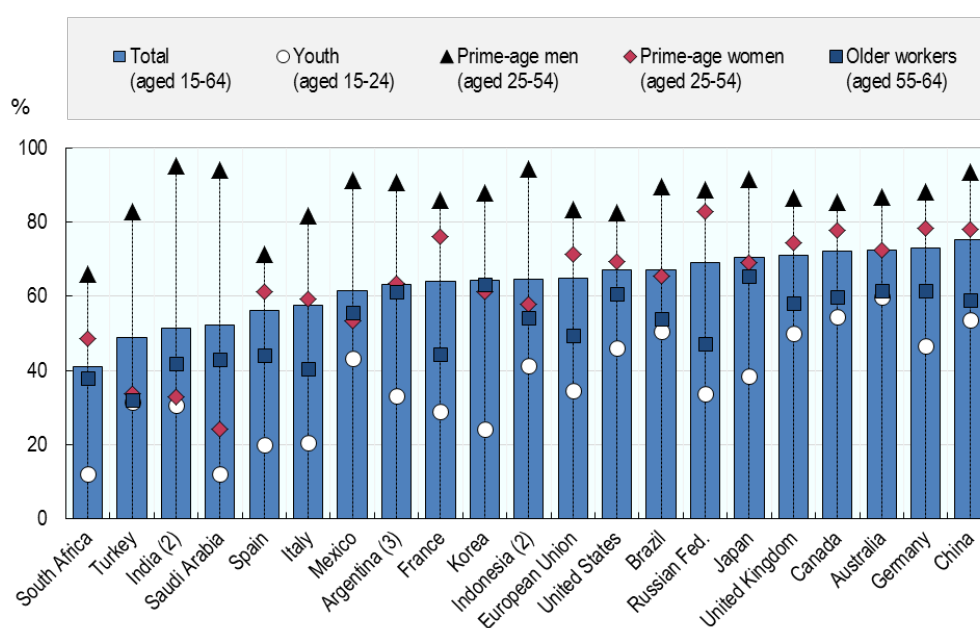
<sup>9</sup>, *Employment Outlook 2011*, OECD Chapter 2; “*Labor regulations in developing countries: a review of the evidence and directions for future research*”, Boeri, T., Helppie, B., & Macis, M., World Bank SP Working Paper No. 0833, 2008.

## Increasing labour market participation

Increased labour force participation is another significant long-term determinant of growth, since increased supply of any factor of production raises potential output. At the same time, it is essential to distinguish between labour force participation and employment participation. The former indicates the share of the population actively seeking work, while the latter reflects the share that has actually found work. Both participation rates and employment rates vary widely across G20 countries, with large age and gender differences as shown in Figure 14.

**Figure 14: Wide variation across G20 countries in employment by gender and age**

Employment rate by gender and age groups, as a percentage of the population of the indicated group, 2012<sup>1</sup>



Notes: Countries are shown by ascending order of the total employment rate. 1. Data for 2010 for China; and 2011/12 for India. 2. Older workers refer to person aged 55 and over and total to persons aged 15 and over. 3. For Argentina covers selected urban areas only.

Sources: OECD calculations based on the OECD Labour Force Statistics Databases, ILO, Short-Term Indicators of the Labour Markets and Census data (based on 10% sample of households) for China.

Depending on the point in the business cycle or the stage of economic development, appropriate policies to promote labour force participation will vary. In the current context of low aggregate demand and slow job creation in most G20 countries, supply-side interventions to increase participation may not yield the desired positive impact on growth unless they are accompanied by successful interventions to increase labour demand. Otherwise the increased supply of labour may result in frustration for jobseekers and could exert downward pressure on wages. Where unemployment benefits and other support measures exist, increased labour supply without increased employment could also place an increased burden on already constrained public budgets. In many economies, increases in labour force participation may result in an increase in already large pockets of underemployment, informal employment and working poverty. An increased supply of labour can exacerbate these vulnerable forms of employment if policies to stimulate absorption of labour and demand-side policies to encourage faster job creation are not implemented in tandem with measures that encourage participation.

Participation policies must also be informed by demographic factors. Where the population is aging the labour force will shrink over time as smaller cohorts enter and larger cohorts retire. In this context, policies to encourage female participation and to encourage older workers to stay active are key to at least partially compensate for the shrinking working-age population and its potential negative impact on growth (Statistical Annex, Figures 3A and 9A). At the same time, however, attention must be paid to the quality of jobs created.

In relatively youthful countries the main challenge is to create sufficient employment opportunities to take advantage of the continuing surge in the working-age population.

Almost all of the G20 countries are currently expanding or strengthening policies to encourage greater labour market participation, typically by improving incentives for workers and enterprises simultaneously, while being mindful of country specificities.<sup>10</sup> These range from promoting gender and age equality, to combating discrimination and improving the availability and affordability of child and elder care facilities to increase participation by women, older workers or excluded groups.

### ***Investing in workers: skills and training***

Despite progress in many G20 countries in access to education and quality of education outcomes, skills shortages and mismatches remain widespread. Basic education, training and lifelong learning foster a virtuous circle of higher productivity, more and better employment, growth and development.<sup>11</sup> Productivity gains increase real income in the economy, which can be distributed through higher wages. A low-wage, low-skill development strategy is incompatible with rapid and sustainable growth and development.

