COMMITTED TO IMPROVING THE STATE OF THE WORLD

Jobs for Growth and Growth for Jobs
Global Agenda Council on Employment

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Foreword

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At the beginning of 2012, the Global Agenda Council on Employment & Social Protection published a report calling on policy-makers to develop a new model of growth, employment and social protection informed by the principles of sustainability and decent work. A year later, as World Economic Forum Members meet at the Annual Meeting 2013 in Davos-Klosters, the jobs outlook is as bleak as ever; the global economy is stalling with unemployment and under-employment expected to rise again in a number of countries, adding to the millions of jobless people and excluding many young people from jobs and decent livelihoods. Within this global picture, the creation of productive jobs that enable poverty to be reduced in emerging and developing countries is insufficient to keep pace with the growth of the working-age population and rural-urban migration. In advanced countries, job destruction is outpacing new job openings, leading to higher unemployment and falling employment participation rates.

A vicious circle is being set in motion. High and persistent unemployment and under-employment, as well as uncertainty about the immediate future, are unduly depressing consumption and investment, weakening the prospects for growth and the ability to address the fiscal and other imbalances brought about by the crisis. This must not be allowed to happen. The Members of the Global Agenda Council on Employment, working in common with fellow Global Agenda Councils, call for those participating in the Annual Meeting to support a decisive shift in policies. Our goal is clear: to break the vicious circle of rising unemployment and falling confidence and trust. We have to take our responsibilities seriously and commit to action on a holistic plan for jobs.

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Executive Summary

Context

- The world faces a serious jobs crisis. Unemployment is set to rise in 2013 in a number of countries and over 200 million people will be without work. More than two in five of the jobless are under the age of 24. In the EU more than one in five young people under the age of 24 cannot find a job. Increasing numbers of workers around the world are being forced into short-term contracts or the informal economy.
- Within this global picture, large-scale structural changes continue in emerging and developing countries, but new productive jobs are not being created fast enough to keep pace with the growth of the working-age population and rural urban migration. Even as the rate of working poverty falls, the total numbers of women and men unable to earn enough to lift themselves and their families out of extreme poverty continues to rise. By contrast, in many advanced economies job destruction exceeds new job openings, driving up unemployment and discouraging many from even trying to find work. The common preoccupation in all countries is thus: "Where will the good jobs come from?"
- Unemployment is immediately damaging for the individuals affected, but a high level of joblessness makes it more difficult for countries to escape from recession. The argument presented in this paper is that jobs and growth enjoy a symbiotic relationship. The world needs growth for jobs, but needs jobs for growth too. The restoration of confidence is needed more than anything else. Consumers need to be certain enough about their economic prospects to spend as well as save. And businesses need to be certain that there is a rising demand for their products and services before they can be confident that investment will be worthwhile.
- Long-term unemployment is rising, which poses the risk that some citizens will become disconnected from the labour market, finding it hard to get back into work when robust growth resumes. Youth unemployment is especially problematic because it has a scarring effect: those who are unemployed before they reach the age of 24 experience lower income growth and a higher risk of future joblessness than those who have been employed throughout their late teens and early twenties.
- Forecasts for 2013 project continued slow growth in many countries and negative growth in the euro area. Most of the causes of the slow growth are located in the developed world: uncertainty about policies, coordinated fiscal consolidation, household or corporate de-leveraging and fragility in the banking system. Many emerging and developing countries are showing some resilience in the face of the severe headwinds emanating from the developed countries. Nonetheless, for countries striving to generate enough decent work to satisfy the aspirations of a growing workforce for an escape from poverty, the global slowdown poses a major risk.
- The policy agenda set out in this paper is mostly focused on the OECD and the G20, because that is where both the problems and possible solutions are most likely to be found. If the developed world is growing, then emerging economies and developing countries will benefit directly from rising global demand and will be able to sustain the rise of the middle class in those countries, which will be the main driver of growth and development in the medium term.

