

Global Agenda Council on Employment

# Jobs and Skills: Tackling the Global Unemployment Crisis – Preparing for Growth

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Last year, the Global Agenda Council on Employment published a report warning about a vicious circle set in motion in which high and persistent unemployment and underemployment are feeding into depressed consumption and investment and lower prospects for growth and job creation. As a result, concerns about higher inequality and distrust in governments' ability to provide adequate solutions started to rise. One year later, this risk is becoming an unpleasant reality for several countries.

It has been six years since the start of the global financial crisis, but job creation remains weak in many G20 countries, preventing a significant decline in the often record-high levels of unemployment and underemployment, especially in some of the most vulnerable segments of the population. Unfortunately, the short-term labour market outlook is not encouraging, despite growing disparities across countries; while unemployment is gradually declining in the United States and other large G20 countries, it is still high if not peaking in certain countries particularly hit by the crisis. Against this background, it is not surprising that the World Economic Forum's *Outlook on the Global Agenda 2014* and *Global Risks 2014* report identify widening income disparities and persistent structural unemployment and underemployment as the most serious problems confronting decision-makers.

Owing to weak job prospects, high unemployment, diminished social spending and rising inequalities, the role of governments collaborating with social partners to promote inclusive growth and jobs has never been so important. Breaking the vicious circle is an imperative. Working with fellow Global Agenda Councils, the Global Agenda Council on Employment calls for decisive action to put this issue at the centre of their agendas. Clear commitments have been made, by G20 governments, Business20 and Labour20. It is vital to turn these obligations into concrete steps, in a holistic and coordinated plan for more and better jobs.

# Members of the Global Agenda Council on Employment

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- Brent Wilton, Deputy Secretary-General, International Organization of Employers (IOE), Geneva
- Jane Zhang Youyun, Executive Vice-President, China Association for Employment Promotion (CAEP), People's Republic of China

# Context

This is the third occasion on which a paper has been presented to the World Economic Forum Annual Meeting in Davos-Klosters to call for urgent action to address the global jobs crisis. According to the World Economic Forum's *Outlook on the Global Agenda 2014*,<sup>1</sup> the three most serious problems confronting policy-makers in the next year are:

- Rising societal tensions in the Middle East and North Africa
- Widening income disparities
- Persistent structural unemployment

These themes featured in earlier papers prepared by the Global Agenda Council on Employment and each is at the heart of the arguments presented here.

The Council's analysis is rooted in the belief that, while the global economy needs growth for jobs, the world needs jobs for sustained growth. Indeed, jobs and growth enjoy a symbiotic relationship. Demand will be depressed and growth will be sluggish unless more people return to work. Above all, the restoration of confidence is needed. Consumers need confidence in their job and economic prospects to spend as well as save. And businesses need to be assured of a rising demand for their products and services before they can be confident that an investment will be worthwhile.

Governments and social partners should work together to ensure an adequate supply of workers with the skills needed to sustain the global economy's long-term productive potential. They must ensure that economies are well placed to respond to the recovery when it materializes. Governments must therefore act on the demand and supply sides.

The economic and employment outlook for the next year are not reassuring. In its most recent economic forecast, the International Monetary Fund (IMF)<sup>2</sup> downgraded its 2014 growth projections, despite already revising the 2013 numbers downwards with each successive estimate. The November 2013 Organisation for Economic Co-operation and Development (OECD) *Global Economic Outlook*<sup>3</sup> tells a similar story. It identifies three significant upcoming risks: Slowing growth in emerging market economies, which have sustained global growth rates since 2008; Uncertainty in the United States about monetary policy (the unwinding of quantitative easing) and fiscal policy; Continued weakness in the banking system in the euro area and a policy mix that exacerbates the risk of deflation while failing to deal with imbalances between surplus and deficit countries.

