

Global Agenda Council on Employment

# Unemployment: Rising to the Global Challenge

## An Agenda for Policy- makers and Social Partners

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# Executive Summary

## 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.
- 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.

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

### *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.

### *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.

### **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>6</sup>



**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.**



- 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.

## 1. A Continuing Global Jobs Crisis

- Three years ago the Global Agenda Council on Employment and Social Protection presented a paper to the World Economic Forum Annual Meeting in Davos-Klosters. An urgent warning was given about the growing jobs crisis and the long-term damage that unemployment could do to the growth prospects of the global economy. These views were reinforced in 2013 by a paper from the Global Agenda Council on Employment. At the core of the case made then and repeated in this document is that the world needs jobs for growth and growth for jobs. 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.
- The Council has taken careful note of the *Outlook on the Global Agenda* published by the World Economic Forum in November 2013. The top three challenges confronting global policy-makers in 2014 have been identified as follows:
  - Rising societal tensions in the Middle East and North Africa
  - Widening income disparities
  - Persistent structural unemployment
- Each of these challenges featured in the Council's presentation at the Annual Meeting 2013 in Davos-Klosters and remains central to the arguments made in this paper.
- The jobs crisis, with its social and economic implications, is far from over. As recorded last year, more than 200 million people are unemployed across the world and that number may even rise further next year. More specifically, continuing high levels of youth unemployment present an enormous economic and social challenge. Even a significant fall in youth unemployment in the developed world will be insufficient to shift the global trend in a more positive direction.
- Some parts of the world are worse hit by the jobs crisis than others, with the Middle East and North African (MENA) region predicted to experience youth unemployment at almost 30% for the next four years. Even in developed economies, youth unemployment is expected to remain above 15%. 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.
- There can be little doubt that the experience of economic injustice helped to precipitate the events of the Arab Spring in 2012. The *Outlook on the Global Agenda 2014* identifies rising societal tensions in the Middle East and North Africa as the biggest risk facing the global economy in the next 12 months and action on employment must be part of the policy response to political instability in the MENA region. While the political crisis in southern Europe is much less pressing, the current levels of youth unemployment could lead to a severe weakening of social cohesion.
- High levels of joblessness have damaging macroeconomic effects, depressing effective demand in the economy, reducing economic growth and wasting productive potential. The implications for households and individuals are profound and deeply disturbing. Youth unemployment, especially if of long duration, has a scarring effect, increasing the likelihood of worklessness later in life and reducing the potential of lifetime earnings. The impact of long-term unemployment on health and well-being is also well documented, increasing the risk of both mental and physical illness (which can prevent a return to work) and reducing life expectancy. This imposes significant costs on the health and welfare systems that can be avoided through effective intervention to keep those currently without work in touch with the labour market.
- The Global Agenda Council on Employment recommended a range of policy measures to tackle the jobs crisis. Since the labour market outlook has not improved significantly, the task is even more urgent and should be at the core of policy-making. According to the *Outlook on the Global Agenda*, persistent structural unemployment is the third most serious problem facing policy-makers and businesses in 2014. Political processes are lagging behind the development of global opinion. The G8 and the G20 need to recognize that policies to boost employment are central to resolving the crisis and building a model of sustainable growth for the future. Jobs must be *the* priority on the global economic policy agenda in the next year.
- This may sound like an ambitious undertaking given all the other pressures on the members of the G20. But in reality, all the Council is doing is asking labour and finance ministers to give a practical demonstration of the formal commitments made in the communiqué issued at the Moscow meeting (Box 1). The language of the statement is excellent and appears to accept the case made in this paper but has been followed by very weak implementation. This must change if the global economy is to achieve any kind of sustained recovery. Most importantly, perhaps, policy must be coordinated across the major economies. Countries cannot “go it alone”, and the policy settings in surplus and deficit countries need to be compatible. Anything less will perpetuate the crisis and lead to even more disappointing economic outcomes.

## Box 1: Commitments in the G20 Finance and Labour Ministers' Communiqué – Moscow, 19 July 2013

At their joint summit in Moscow in July 2013, G20 finance and labour ministers committed to implementing the following obligations over the next year:

- 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.

These policies are generally consistent with the approach adopted in this paper.