Our Policy Agenda

- In 2009 the G20 countries committed themselves to a coordinated stimulus package. Since that time, the room for manoeuvre has diminished for a significant number of economies as the financial crisis in the banking sector has transformed into a sovereign debt crisis. It would be unwise to expect a similar, coordinated reflation in the short term, although, as the OECD and the IMF have suggested, if conditions continue to deteriorate, those countries with the fiscal space to do so should administer a short-term stimulus to boost domestic demand.
- Our policy recommendations build on the 2012 proposals made by the Global Agenda Council on Employment & Social Protection. Specifically, we call on policy-makers to act in the following areas:
  - Provide adequate resources for cost-effective, active, labour-market programmes
  - Implement flexible schemes to promote job retention and job sharing until the recovery is secured – including the scaling up of apprenticeship and training programmes
  - Implement targeted tax cuts to foster job creation and increase cash-transfers to low-income households
  - Ensure that well-set minimum wage floors are in place to prevent wage deflation
  - 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
  - Ensure that finance is available for high-growth, small and medium-sized businesses

The B20 made a series of important proposals to G20 governments at the Los Cabos summit. Several of the recommendations were also reflected in the Labour (L) 20 submission and a joint call was made by the B20 and L20 for action on employment. We support these recommendations and believe that urgent action should be taken to:

  - Support short and long-term interventions to enhance skills and employability
  - Implement structural, labour-market reforms that enhance productivity, maintain social-protection systems and increase the capacity to monitor labour-market developments
  - Improve the collaboration between business and education institutions to reduce the problem of skills mismatch and enhance the capacity to identify changing skill requirements
  - Increase the number of apprenticeships available for young people and improve the quality of training provided

- In particular we endorse the idea of a *Youth Jobs Pact*, where businesses commit to take a certain number of young people from the unemployment register and offer them high-quality training and employment opportunities. During the crisis, some countries have introduced different forms of youth-employment guarantees for those aged under 24. Long-term, unemployed youth (those who have been workless for 12 months or more) are offered either training or a job opportunity, depending on their characteristics. These schemes should be integrated into the development of a *Youth Jobs Pact*.

The Importance of Policy Coordination

- For these policies to work, it is essential that both the OECD and the G20 adopt a coordinated approach to the crisis. While a global stimulus package may not be in prospect (and countries with the most pressing problems must return their public finances to order), we do believe that a flexible approach is necessary. Unless the macroeconomic conditions are right, the policies we propose will fall short of their full potential, leaving an array of more serious economic and social problems for governments to address in the future. Moreover, there is ample scope for learning from good practice, and the dialogue between government, business and other stakeholders should continue if the world’s unemployment crisis is to be brought to an end.

1. The Global Jobs Crisis

1.1 For the Global Agenda Council on Employment, the biggest challenge presented by the weakening global economy is rising unemployment and under-employment, affecting young people in particular. Growth depends on confidence, and confidence depends on consumers being able and willing to spend. This, in turn, depends on people of working age being certain that they will either find a job rapidly if they are unemployed or remain in work despite the challenging economic environment. And it means that wages need to rise in line with productivity if sustainable demand generation is to occur. One of the principal problems in the pre-crisis period in a number of countries was a reliance on household borrowing to compensate for often-stagnant wages, even though productivity was rising.

1.2 Central to the argument presented in this paper is the belief that the world economy needs growth to generate productive jobs, but also needs jobs for growth. Employment creation and rising levels of GDP enjoy a symbiotic relationship. It is impossible to have one without the other. Yet policy-makers today confront a global jobs crisis. There are almost 200 million people without work across the world and, according to the ILO, 40% of those without work are young people under the age of 24. Almost 75 million young people were unemployed in 2012 and global youth unemployment is expected to increase in 2013.

1.3 The most serious economic problems lie in those developed countries confronting both a deficiency of domestic demand and the need to restore order in their public finances. In the eurozone, most of southern Europe is still in recession and the prospects for growth in the next year are very limited. Continued pressure on public finances and the recurrent sovereign debt crises remain the most important sources of difficulty for these countries. Even in member states with relatively low unemployment, like Germany, the depressed conditions elsewhere in the eurozone and weak global growth are likely to cause a rise in unemployment in the next year. In the United States, the recent agreement on the Federal budget has avoided the worst consequences of the so-called “fiscal cliff”, but conditions there remain depressed and growth is sluggish. A continuing need for fiscal consolidation means that many of the most intractable problems remain unresolved.

1.4 It should be emphasized that this paper is principally directed towards policy-makers in developed countries. Emerging market economies experience a range of somewhat different problems that require long-term rather than short-term solutions. China, for example, has the problem of an ageing population and a demographic squeeze, but 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 with it challenges related to 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.

1.5 For the Middle East and North Africa (MENA) region, the problem of youth unemployment is long-standing and structural. Almost 30% of young workers are unemployed in North Africa and more than one in four are unemployed in the Middle East. Demographic trends are making the situation worse because the number of young people aged 16-24 is growing rapidly. It is strongly arguable that the experience of economic injustice among young people helped to precipitate the events of the Arab Spring in 2011. And it is especially disturbing that both the ILO and the IMF forecast that youth unemployment will remain at very high levels (above one in four) across the MENA region until at least 2017.