Skills upgrading will be an on-going necessity for all economies as changing skill requirements are accelerated by changing patterns of production, trade, international competition and technological innovation. These changes can be beneficial but require policies and institutions to help individuals and enterprises adapt and to help offset the risks and costs, particularly for low-income and vulnerable workers. Availability of quality, relevant training for in-demand skills and occupations is a key factor, along with accessible and timely labour market information. Partnerships between education and training providers and firms, trade unions and civil society, including apprenticeship schemes, have proven useful in ensuring that training matches the needs of firms.<sup>12</sup> Multi-pronged schemes of training and job placement such as the Youth Guarantee in the European Union can help prevent young people from detaching from the labour market.

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<sup>10</sup> A list of such policies is included in the ILO report to the G20 Framework Working Group entitled “*Boosting Employment, Participation, and Skill Development in G20 Countries: Addressing Challenges for Strong, Sustainable, Balanced and Inclusive Growth*”, January 2014 and in the OECD background report for the G20 Task force on Employment on *Activation Strategies for Stronger and More Inclusive Labour Markets in G20 Countries: Key Policy Challenges and Good Practices*, 2013.

<sup>11</sup> *Training strategy for strong, sustainable and balanced growth*, ILO and OECD, presented at the Toronto G20 Summit in 2010. See also the OECD Skills Strategy, 2012, Paris.

<sup>12</sup> See the OECD-ILO background report for the G20 *Promoting better labour market outcomes for youth*, 2014.

## *Reducing inequality as a pro-growth strategy*

Most G20 countries have experienced increased inequality in recent years as a result of factors which may include technological change, globalization, the expanded share of the financial sector in some economies and less progressive tax and transfer policies in some countries.<sup>13</sup> It is also important to note that the widening inequality has been associated with the widespread phenomenon of declining labour share as discussed in Section 2.<sup>14</sup>

Extensive evidence shows that high levels of income inequality tend to reinforce themselves, reducing social mobility and thus affecting long-term growth potential. In addition to the negative consumption and fiscal effects of stagnating incomes and inequality, IMF research finds that “lower net inequality is robustly correlated with faster and more durable growth” and that the total effects of redistribution policies to address inequality “are on average pro-growth”.<sup>15</sup> OECD similarly estimated that “On average, an increase in income inequality by 1 Gini point lowers yearly GDP per capita growth by around 0.2 percentage points.”<sup>16</sup> While more research is needed to establish causality and the channels through which inequality affects growth, the strong positive association suggests that inequality cannot be ignored by the G20 if stronger, sustainable and balanced growth is the objective.

Reducing inequality requires both improving the distribution of income and creating more and better jobs.<sup>17</sup> While increased productivity from new technologies, better work organisation, capital deepening and skills upgrading is desirable for improving living standards, a broad sharing of the gains from productivity growth across the population is essential for reducing inequality. Disparities in income will not be reduced if the benefits of economic growth continue to accrue mainly to holders of capital and those at the top end of the income distribution.

Creating quality jobs is also important in reducing poverty. World Bank research concludes that “more and better-paying jobs were the key factors behind poverty reduction over the past decade.”<sup>18</sup> The Bank’s 2013 *World Development Report* argues that jobs are the key drivers of development because they improve living standards, raise productivity and foster social cohesion.<sup>19</sup>

An analysis by the ILO of recent episodes of social unrest indicates that weak economic growth and a rising unemployment rate are also the most important determinants of the risk of unrest.<sup>20</sup> Civil unrest, in turn, can further disrupt employment and growth, as has been observed recently in a number of countries.

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<sup>13</sup> *Divided We Stand: Why Inequality Keeps Rising*, OECD 2011.

<sup>14</sup> *World of Work Report: Developing with jobs*, ILO 2014, Chapter 8.

<sup>15</sup> *Redistribution, inequality, and growth*, Ostry, J.D, Berg, A, & Tsangarides, C.G. IMF Staff Discussion Note, SDN/14/02, 2014.

<sup>16</sup> *Recent work on income inequality: Macroeconomic implications and policy recommendations*, IMF and OECD 2014, Paper presented in the G20 Sherpa Meeting, 23-24 June, Melbourne.

<sup>17</sup> *Global Wage Report 2014/5*, ILO forthcoming.

<sup>18</sup> *Is Labor Income Responsible for Poverty Reduction? A Decomposition Approach*, Azevedo, J.P., Inchauste, G., Olivieri, S., Saavedra, J. & Winkler, H., World Bank Policy Research Working Paper 6414, 2013.

<sup>19</sup> *World Development Report 2013: Jobs*, World Bank 2013.

<sup>20</sup> *World of Work Report*, ILO 2013. The data comes from a large scale Gallup global survey which asked questions about confidence in government, living standards, local job market, freedom and access to internet.

### *Finding the right policies*

There is no magic or universal formula for creating productive, quality jobs. Effective policies are highly dependent on the specific needs and priorities of each country as well as their institutional and fiscal capacity. The details of policy design, implementation and evaluation may also make the difference between success and failure. Interventions should be designed to facilitate workers' adaptation and economic structural transformation but they need to be supported by complementary policies that avoid shifting excessive risks or costs to workers and households in order to avoid increased inequality and destruction of human capital.