Countries' economic and employment performance varies considerably; even if growth is resuming in a number of them, job creation remains subdued, and many people are experiencing deeper crisis. According to the International Labour Organization (ILO),<sup>4</sup> global unemployment is set to rise in 2014, with more than 200 million people without work across the world. Youth unemployment in the Middle East and North Africa will remain at close to 30% until

2017. In parts of southern Europe, between 33% and 50% of young people eligible to work are unemployed. Overall unemployment in the euro area is forecast to remain at close to 12% into 2015.

"Underemployment" is also a serious problem. In many developing and emerging economies, a large number of workers are trapped in low-paid and low-productivity jobs. Even in advanced economies, some in part-time jobs would like to work more hours; in 2012 around 20% of part-time workers in the OECD expressed this preference. What started as a deep but temporary job crisis is becoming a persistent challenge with serious effects on the social fabric.

Little respite is on the horizon in 2014 without significant changes in policy. The G20 is alerted to the issue; labour, employment and finance ministers issued an encouraging joint communiqué at their meeting in Moscow in July 2013.<sup>5</sup> But these commitments (Box 1) must now be turned into concrete action.

## Box 1: Commitments of Ministers of Finance and Labour, Moscow – July 2013

- Integrated macroeconomic, financial and labour market policies that foster growth and employment
- Measures to support a sound domestic investment and business climate, especially for small and medium-sized enterprises and start-ups
- Reforms to foster growth and job creation, address labour market segmentation, reduce informality and promote inclusive labour markets, while fully respecting workers' rights and social protection
- Policies to increase labour force participation, including among youth, women, older workers and people with disabilities, and to reduce structural unemployment, long-term unemployment, underemployment and job informality
- Labour market and social investment policies that support aggregate demand and reduce inequality, such as broad-based increases in productivity, targeted social protection, appropriately set minimum wages with respect to national wage-setting systems, national collective bargaining arrangements and other policies to reinforce the links between productivity, wages and employment
- Well-targeted cost-effective and efficient labour activation programmes, focused on skills training and upgrading, especially for vulnerable groups, and the promotion of youth employment, including by Youth Guarantee approaches, encouraging vocational training and apprenticeships, and facilitating exchanges of best practices among G20 countries and social partners on activation policies.

The case for action is clear. Unemployment, especially long-term unemployment, often leads to discouragement and loss of human capital. It is associated with physical and mental ill-health, imposing continuing burdens on health and welfare systems and ultimately having a negative impact on growth. Persistent youth unemployment in particular has a scarring effect, increasing unemployment risks later in life and depressing lifetime earnings. In 2012 the Global Agenda Council on Employment and Social Protection<sup>6</sup> warned that, without decisive action, the cyclical unemployment that followed the crisis could very quickly become long-term, structural unemployment. That risk is now becoming a worrying reality for many.

While job creation is essential, policy-makers must give equal attention to the quality of employment. Low quality work is rarely sustainable work.

The high and increasingly persistent unemployment facing many countries is the result of weak labour demand. It cannot be ascribed to skills mismatches, where the unemployed cannot return to work because they do not have the skills required to support sustained labour market participation. Firms in certain sectors and areas may experience difficulty in recruiting workers, but this cannot explain the high and rising joblessness figures. It is also incorrect to believe that youth unemployment is the result of a failing educational system. There can be little doubt, on the other hand, that those most detached from the labour market, principally the long-term unemployed, may have skills deficits that need to be addressed, and their skills will depreciate as a result of long periods out of work. Equally, low-skilled young people find it difficult to enter the labour market and stay there. These problems are not new; they pre-date the crisis.

Policy should therefore act on both the supply and demand sides. A “two-handed” approach is needed. It is particularly important to ensure an adequate supply of qualified workers when growth returns. Moreover, a reduction in long-term unemployment cannot be achieved by demand side policies alone. Young people who would otherwise find themselves without work must be encouraged to continue their education and should be provided with opportunities to familiarize themselves with the world of work through internships and apprenticeships. Policy-makers should pay close attention to the education-to-work transition.