1.6 Youth unemployment also looms large in a number of advanced economies; more than one in two young people in the labour market are jobless in Greece and Spain; more than one in three in Italy and Portugal, one in four in France and a number of other European countries, but less than one in 10 in Germany. Moreover, many young people have given up looking for work because they believe there are no jobs for them, so they sit idle on the margins. A recent OECD-ILO report confirmed that young people who are not in employment, education or training (so-called NEETs) account for 18.5% of the youth population in the G20 countries and more than 20% in Italy and Greece, as well as in Mexico, South Africa and Turkey.

1.7 Recent analysis for the whole of the EU suggests that young workers are more likely to be found in the informal economy too – around 17% on average across the EU27 as compared with 7% for workers over the age of 24 (ILO 2012). It is trite to say that there is a risk of a “lost generation” of young people, but unemployment has a scarring effect, depressing the prospects for wage growth in the future and increasing the likelihood of further spells of unemployment. Unless action is taken now, policy-makers will find that they confront a more serious array of both economic and social-policy questions in the future. In many countries, even sustained economic growth has not been accompanied by significant declines in the incidence of informal/unregulated employment, preventing many, including skilled youth, from finding productive and rewarding jobs.

2. The Macroeconomic Context

2.1 The global jobs crisis could be deepened by the rather gloomy outlook for growth over the next year. At the beginning of 2012 it was assumed that the world economy would experience a modest recovery and that a return to stronger growth might be anticipated in 2013. Unfortunately these hopes have been disappointed. In their most recent forecasts, both the IMF and the OECD have offered an extremely pessimistic prognosis. The OECD, in its November Economic Outlook, suggests that the global recovery has stalled and that the euro area crisis poses the biggest risk to growth, with most of the eurozone in recession in 2012 and 2013. Emerging economies are likely to carry on growing fairly strongly, but not fast enough to compensate for weak performance elsewhere.

2.2 The IMF's assessment of the overall macroeconomic situation is also grim. Growth forecasts for 2013 have been revised downwards from 2% to 1.5% for the advanced economies and from 6% to 5.6% for the emerging market and developing economies. Both the IMF and the OECD offer a similar series of explanations for weak global growth: uncertainty about policies, widespread fiscal consolidation in the advanced economies and continued weakness in the financial system. In particular, the IMF points out that "many economies have been in fiscal consolidation mode [and] at the same time activity has disappointed in a number of economies undertaking fiscal consolidation" (Blanchard and Leigh, 2013). This suggests that fiscal multipliers, the short-run impact of fiscal consolidation on activity, may have been larger than assumed. Initially it was believed that if a government reduced public spending by 1% of GDP, then overall GDP would fall by 0.5%. Now the IMF suggests that the multiplier may have been substantially above 1 early in the crisis.

2.3 The monetary policy stance, on the other hand, is described as having a stimulatory effect, with interest rates being held at very low levels and programmes of quantitative easing being used to improve liquidity in the financial system. Above all else, however, there seems to be a problem of confidence, borne out of a sense of uncertainty about what the future may hold. Many companies, and especially large multinational corporations, are holding large quantities of cash on their balance sheets and are reluctant to invest because they cannot be certain that consumers will have the resources needed to buy the goods and services being produced.

2.4 The UN has recently published a survey of the world economic situation and has identified further causes for pessimism (UN, 2012). Their analysis suggests a major risk that a coordinated economic slowdown across the globe will have a particularly detrimental impact on developing countries, leading to a slower pace of poverty reduction and a shrinking of the fiscal space for valuable investments in health, education and basic sanitation. The least developed countries could be severely damaged by a fall in global commodity prices, although experiences remain differentiated – for example, Sudan and Yemen endured serious distress in 2012, but Bangladesh continued to experience strong growth.

2.5 Confirming the argument made in this paper, the UN argues too that the principal cause of the global slowdown is to be located in the developed world. Unless growth is restored to the OECD economies, then both emerging economies and developing countries will continue to suffer depressed conditions. A number of assumptions underpin their central forecast including: the avoidance of the "fiscal cliff" in the United States, continued loose monetary policy and an avoidance of further sovereign debt problems in the eurozone. If the euro were to experience further trauma or if the United States found itself in another fiscal crisis, then the situation would be considerably worse, with catastrophic effects on growth and jobs across the world.