Thus comprehensive policy packages are more effective than piecemeal interventions because constraints to job creation cut across different areas and need to be addressed in a mutually reinforcing manner. Successful interventions must be feasible in country circumstances and fiscal space and need to be aligned with country priorities and social expectations. They also need to have the capacity to quickly scale up and down in response to demand and it is essential to get incentives right and to address and not aggravate market imperfections.<sup>21</sup>

## **5. A welcome development: G20 Employment Plans**

Given the need for comprehensive and coherent policies to tackle the jobs crisis, G20 economies were requested to develop Employment Plans (EPs) to provide an overview of each economy's key challenges and current policies to promote more and better jobs. This section provides a brief summary of these plans.

### *Challenges identified*

The challenges identified reflect the differing realities across the G20's diverse membership. Emerging economies EPs often aim to accelerate progress in formalizing employment and reducing underemployment and poverty. Advanced economies tend to focus more on tackling unemployment and promoting participation. However a number of common challenges emerge, including: promoting greater labour force participation and improved quality of employment, especially for women and vulnerable groups; promoting better youth outcomes; addressing skills gaps and mismatch; tackling long-term unemployment; boosting job creation; strengthening active labour market policies (ALMPs) and social protection systems; and addressing inequality, low wages and working poverty. These challenges generally correspond with the broad challenges identified in Section 2 above.

### *Policy measures*

The EPs share information about new policy measures and initiatives that are being taken in response to the labour market challenges. Many of the policy measures set out in the EPs involve programmes targeted at youth and women as well as skills development (through vocational education and training and apprenticeships). They also reflect country-specific challenges with measures targeted at people with disability, low-skilled workers, displaced workers and older workers. Other policy areas that are frequently cited for further action

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<sup>21</sup> *Coping with Crises: Policies to Protect Employment and Earnings*. Paci, P., A. Revenga and B. Rijkers, *World Bank Research Observer* 27 1: 106-141, 2012.

include: strengthening the social safety net and active labour market policies (e.g. changes to public employment services, direct job creation, employer or employee subsidies or entrepreneurship support programmes), minimum wages, collective bargaining, social dialogue and rights; and workplace safety.

## 6. Conclusion

Seven years after the onset of the global financial and economic crisis, the economic recovery may be strengthening but remains weak and fragile. The employment challenges across most G20 countries are still very sizeable both in terms of a persistently large jobs gap and low quality of many available jobs. The current growth trajectory, if unchanged, will not create enough quality jobs—giving rising to the risk that the jobs gap will remain substantial, underemployment and informal employment will rise, and sluggish growth in wages and incomes will continue to place downward pressure on consumption, living standards and global aggregate demand. Underlining these challenges is the fact that income inequality continues to widen across the G20 countries.

The G20 commitment to boost GDP by more than 2% by 2018 over and above the baseline projections is certainly a welcome step, although it will be important to ensure that this additional growth is job-rich and inclusive.

Policy interventions that address both the demand and supply sides of the labour market are essential to reverse the current self-reinforcing cycle of slow growth, low job creation and low investment. In this context, G20 countries have pioneered a number of innovative policies, as illustrated in their national Employment Plans. It is important that these plans are fully incorporated into the comprehensive G20 growth strategies as important contributions to stronger growth and rebalancing. By supporting consumption demand, better wages and earnings and social protection can indeed provide incentives for investment in productive capacity and accelerator effects on capital spending and thus further job creation. Policies of this nature also contribute to household resilience and protection against the shocks that are likely to continue throughout the current conjuncture as monetary stimulus is gradually withdrawn. Indeed, these sources of demand will become even more important as monetary policy normalization subtracts monetary stimulus at the global level. They also help counter disinflationary risks which are a current or rising threat in some advanced economies.

