EMPLOYMENT IN THE GLOBAL ECONOMY SINCE THE 1995 SOCIAL SUMMIT

By

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1. Introduction

This paper is a broad survey of what has happened to employment in the global economy since 1995, the year when the World Summit on Social development adopted 'full and productive employment' as one of its major commitments.[1]The aim of the paper is not to assess how much of a difference the adoption of this commitment has made to the actual employment performance over this period. Such a task is inherently difficult given the broad nature of both the Commitment adopted and the arrangements for follow-up and accountability. Instead the focus is on trying to establish how employment conditions have evolved since the Summit by drawing on available international data sets and a review of the academic literature on the issue.

In doing so the goal of full employment is, however, used as a general yardstick for evaluating observed performance. A specific point of interest is whether the world has, over the past twenty years, moved closer to the vision of full employment adopted by the Social Summit. Another point of interest is the lessons that can be drawn from this experience for the prospects of improving employment performance in the post-2015 development agenda.

The Copenhagen Declaration acknowledged in the second paragraph of its preamble the 'urgent need to address profound social problems, especially poverty, unemployment and social exclusion that affect every country. It is our task to address both their underlying and structural causes and their distressing consequences in order to reduce uncertainty and insecurity in the life of people.' Unemployment was thus perceived to have been one of the most serious social problems in 1995.

In setting out how the problem should be tackled the Declaration stressed the need for governments to commit themselves to 'the goal of full employment as a basic priority of our economic and social policies' and 'to put the creation of employment, the reduction of unemployment, and the promotion of appropriately and adequately remunerated employment at

[1] United Nations *Report of the World Summit for Social Development(Copenhagen, 6-12 March 1995)*

the centre of strategies and policies of Government, with full respect for workers rights and with the participation of employers, workers and their respective organizations'

The Declaration adopted a comprehensive view of the employment problem both in terms of the links between employment and poverty and social exclusion as well as in terms of the range of policies that were required to achieve full employment. It recognised that reducing unemployment and underemployment was vital for the reduction of poverty and social exclusion. In terms of policies for achieving full employment it recognised that a wide range of economic policies, including macroeconomic policies, affected the level of employment and that these policies should all be supportive of employment growth. In addition it also saw the need for a wide range of policies targeted at relatively deprived sectors such as the rural and informal sectors in developing countries and vulnerable groups in the labour market. The Declaration further stressed that all these policies should be carried out within a coherent overall policy framework.

As will be seen from the last quotation, the Declaration recognised the importance of respecting workers right s and the role of the social partners in attaining the full employment objective. More generally, it underscores at several points the importance of social justice as the underlying norm for employment policy and highlighted issues such as gender equality, child labour, and the problems faced by vulnerable and poor workers.

The Declaration also saw globalization as a major influence on employment prospects across the world. From this perspective, it stressed the importance of 'fostering international cooperation in macroeconomic policies, liberalization of trade and investment so as to promote sustained economic growth and the creation of employment'. These issues are still highly relevant today, especially in view of the global financial crisis and the ongoing struggle to revive growth and employment creation in its aftermath.

The Declaration was remarkable for its high level of ambition in setting employment goals and the generally progressive political stance that underlay its approach to employment issues. It is difficult to imagine that a similar Declaration would be adopted today.

The paper is structured as follows. The next section makes a valiant attempt to make an overall judgement on whether employment conditions in the global economy have moved closer to the goal of full employment or otherwise on the basis of a limited set of available international indicators of employment performance. Section 3 then attempts to shed additional light on the issue through reviewing the academic literature on the factors that have influenced employment performance in the global economy since 1995. Section 4 then attempts to sift from often divergent discourses on employment policy over this period where the fault line lies and takes a stand from one side of it. Section 5 discusses future employment challenges and the responses that are required. Section 6 concludes.

2. Employment Performance

In contrast to the generally upbeat assessments of global trends in the level of poverty, assessments of employment trends have been persistently sombre. While it is widely accepted that there has been a sharp reduction in extreme poverty in the world since 1995, there is no similar shared position in the case of employment. If anything, the general assessment seems to be that there has been little improvement, or even deterioration, in the overall employment situation. For example, the regular reports of the ILO on the global employment situation such as *Global Employment Trends* and *The World of Work* typically paint a dismal picture and highlight new or worsening problems each year. While it is true that the Global Financial Crisis and the slow and hesitant recovery from it has dominated the tenor of these assessment in recent years, it remains true that even well before the crisis the assessments were not significantly more optimistic.