- It should be emphasized that this paper is principally directed towards policy-makers in developed countries, although some specific proposals are relevant to the MENA region. Emerging market economies experience a range of somewhat different problems that require long-term rather than short-term solutions. China, for example, has an ageing population and a demographic squeeze, while others must respond to a rapid increase in the working age population. Rural to urban migration is a consistent trend in most emerging economies, which brings challenges around housing, employment, sustainability and environmental degradation. One of the most remarkable achievements of the last 30 years has been the ability of emerging economies (most notably Brazil, China and India) to reduce the incidence of extreme poverty by raising productivity and wages. Maintaining this track record of success will be a major undertaking in depressed global conditions when growth rates are falling in these economies.

- It is also essential to understand that countries have had different experiences through the crisis. Some are still experiencing profound difficulties with very high levels of unemployment while others are recovering and unemployment is falling. Some have the fiscal space to implement accommodative macroeconomic policies to sustain demand, while others still need to focus on restoring order to public finances. Some need to implement measures to boost domestic consumption while others should promote export-led growth. Two important conclusions flow from this analysis. First, no universal prescription is applicable to all countries no matter their present situation. Second, despite individual countries' highly differentiated experiences, tackling unemployment must be a global priority in the coming year.

## 2. The Macroeconomic Context

- We reported last year that global growth performance in 2012 was disappointing. The last 12 months have confirmed that the world economy is still “in low gear”, to use the IMF's description. The only cause for optimism in 2013 was the continued robust growth in emerging market economies, but even here the positive news is now muted, with growth slowing in those economies too.
- The IMF and OECD assessments of the overall macroeconomic situation remain subdued. Growth forecasts for 2013 have been revised downwards over the last year. In July 2012, it was suggested that developed economies would grow by 2% in 2013 – a figure that has now been cut to 1.2%. For emerging and developing economies, the forecast has been reduced over the same period from 6% to 4.5%. The November 2013 OECD *Global Economic Outlook*<sup>7</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.
- These rather dispiriting projections reinforce the core argument: policy-makers must treat employment as a priority in the next year and beyond. Sluggish growth is a phenomenon with real human consequences and there must be a serious effort to accelerate the pace of economic recovery in the coming year.

## 3. Short-term and Long-term Challenges

- In previous papers, the Global Agenda Council on Employment drew a clear distinction between short-term and long-term challenges. That analysis remains just as relevant today. Of course, there can be no doubt that the employment crisis is the most immediate and pressing problem across the OECD and the MENA region, but other challenges cannot be ignored.



Developed economies are confronting the realities of an ageing population, an accelerating pace of technological change, further market integration and trade liberalization (globalization). An important dimension to this discussion is that economic growth may be a means to an end but it cannot be seen as an end in itself. The concern with the *quality* of growth and the impact on the capabilities of citizens to choose lives that they value is becoming an increasing concern for policy-makers. This approach also enables drawing together a series of concerns about employment, inequality and environmental sustainability. Some progress has been made by the Austrian government in measuring a wider range of indicators (Box 2) and other governments should adopt a similar approach as they begin to grapple with the long-term issues discussed here.

- The challenge today is to ensure that the unemployed return to work as quickly as possible. But jobs have to be sustainable, productive and rewarding; in other words the *quality* of employment matters just as much as the *quantity* of employment. “Bad jobs” are likely to leave those at the bottom of the labour market in a depressing cycle, which takes them from joblessness to an active labour market programme, to low quality work, to joblessness.
- The *quality* and nature of work is an important consideration in preparing for the second long-term challenge: the unavoidable fact of an ageing population in many developed and emerging economies. Careful epidemiological studies show there is a “social gradient” in health outcomes, with the more affluent enjoying better health and longevity than those with lower incomes (Marmot 2004). Moreover the steepness of the social gradient is significantly influenced by the level of income inequality and by the experiences that people have at work. Job quality is generally assessed against the degree of autonomy, control, voice in the workplace, perceived procedural justice and an appropriate balance between effort and reward.
- Workers with “high quality” jobs on this definition enjoy *lower* health risks than those doing similar work with less autonomy and control. A recent OECD study suggests that while having a job is generally good for mental health, job insecurity, harsh working conditions and stressful working time arrangements are all associated with mental ill health (OECD 2011b). It is also clear that in countries with wide health inequalities, those in the lowest income groups are much more likely to experience work-limiting medical conditions. Promoting wider access to quality health services and improving job quality are therefore essential for an inclusive labour market, but also to address the long-term challenge of demographic change.