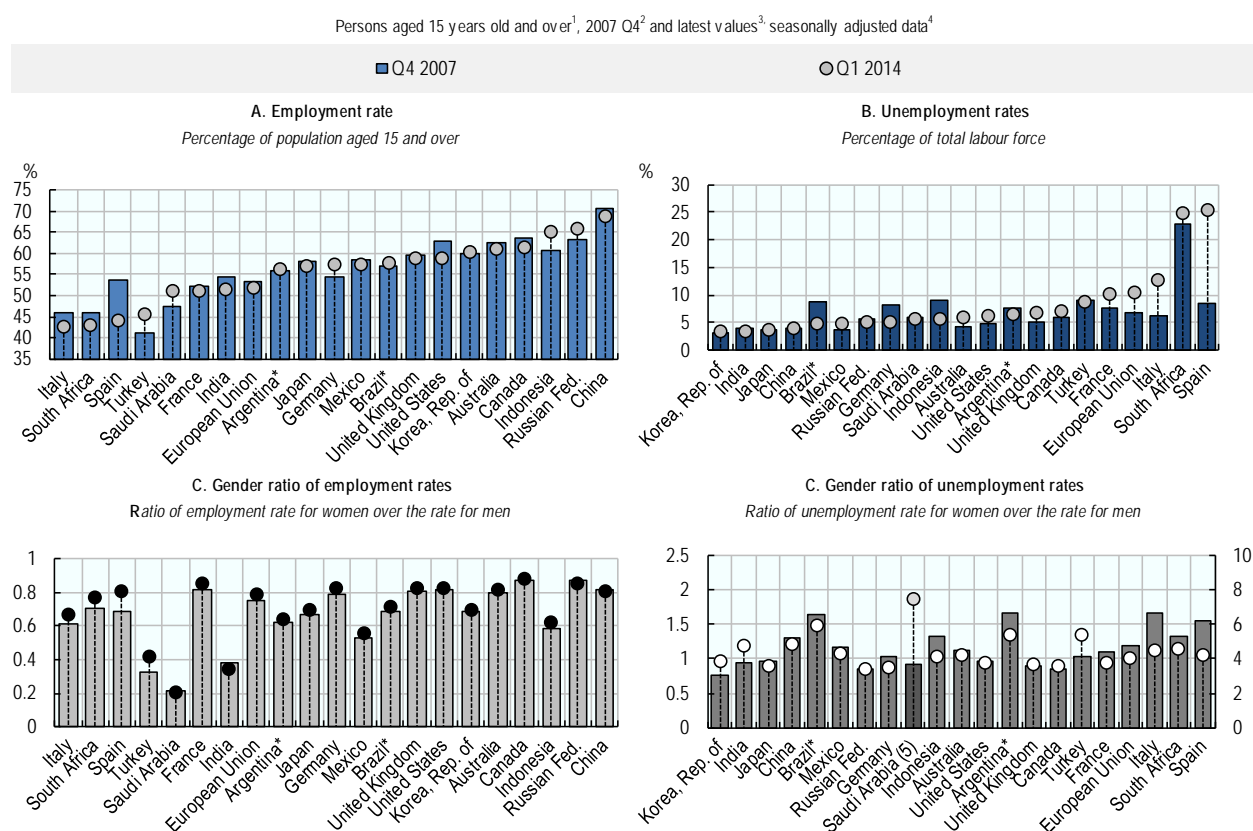
Importantly, these policies have significant positive spillover effects for other countries by increasing global aggregate demand, limiting the impact of negative demand shocks and discouraging recourse to beggar-thy-neighbour policies with negative spillover effects. International organizations have collected and distilled evidence on the effectiveness of these policies in creating mutually re-enforcing patterns of economic and employment growth and made those findings available through G20 documents and other publications.

In conclusion, the current situation calls for strong and well-designed employment, labour and social protection policies to address both cyclical and structural challenges, applied in conjunction with supportive macroeconomic policy mixes. The effectiveness of such policies would greatly increase if actions are taken collectively at the G20 level in a coordinated manner.

## Statistical annex

### I. Labour market developments

Figure 1A: Labour market outcomes since the onset of the crisis



\* Selected urban areas.

Countries are shown by ascending order of the employment rate in Panels A and C, and by ascending order of the unemployment rate in Panels B and D.

1. 15-64 for South Africa, 15-72 for the Russian Federation and 16 and over for China (data by gender) and the United States.

2. 2007 (2005 by gender) for China; 2007-08 for India; Q3 2007 for Indonesia; and Q1 2008 for South Africa.

3. 2012 (2010 by gender) for China; 2011/12 for India; Q4 2013 for Argentina and Brazil (data by gender); and Q2 2014 for Canada and the United States.

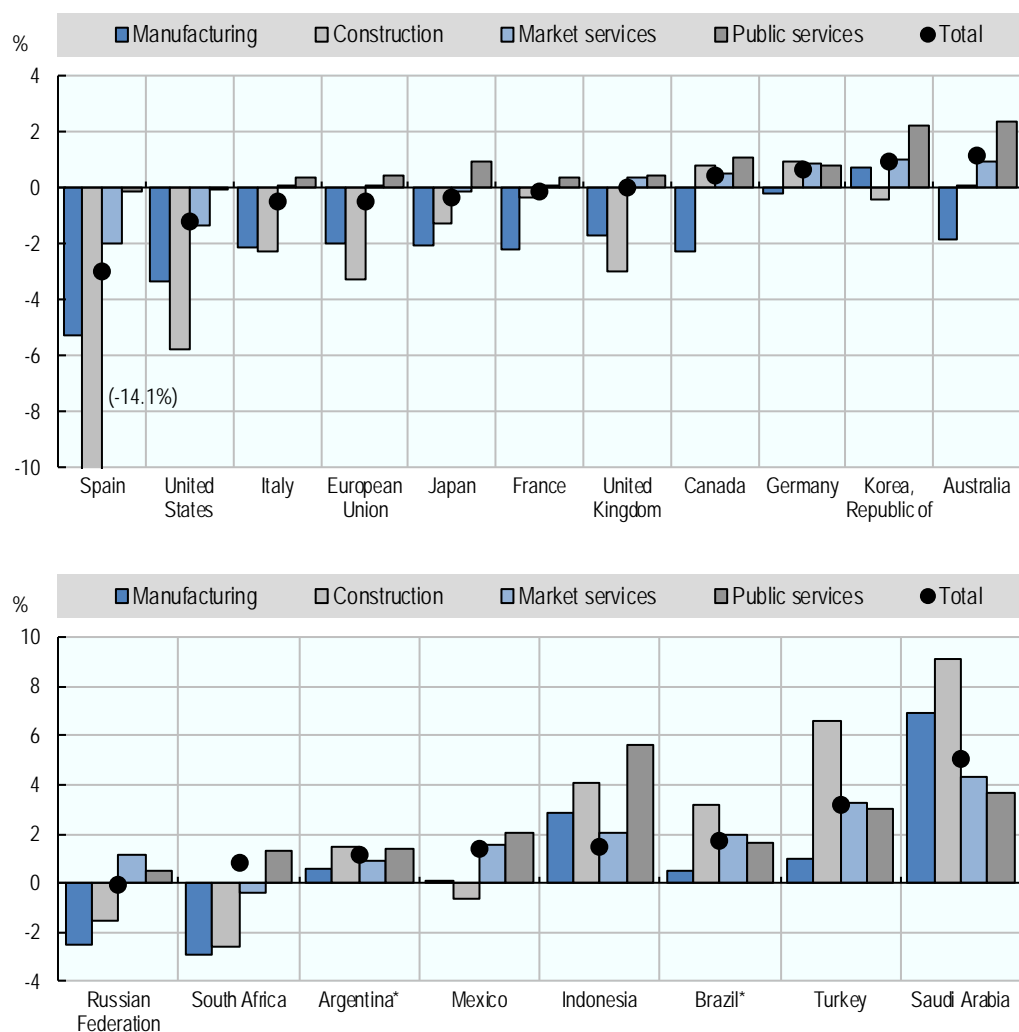
4. Not seasonally adjusted data for Argentina, Brazil (data by gender), Indonesia, the Russian Federation and Saudi Arabia.