Similarly, the academic literature on the issue and, even more so media reports, highlight many negative aspects of the global employment situation. There are regular fits of anxiety over the onset of 'jobless growth' and the 'end of work' in the face of rapid technological change. There is growing concern over the rise of precarious employment. In developing countries there is concern over the slow rate at which 'good jobs' are being created in the face of rapid growth in the labour force and the consequent rise in the size of the low-productivity informal sector. There are regular outbreaks of concern over exploitative working conditions in global value chains, human trafficking, and the harsh treatment of migrant workers in some host countries.In the industrialized countries there is constant anxiety over job losses to developing countries due to the relocation of production within Global Production Systems and, most recently, to the off-shoring of even skilled jobs. In all countries there is concern over the rise in income and wage inequality and the decline in the share of national income going to workers.

At a basic level these two divergent trends are difficult to reconcile. Since it is often argued by advocates of employment promotion that more and better jobs are the key to both the reduction of poverty and the attainment of more inclusive growth, it is difficult to see how the generally dismal picture of employment growth that is painted is consistent with the picture of a sharp reduction in poverty.

How can this inconsistency be explained? At one level it is due to a difference in nature of the key indicators than are used to monitor trends in poverty and employment. In the case of extreme poverty the key indicator is a headcount of the number of people living below an international poverty line of 1.25 US dollars per day. In the case of employment the headline indicator is the unemployment rate. As will be seen in Table 1, the global unemployment rate for the five-yearly intervals between 1995 and 2014 has shown little variation. It was 6.1 percent in both 1995 and 2014. The only significant variation was a drop from 6.1 percent in 2005 to 5.5 percent in 2007, probably an indication of the favourable impact of the rapid economic growth in these two pre-crisis years. With the onset of the crisis in 2008 the unemployment rate returned to its trend level of just above 6 percent. In the case of the industrialized countries as a whole, however, there was a sharp rise in the unemployment rate from 5.8 percent in 2007 to 8.4 percent in 2008, reflecting the severity of the global financial crisis that originated in these countries and where its effects were felt the most severely.

Table 1: Unemployment Rates, 1995-2014 (Percent)

	1995	2000	2005	2009	2010	2014
World	6.1	6.3	6.1	6.2	6.1	6.1
Developed Countries	7.9	6.8	6.9	8.4	8.8	8.6
Sub-Saharan Africa	8.0	8.7	7.6	7.7	7.6	7.6
North Africa	14.9	14.9	12.6	10.6	10.4	12.2
South Asia	4.1	4.5	4.7	4.2	4.2	4.0
South-East Asia	3.7	5.0	6.3	5.1	4.7	4.7
East Asia	4.4	4.5	4.1	4.4	4.2	4.7
Latin America	8.1	8.8	8.0	7.5	7.3	6.5
Middle East	10.3	11.5	11.3	10.3	11.1	11.0

Source: ILO Key Indicators of the Labour Market Database

In the case of developing countries, there have been few signs of significant changes in the unemployment rate for the different regions. There was an increase in the unemployment rate in all regions except North Africa between 1995 and 2000. Thereafter it fell by more than two percentage points between 2000 and 2014 in Latin America and North Africa and by 1 percentage point in Sub-Saharan Africa. There were also marginal declines in South Asia, South East Asia, and the Middle East. The only region to show any increase in the unemployment rate between 2000 and 2014 was East Asia and even here the increase was by only o.2 percentage points. Therefore, on the basis of this unemployment rate indicator there would appear to have been a slight improvement in the employment conditions in developing countries since the year 2000.

There are, of course, well known limitations to using the unemployment rate as an indicator of overall employment conditions in developing countries. The main limitation is that in low-income countries only a small proportion of the employed population is in wage-employment; the majority are self-employed or unpaid family workers in peasant farming or in the urban informal sector. The unemployment rate is relevant mainly to the wage-employment sector and thus provides an indication of changes in employment conditions for only a small part of the labour market. For the self-employment or informal sector a far better measure would be the extent of underemployment, that is, the shortfall in the number of hours of work that is available or in the income that can be earned from work. The reason for this is that in the self-employment sector, adjustments to changes in the demand for labour occurs through changes in the number of hours worked or in income earned, rather than through the loss or acquisition of a job.

A related limitation of the unemployment rate as an indicator arises from the fact that most developing countries have at best limited systems of unemployment insurance and social protection. In such a context few workers can afford to stay unemployed for long when they lose their jobs. They have to find some means of survival through improvising some form of self-employment. This implies that observed unemployment rates should be lower than those in advanced countries with comprehensive systems of social protection. In addition, changes in the unemployment rate should also be more limited in range. For example a sharp fall in the aggregate demand for labour would be only be partially reflected in a rise in the unemployment rate since a large part of the labour market distress would be deflected to a rise in underemployment.[2]

For these reasons changes in the rate of underemployment would be a more telling measure of employment conditions in developing countries than the unemployment rate and should thus be used alongside the latter. Unfortunately, data on this variable are rarely available so the unemployment rate is used alone out of necessity. In view of this, a reliable monitoring of changes in the global employment situation is more difficult than that of monitoring trends in poverty.