## Box 2: “Beyond GDP” – OECD 2013 Economic Survey of Austria Uses “Well-being Indicators”

Past reports from Global Agenda Councils have emphasized the importance of moving beyond the measurement of GDP per head to give an accurate assessment of economic performance and social progress. Amartya Sen put the objective well in saying that, “economic growth cannot sensibly be treated as an end in itself. Development has to be more concerned with enhancing the lives we lead and the freedoms we enjoy.”<sup>8</sup>

The OECD Economic Survey of Austria,<sup>9</sup> published in July 2013, is the first to feature well-being dimensions as a benchmark. It assesses how public policies contribute to employment, education, health and environmental standards/levels. This more integrated view allows for a comprehensive and balanced assessment of social and economic outcomes, the effectiveness of welfare policies and sustainability

The survey identifies three features driving its “well-being” model:

1. *Strong productivity with stable employment structures supported by good long-term labour relations, specifically in small and medium-sized enterprises (SMEs), and social partnership arrangements*
2. *Families providing intensive services to members, backed by local social capital, which at the same time, however, increases the tension between work and family responsibilities for women*
3. *Public governance based on federalism and social partnership*

The study draws from the 11 dimensions of well-being introduced in the OECD How’s Life reports (2011 and 2012).

Austria performs well on several dimensions with improvements in household disposable incomes and significant redistribution; low unemployment, satisfying working conditions and job stability; good and affordable housing; a strong vocational training system; well established social capital at the local level; high personal security; rich natural assets, good water and air quality; and high subjective well-being.

Weaker results were recorded in some critical areas, including lower labour market attachments for older, unskilled and migrant workers and a high and persistent gender pay gap; strong variations in opportunities for youth based on their socio-economic background; a work-life balance characterized by longer working hours (but also longer periods out of work); and traditional gender roles. Urban sprawl and local concentrations of air pollutants also show that environmental sustainability is not guaranteed over time. These findings give policy-makers a clear indication of where they must focus their efforts in the future.

- Rising income inequality has been identified by the *Outlook on the Global Agenda* as the second most important global challenge confronting policy-makers in 2014. This concern has been central to the two previous papers presented at the Annual Meeting in Davos-Klosters on employment policy. Wide income inequalities are associated with poorer health outcomes, lower levels of social trust, more limited life chances and real threats to social cohesion (Wilkinson and Pickett 2009). In 2011, the OECD noted that:



**The social compact is starting to unravel in many countries. Young people who see no future for themselves feel increasingly disenfranchised. They have now been joined by protesters who believe that they are bearing the brunt of a crisis for which they have no responsibility, while people on high incomes appear to have been spared.**



- Most of the phenomena that inspired this observation are just as prevalent today – and in some cases have become significantly worse (like the experience of youth unemployment in southern Europe). The consequences are clear also: a vicious circle in which high and increasingly persistent unemployment fuels inequality and in turn weakens the trust that citizens place in politicians and the political process. The link to the arguments presented here on jobs should be clear: the first step on the path towards sustainable growth is to reinstate full employment as a clear objective of public policy. And getting people back into high quality jobs where wages rise in line with productivity is essential for the sustainable generation of demand too. The IMF's own research confirms the argument: high levels of income inequality lower the sustainability of growth (Berg and Ostry 2011). High levels of income inequality are also negatively correlated with social mobility; in other words, when income inequality is high, disadvantage tends to be transmitted from parents to their children, implying a waste of human capital that countries cannot afford, especially in an ageing society (OECD 2011a).

#### 4. The Global Agenda Council on Employment Policy Agenda

- The Council's previous papers for the Annual Meeting in Davos-Klosters set out a detailed policy agenda. As time has passed, however, the situation has deteriorated and measures that seemed adequate two years ago may no longer be sufficient today. Policy-makers are confronted with a dilemma, however, because without a significant shift in macroeconomic policy and global coordination, it

is hard to envisage a positive trajectory for employment. What is needed, more than anything else, is an improvement in business confidence so that enterprises release some of the cash from their balance sheets and begin to create jobs. Specific job creation commitments from large multinational companies would be a big step in the right direction, as would the development of youth employment guarantees and continued investment in high quality apprenticeships. The G8, the G20 and the EU must make employment the top priority in the coming year. All policies that affect the labour market and the development of wages should be viewed through the lens of their impact on employment. Good policies that create jobs must be boosted and bad policies that damage employment must be avoided. This may sound like a statement of the obvious, but not all governments are acting in a manner consistent with these simple principles.