2.6 Put simply, in the short term aggregate demand is falling or stagnant. Given the fiscal constraints in many countries, it would be unwise to expect a coordinated global stimulus of the kind that was implemented in 2008. Nonetheless, if the situation deteriorates further, then the OECD suggests more ambitious policies may be required. To begin with, it is essential for interest rates to be held at the lowest possible level, further quantitative easing may be needed and those countries with the scope to do so (including Germany and China) should implement temporary fiscal stimulus policies to boost domestic demand. It is not the purpose of this report to offer a detailed macroeconomic prescription for the world, although we generally endorse the approach taken by both the IMF and the OECD. Policy-makers need to be flexible in responding to events and the use of unorthodox policy instruments will be essential. It is also essential to ensure that the structure of the global economy emerging from the crisis is compatible with models of growth that reduce the pressure on climate and natural resources.

3. Short-term and Long-term Challenges

3.1 It is important to be clear about the nature of the short-term and long-term challenges too. While the employment crisis is the most immediate and pressing problem across the OECD, developed economies are also having to confront the realities of an ageing population, an accelerating pace of technological change, further market integration and trade liberalization (globalization). Employers also report an increasing mismatch between the skills of the workforce and the demands of the economy. The immediate priority must be jobs, but the long-term challenges should not be forgotten. Moreover, the two policy questions are inextricably linked. 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. Strong evidence shows these criteria are consistent with many of the ILO's requirements of "decent work" including: fair wages, with clear evidence that "work pays"; the ability to reconcile work with family life and caring responsibilities; a good relationship with the employer and with colleagues; high-quality work with some variety and challenge; and, opportunities for progression and development. (Graham et al, 2005)

3.2 The *quality* and nature of work are an important consideration in preparing for our second challenge too: the unavoidable fact of an ageing population in many developed and emerging economies. Careful epidemiological studies show that there is a "social gradient" in health outcomes, with the more affluent enjoying better health and longevity than those on 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.

3.3 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, 2001b). It is also clear that in countries with wide health inequalities, like the United Kingdom and the United States, those in the lowest income groups are much more likely to experience work-limiting medical conditions after the age of 50. This raises serious questions about the effectiveness of policies to extend working lives and achieve later retirement unless there is also a focus on the quality of work *throughout* working life. A focus on job quality is therefore essential in addressing the long-term challenge of demographic change.

3.4 There is also a question about the relationship of job quality to the innovative capacities of a business. Conventional models of work organization and command-and-control management styles appear to be associated with lower levels of innovation generally, whereas models associated with the "learning organization" – flat hierarchies, multi-skilling, job rotation, joint problem-solving and extensive employee involvement – lead to higher levels of innovation (OECD, 1999). Other studies find a positive correlation between organizational innovation performance of firms and productivity and a higher level of job creation among firms with a high organizational innovation performance (OECD, 2011a). It is not entirely surprising that many of these characteristics are also linked to high levels of autonomy and control, a strong sense of procedural justice and a balance between effort and reward. The conclusion is clear: innovative businesses with the potential for rapid growth offer high-quality employment or decent work.

3.5 Our third challenge is to halt and reverse the trend towards greater income inequality that has been experienced across a wide range of advanced and emerging economies over the last 30 years. Income inequality is associated not just with poor health outcomes, but with lower levels of social trust, more limited life chances and real threats to social cohesion (Wilkinson and Pickett, 2009). Of course, income inequality has risen at different rates, at different times and from different starting points, but the general trend across the OECD is clear. We should care about income inequality not just for reasons of social justice, but for reasons of economic efficiency too. High levels of income inequality lower the sustainability of growth (Berg and Ostry, 2011). They are also closely correlated with weaker 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 which countries cannot afford, especially in an ageing society (OECD, 2011b).

3.6 A growing body of evidence suggests that income inequality caused excessive household borrowing in some countries in the pre-crisis period, which led to the hedging of risk through the development of exotic derivatives, which in turn precipitated the crisis when the underlying loans began to go bad (Kumhof and Rancière, 2010). If policy-makers are focused on the goal of restoring economic growth and the sustainable generation of effective demand, then they cannot countenance a return to the pre-crisis status quo.

3.7 The fourth challenge for developed countries is to ensure the adequate supply of highly skilled workers who can take advantage of, and contribute to, the accelerating pace of technological change and industrial restructuring. While it is important to make progress in anticipating skill needs, it is also crucial to ensure that workers can adapt their competences throughout their working lives to respond to new demands through flexible and responsive, lifelong learning systems.

