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Executive Summary

The global employment challenge

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The world faces a huge challenge of creating productive jobs for its expanding labour force, says a new study by three ILO economists. This challenge is global in three ways. First, inadequate availability of productive jobs is now a worldwide phenomenon, affecting both North and South. Second, global forces such as cross-border flows of trade, capital and labour now have important consequences for employment in individual countries. Third, international economic policies are now almost as important as national policies for expanding opportunities for productive employment in less developed countries, where most of the world's workers live and where almost all of its new workers will live.

The study sets out in detail the nature and magnitude of this employment challenge. It provides an empirical assessment of the current employment situation in the world, a review of developments since 1990, an analysis of the interactions among structural factors, global forces and national policies that have affected employment, and ideas on required policy responses at international and national levels.

The challenge

Of the world's 3.1 billion workers, 73 per cent lives in developing countries while only 14 per cent lives in advanced industrial countries and the rest lives in the countries of Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS), oil-rich countries and other high-income countries. And some 46 million new workers will be joining the world's labour force every year in the future, the bulk of them in developing countries. While the world's labour force is concentrated in developing countries, its capital and skills are concentrated in advanced industrial countries. The global employment situation reflects this huge asymmetry in the distribution of the world's productive resources.

Millions of workers in the developing world are seriously under-employed and are engaged in extremely low-productivity survival activities. Even in advanced industrial countries and CEE and CIS countries, there are large numbers of unemployed, precariously employed as well as discouraged workers who have given up searching for elusive jobs. The challenge that the world faces is one of creating productive jobs not just for the millions who will be joining the labour force but also for the millions who are currently unemployed, underemployed, engaged in low-productivity survival activities and discouraged.

Developing countries

In developing countries, which have a dualistic economic structure that combines a small formal segment with a large non-formal segment, the employment problem manifests itself not in high unemployment but in high incidence of underemployment hidden in self-employment and casual wage employment outside the formal segment. Poverty is rooted in this kind of employment situation. The poor are outside the formal segment and work as self-employed and casual wage labourers.

In this context, improving the employment situation often reduces poverty and this generally occurs in two different ways. First, when employment in the formal segment grows faster than the labour force, some of the self-employed and casual wage labourers move into full-time productive jobs. Second, when government policies successfully direct investment into the non-formal segment of the economy, underemployment of some of the self-employed and casual wage labourers declines and their productivity and income increases.

Using these criteria, the study finds that since 1990 the employment situation has improved in some developing countries but has deteriorated in many cases. But rapid economic growth has not always significantly improved employment.

The 1990s were a period of rapid growth of cross-border trade and capital flows. These developments are widely believed to have improved employment conditions and reduced poverty in developing countries. The study finds no convincing evidence to support this view. Trade growth and capital inflow were often accompanied by stagnation or decline in investment in many developing countries. And since increased trade and capital inflow induced a shift of investment from the non-formal segment to the formal segment, growth of the non-formal segment was often adversely affected.

Developed countries

In advanced industrial countries, near-full employment prevailed until the mid-1970s when the first “oil shock” induced an employment problem. The problem still persists today despite some improvements in the 1990s. The unemployment rate exceeds 5 per cent in 14 of 23 advanced industrial countries. Over 15 per cent of jobs are part-time in 13 countries, and part-time employment appears to have substituted for unemployment to a significant extent.

In the 1990s, most countries sought to address the employment problem essentially through policies designed to increase labour market flexibility. But these policies had very limited success in reducing unemployment and instead led to growth of low-paid part-time and temporary jobs and even to two-tier labour markets. This is surprising considering that the 1990s was actually a period of rapid economic growth.

Analysis shows that the policies were based on a misunderstanding of the employment problem. The labour market difficulties of low-skilled workers in all advanced industrial countries arose not from inflexibility of labour markets but from structural changes – de-industrialisation, skill-biased technological change and growing specialization in skill-intensive products induced by globalization. These factors have been steadily reducing the demand for low-skilled labour despite the dwindling number of low-skilled workers and increasing the demand for high-skilled labour despite the rapidly increasing number of high-skilled workers. Policies designed to increase labour market flexibility have only succeeded in pushing some low-skilled workers into non-standard and involuntary part-time employment.

Central and Eastern Europe

The employment problem in these countries is remarkably similar to that of advanced industrial countries; it is mainly low-skilled workers who face unemployment and constitute the bulk of discouraged workers. Employment problems emerged in the early 1990s when their economies suffered massive contraction during the transition from a centrally planned to a market system. Despite rapid economic growth in the mid-1990s, the employment situation has continued to decline. The labour force participation rate has mostly continued to deteriorate and is below 60 per cent in all countries. The unemployment rate has continued to rise in several and is higher than 5 per cent in all countries. Even in those countries where the unemployment rate has fallen, it was caused by the disillusionment of workers who give up looking for jobs and not job creation.

The employment situation continues to worsen despite economic growth for two reasons. First, growth was associated with the restructuring of enterprises as well as output. Second, the growth of services, the lead sector, was largely confined to skill-intensive services and generated very few jobs.

Commonwealth of Independent States

Similar to Central and Eastern Europe, the countries of the Commonwealth of Independent States have high unemployment and large pools of discouraged workers. Unemployment rate is higher than 8 per cent in all countries and labour force participation is low – less than 60 per cent.

The employment problem in these countries originated in the massive economic decline they suffered after the break-up of the Soviet Union. Economic growth resumed only in the late 1990s, but even today GDP remains below that of 1990 in many of the countries. Despite the rapid economic growth most of these countries have experienced since 2000, employment has either declined or failed to grow.

Meeting the challenge

Two things are alarmingly clear: the serious lack of productive jobs is a problem that affects virtually all countries of the world, and the policies pursued in the past have not been effective in addressing the problem. Given that there are 46 million new workers each year in the world, recognizing the problem and rethinking policies are urgent matters.

Meeting the formidable employment challenge facing the developing world requires policy responses at both international and national levels. International policy has to be based on recognition that improvement in the employment situation in developing countries calls for a reduction of the huge asymmetry in the cross-country distribution of productive resources that currently exists. The potential role that globalization could play in reducing this asymmetry must also be recognized.

Given this context, international policy needs to focus on two areas. First, international policy must provide aid for investment required to address the employment problem, and analysis shows that it has been effective in the past. Second, international migration has increasingly become a mechanism for brain drain in developing countries which already lack skilled workers. International policy must transform this brain drain into brain circulation. The establishment of a transparent system of fixed-term migration of high-skilled workers must be considered.

Developing countries must re-orient their growth strategies and labour policies to pursue explicit employment objectives. Employment growth in the formal segment must exceed the labour force growth in the economy, and labour market regulations and institutions must not generate strong incentives for the substitution of capital for labour. Finally growth must occur in the non-formal segment so that output per worker there does not decline.

National policies in developed countries must focus on moving those who have lost their jobs in the industrial sector to new jobs in the services sector. This reallocation cannot be achieved through policies that increase the flexibility of labour markets. Labour market policies must impart simple but new skills to these people, promoting new forms of apprenticeship arrangements and guaranteeing welfare through wage subsidies.

These labour market policies are also required in Central and Eastern Europe, but for them to be effective there, growth in the service industry needs to create jobs.

In the countries of the Commonwealth of Independent States, policies have to focus on two main objectives. First, subsistence farming needs to be transformed into productive self-employment by creating support institutions for maintenance and development of infrastructure and for supplying credit and extension services in several countries. Second, most of these countries are rich in natural resources. These can be exploited for the purpose of promoting employment-intensive industries, and the “natural resource curse” must be avoided.

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