5. Right-side scale.

Source: ILO Short-Term Indicators Database, OECD Main Economic Indicators Database and national labour force surveys.

**Figure 2A: Sectoral employment variation, 2008-12<sup>1,2</sup>**

Annual average percentage change



Note: Countries are shown by ascending order of the annual average change in total employment.

\* Urban areas only.

1. 2008-11 for Argentina, Canada, China, the Russian Federation and the United States.

2. Market services corresponds to the following ISIC industries: Wholesale and retail trades; hotels and restaurants; Transport, storage and communication s; Financial intermediation; and Real estate and business activities. Public services corresponds to the following ISIC industries: Public administration and defence, compulsory social security; Education; Health and social work; Other community, social and personal service activities; and Private households with employed persons.

Source: OECD Annual National Accounts Database, ILO Statistics, Short-Term Indicators Database and national annual national accounts.

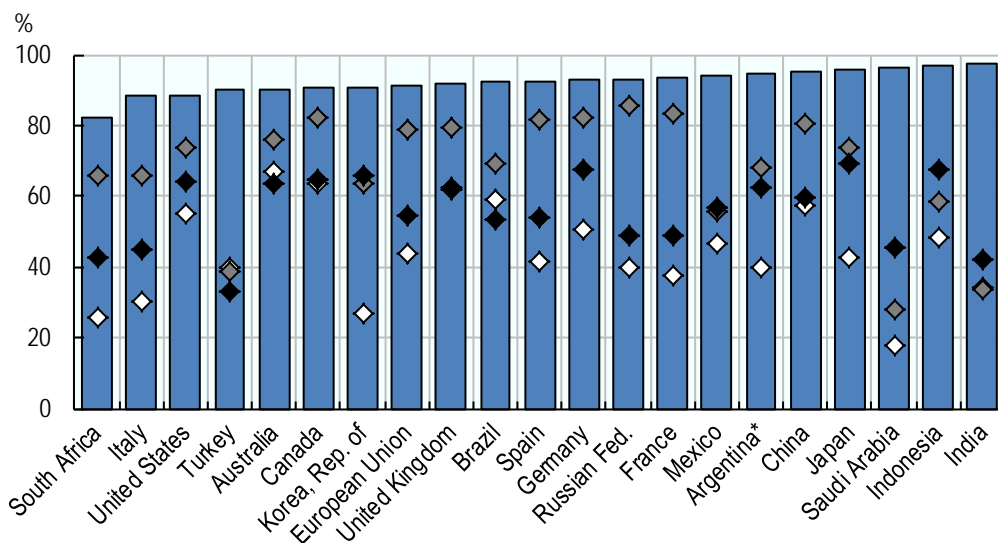


**Figure 3A: Labour force participation rates by socio-demographic characteristics in G20 countries**



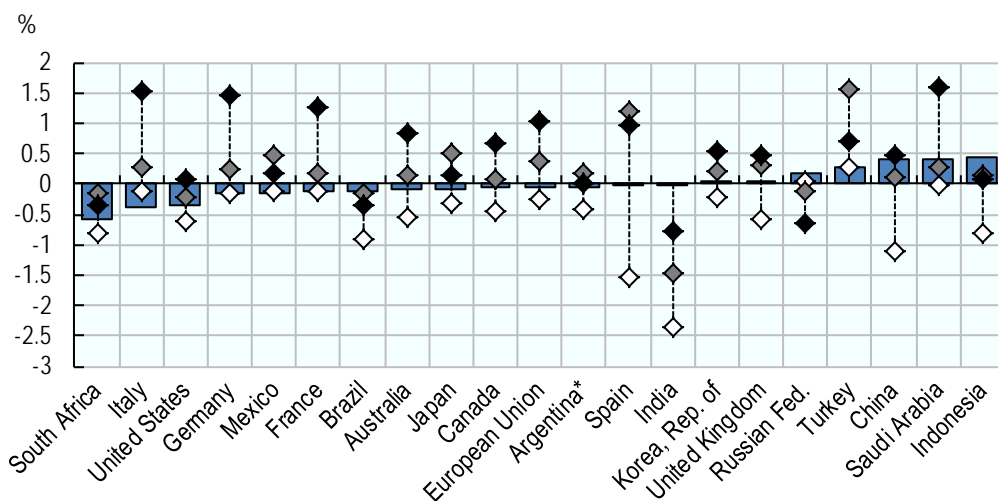
**A. Labour force participation rates in 2013<sup>1</sup>**

Percentage of the population of the indicated group



