# Gaps, challenges and progress made in employment creation

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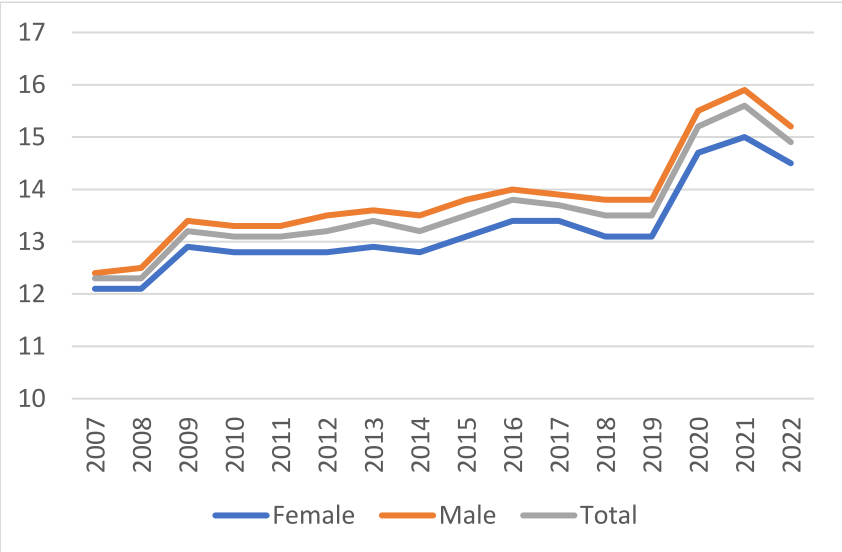
Sher Verick[1], Head, Employment Strategies Unit, ILO, Geneva.

## 1. Prior to the COVID-19 crisis, decent work deficits persisted despite some progress

Viewing labour market trends over a longer period reveals progress in terms of a shift out agriculture (which is at the core of the development process), an increase in the proportion of wage and salaried employees and declining working poverty. At the same time, decent work deficits have persisted as reflected by youth unemployment rates, significant gender disparities (e.g., between labour force participation rates and wages) and high rates of informality (which is also driven by new forms of informal employment).

Despite the moniker, the global financial crisis in 2009 had a varied impact on economies and labour markets around the world (Verick, Schmidt-Klau and Lee, 2022). Advanced economies experienced a more severe decline in GDP of 3.3 per cent in 2009, compared with a positive 2.8 per cent growth for emerging market and developing countries (though these aggregate figures mask considerable variation within these groupings). Middle-income countries, especially China and India, returned to robust economic growth in 2010, which generated demand for commodities around the world that benefited exporters, especially developing countries, over the subsequent years.

**Figure 1. Youth unemployment rate (%), 2007-2022**




Source: ILO modelled estimates, ilostat.ilo.org.

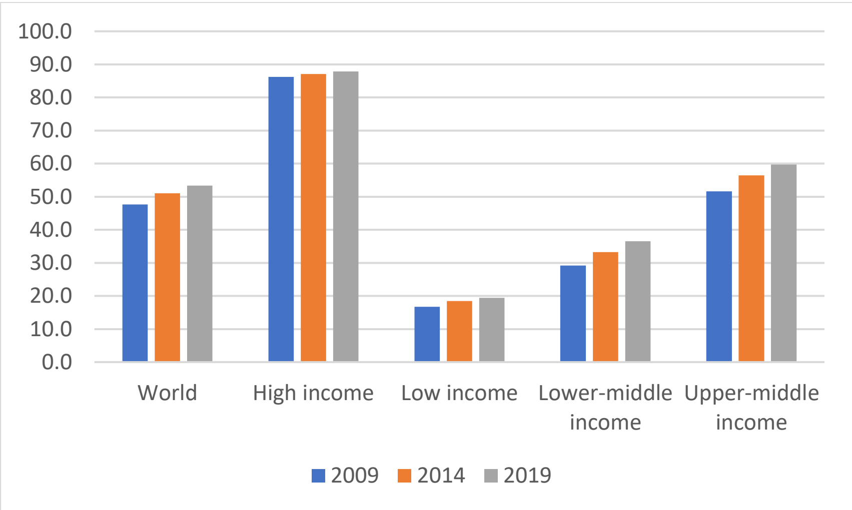
[1] This note should not be interpreted as an official view on these issues by the International Labour Organization (ILO) or its member States.