- The Australian presidency of the G20 presents an opportunity to make progress with this agenda. Labour ministers *and* finance ministers need to meet with the B20 and the L20 (the representative organizations of business and labour) to agree on a common approach to the employment challenge. Moreover, it is important that the B20 and the L20 consider what they can do together, building on the work done so far to establish a framework for high quality apprenticeships. Action on the ground is needed, with business and trade unions collaborating to boost the number of young people in training, developing robust systems for workplace innovation and ensuring that skills are fully utilized. More precisely, some commitments should be sought from major companies to recruit a certain number of young people over the next 12 months and place them in sustainable jobs.
- Many of the policy measures that the Council recommended in 2012 and 2013 remain highly relevant. Action is still needed in the following areas and governments must make every effort to ensure that they:
  - Provide adequate resources for cost-effective active labour market programmes
  - Develop flexible schemes to promote job retention and job sharing until the recovery is secured – including the scaling up of apprenticeship and training programmes
  - Implement and sustain robust minimum wage floors to prevent wage deflation
  - Target 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” alongside policies to promote environmentally sustainable growth, including public procurement
  - Ensure an adequate supply of finance for high-growth small and medium-sized businesses (SMEs).
- Among the other policies that might be pursued are:
- Supporting short and long-term interventions to enhance skills and employability
- Implementing structural labour market reforms that enhance productivity, maintain social protection systems

and increase the capacity to monitor labour market developments

- Improving collaboration between business and educational institutions to reduce the problem of skills mismatches and enhance the capacity to identify changing skill requirements
- Increasing the number of apprenticeships available for young people and improving the quality of training provided.

## 5. Labour Market Reform and Active Labour Market Programmes

- At present, given high and increasingly persistent unemployment in many countries, it is essential to maintain spending on labour market programmes. Cost-effective and well-targeted re-employment services can minimize the long-term costs of high unemployment and help to lay the foundation for a sustainable return to high employment rates and rising earnings (OECD 2012b). Even in countries with very tight fiscal conditions, preserving resources for essential re-employment services and focusing on the most disadvantaged – the long-term unemployed and low-skilled youth at risk of dropping out of the labour market – are key to avoiding discouragement and exclusion.
- The unemployed must receive the support they need to maintain a decent living standard when they are without work, without compromising the incentive to return to work. In other words, income from work must be higher than income from benefits. Furthermore, it is important that the jobless be equipped with the skills they need to return to the labour market and stay there – the public employment service must offer guidance, supported job search and opportunities for reskilling.
- The crisis should also be an opportunity to revisit the stance of labour market regulations to provide a better framework for labour market adaptability and the protection of workers. Of course, this is highly contested terrain with some groups arguing for deregulation of the labour market to improve its flexibility and others stressing the risks that this may entail, especially for vulnerable workers. The evidence, as summarized in successive reviews by the OECD, suggests that while stringent employment protection legislation (EPL) may not affect the *level* of employment over the course of the cycle, it *can* affect the employment opportunities for disadvantaged groups, such as low-skilled youth with little labour market experience, women and immigrants. Overly strict employment protection legislation may also reduce the speed of economic adjustment because it takes longer for labour to be reallocated to more productive activities. At the same time, however, stronger EPL seems to preserve jobs in recessions and slow the pace of job creation in booms.

- What is clear, however, is that partial reforms to increase flexibility at the margin by liberalizing temporary and other forms of atypical employment have created two-tier labour markets. A core of labour market insiders remains protected, but a growing group of workers find themselves employed in low quality, low paid jobs on the periphery.
- During the crisis, in countries with segmented labour markets, the brunt of the job losses has been borne by workers with low-paid, precarious jobs (OECD 2012b). The case made here, however, is that policy-makers should be aiming to create *inclusive* labour markets, with high quality employment for all, access to skills development and ladders of progression for those who have been unemployed. Before the crisis, policies in the Nordic countries came close to achieving this goal. These labour markets have also proved more resilient than others in responding to the global downturn. Policy-makers elsewhere should consider how they can adapt their labour market models to achieve more inclusive outcomes.

### Box 3: Unemployment in the Middle East and North Africa

The Middle East and North Africa (MENA) region suffers from chronic levels of unemployment, particularly among young adults. An International Labour Organization survey has concluded that the Middle East's 2012 youth unemployment rate of 28% was the highest in the world, with North Africa coming next at 24%. For young women, the figures are even starker – 43% and 37% respectively.<sup>11</sup>

Moreover, over half the population in the MENA region is under 25, meaning that tens of millions more jobs will be needed by the end of this decade to absorb the large number of young people about to enter the labour market.