[2] From this perspective it should be noted that some of the unemployment rates for the various developing regions presented in Table 1.appear to be implausibly high. In North Africa and the Middle East they are above 10 percent and hence higher than in most industrialised countries. In Sub-Saharan Africa they have hovered between 7 to 8 percent between 1995 and 2014. In this latter case, the implausibility is particularly acute given the fact that most countries in the sub-region are low-income countries with hardly any social protection and where wage-employment typically accounts for 10 to 15 percent of total employment. The latter characteristic implies that an unemployment rate of 7 percent for the entire labour force signifies an extremely high rate of open unemployment in the modern or wage-employment sector of the economy.

In recent years data on additional variables have begun to appear that have to potential to strengthen the monitoring of global employment trends. These data are presented in Tables 2 to 5.

In Table 2 data on the proportion of the labour force that are in the category of the ‘working poor’ are presented. This category is defined as those who are in employment but whose earnings are not enough to lift themselves and their families above the international poverty line of 2.00 US dollars per person per day. It is important to note, however, that this estimate does not come from direct data on the actual earnings of workers derived from labour force surveys. Rather, the estimate is derived indirectly from data on trends in household income and consumption that are used to estimate changes in the level of poverty. There is thus an in-built tendency for changes in the estimates of the working poor to mirror those of the number of households who are in poverty. The extent to which these indirect estimates of working poverty would be consistent with estimates derived from direct data on workers earnings is difficult to establish.

The picture of change that emerges from these estimates of working poverty is a positive one. The proportion of those at work who live on less than 2 dollars a day has declined across all regions of the developing world and dramatically so in several cases. In East Asia the proportion declined from 63.7 percent in 1995 to only 11.6 percent in 2014. Large decreases also occurred in South-East Asia, Latin America and North Africa. By 2014 the problem of the ‘working poor’ affected less than 15 percent of workers in all developing regions except South Asia, Sub-Saharan Africa, and South-East Asia. In the latter region the proportion was 29 percent but in the former two it remains very high at above 60 percent. Thus a deep-seated problem of working poverty is confined to South Asia and Sub-Saharan Africa where the proportion of working poor remains above 60 percent.

Table 2: Working Poor as a Percentage of Total Employment, 1995-2014

	1995	**2000**	**2005**	**2009**	**2010**	**2014**
World	49.1	45.9	36.8	32.0	30.2	25.7
East Asia	63.7	55.1	34.0	24.5	20.9	11.6
South-East Asia	66.8	62.3	44.4	38.9	35.1	29.0
South Asia	81.2	78.5	73.1	67.8	65.9	60.0
Latin America	15.2	16.0	12.0	8.6	7.5	6.4
Sub-Saharan Africa	76.1	75.4	71.2	67.6	66.7	61.3

North Africa	29.5	23.8	19.7	15.7	15.2	14.0

Source: ILO Key Indicators op.cit.

A similar picture emerges from Table 3 which shows changes in the distribution of employment by economic class. (These estimates are also derived using the indirect methodology described above) The proportion of the employed who are living on less than an international poverty line of 1.25 US dollars per day has declined steadily from 35.8 percent in 1995 to 13.2 percent in 2014. There has been a similar, but far less pronounced decline in the proportion of workers who are in ‘moderate poverty’, defined as who are earning between 1.25 and 2.00 dollars per day. At the upper-end of the distribution, it will be noticed that the proportion of workers in the ‘Developing Middle-Class’ has increased from 15.2 percent in 1995 to 32.6 percent in 2014 while the proportion in the top earnings category has increased from 4.2 to 11.7 percent over the same period. These changes suggest that there has been a marked improvement in the average returns to labour in the developing world, a sharp reduction in the problem of working poverty, and a significant increase in the size of the ‘middle class’ working population. These changes are in line with what is to be expected in the context of the sharp reduction in poverty in the developing world between 1995 and 2014.