Although the overall global unemployment rate did decline slowly over the years following the global financial crisis, it did not return to its pre-crisis low of 5.3 per cent within the decade. For youth, the situation was even more devastating: the global youth unemployment rate continued to rise after 2009, reaching a peak of 13.8 per cent in 2016 (14.1 per cent for young men) (figure 1). Even in 2019, the youth unemployment rate still stood at 13.6 per cent, around 1.3 percentage points higher than the rate in 2008, reflecting the long-lasting damage inflicted on labour markets, especially for young people.

Though a lag in the labour market is consistent with previous financial crises (Reinhart and Rogoff 2009), poor policy choices, namely the return to premature austerity in a number of advanced economies (for instance, in the European Union), prolonged the recovery (see, for example, House, Proebsting and Taesar, 2020). Overall, output losses persisted following the crisis, while investment and total factor productivity remained below pre-crisis levels in a number of economies (Chen, Mrkaic and Naber, 2019).

Even though developing countries were not hit has hard during the global financial crisis, progress has been slow and uneven. Over the last decade or so the share of wage and salaried workers in total employment has increased, especially in middle-income countries. From 2009 to 2019, this share increased from 29.2 to 36.5 per cent in lower-middle-income countries and 51.6 to 59.7 per cent in upper-middle-income countries (figure 2). This trend reflects the transformation of economies over time as workers move out of agriculture (but more and more into services than manufacturing) and shift to urban areas. However, despite these transitions, the share of informal workers has not decreased significantly – in 2016, there were around 2 billion people still working informally, representing 61.2 per cent of global employment.

**Figure 2. Share of employees in total employment (%), 2007-2022**




Source: ILO modelled estimates, ilostat.ilo.org.

Before the COVID-19 crisis, there was considerable focus on the effects of the future of work trends on the labour market, with particular emphasis on technological change, demographics, climate change and globalization. As outlined in the ILO Centenary Declaration for the Future of

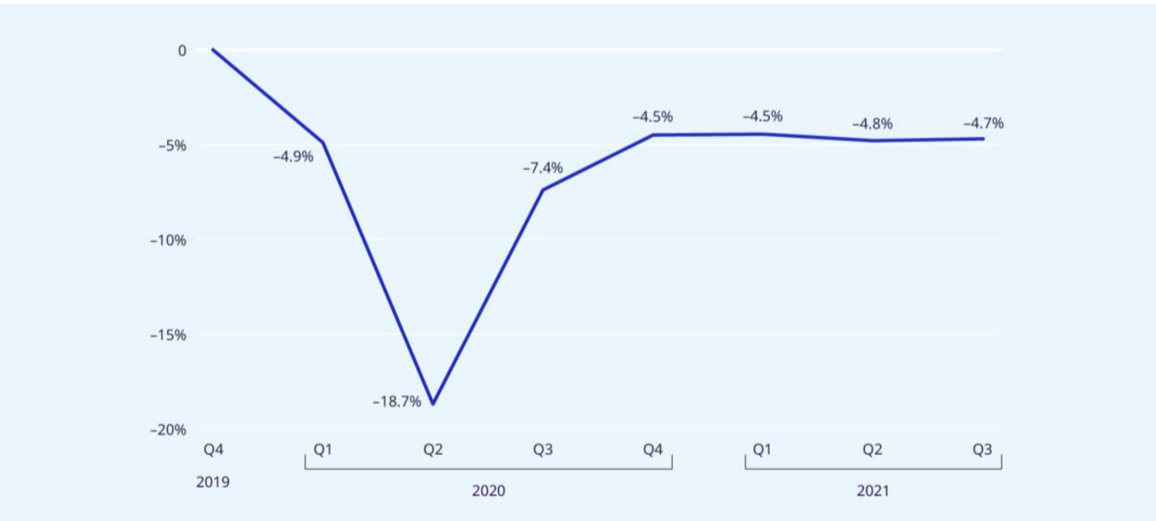
Work 2019, countries need to pursue a human-centred approach focusing on investment in people's capabilities, institutions of work and decent and sustainable work.[2]

## 2. COVID-19 has severely impacted labour markets in 2020 followed by an uneven and fragile recovery in 2021

In contrast to the global financial crisis, the COVID-19 crisis of 2020-2 represented a very different shock in terms of its origin, transmission channels and impact. Starting as a global health emergency in early 2020, the pandemic evolved into a severe economic and labour market shock, though this evolution was complex and uncertain owing to the changing nature of the virus.