Although the employment picture is undoubtedly bleak across the region, one-size-fits-all solutions would be misguided. The (oil exporting) labour markets of the Gulf Cooperation Council (GCC) differ markedly from those in the remainder of the MENA region (oil importing). Different circumstances require different remedies.

#### Non-oil Producing Countries

The challenges for the non-oil producing countries in the MENA region are severe. A rapidly growing labour force has to contend with limited job growth and, in some countries, a politically unstable environment. Indeed, several of these countries are struggling with a conundrum. They require political stability to produce an environment conducive to job creation, but they also need job creation to create political stability.

Somehow, a way must be found to strengthen popular faith in the governments' ability to inject energy into the economy, attract foreign investment and generate jobs. The countries concerned cannot do this alone. Governments of developed countries, and those in the GCC, must play a key role in building this trust, by assisting their

counterparts in the region to restructure their economies, launch administrative reforms and provide much-needed investment.

Governments in the non-oil producing countries, meanwhile, should focus their efforts on stimulating job creation in areas where the impact will be highest. They need, of course, to prioritize existing industries that are globally competitive and labour-intensive.

Entrepreneurship must also be galvanized, enabling new dynamic companies to produce growth and jobs. Governments must create sufficiently fertile conditions, in the form of funding, access to markets and other factors, to allow this to happen. Legal and regulatory obstacles, such as the current harsh penalties for bankruptcy, must be removed to increase the general appetite for risk-taking in business. State guarantees of loans to new ventures could also boost activity, as would state-owned enterprises giving priority to start-ups in allotting contracts. Schemes to develop seed accelerators, which support young companies with mentoring, training and funding in return for a share of equity, should also be actively promoted.

While seeking to spark job creation, governments must not lose sight of the need for political stability, which provides the very foundation for economic efforts. The social security safety net should be maintained and improved, preventing the unemployed middle class from sinking into the abject poverty that is likely to provoke yet more social upheaval.

## Potential Solutions for the GCC

GCC governments have sought to nationalize their labour markets, either through imposing quotas on the number of nationals employed – so-called Saudization or Emiratization – or through offering partial reimbursement of the salary and training costs involved in hiring them. Although these policies can have positive effects, further reforms are required to render them more effective. Some attention must also be brought to managing the transition away from reliance on migrant labour, with specific focus put on the impact on migrants' home countries.

The fact remains that private companies do not want the region's stereotypical university graduate, who possesses unrealistically high expectations despite very little work experience. Meanwhile, graduates are gravitating to more prestigious, more secure public sector jobs that often offer better pay and more amenable working hours, such as a five-day week rather than the six days favoured by the private sector. Only 9% of students in both Saudi Arabia and the United Arab Emirates, for example, expect to work in a local private company when they leave university.<sup>14</sup>

The Global Agenda Council on Employment proposes three initiatives that deal head on with these problems:

- *Adopt a sophisticated approach to labour markets for nationals and expatriates*  
Instead of enforcing blanket quotas, governments need to prioritize those jobs that should be reserved for nationals, while keeping the remaining jobs open for expatriate workers. Doing so will alleviate unemployment

among nationals, while maintaining the principal two benefits that foreign workers confer – ensuring an adequate supply of lower-skilled labour, which improves the competitiveness of local companies, and plugging major skills gaps for the most senior roles in finance, healthcare, education and other private sector industries.

- *Revamp private companies' value proposition*  
Continuing to expand the public sector to accommodate the widespread ambition of nationals to work within it is not sustainable. Boosting the appeal of the private sector is a more viable long-term alternative. Governments should encourage the private sector to improve its value proposition to the national workforce in all areas beyond increasing levels of remuneration. This should include speedier and more transparent career progression that goes some way to meet the expectations of nationals employed in the private sector. The culture of the workplace should also be made more attractive for locals.
- *Unleash the dormant potential*  
To prepare those currently economically inactive, the hidden unemployed, for the rigours of the workplace, substantial investment in upgrading their skills and instilling in them the necessary work ethic is necessary. Strenuous efforts also need to be made to offer flexible employment arrangements for women and young people that take into account cultural constraints and educational commitments.