3.8 Over the medium term, it is important to tackle the apparently large skill mismatch that exists in many countries. On the one hand, a number of employers claim they cannot find workers with the required skills, even at a time when unemployment is high, which suggests that the education and training system is failing – although there is also evidence to show that employers make unrealistic assumptions about job readiness and could reduce the supposed "mismatch" through better recruitment and training policies (Cappelli, 2012). Moreover, it may be the case that some employers are unwilling to invest in the continuing training needed to ensure that employees' skills meet the needs of the business. On the other hand, employees claim that their skills are not fully utilized in their jobs, suggesting that productive potential is being wasted. The Global Agenda Council on Employment will explore this issue further as our work develops, also drawing from a new survey on adult competencies developed by the OECD and covering a wide range of countries. Making sense of the skills mismatch and skills underutilization problems is of paramount importance in designing effective education, training and labour market policies.

4. Our Policy Agenda

4.1 The remainder of this report builds on the recommendations made by the Global Agenda Council on Employment & Social Protection in 2012
– although our focus in this paper is principally on the problems confronting the developed world. In particular, we endorse their general approach to developing an integrated model of employment and social protection. In the short term, we also support their call for policy-makers to take immediate action and implement the following measures to get the global economy moving again:

- The provision of adequate resources for cost-effective, active labour market programmes
- The development of flexible schemes to promote job retention and job sharing until the recovery is secured – including the scaling up of apprenticeship and training programmes
- Targeted tax cuts to foster job creation or increases in cash-transfers to low-income households.
- Well set minimum wage floors to prevent wage deflation
- Targeted investments in infrastructure to improve long-term productive potential and support the transition to a low-carbon economy
- The shifting of taxation from employment to environmental "bads" alongside policies to promote environmentally sustainable growth, including public procurement
- The provision of finance for high-growth, small and medium-sized businesses

4.2 The B20 (representing the business organization of the G20 countries) made a similar set of recommendations to the G20 summit in Los Cabos in 2012. We agree with the B20's approach, which also calls for coordinated action to stimulate growth, investment in infrastructure and support for SMEs. Several of the recommendations were also reflected in the Labour (L) 20 submission, and a joint call was made by the B20 and L20 for action on employment. Certain additional recommendations supplement the proposals from the Council on Employment & Social Protection, including:

- 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 the collaboration between business and education institutions to reduce the problem of skills mismatch 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
- The remainder of this report develops these proposals and the programme promoted by the Council on Employment & Social Protection. We have sought to make practical suggestions that will have an immediate effect on the level of unemployment and enhance the long-term, productive potential of the global economy.

5. Labour Market Reform and Active Labour Market Programmes

5.1 At present, given the 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 – is the key to avoiding discouragement and exclusion.

5.2 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 are 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. In the developed world, policy has evolved from the "passive" payment of unemployment benefits, to the "activation" of job search among the unemployed to the development of human capital for continuing employment. The Nordic countries had made significant progress in developing this approach in the pre-crisis period. The level of public investment in labour market programmes in Denmark, for example, remained at 3.5% of GDP in 2010 – the comparable figures for the United Kingdom and the United States were 0.71% and 0.9% respectively.

5.3 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 arguing for labour market deregulation in almost all circumstances and others maintaining that an overdose of deregulation can be equally damaging. 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.

5.4 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.

5.5 During the crisis, in countries with segmented labour markets, the brunt of the job losses have been borne by workers with low-paid, precarious jobs; put simply, their already disadvantaged position considerably worsened (OECD, 2012b). The case we make 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. The Danish model of "flexicurity" offers some possibilities for the future – although it has to be recognized that the system is struggling to cope with the consequences of recession. As shown in the case of Germany and a number of other countries, further efforts to promote internal flexibility in companies – with adjustments in working time to respond to demand fluctuations – can also help preserve jobs in downturns and encourage investment in human capital.

5.6 The World Bank, in its most recent *World Development Report*, has observed that much of the rhetoric supporting deregulation is extravagant rather than persuasive. They describe a "regulatory plateau" on which countries are able to make legitimate trade-offs between justice and efficiency. In other words, it is essential not to over- or under-regulate; assuming this principle is respected, the impact on employment over the course of the cycle is likely to be small. Moreover, it is important to learn from the disappointing experience of the partial reforms we have described: such approaches have not improved labour market outcomes or made the labour market more resilient in the face of an economic shock. These are important considerations as policy-makers seek to learn from each other and develop their own national programmes for labour market reform.

6. Apprenticeships and Training

6.1 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 will be 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 – there is evidence from the EU to show that vocational education and training programmes with a work-based orientation lead to faster labour-market integration and better opportunities for sustained employment. (Cedefop, 2012a)

6.2 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. The Global Agenda Council on Youth Unemployment is developing a series of practical proposals for government, business and NGOs to work together to tackle youth unemployment (Box 1). We support their approach and believe that action of this kind can reinforce the policy measures we suggest in this report.