**B. Change in labour force participation rates, 2007-13<sup>3</sup>**

Annual average percentage-points change



Countries are ordered by ascending order of the prime-age male labour force participation rates in 2012 (Panel A).

\* Selected urban areas.

1. 2010 for China; 2011-12 for India; 2012 for Brazil; and Q3 2013 for Indonesia.

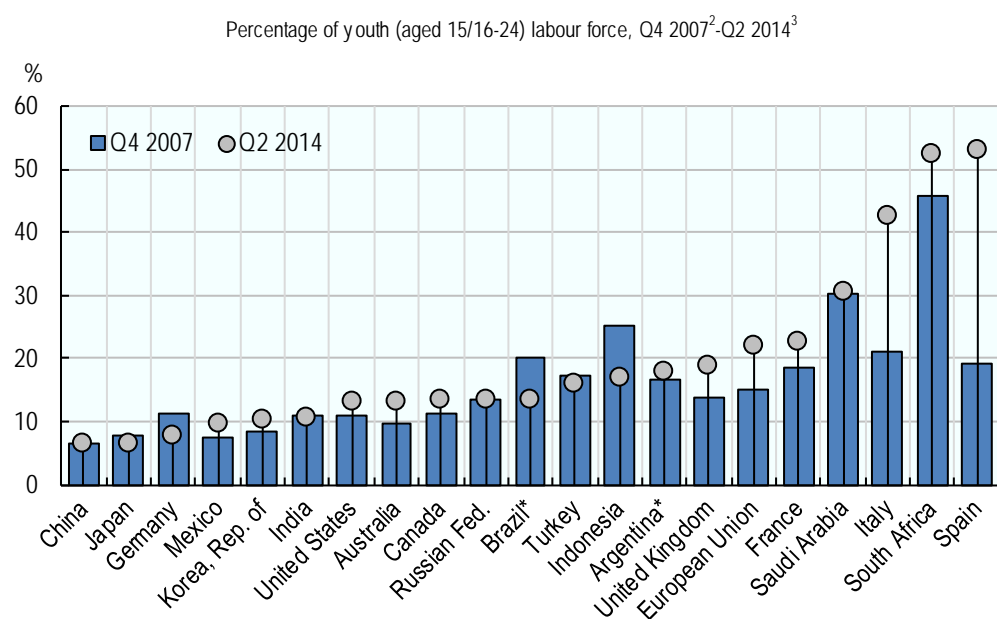
2. Youth refers to persons aged 16-24 for China, Spain and the United States; Older persons refers to persons aged 55 and over for India.

3. 2005-10 for China; 2007/08-2011-12 for India; 2007-12 for Brazil; 2008-12 for Argentina and South Africa, and Q3 2007-Q3 2013 for Indonesia.

Source: OECD Labour Force Statistics Database and national labour force surveys.

## II. Youth employment conditions

Figure 4A: Youth<sup>1</sup> unemployment since the onset of the crisis



Countries shown by ascending order of the youth unemployment rates in Q1 2014.

\* Selected urban areas.

1. Persons aged 16-24 for China and the United States.

2. 2005 for China; 2007/08 for India and Q1 2008 for South Africa..

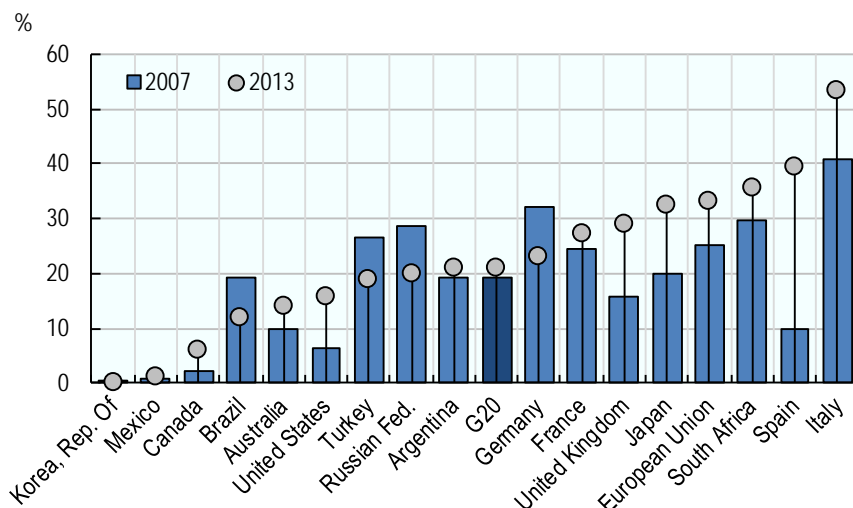
3. 2011/12 for India; 2010 for China; Q4 2013 for Argentina; and Q1 2014 for Brazil, Indonesia, Italy, the Russian Federation, Saudi Arabia, South Africa, Turkey and the United Kingdom.