As a result of the lockdown and other containment measures, the COVID-19 crisis had a deep impact on the labour market, especially in the second quarter of 2020 when workplace closures were at their strictest. At the end of August 2020, the share of workers residing in countries with workplace closures stood at 94 per cent (ILO, 2021). By the start of 2022, thanks to the rollout of vaccinations and the subsequent lifting of lockdown measures, the strictest form of closure (economy-wide required closures for all but essential workplaces) has nearly disappeared from most countries.

**Figure 3. Change in hours worked (adjusted for population aged 15 to 64) relative to 2019 Q4 (percentage)**




Source: 8th ILO Monitor; ILO modelled estimates.

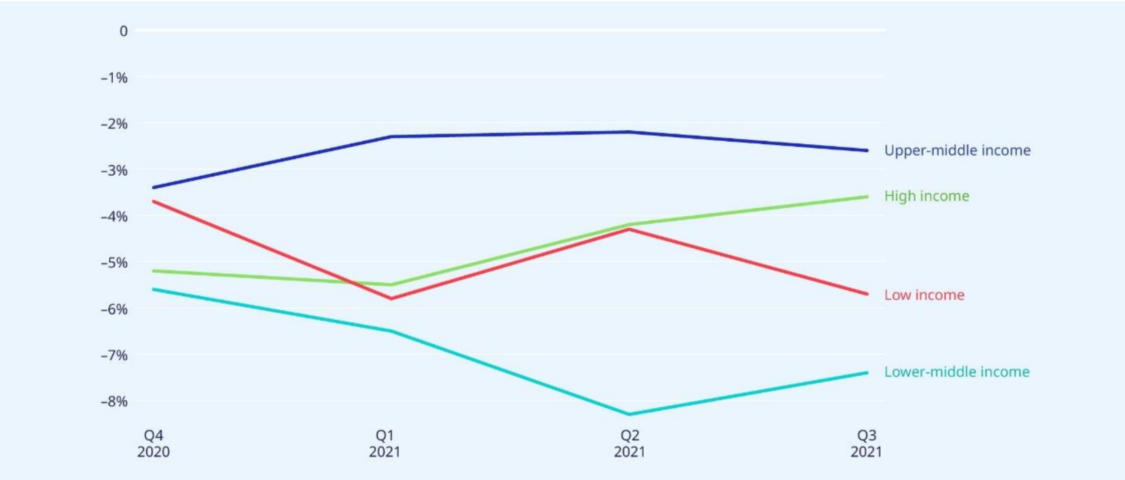
The evolution of the lockdown measures, along with the effects of the unprecedented fiscal stimulus and other policies, is also reflected in global trends in hours worked, which is the key indicator that captures the labour market effects of the COVID-19 crisis. In the second quarter of 2020, the period with the strongest lockdown measures and deepest labour market impact, global hours worked were a massive 18.7 per cent below the pre-crisis level (fourth quarter of 2019) (figure 3). As countries relaxed measures over the second half of 2020, hours worked increased quickly but still remained at a deficit relative to 2019 Q4. As a result of new variants and the need for reintroducing lockdown measures, the recovery stagnated over 2021. As at the

[2] ILO Centenary Declaration for the Future of Work, 2019

third quarter of 2021, the difference in hours worked relative to the last quarter of 2019 was 4.7 per cent.

Beyond the aggregate trends, a key feature of the COVID-19 crisis is the divergence between advanced economies, which had the most generous policy measures, and low- and lower-middle-income countries, which have suffered a much greater decline in hours worked and divergence during 2021 (figure 4). In the third quarter of 2021, the difference between high-income and lower-middle-income countries was over four percentage points.