Table 3. Employment by Economic Class, 1995-2014 (percentage of total employment)

	1995	2000	2005	2010	2014
<u>Developing Countries</u>					
1. Extremely Poor	35.8	32.0	22.5	17.1	13.1
2. Moderately Poor	23.7	23.4	21.5	18.7	17.1
3. Near Poor	21.1	22.9	26.2	25.8	25.5
4. Developing Middle Class	15.2	17.4	23.9	29.3	32.6
5. Developed Middle Class	4.2	4.3	5.9	9.1	11.7
Class					
<u>East Asia</u>					
1. Extremely Poor	37.7	31.1	14.8	8.7	4.3
2. Moderately Poor	26.0	24.0	19.2	12.2	7.2
3. Near Poor	25.1	27.4	32.8	28.4	23.8

4. Developing Middle Class	10.4	15.8	29.6	42.5	49.9
5. Developed Middle Class	0.9	1.7	3.6	8.2	14.8
South-East Asia					
1. Extremely Poor	40.5	34.2	19.4	13.6	10.4
2. Moderately Poor	26.3	28.0	25.0	21.6	18.6
3. Near Poor	18.1	21.5	31.9	35.1	36.2
4. Developing Middle Class	13.0	13.4	19.7	24.2	28.0
5. Developed Middle Class	2, 1	2.8	4.1	5.6	6.9
South Asia					
1. Extremely Poor	47.6	44.2	38.0	29.3	23.0
2. Moderately Poor	33.7	34.4	35.1	36.6	37.0
3. Near Poor	16.5	18.7	22.1	27.4	30.7
4. Developing Middle Class	1.8	2.4	4.5	6.1	8.5
5. Developed Middle Class	0.9	0.4	0.4	0.6	0.9
Latin America					
1. Extremely Poor	7.2	7.9	5.7	3.5	2.9
2. Moderately Poor	8.0	8.2	6.3	4.0	3.5
3. Near Poor	22.3	22.0	19.3	16.2	15.0
4. Developing Middle Class	44.3	44.2	47.6	49.4	49.3
5. Developed Middle Class	17.8	17.8	21.1	26.9	29.2
Middle East					
1. Extremely Poor	1.9	1.5	1.8	1.0	1.0
2. Moderately Poor	8.4	7.8	7.8	6.3	6.2
3. Near Poor	25.7	26.0	26.9	22.4	22.7
4. Developing Middle Class	45.7	46.8	46.2	48.6	47.7
5. Developed Middle Class	18.3	18.0	17.2	21.6	22.4
North Africa					
1. Extremely Poor	9.2	6.9	5.1	3.5	2.9
2. Moderately Poor	20.2	16.4	14.5	11.7	11.1
3. Near Poor	40.3	42.4	43.3	43.2	43.9
4. Developing Middle Class	26.7	30.9	34.2	38.4	38.9
5. Developed Middle Class	3.6	2.9	2.8	3.2	3.3
Sub-Saharan Africa					
1. Extremely Poor	57.2	55.8	49.1	44.8	37.6

2. Moderately Poor	18.9	19.7	22.1	21.9	23.8
3. Near Poor	14.5	14.9	17.8	20.1	23.6
4. Developing Middle Class	7.4	7.7	8.9	10.7	12.8
5. Developed Middle Class	2.O	1.9	2.2	2.5	2.8

Note: The income brackets in the above table are: Extremely Poor: below 1.25 dollars per day; Moderately Poor 1.25 to 2 dollars per day; Near Poor: 2 to 4 dollars per day; Developing Middle Class: 4 to 13 dollars per day and Developed Middle Class: above 13 dollars per day.

Source: ILO op.cit.

As in the case of the data on the working poor, there have been large differences between developing regions in the degree to which these positive development have occurred. East Asia and South East Asia have shown the most dramatic improvements while South Asia and Sub-Saharan Africa have shown the least. Latin America and the Middle East had much lower proportions of workers in the bottom two income categories than the other regions in the base year of 1995 but still continued to experience significant proportionate reductions in working poverty through 2014.In both these regions now have over 70 percent of workers in the top two categories of the earnings distribution.

A priori, these favourable developments in the distribution of earnings from work must be a reflection of a significant and generalised rise in average labour productivity in the developing world as a whole. This inference is confirmed by the data in Table 4 on Labour Productivity. Average labour productivity in the world as a whole rose by 45 percent between 1995 and 2014. The increase in the developed countries was significantly lower than this, being 27 percent. This implies than the increase was significantly higher in developing countries as a whole.

Table 4: Labour Productivity 1995-2000 (Value-added per worker, thousand US dollars per year)

	1995	**2000**	**2005**	**2010**	**2014**
World	16.6	18.4	20.1	22.5	24.2
Developed Countries	58.5	64.9	69.8	72.0	74.8
East Asia	4.8	6.6	9.1	14.3	17.9
South-East Asia	7.0	7.1	8.4	9.8	11.2
South Asia	3.8	4.5	5.4	7.5	8.5
Sub-Saharan Africa	4.3	4.4	4.8	5.4	5.8
North Africa	15.0	16.2	17.1	19.0	19.8
Middle East	37.0	39.1	38.5	41.7	42.1
Latin America	20.1	20.9	21.1	23.0	24.2

Source: ILO op.cit.