6.3 We have already referred to the relentless pace of technological change and the continuing process of trade liberalization and integration – which some people describe as globalization. The skill requirements of the economy will change as a result – a phenomenon that can already be seen in the developed world, with fewer manual jobs, more jobs in high-value services and an increasing demand for intermediate level technical or vocational skills, as well as graduate-level qualifications. Government has a critical role to play here in supporting research into current and future skill needs. Education and labour ministries should be much better linked to the business sector and firm level skills data need to be integrated into national skills strategies.

Box 1: Other initiatives to boost youth employment – Proposals from the Global Agenda Council on Youth Unemployment

The Global Agenda Council on Youth Unemployment joins the Council on Employment in its call to action for global leaders to raise job creation to the highest policy priority level. To this end, the Council on Youth Unemployment is committed to advancing youth employment solutions along three dimensions: *Innovations* to scale, *Implementation* on a national level, and *Inspiring* action through a global campaign.

Scalable innovations to secure employment and encourage entrepreneurship

Apprenticeship systems combined with mentoring supports have proven highly effective at helping young people gain and keep a first job, and more companies and communities should be encouraged to adopt these approaches. The **"Ten Youth" Mentoring and Apprenticeship Initiative** will work with companies to encourage them to invest in "M&A" (Mentoring and Apprenticeship) support for 10 first-time hires, and will develop a knowledge base and concrete tools for companies to implement. And, as a model for connecting young entrepreneurs with new markets for their products — a key obstacle for many young entrepreneurs — **Youth Trade** is building on the success of its first pilots in the United States and Nigeria to expand to new countries and develop new company partnerships.

National youth employment strategies

Few countries have yet put forward comprehensive national youth employment strategies that include a vision shared by government, business, academia and civil society, with clear metrics for success, and supported by resources that will tangibly increase youth employment. The Council on Youth Unemployment is committed to encouraging and developing such collaborative national strategies — starting in Cambodia and with additional countries in Asia and Africa to be added over the coming year.

Global campaign – An EYE opener

Youth unemployment affects developed and developing countries alike. As awareness of the rise and global impact of youth unemployment increases, the need is more urgent than ever for global decision-makers to take comprehensive and coordinated action to make youth employment a national and international priority.

The Global Agenda Council on Youth Unemployment is launching the Eye on Youth Employment (EYE) campaign. Working with global media organizations, EYE aims to raise awareness of the youth unemployment challenge to the mainstream, distilling data into an easily digestible form. The aim is to bring policy recommendations and proven solutions to the attention of business, government and civil society leaders in a more focused and actionable fashion and to stimulate concerted action to address this fundamental issue.

6.4 In some countries, technical and vocational education has a poor reputation, sometimes being seen as a second-class alternative to more academic approaches to learning and human capital development. This must change if the global economy is to return to sustainable growth, with high-quality employment available for all those who wish to work. In particular, all stakeholders, government, business, trade unions and others, must campaign to improve the image of both apprenticeships and technical jobs, removing those cultural barriers that prevent young people from finding decent work. Furthermore, governments should make a binding commitment to expand the number of apprenticeships on offer and improve the quality of provision.

6.5 Great scope for mutual learning exists. The B20 proposed to the Los Cabos summit that there should be a cross-country dialogue involving at least five G20 governments building on the recommendations on the G20 Task Force on Youth Unemployment to collaborate on vocational training standards, share best practice and improve the relationships between business and training providers. We endorse this suggestion and believe that it should be implemented as a matter of urgency. In Europe, for example, significant progress has been made in ensuring that work-based learning is relevant and of a high quality by fostering cooperation between vocational education and training providers and businesses. Some examples include: the Dutch Centra voor Innovatief Vakmanschap, which builds on partnerships between employers and education and training providers in priority sectors of the Dutch economy by offering high-quality vocational education and training linked to innovation policy; the adult education training centres involving employers (Denmark); a national plan for quality assurance in vocational education and training involving social partners (Italy); and the qualification-employment programme focused on upgrading staff during periods of work-time reduction in cooperation with employers (Portugal). Greater involvement of employers in designing vocational education and training curricula and national occupational standards ensures the relevance of training to the needs of enterprises. (Cedefop 2012b)

7. Job Retention and Job Sharing

7.1 Given the rather gloomy outlook for 2013 and the likelihood that the most eurozone countries will be in recession, it is important to look at how jobs can be preserved in a downturn, as well as how they can be created. The *kurzarbeit* or short-time working scheme in Germany is a good example of what can be done. In that case the employer and employees will agree a reduction in working time and wages to enable the company to retain workers who would have otherwise been at risk of dismissal during the crisis. In some countries extra state support is available to those employers who invest in training at the same time as they implement short-time working. 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.