*Note:* Harmonised quarterly unemployment rates (seasonally adjusted) for all OECD countries; LFS-based unemployment rates seasonally adjusted for Brazil and South Africa and not seasonally adjusted for Argentina, Indonesia, the Russian Federation and Saudi Arabia; Annual unemployment rates for China and India.

Source: OECD calculations based on OECD Short-Term Labour Market Statistics Database; ILO, Short-term Indicators of the Labour Market; Census data for China and National Sample Survey for India.

**Figure 5A: Incidence of long-term unemployment<sup>1</sup> among youth**

Percentage of youth (aged 15/16-24<sup>2</sup>) unemployed, 2007-13<sup>3</sup>



Note: Countries shown in ascending order of the youth unemployment rates in 2013.

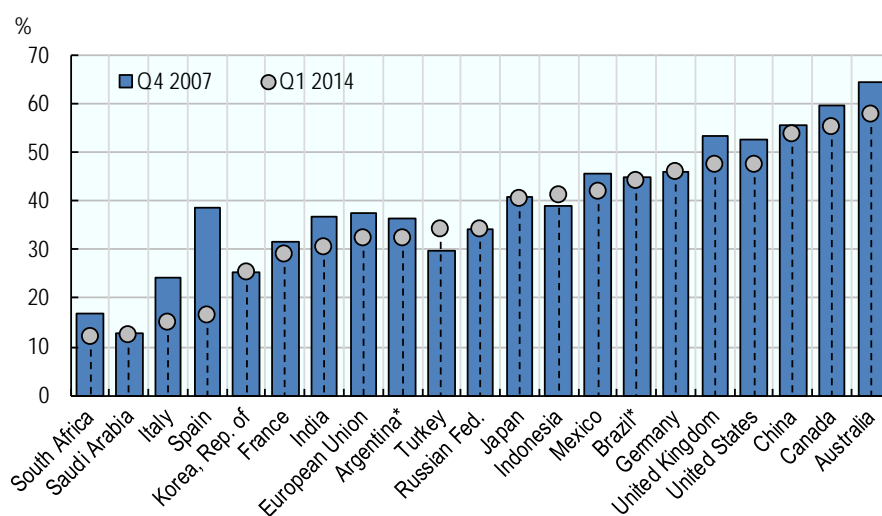
\* Selected urban areas.

1. Unemployed persons since 12 months or more.
2. Persons aged 16-24 for the United States.
3. 2008-12 for Argentina and South Africa.

Source: OECD calculations based on OECD Labour Force Statistics Database and national labour force surveys for Argentina and Brazil.

**Figure 6A: Youth<sup>1</sup> employment since the onset of the crisis**

Percentage of population aged 15/16-24, Q4 2007<sup>2</sup>-Q1 2014<sup>3</sup> seasonally adjusted data<sup>4</sup>



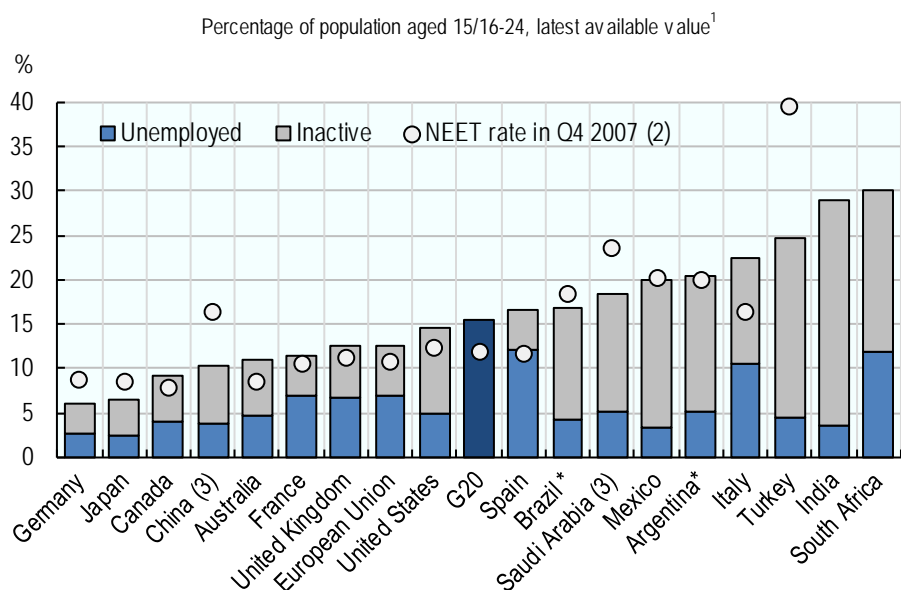
Note: Countries shown in ascending order of the youth employment rates in Q1 2014.