**Figure 4. Change in hours worked (adjusted for population aged 15 to 64) relative to 2019 Q4, by country income group (percentage)**

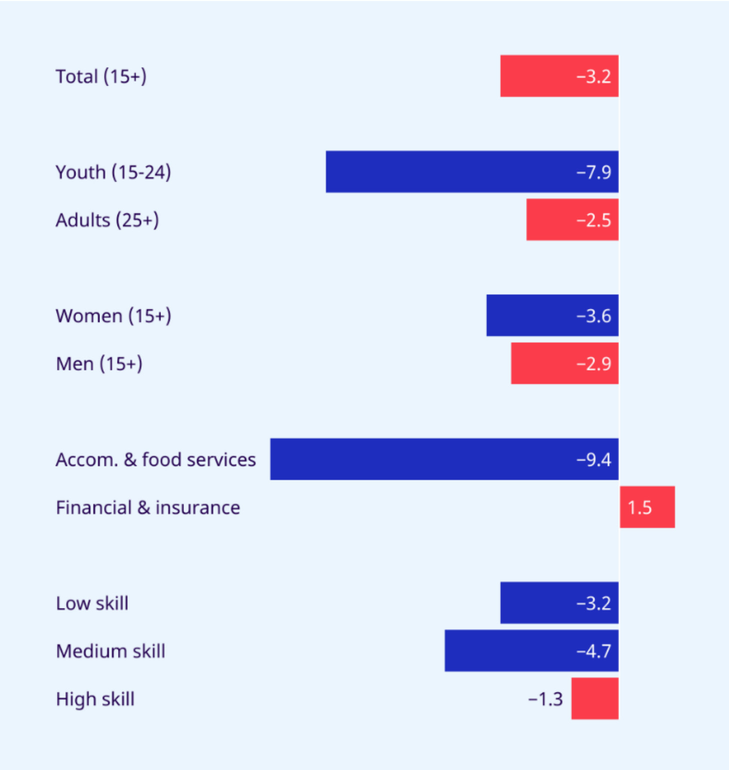



Source: 8th ILO Monitor; ILO modelled estimates.

The decline in working hours translated into a decline in employment, especially for hard-hit groups. While total employment declined by 3.2 per cent in 2020 (relative to 2019), the fall was larger for women (-3.6 per cent) and considerably more devastating for young people aged 15 to 24 (-7.9 per cent) (figure 5).  The COVID-19 lockdowns were more damaging for sectors that are contact intensive, particularly accommodation and food services (i.e., hotels, restaurants and bars). In 2020, this sector suffered a decline in employment of 9.4 per cent. In contrast, employment in financial and insurance services grew 1.5 per cent in the same year, which was spurred by the massive stimulus injected into markets (a similar story can be seen in the data on employment in the information and communication technology sector, which had benefited from the acceleration in digitalization and work-from-home arrangements). Finally, employment decreased more in 2020 for workers with low- and medium-levels of skills, which was due to the sectoral impact of the lockdown measures.

Another unique feature of the COVID-19 crisis is that the job losses over 2020 and 2021 did not result in a significant rise in the unemployment rate for the total population. The 2020 employment loss of 114 million translated into an increase in inactivity of 81 million compared to a rise of 33 million in unemployment. The shift to inactivity during the pandemic reflects that the lockdown measures also constrained the jobless from searching for a job and being available for work (necessary conditions for being classified as unemployed). That said, the youth unemployment rate did increase significantly in 2020 before reaching 15.6 per cent in 2021 (figure 1). ILO projections indicate that the youth unemployment rate will fall to 14.9 per cent in 2022, which still remains much higher than the pre-crisis level.

**Figure 5. Annual employment growth rate in 2020 (%), by group and sector**




Source: ILO modelled estimates, ilostat.ilo.org.

## 3. The conflict in Ukraine is creating new shocks, which are damaging developing countries

The conflict in Ukraine is not only devastating in that region but has also created a new shock to the global economy through several transmission channels. Commodity prices have risen rapidly, especially for food and fuel, while supply chains are experiencing new disruptions. The heightened uncertainty and the impact on investor and consumer confidence will further dampen aggregate demand during the recovery from the COVID-19 crisis.