7.2 It is generally recognized that part of the explanation for Germany's good employment record during the crisis is the presence of the *kurzarbeit*. In many ways this operates as an automatic stabilizer, with the government extending the duration of the scheme (and the support available) during recessions and reducing the time limits when the economy recovers. 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.

7.3 During the crisis, a number of other countries have introduced or scaled up short-time working schemes (STWs) (OECD, 2010). While some countries have found it difficult to set up an STW scheme in mid-crisis and take-up rates by employers have been modest, an emerging lesson is that STWs can play an important role in avoiding lay-offs that prove economically and socially costly in the longer term. These schemes allow firms to weather the storm and create more resilient labour markets. For the avoidance of doubt, we should record that short-time working policies are more about job preservation than about job creation. "Work sharing" is an attractive idea to which policy-makers return as a solution to the unemployment problem, implement rather ineffective policies and then abandon the initiative. Our view is clear: unless the economy is growing, there will be no more jobs, and unless we have more jobs, the economy will not grow.

7.4 Of course, some countries without STW schemes 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 United States 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

8.1 We also endorse the approach adopted by the B20 in their Los Cabos submission, 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 commit to hiring 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, for example, five percentage points over the course of the year.

8.2 Some countries have already implemented a youth-employment guarantee, offering long-term unemployed people under the age of 24 who have been jobless for more than 12 months the opportunity of valuable labour-market activity. It is worth considering whether these policies might be linked explicitly to a 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 some labour-market experience and a proven capacity to acquire new skills. It is much more challenging for employers to take young people straight from the unemployment register simply because one cannot be certain that young people are "job-ready" if they have no recent experience of work, even if they apparently have the right qualifications.

9. Tax Cuts and Income Transfers

9.1 If the biggest problem facing the world economy is a lack of effective demand, then in addition to the stimulus derived from infrastructure investment (discussed below), policy-makers should consider other measures that might boost consumption, growth and employment. Those countries with the fiscal room for manoeuvre should consider the possibility of temporary tax cuts or income transfers to improve the spending power of households at the bottom of the income distribution. These are the households who will spend any additional income; beyond combating poverty and destitution, targeted tax cuts therefore generate the largest impact in terms of boosting effective demand.

10. Wages, Wage Floors and Productivity

10.1 The ILO and the OECD, in a joint statement published in 2011, noted that wage deflation posed a significant risk to the recovery and a return to robust, sustainable growth. Nothing that has happened since that time has reduced these risks and the IMF/OECD forecasts for 2013 suggest that the challenges may be more profound than had been anticipated. It was for this reason that the Global Agenda Council on Employment & Social Protection emphasized the importance of minimum wage floors in limiting the downward pressure on wages. We endorse this approach, although we observe that minimum wages need to be set flexibly and sensibly, with particular attention being given to the position of young workers.

10.2 Returning to our earlier theme of income inequality, 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 United States, Australia and Canada, where there has been a pronounced and long-term divergence between economic growth and median wages
- The United Kingdom, 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

10.3 If our 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 Rancière, 2010). Policies in a number of countries have been redesigned to promote access to employment for low-skilled and inexperienced workers through make-work-pay measures like tax credits. Further efforts are needed to promote up-skilling so that new entrants to the labour market have access to opportunities for progression and development. Policy must be carefully designed to ensure that people do not find themselves trapped in low-paid, low-productivity jobs.

11. Investment in Strategic Infrastructure

11.1 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. 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. 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.

11.2 We endorse the B20's proposal that G20 countries should consider how they can collaborate at a regional level to prioritize projects that can meet collective national goals, have a positive impact on the relevant global region and generate long-term employment benefits. The Multilateral Development Banks have a central role to play in implementing the recommendations of the G20 Panel on Infrastructure and other regional integration projects, such as those proposed by the African Union.

11.3 Determined action from governments is obviously required if decisions are to be taken that improve the long-term productive potential of national economies. To begin with, resources must be made 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. Serious effort should be put into evaluating 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.

11.4 A case can also be made for refocusing the activities of the Multilateral Development Banks so they are transformed from being primary lenders to the facilitators of financing from multiple sources. This can lead to higher levels of investment, integrated projects at the level of the global region and much higher returns to scale.

11.5 Reducing reliance on carbon-intensive modes of production and enhancing, for example, the availability of energy from renewable sources must be part of this new approach to the development of infrastructure. Nothing less is required if the challenge of climate change is to be met successfully. This means that policy-makers must consider how they can stimulate "green growth".