The focus of this paper is on advanced and emerging G20 economies because that is where both the problems and the solutions can be found. The Council recognizes that countries have experienced the crisis differently and that they are facing diverse labour market conditions currently. No simple, universally applicable policy solution exists. Nonetheless, certain key questions need to be addressed and, above all, policy across advanced and emerging economies needs to be coordinated, just as it was in 2009 in the period immediately following the crisis.

# Agenda

The core message of this document is that decision-makers must give the jobs crisis the attention it deserves. Employment must be the priority for the G20. This demands action on the demand side and the supply side. The policy menu the Members of the Global Agenda Council on Employment outlined last year<sup>7</sup> remains highly relevant, but the Council is also calling for:

Practical action to implement commitments made at the G20, and much better economic policy coordination at the international level

In those countries with the fiscal space to do so, action to sustain aggregate demand, with clear commitments to employment enhancing public investment

Special attention to youth employment and well-targeted support, especially for the most disadvantaged young people. Implementation of the Youth Guarantee programme in European Union countries can provide part of the response to the youth unemployment problem if it is integrated into high quality active labour market initiatives. Those countries implementing a Youth Guarantee programme should consider how to ensure a pathway into employment at the end of the guarantee period.

## *Recommendations for policy-makers*

Additional demand side measures:

- Make targeted investments in infrastructure to improve long-term productive potential and support the transition to a low-carbon economy
- Shift taxation from employment to environmental “bads” and ally this with policies to promote environmentally sustainable growth
- Implement flexible schemes to promote job retention and job sharing until the recovery is secured
- Ensure that robust minimum wage floors are in place to prevent wage deflation.

Supply side measures:

- Sustain investment in cost-effective active labour market programmes
- Ensure that labour market policies focus on building the human capital of the unemployed with low skills; promote more in-depth and individualized support to this category of unemployed individuals: for some people this requires a shift from the “work-first” approach to a “learn-first” model, emphasizing retraining or skills upgrading
- Take action to boost employment for those groups with high inactivity rates including, in some countries, women, older people and members of minority ethnic communities
- Implement well-designed and managed migration policies to respond to demographic change, address skills shortages and maintain the growth potential of the economy

- Increase the number of quality apprenticeships available for young people and improve the training provided; the joint initiative from the L20 and B20 on quality apprenticeships provides some guidance on what must be done (Box 2)
- Work with unions and employers to ensure that skills are developed and maintained throughout working life
- Offer incentives to employers to invest in training – especially in sectors where emerging skill shortages might adversely affect the productive potential of the economy
- Ensure that educational systems are responsive to the needs of the labour market and that students complete their schooling with the essential skills needed to find work, through collaboration with employers
- Provide financial support for continued participation in education; if necessary, this should be targeted to students from low-income households.

## **Box 2: Labour-Business Cooperation at the G20 Level to Scale Up Quality Apprenticeships**

- In 2013, the L20 and B20 reached a common understanding in support of quality apprenticeship systems; their agreement was presented at the first joint meeting of G20 Labour and Finance Ministers in July 2013 in Moscow.
- L20 and B20 representatives drew up a set of principles to support quality apprenticeships that they based on the study of a range of successful national experiences. The analysis concluded that successful apprenticeships should correspond to the needs of the workplace and have their own contractual arrangements to protect apprentices. They must be workplace-centred as a significant part of the training should be conducted in companies to support the smooth transition from training to work. The apprenticeships should be combined with high quality vocational schooling with highly qualified and motivated teachers supported by the latest technology and learning tools. These systems should also be open to adults who intend to change careers, and reflect gender equity objectives.
- This joint L20-B20 understanding affirms the commitment of workers and business to work alongside government to implement apprenticeship systems that reflect these jointly-held objectives and to promote youth employment, entrepreneurship and innovation.