## 6. Apprenticeships and Training

- Offering a wider range of high quality apprenticeships and training opportunities can be a helpful short-term response to the youth unemployment crisis with beneficial medium-term consequences. Young people are then active in the labour market, acquire useful skills and are equipped with the human capital they need to find work when the economy recovers. The policy can benefit employers too – they will have a stock of well-trained young workers ready for the upturn and will be spared the costs of recruitment and training in a tightening labour market. Managing the transition from full-time education to full-time work is especially important for those without tertiary level qualifications – evidence from the EU shows that vocational education and training programmes with a work-based orientation lead to faster labour market integration and better opportunities for sustained employment.
- Governments must maintain (and increase where possible) their level of investment in the apprenticeship system as well as ensure that costs are appropriately shared with employers. Some effort must also be made to develop apprenticeships in those sectors where training has been less than adequate in the past – most notably in private services – and government must also ensure that young people have access to the guidance services they need to make an informed choice. Moreover, some consideration should be given to schemes that allow prime age workers (those above the age of 24) access to apprenticeship schemes. In

Denmark, for example, low skilled adults now have access to an accelerated apprenticeship where they receive immediate accreditation for their prior learning. This model makes a return to education and training much less challenging, rewards previous experience and creates an opportunity to both raise skills levels and enable prime age workers to execute a career change. Combined with the effective labour market programmes already described, this approach offers valuable lessons for policy-makers elsewhere.

#### Box 4: 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 their careers, and reflect gender equity objectives.

This joint L20-B20 understanding affirms the commitment of workers and business to work alongside governments to implement apprenticeship systems that reflect these jointly-held objectives and to promote youth employment, entrepreneurship and innovation.

- The role of social partners is crucial in both creating a framework for high quality apprenticeships and in raising the status of technical or vocational education. A practical example can be seen in the work of the B20 and L20 to scale up quality apprenticeships (Box 4). Translating this to the national level is especially valuable in those countries where technical and vocational education has a poor reputation and is sometimes seen as a second-class alternative to more academic approaches to learning and human capital development. Government, business, trade unions and others must campaign to improve the image of both apprenticeships and technical jobs, removing the cultural barriers that prevent young people from finding decent work.

#### 6. Job Retention and Job Sharing

- The Council's earlier contributions to the discussions in Davos-Klosters have made clear the value of short-time working (STW) schemes, like the *kurzarbeit* in Germany. In that case the employer and employees agree to a reduction in working time and wages to enable the company to retain workers that would

otherwise have been at risk of dismissal during a period when the employer's demand for labour has fallen. In some countries, extra state support is available to those employers who invest in training at the same time as they implement STW arrangements. In Germany, as far as the employees are concerned, the state compensates those without children for 60% of lost earnings and parents for 67% of lost earnings. Given the pressures that will exist in many national labour markets over the coming year (sluggish growth, weak demand, weak investment), the case for such schemes remains compelling. The German Ministry of Labour considers the operation of *kurzarbeit* to be a good investment by the state and significantly cheaper than keeping people idle on the unemployment register.

- During the crisis, a number of other countries have introduced or scaled up STW arrangements (OECD 2010). While some countries have found it difficult to set up a STW scheme in the midst of the crisis and take up rates by employers have been modest, an emerging lesson is that such schemes can play an important role in avoiding layoffs that prove economically and socially costly in the longer term. These schemes allow firms to weather the storm and create more resilient labour markets.
- Of course, some countries without STW arrangements may confront problems that demand an immediate response. For those countries with time limits on the payment of unemployment benefits, it may be helpful to extend those limits, as has happened in the USA since 2008. In the medium term, however, the imperative should be to develop policies for more inclusive labour markets that prove capable of withstanding severe economic shocks.

#### 8. A Pact for Youth Employment

- Last year the Council on Employment endorsed the approach adopted by the B20 in their submission to G20 labour ministers, in which they called for voluntary action by employers to launch a campaign against youth unemployment. Essentially this would involve a commitment from major businesses (and SMEs, if they have the scope to do so) to hire additional young workers with appropriate skills. This arrangement could be combined with a target, agreed by government and participating employers, to reduce youth unemployment by, say, five percentage points over the course of the year.
- This truly important proposal deserves to be given specific attention at the national level. Progress over the last year has been painfully slow, however, and practical action on the ground is now needed. Governments should be seeking specific commitments from business to recruit a precise number of young people from the unemployment register over the coming year. A national framework must, where appropriate, be negotiated with the social partners and be linked both to active labour market programmes and arrangements for a youth employment guarantee.