The most dramatic increase was in East Asia where labour productivity more than trebled between 1995 and 2014. Somewhat surprisingly, the second largest increase was in South Asia where it more than doubled over the same period. Similarly, even in Sub-Saharan Africa average labour productivity increased by 34 percent between 2000 and 2014.

An increase in average labour productivity can be broken down into two components:-

i) A process of positive structural change whereby an increasing proportion of the labour force move from low- to higher-productivity sectors.

ii) An increase in productivity in one or more sectors of the economy due to some combination of an increase in the capital stock per worker as a result of investments, improvements in human capital, and the spread of more productive technologies and more efficient institutions.

In developing countries, the first of these two components is generally considered to be significantly more important, especially at the early stages of economic development. At this stage the vast majority of the working population is engaged in peasant agriculture and other low-productivity traditional economic activities. Alongside this is a small modern sector where labour-productivity is substantially higher than in the traditional sector. A rapid shift of labour from the traditional to the modern sector, especially through a high rate of labour-intensive manufacturing growth, would bring about a substantial rise in average labour productivity.

Table 5 provides data on the extent to which this has occurred in developing countries over the period between 1995 and 2014. The percentage of employment in agriculture, the locus of low-productivity employment, has fallen in all regions of the developing world. Agricultural employment fell by 9 to 14 percentage points, except for Sub-Saharan Africa where it fell by 5.5 percent. In 2014 agricultural employment accounted for more than 50 percent of total employment only in Sub-Saharan Africa. It accounted for only 15 percent of total employment in Latin America and the Middle East but remained at around 30 percent or more in the other developing regions.

Table 5: Structure of Employment 1995-2000 (Percent of Total Employment)

	1995	2000	2005	2010	2014
World					
Agriculture	41.8	40.4	37.7	33.7	31.3
Industry	21.2	20.5	21.1	22.3	23.2
Services	36.9	39.1	41.5	44.1	45.5
East Asia					
Agriculture	49.5	47.4	42.4	34.8	29.8

Industry	24.5	23.7	24.7	28.9	30.7
Services	26.0	28.9	32.8	36.3	39.4
South-East Asia					
Agriculture	52.5	49.8	46.0	41.4	39.6
Industry	16.0	16.4	18.1	18.7	19.5
Services	31.5	33.9	36.0	39.9	41,0
South Asia					
Agriculture	60.7	59.5	54.3	51.1	46.6
Industry	15.5	15.6	18.5	20.7	23.1
Services	23.7	25.0	27.2	28.1	30.2
Latin America					
Agriculture	24.4	21.5	19.5	16.6	15.3
Industry	20.9	21.2	21.6	21.8	21.0
Services	54.9	57.3	58.8	61.1	63.7
Sub-Saharan Africa					
Agriculture	66.3	65.5	63.7	61.7	60.8
Industry	8.4	8.1	8.4	8.8	9.0
Services	25.3	26.3	28.0	29.5	30.1
North Africa					
Agriculture	35.9	33.8	33.5	30.1	29.8
Industry	20.3	20.1	20.7	23.7	21.1
Services	43.8	46.1	45.8	46.2	49.1

Source: ILO op. cit.

However, contrary to the structural transformation thesis, this shift away from agricultural sector was not predominantly to the industrial sector (which includes manufacturing). In all regions except South Asia and the Middle East the percentage point increase in the employment share in the Services sector was substantially larger than that in the industrial sector. In Sub-Saharan Africa and Latin America there was no increase in the share of employment in the industrial sector. As a consequence of these changes, the share of employment in the service sector was significantly higher than that in industrial employment employment in all regions of the developing world. The share of employment in the industrial sector ranged from 9 percent in Sub-Saharan Africa to 30.7 percent in East Asia. In addition the share of industrial employment in Latin America, South East Asia, North Africa, and South Asia remained in the range of 19 to 23 percent of total employment. In contrast, the share of employment in services ranged from 30 percent in both South Asia and Sub-Saharan Africa to 63.7 percent in Latin America.

This pattern of change suggests that rapid growth in industrial employment has become much more difficult to achieve over the past 20 years. This contrasts with the experience of rapid, labour-intensive industrialization that was achieved by the Newly-Industrializing Countries in Asia in the 1960s and 1970s.

It also raises the important question of what the sources of employment growth in the service sector have been. In low-income countries the service sector is itself dualistic, comprising a small sector of modern services such as banking, business services, and public administration alongside a large low-productivity informal service sector. If a significant part of the observed growth in service sector employment has occurred in modern services then this would be consistent with the observed rise in labour productivity. In this case it matters less that the rate of growth in industrial employment has been slower than in past decades because the modern service sector is acting as a viable alternative. If, in contrast, most of the increased employment has been in the low-productivity informal service sector then this would be grounds for concern since this would imply that the structural change that has been in a negative direction.