### *Recommendations for employers*

- In countries that are implementing the Youth Guarantee programme, employers should work with trade unions to identify the most suitable measures for diverse young people. In particular, the focus should be on the quality of the experience, a strong training component and adequate time for the young participants to look for work elsewhere.
- Employers with the capacity to create jobs should make specific commitments to recruit a certain number of young people from the unemployment register in 2014.
- Employers should be fully involved in national plans to scale up quality apprenticeships, along the lines of the L20-B20 agreement, to help tackle youth unemployment and improve the long-term growth potential of the economy.
- Employers must be active participants in the development of education and training policies, must help design curricula and should have a role in monitoring outcomes.
- Creating quality employment has a strong skills component. In partnership with trade unions, employers should take action to promote workplace learning over the course of the working life. Jobs should be designed to ensure that skills are fully utilized, with widespread opportunities for progression and development.

### *Recommendations for trade unions*

- Trade unions have a central role to play, with employers, to ensure that Youth Guarantee programmes offer high quality opportunities and are linked to genuine employment offers at the end of the guarantee period.
- Trade unions should work with employers at the national level to implement the B20 and L20 recommendations on quality apprenticeships, as already acknowledged by the G20.
- Social dialogue with employers on skills policy is essential. In the workplace the focus should shift to work organization, job design and continued opportunities for workplace learning.
- Identifying good practice in workplace learning is an essential trade union function. Where possible this effort should be pursued in partnership with employers. Trade union representatives also need to be trained to acquire the knowledge and skills to support workplace learning.
- Most importantly, trade unions can help workers recognize that learning is an opportunity, not a threat – a particular risk in those workers who had an unhappy experience in formal education. Moreover, trade unions should work with governments and employers to ensure that all workers (whether full-time or part-time) have access to workplace learning and the financial support needed to participate in such programmes.

### **The Importance of Policy Coordination**

Governments must seize the opportunity offered by the Australian presidency of the G20 to turn their commitments into practical action. One lesson learned since the 2008 crisis, however, is that no country can act alone. Governments must act together and their actions must be mutually reinforcing, just as in 2009. This position was accepted by the G20 labour and employment and finance ministers at their meeting in Moscow.<sup>8</sup>

The Global Agenda Council on Employment endorses this aspiration. Its Members believe that it will deliver a more balanced approach to global growth, enabling surplus and deficit countries to make progress together.

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**We will strive to ensure that our future commitments to provide strong, sustainable, and balanced growth reflect our common views regarding employment, labour and social policies, and the need to integrate them with our macroeconomic policies to support economic growth, quality job creation, and social cohesion.**

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# Endnotes

1. [http://www3.weforum.org/docs/WEF\\_GAC\\_GlobalAgendaOutlook\\_2014.pdf](http://www3.weforum.org/docs/WEF_GAC_GlobalAgendaOutlook_2014.pdf).
2. <http://www.imf.org/external/pubs/ft/weo/2013/02/>.
3. <http://www.oecd.org/eco/economicoutlook.htm>.
4. [http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms\\_202326.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_202326.pdf)
5. See “G20 Labour and Employment and Finance Ministers’ Communiqué”, Moscow, Russian Federation (19 July 2013), available at: [http://en.g20russia.ru/documents/?query=Moscow+communique&chm=&document\\_type=&extended\\_mode=0#p2](http://en.g20russia.ru/documents/?query=Moscow+communique&chm=&document_type=&extended_mode=0#p2).
6. [http://www3.weforum.org/docs/WEF\\_GAC\\_CaseIntegratedModelGrowthEmploymentSocialProtection\\_Report\\_2012.pdf](http://www3.weforum.org/docs/WEF_GAC_CaseIntegratedModelGrowthEmploymentSocialProtection_Report_2012.pdf).
7. [http://www3.weforum.org/docs/WEF\\_GAC\\_JobsGrowthGrowthJobs\\_2013.pdf](http://www3.weforum.org/docs/WEF_GAC_JobsGrowthGrowthJobs_2013.pdf).
8. [http://en.g20russia.ru/documents/?query=Moscow+communique&chm=&document\\_type=&extended\\_mode=0#p2](http://en.g20russia.ru/documents/?query=Moscow+communique&chm=&document_type=&extended_mode=0#p2).



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