- Some countries have already implemented youth employment guarantees, offering long-term unemployed young people under the age of 24 who have been jobless for more than 12 months the opportunity of some valuable labour market activity. The new Youth Guarantee programme in the European Union goes further, offering a young person under the age of 25 a job, apprenticeship, traineeship or a return to full-time education within four months of becoming unemployed. This is a very ambitious commitment given the level of unemployment in some southern European countries and it may be challenging to implement in practice. Clear guidance about the level of resources needed to deliver the guarantee is required, as is the proper monitoring of results to ensure that young people have access to high quality job placements. The role here for the social partners is to set standards and review the effectiveness of the policy.
- The risk, of course, is that the scale of the challenge makes it problematic to make a credible offer to all the young people eligible to participate. It is essential to ensure that policies like the Youth Guarantee programme are integrated into the youth jobs pact so that young people have the chance to remain in work once the guarantee period has ended. Making this link means that employers can be confident they are recruiting young people with labour market experience and a proven capacity to acquire new skills.

## 9. Wages, Wage Floors and Productivity

- In a joint statement published in 2011, the ILO and OECD noted that wage deflation posed a significant risk to the recovery and the return to robust, sustainable growth. Nothing that has happened since that time has reduced these risks; the IMF/OECD forecasts for 2013 suggest the challenges may be more profound than had been anticipated. It was for this reason that the Global Agenda Council on Employment and Social Protection emphasized the importance of minimum wage floors in limiting the downward pressure on wages. The Council endorses this approach, although minimum wages need to be set flexibly and sensibly with particular attention given to the position of young workers.
- Returning to the earlier theme of income inequality, some evidence suggests that wage growth and GDP growth have become disconnected in a number of developed countries. This phenomenon has emerged at different times in different countries and the scale of the problem is still highly differentiated. Nonetheless, it is possible to identify three groups of developed countries:
  - The USA, Australia and Canada, where there has been a pronounced and long-term divergence between economic growth and median wages
  - The UK, France and Germany, where the breakdown between median wages and economic growth is still severe
  - Finland, Denmark and Sweden, where the breakdown in the relationship between growth and median wages is recent and mild.

- If the Council's principal concern is with the sustainable generation of demand, then some consideration must be given to promoting a closer link between productivity and wage dynamics through measures that allow those at the lower end of the wage distribution to benefit from the growth process. Part of the answer, as an IMF working paper has suggested, may lie in an improvement in the bargaining power of those with modest incomes from work (Kumhof and Ranciere 2010). Policy must be carefully designed to ensure that people do not find themselves trapped in low paid, low productivity jobs.

## 10. Investment in Strategic Infrastructure

- Countries differ significantly in their fiscal conditions and the space for action. In those where there is the fiscal space, an immediate stimulus should be considered, with particular focus on employment enhancing investments. But even in countries with very tight fiscal constraints, there is scope to prioritize spending and improve the long-term productive potential of the economy. Once again, these investments should be considered in the light of their employment enhancing potential. Moreover, further attention should be given to the role that can be played by complex infrastructure projects (renewable energy, airports, ports, high-speed rail systems, high-speed broadband) in contributing to sustainable growth once the recovery has been secured.
- Government must make resources available to undertake the preparatory phase of infrastructure development. This should include improved project prioritization and design, a more comprehensive assessment of the dependencies between different forms of infrastructure investment and streamlined regulatory processes for project approval. A serious effort should be made to evaluate both the immediate and long-term impact on employment, with a view to ensuring that high quality, high skilled jobs can be sustained well beyond the point of construction.
- The most important task, perhaps, is to ensure that these projects are enhancing employment opportunities in the areas where they are located. This requires some careful coordination with skills institutions (to ensure that workers in the locality have the skills required) and the involvement, where possible, of local SMEs in the supply chain. Public authorities also have a role to play in establishing labour standards in these contracts and in encouraging the recruitment of local labour.
- Governments should also look to currently underdeveloped sectors with genuine growth potential where public action and the creation of appropriate incentives can be employment enhancing. This is almost certainly the case, for example, with certain environmental technologies, including renewable energy. Moreover, evidence also suggests that waste and water management and environmental retro-fitting (making buildings more efficient) all have the potential to create significant numbers of jobs and deliver valuable environmental benefits. Specific measures could include loans or grants for the retrofitting of existing

buildings, incentives for “green construction” and a more intensive focus on recycling and resource productivity. Public procurement might also be used to stimulate innovation and promote green growth. These proposals are obviously linked to the suggestion that taxation should be shifted from jobs to environmental “bads” to encourage employment intensive and sustainable growth.