\* Selected urban areas.

1. Persons aged 16-24 for China and the United States.
2. 2005 for China; 2007/08 for India; Q3 2007 for Indonesia; and Q1 2008 for South Africa.
3. 2011/12 for India; 2010 for China, 2013 for the Russian Federation and Saudi Arabia (Annual averages); Q4 2013 for Argentina; and Q2 2014 for Canada and the United States.
4. Not seasonally adjusted data for Argentina and Indonesia.

Source: OECD calculations based on OECD Short-Term Labour Market Statistics Database; ILO, Short-term Indicators of the labour Market; National Sample Survey for India; and census data for China.

**Figure 7A: Youth neither in employment nor in education or training (NEET)**



Countries are shown by ascending order of the NEET rate.

\* Selected urban areas.

1. Q4 2013 for almost countries excepted 2010 for China; 2009/10 for India; October 2013 for Australia; Q3 2013 for Saudi Arabia.

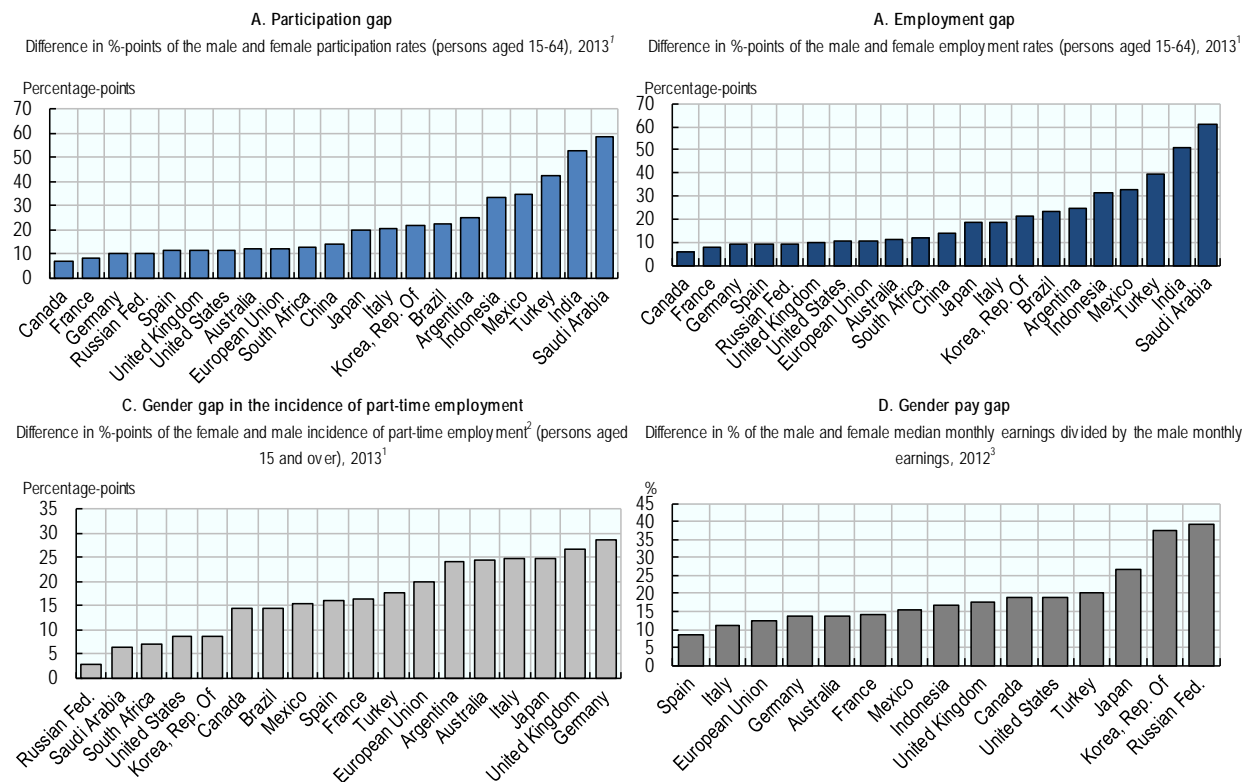
2. 2005 for China; October 2007 for Australia; Q3 2007 for Saudi Arabia; and Q4 2008 for Argentina.

3. NEET rate may include some unemployed people who are in education.

Source: OECD estimates based on national labour force surveys.

### III. Gender gap

Figure 8A Gender gaps in G20 countries



\* Selected urban areas.

Countries are shown by ascending order of the employment rate in Panels A and C, and by ascending order of the unemployment rate in Panels B and D.

1. 2010 for China; 2011-12 for India; 2012 for Brazil; and Q3 2013 for Indonesia.

2. Incidence of part-time employment refers to the proportion of employed persons who work part-time, based on a 30-usual-hour cut-off in the main job.

3. 2010 for France; 2011 for the European Union, Indonesia and the Russian Federation; and 2013 for Mexico.

Source: OECD Labour Force Statistics Database; OECD Earnings Distribution Database and national labour force surveys.