There is no direct information to allow us to tell which of these processes of growth in service sector employment has in fact predominated over the period in question. On the basis of the data on the increase in overall labour productivity discussed earlier the presumption should be that the rise in service sector employment, being the largest component of changes in the structure of employment, has been accounted for to a significant extent by the expansion of employment in modern services.

There is some independent confirmation for this. Table 6 presents data on the growth rates in value-added by sector for developing countries classified by their level of development. It will be seen that there has been a significant increase in the rate of growth of value-added in the service sector between the two periods shown (the first from 1990 to 1999 and the second from 2000 to 2011). This was most pronounced in the Least Developed Countries where the rate of growth of value-added jumped from 2.2 to 6.7 percent between the two periods. In this group of countries the growth in the service sector was lower than even in agriculture in the first period but jumped to surpass the growth rate in manufacturing in the second period. In the Low and Middle Income group of countries the growth rate in the service sector matched that in manufacturing in the first period but came to surpass that by a significant margin in the second period. This did not happen in the Emerging Economies group but the growth rate of services was still a respectable 6.1 percent in the second period. In all, it is somewhat surprising to note that the growth of value-added was between 6.1 to 7.3 percent in all groups of developing countries between 2000 and 2011. As a result of this growth the service sector accounted for 46 percent of total GDP in the Least Developed countries in 2010 and just over 50 percent of GDP in the other two groups of developing countries.[3]

Table 6: Growth Rates in Value-added by sector

	1990-1999	2000-2011
All Developing countries		
Agriculture	2.8	3.5
Industry	5.8	6.8
Manufacturing	7.0	7.2
Services	4.9	6.4
Least Developed Countries		
Agriculture	3.2	4.3
Industry	4.0	7.9
Manufacturing	5.6	5.8
Services	2.2	6.7
Low and Middle Income Countries		
Agriculture	2.8	3.2
Industry	4.9	5.8
Manufacturing	5.3	5.9
Services	5.3	7.3
Emerging Economies		
Agriculture	2.8	3.5
Industry	6.0	7.4
Manufacturing	7.5	7.4
Services	4.9	6.1

Source: ILO World of Work Report 2014

What is surprising about these figures is that it goes against the widely accepted stylised facts about the changes in the relative importance of different sectors of the economy at different stages of development. At low levels of development, economies are predominantly

[3] ILO World of Work Report 2014

agricultural in terms of both output and employment. From this starting point growth is then led by the manufacturing sector. The share of output and employment in agriculture falls rapidly with the structure of employment and output shifting to the manufacturing sector which is highly labour-intensive at this stage. Manufacturing employment then peaks at around 30 percent of total employment as manufacturing growth becomes driven by increasing capital-intensity and rapid growth in labour productivity. At high levels of income economies then enter a post-industrial phase with the service sector becoming the predominant locus of both output and employment.

Set against these stylised facts it will be noticed from referring back to Table 4 that in Latin America and Sub-Saharan Africa, the share of industrial employment has not only stagnated between 1995 and 2014 but remains well below its potential peak of around 30 percent of total employment. In the case of Latin America there is the added anomaly that the share of total employment in services has almost reached the levels attained in the industrialized countries even though levels of per capita income are still significantly lower. In contrast, in East and South East Asian countries the share of service sector employment is only about 40 percent even though their levels of per capita income are similar to those in Latin America,

The academic literature on these issues is scant. The lack of structural change in Latin America and Sub-Saharan Africa has been discussed in a much cited study that argues that, contrary to the theoretical expectation that structural change is supposed to make a key contribution to accelerating growth in developing countries, it has in fact contributed negatively to growth.[4] The explanation provided is that labour has shifted from agriculture not to high-productivity manufacturing but to low productivity services. In the case of Sub-Saharan Africa this was mainly due to a failure to kick-start industrialization while in the case of Latin America it was due to the restructuring in the modern manufacturing sector in the face of growing international competition that raised productivity through considerable labour-shedding. These explanations, although consistent with standard development theory, are nonetheless difficult to reconcile with the respectable growth rates of value-added in the service sector across the developing world that were noted earlier.

A recent ILO study also reports a limited role for structural change in accounting for overall growth in developing countries. Only 25 percent of growth is explained by structural change

[4] D. Rodrik and M. McMillan *Globalization, Structural Change and Productivity Growth* NBER, Working Paper June 2011. On Africa see also J. Page and A. Shimles *Aid, Employment and Poverty Reduction in Africa* WIDER, WP 2014- 043

while the rest is accounted for by growth of productivity within the major sectors of the economy.[5]

Another study raises the possibility that globalization and new Information and Communications technologies may have changed the economic possibilities for the service sector in developing countries. [6] The study notes that there appears to be a new wave of service sector growth after 1990 that has been setting in at lower levels of per capita income than in the past. This new growth appears to be linked to modern services that are based on new Information and Communications Technologies and that are increasingly tradeable.