### 11. Shifting Taxation from Employment to Environmental “Bads”: Developing “Green Growth”

- Modifying tax policy in this way can generate a significant short-term boost to employment with little or no impact on government revenues. A reduction in payroll taxes will make it more attractive for employers to create jobs and could lead to a more employment intensive recovery. In the medium term, however, policy-makers must consider how they will raise the revenue required to maintain public investment and sustain high quality public services. This challenge will only begin to materialize as businesses reduce their environmental impact through the use of less carbon intensive processes or technologies. At that point governments will need to reset fiscal policy once again.

### 12. Supporting High-growth SMEs and Innovative Business Models

- Another important element in any programme for a job-rich recovery is to ensure that SMEs with a proven potential for growth have access to the support they need to develop and create new employment opportunities. Policy should *not* focus exclusively on start-ups simply because many new enterprises fail the market test in their initial years of operation. Businesses that have weathered the storm of creative destruction will benefit the most from well-targeted public support. This is particularly the case as SMEs attempt to professionalize their operations and make the transition from micro to small or from small to medium-sized.
- Governments should therefore consider the appropriateness of any or all of the following measures, implemented in partnership with representative organizations of business and entrepreneurs:
  - Developing community-based and micro-credit forms of financing to support entrepreneurship, especially in those localities where access to conventional finance is problematic
  - Creating an environment that supports cooperatives, mutuals and social enterprises. This might include supporting regional clusters to encourage information exchange and technology transfer, removing barriers to the establishment of businesses of this kind, ensuring that they can participate fully in the social security system and facilitating the dissemination of information about the benefits of these models
  - Removing barriers to the creation of high quality, sustainable self-employment, including making some public support available for shared work spaces, technological support and skills development. Moreover, intelligent public procurement could both support SMEs and promote innovation.
- It is important to understand that the most effective policies will vary from one country to another depending on the level of development and industrial structure.

Governments could also consider how they give SMEs genuine opportunities to provide goods and services to the public sector while ensuring a level playing field of competition with larger businesses.

### 12. Implementing the Policy Agenda: The Need for Coordination

- This is the third year that a report has been presented to the World Economic Forum Annual Meeting in Davos-Klosters to draw attention to the global jobs crisis. The global situation has not improved over the past year and the short-term labour market outlook is not encouraging, threatening both social cohesion and political stability. Urgent action is needed to restore economic confidence and rebuild trust in the political process.
- In principle, the extent of the crisis has been recognized by policy-makers at the G8 and the G20. Finance and labour ministers produced an exemplary communiqué at their Moscow meeting, which repeated many of the arguments made in this paper. These commitments must be put into action.
- The Australian presidency of the G20 offers the opportunity for swift and decisive action. The Council on Employment has outlined a policy menu for implementation that requires investment in active labour market programmes, support for the unemployed, investment in employment intensive infrastructure programmes and specific action on youth employment. These are also areas where the B20 and the L20 have a role to play, not least in the scaling up of apprenticeship programmes and the implementation of youth guarantees. Businesses in particular have an onerous responsibility here and should commit to creating a specific number of jobs for young people in the coming year.
- Most important, however, is the imperative for better policy coordination, reflecting the different experiences across the G20. As an immediate response to the crisis, the coordinated stimulus agreed at the London G20 summit in 2009 was a model of what can be achieved with strong leadership and political will. A similar level of dedication and commitment is now needed to tackle the global jobs crisis. Those countries with the space to boost domestic demand should do so, creating export markets for countries undertaking painful programmes of fiscal consolidation. John Maynard Keynes observed that high surpluses posed just as much of a threat to the global economy as high deficits. The imbalances at the root of the crisis have yet to be fully addressed and part of that process must be to restore both full employment and strong wage growth. This is an enterprise that cannot be undertaken by one country alone.
- The Council observed last year that the principal problem confronting policy-makers remains one of confidence. Consumers are not confident enough to spend and businesses are not confident enough to invest. Getting macroeconomic policy right and ensuring that growth is employment enhancing is absolutely critical. Unless the keystone of the system is in place, other policies, however well intentioned, will fail to deliver their promise.

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