12. Supporting High-growth SMEs and Innovative Business Models

12.1 Another important element in any programme for a job-rich recovery is to ensure that small and medium-sized businesses (SMEs) with a proven potential for growth have access to the support they need to develop and create new employment opportunities. In part this is a question of access to finance. One consequence of the banking crisis is that lending to SMEs has reduced to a trickle. Governments can act either by reaching agreements with banks on lending targets or by providing greater liquidity through programmes like "credit easing" in the United Kingdom. Moreover, consideration could be given to the development of loan guarantee schemes, tax incentives for growing businesses and the development of programmes to enable SMEs to develop their export potential – in particular, SMEs need access to a robust, state-supported export credit guarantee scheme.

12.2 In addition to offering appropriate support for SMEs, governments should consider how public policy can support the development of alternative business models that have a proven capacity to create high-quality, sustainable employment. These models might include cooperatives and other forms of social enterprise, as well as high-quality self-employment. 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.

12.3 Governments should therefore consider the appropriateness of any or all of the following measures, implemented in partnership with representative organizations of business and entrepreneurs:

- The development of community-based and microcredit forms of financing to support entrepreneurship, especially in those localities where access to conventional finance is problematic.
- The creation of an ecosystem that supports cooperatives, mutuals and social enterprises. This might include: support for 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.
- The removal of barriers to the creation of high-quality, sustainable self-employment. There could be some public support available for shared workspaces, 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, ensuring that there is a level playing field of competition with larger businesses.

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

13.1 Another useful, short-term policy option is to shift the burden of taxation from labour to a range of environmental “bads”. 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. For the time being, a shift in the tax burden from labour to environmental externalities could have a beneficial stimulatory effect and, if designed properly, could be revenue neutral.

13.2 In addition, reinforcing our short-term recommendations on strategic infrastructure, governments could, as part of a programme with medium-term effects, consider directing public investment to the promotion of “green growth”. The goal would be to achieve desirable environmental objectives, leverage private sector investment to reduce carbon intensity and create high-quality, decent work in sustainable enterprises. A programme of this kind might 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.

13.3 Taken together, these policies will lead to a major restructuring of developed world economies which link to some of the other policy initiatives already outlined in this paper. Inevitably there will be winners and losers from this process (some carbon-intensive industries will decline and others will grow) so the task for policy-makers is to secure a just transition. Skills policies, in particular, must be redesigned to ensure an adequate supply of workers capable of working with new, environmentally friendly technologies. Moreover, skills policy must be coordinated with industrial and energy policy if the transition to a lower-carbon world is to proceed smoothly and fairly.

14. Implementing the Policy Agenda: The Need for Coordination

14.1 This report has outlined an ambitious policy prospectus, building on the recommendations of the B20 and the earlier proposals of the Council on Employment & Social Protection. It is important to understand, nonetheless, that these policies can only work if macroeconomic policy is oriented to the promotion of growth. We have already seen that widespread austerity has had a chilling effect on the global economy and that fiscal consolidation without a growth plan has led to the further slowdown in economic activity and downward revision of the growth forecasts for 2013.

14.2 The G20 took strong and effective action in 2009 to implement a coordinated fiscal stimulus following the London Summit. These conclusions were reinforced and the importance of employment emphasized at the Pittsburgh Summit later that year. Since that time, however, the appetite for coordinated international action appears to have diminished. In part this is because the global recession and the banking crisis were transmuted into a sovereign debt crisis with particular problems in the eurozone. Obviously it is for European policy-makers to resolve those problems and some countries have very limited fiscal room for manoeuvre. On the other hand, as the OECD has recognized, some countries do have the policy space needed to implement temporary stimulus policies and others could slow the pace of fiscal consolidation without any adverse effects on market confidence.

14.3 The corollary of public deficits is to be found in the huge surpluses on corporate balance sheets and the task now is to get the investment machine moving again. More than anything else, this is a problem of confidence, as both the IMF and the OECD have usefully pointed out. Determined action by governments is needed and the G20 remains the best vehicle for collaboration on macroeconomic policy questions. Moreover, there are huge opportunities for countries to learn from each other on the implementation of income transfers, the operation of youth employment programmes (especially apprenticeships) and jobs pacts or further efforts to improve the bargaining power of those on modest incomes. Tackling the long-term skills deficit is also essential if economies are to return to robust growth. But, unless the macro-policy framework is oriented to expansion, these other polices, while useful, will fail to achieve their full potential.

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