The Asian Development Bank, in a set of studies of the service sector in Asia, has pointed out that the service sector has contributed to more than 50 percent of growth in South and South-East Asia since the 1990s.[7] The service sector is seen as an important future source of growth in the region in view of the stalling of growth in manufacturing and the large productivity gaps that still exist between Asian countries and the industrialized countries in modern ICT-based services. It also notes that the shift in development strategies towards a greater reliance on domestic demand rather than on exports would be conducive to the growth of the service sector. At the same time the rapid growth of international trade in services offers new export opportunities. The service sector is also relatively labour-intensive so its expansion would boost employment growth. Realizing this growth potential of the service sector will however require significant investments in upgrading skills and the communications infrastructure as well as the liberalization of trade in services.

This lack of clear knowledge on what has actually driven the growth of the service sector makes it difficult to construct a coherent story on what has happened to employment in the global economy since 1995. The data we have reviewed so far suggests that the level of unemployment in developing countries has remained basically unchanged since 1995 but that there has been a substantial increase in the average returns to work reflected in a substantial decline in working poverty and corresponding rise of a working middle class. This must have been driven by the observed rise in average labour productivity but it unclear what the sources of this productivity growth have been. Productive structural transformation of the type envisaged in development theory, that is, from agriculture to industry appears to have been a

[5] ILO World of Work Report 2014
[6] B. Eichengreen and P. Gupta *The Two Waves of Service Sector Growth'* Indian Council for Research on International Economic Relations, Working paper No: 235, May 2009
[7] M. Noland et. al. *Developing the Services Sector as Engine of Growth in Asia: An Overview* Asian Development Bank Working Paper 12-18 Oct. 2012

less potent explanatory factor than hitherto. Perhaps the answer may lie in something new that has been happening in the service sector but we cannot be sure at this stage.

This makes it difficult to explain the precise links between employment and poverty reduction over this period. There can be little doubt that there has been such a link. A recent World Bank study of the issue in 16 countries found that an increase in labour income and employment explained more that 50 percent of the reduction in poverty in 10 of those countries and more than 40 percent in another two. [8] The study also concluded that growth in labour income was more important than an increase in employment but was unable to establish whether the increase in labour income was due to an increase in the number of hours worked or in labour productivity. Similarly a literature review of the issue concluded that more and better paid work has been the most important factor behind poverty reduction.[9]

But this still begs the question of what has driven the rise in labour income and in labour productivity. Has the higher growth in many developing countries since 1995 been translated into higher labour incomes through channels such as increased demand for the goods and services produced by the poor? Or perhaps some of the observed rise in labour productivity (derived as they are from data on value-added by sector from national accounts) gives an exaggerated picture of the rise in labour incomes because they do not adequately allow for the adverse shifts in the functional and size distribution of income that occurred in many countries?

Sadly, given the current state of knowledge we are left with more questions than answers.

3. Factors Influencing Employment Performance

In view of this inability to construct a complete and clear picture of employment performance from the available international data bases on employment, it is necessary to explore whether additional light can be thrown on the issue through a review of the academic literature on employment issues over this period.

A major strand of this literature has focussed on the impact of globalization on employment. What emerges from this strand of the literature is that globalization has undoubtedly been a major influence on growth and employment in countries at all levels of development. With the global wave of liberalization in trade, investment and financial policies the quantitative levels of trade in goods

[8] Joao Pedro Azevado et. al. *Is Labour Income responsible for Poverty Reduction? :A decomposition approach* World Bank, Policy Research Working Paper 6414 April 2013

[9] G. Inchauste *Jobs and Transformations out of Poverty: A Literature Review* Background Paper for World Development Report 2013

and services and of cross-border financial flows has increased substantially. At the same time there has also been a widening of the scope of globalization. The rapid diffusion of Information and Communications Technologies across the globe has enabled the growth of global production systems that has resulted in deeper economic integration in the global economy. Trade in goods is increasingly in the form of trade in intermediate products that are used as inputs in cross-border manufacturing production systems or value chains. At the same time there has been rapid growth in trade in services as well as in the off-shoring of service jobs that, starting initially with routine, low-skilled jobs, is now increasingly extending to higher-skilled jobs These changes have not been confined to the manufacturing and service sectors but has also affected agriculture. A global production system in agricultural products spearheaded by multinational firms has expanded rapidly.[10]

This expansion in the scope of globalization has greatly enlarged the opportunity set available to developing countries in their efforts to harness globalization to achieve higher rates of economic growth and employment creation. In principle, therefore, this could have resulted in a significant increase in the number of developing countries that have managed to achieve higher growth through productive structural transformation based on finding niches in the expanding global production systems in manufacturing, services and agriculture. The number of countries that have managed to achieve this has expanded beyond the original group of Asian NICs but this increase has been surprisingly limited. While there have been impressive instances such as the rapid growth of ICT-based modern services in India, of labour-intensive manufacturing in Bangladesh and of horticultural exports in Kenya, this has been far from a general norm.