The latest GDP growth estimates indicate that emerging market and developing economies will grow at just 3.8 per cent in 2022, down from 6.8 per cent in the previous year.[3] The economic and labour market impact within low- and middle-income countries will be uneven, depending on whether countries are commodity exporters or importers. In developing countries dependent on food and fuel imports, the price and trade shocks will have a negative impact on growth, jobs and poverty, while in exporting countries, the benefits of higher commodity prices

[3] IMF, World Economic Outlook, April 2022: War sets back the global recovery , April 2022.

will depend on the distribution of the gains of trade. In the latter group of economies, the poor, especially in urban areas, can still suffer if their real incomes fall. At the same time, heightened uncertainty and monetary policy tightening in advanced economies can negatively impact financial flows to developing countries, which are already reeling from high levels of debt and limited fiscal space.

In this situation, the most immediate effect of the Ukraine conflict is on the domestic labour market of Ukraine. The ILO estimates that 4.8 million jobs have been lost with respect to the pre-conflict situation, equal to 30 per cent of pre-conflict employment in Ukraine (ILO, 2022). The conflict has created a massive displacement of the population, leading to over 5.2 million refugees who have moved to neighbouring countries, especially Poland and Romania. The ILO estimates that approximately 1.2 million of the total refugee population were working prior to the conflict (ILO, 2022). However, since the majority of the refugees are women (along with children and older people), the effect on host labour markets may be muted, at least in the short term.

In addition, the sanctions on the Russian Federation will potentially affect migrant workers from Central Asia who send back significant amounts of remittances, particularly in Kyrgyzstan and Tajikistan where flows from the Russian Federation accounted for 83 and 56 per cent of total remittance (in 2021), respectively (KNOMAD-World Bank, 2022).

The most immediate impact in developing countries is triggered by inflation, which has a direct effect on the purchasing power of workers and their families around the world. Estimates by the OECD suggest that global growth could be reduced by over 1 percentage point, and global inflation raised by close to 2½ percentage points in the first full year after the start of the conflict.[4] As a result of the Ukraine conflict and more general inflationary pressures, the IMF projects that inflation in 2022 will reach 5.7 per cent in advanced economies and 8.7 per cent in emerging market and developing economies. Driven by rising cereal and vegetable oil prices, the FAO Food Price Index averaged 159.3 points in March 2022, up 17.9 points (12.6 per cent) from February, representing the highest level since the start of the Index in 1990.[5]

Rising inflation will further exacerbate the increase in poverty during the COVID-19 crisis: some estimates point to a rise in global poverty of 40 million as a consequence of the price spike induced by the Ukraine crisis.[6]

The longer the Ukraine conflict continues, the shocks reverberating around the world will lead to further disruptions in the labour market (reduction in hours worked, drops in real labour income). Later in 2022, this would lead to further impacts on businesses, leading to further job and income losses.

## 4. Responding to multiple crises: moving towards a human-centred recovery

In the current situation, policymakers, especially LICs and MICs, are facing a complex set of labour market issues, including not only the longer-term trends and challenges but also the

[4] OECD Economic Outlook
[5] FAO Food Price Index | World Food Situation | Food and Agriculture Organization of the United Nations
[6] Price Spike Caused by Ukraine War Will Push Over 40 Million into Poverty: How Should We Respond? | Center for Global Development | Ideas to Action (cgdev.org)

uneven recovery from the COVID-19 crisis and now the impact of the global price and trade shocks emanating from the Ukraine conflict. There is considerable risk that labour market recovery, especially in developing economies, will be delayed and even reversed in some cases over 2022.

In line with the recommendations of the ILO Global Call to Action for a human-centred recovery adopted[7] in June 2021, key policy priorities include:

- Providing timely and effective support to maintain the purchasing power of labour income and the overall living standards of workers and their families.
- Carefully adjusting the macroeconomic policy stance to address inflationary and debt sustainability pressures while recognizing the need to facilitate a job-rich and inclusive recovery, including the creation of jobs in the green, care and digital economies.
- Ensuring that hard-hit groups and sectors are protected through social protection for workers and support to enterprises, especially MSMEs and those operating in the informal economy.
- Addressing multi-dimensional gender disparities and needs for young people (overcoming jobs and education/training crisis, etc.)
- Monitoring and assessing the impacts of multiple crises on the world of work.

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[7] https://www.ilo.org/ilc/ILCSessions/109/reports/texts-adopted/WCMS_806092/lang--en/index.htm