As had been noted earlier, most of Sub-Saharan Africa and Latin America has not achieved significant structural transformation over this period. In the case of Sub-Saharan Africa, there has nonetheless been a remarkable increase in rates of economic growth from the late 1990s onwards. But most of this growth was propelled by rising commodity prices, increased exports from the mining sector, and an expansion of land under cultivation rather than from productive structural transformation.[11] In the case of Latin America growth has not been significantly higher than in the 1990s even though it has benefitted from higher commodity prices and the general buoyancy in the global economy in the decade before the Global Financial Crisis struck.

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[10] Eddy Lee *The Role of Agriculture in Developing Countries* Background Paper for ILO's World of Work Report 2014

[11] D. Rodrik *An African Growth Miracle?* Richard H. Sabot Lecture, Centre for Global Development, Washington DC, April 2014

The general difficulty faced by developing countries in sustaining structural transformation is also borne out by the case of some South-East Asian countries which had successfully achieved rapid industrialization in the first stage of integration into the global economy but which now find themselves caught in what has been termed the 'middle income trap'. This refers to the difficulties which countries such as Malaysia and Thailand now appear to face in moving up the value-added chain after they achieved the first stage of industrial development driven largely by Foreign Direct Investment and integration into the low value-added segment of global manufacturing systems.

This indicates that the process of globalization has been inherently uneven. Investment tends to concentrate in countries that can provide a critical minimum mass of good infrastructure, skills and supporting services required by multinational corporations. The key problem is that small differences in initial conditions tend to be cumulative and make entry for latecomers more difficult. Furthermore, the policy requirements for overcoming these initial disadvantages are quite complex. Relying on standard policies of market liberalization and improving economic governance, while essential, will not be sufficient. [12]

The new opportunities presented by globalization have not made it any easier to achieve high rates of growth in productive employment. Since growth with productive structural transformation has proved to be difficult for most developing countries to achieve, this fact implies that high rates of growth in productive employment have not been widespread. There has been no repeat of the successful model of rapid labour-intensive growth experienced by the East Asian newly industrializing countries in the 1960s and 70s. In these countries rapid growth in output was accompanied by rapid growth in employment which led to the swift elimination of surplus labour and the raising of income and productivity in both the modern and traditional sectors of the economy.

In addition to the difficulties in achieving productive structural transformation, there have also been new problems in ensuring that growth is labour-intensive. Since the late 1990s there have been growing concerns over the emergence of 'jobless growth' or at least the significant decline in the employment-intensity of growth in developing countries. [13]For example, in China employment grew at an average rate of only about 1 percent per year between 1997 and 2007 in spite of the fact that output growth was around 10 percent per year during this period. [14]Similarly in India,

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[12] Eddy Lee *Harnessing Globalization for Development: Opportunities and Obstacles* (International Institute for Labour Studies, Discussion Paper 187, 2008.)

[13] R. Islam *The Challenge of Jobless Growth in Developing Countries: An analysis with cross-country data* (Bangladesh Institute of Development Studies, Occasional Paper No; 1, 2010

[14] Jayati Ghosh ' Jobless Growth in China' *Frontline* Volume 24 issue 07 April 2007

employment in the organized manufacturing sector stagnated between 1981 and 2006 in spite of the acceleration in GDP growth during this period. [15]

There is no generally accepted explanation of why this decline in the employment-intensity of growth has become a generalized phenomenon. Apart from country-specific explanations based on policy failures, some generic explanations based on the nature of globalization have been advanced. One is based on the nature of technical progress and the growth of global production systems driven by multinational corporations. Technical change in the industrialized countries has been clearly skill-biased and this has been reflected in the increasing skill-intensity of production. It has been argued that this Skill-Biased Technical Change has been transmitted to developing countries through the increasing role of Foreign Direct Investment. [16] Techniques of production that are skill and capital-intensive are exported to production sites in developing countries. Even if multinational corporations are relocating only the more labour-intensive parts of their home production, these activities are in fact capital-intensive in relation to the factor-endowments of labour-abundant developing countries.

A related argument is that increasing competitive pressures in the global economy are leaving developing countries with no option but to import these relatively capital and skill-intensive technologies in order to increase their competitiveness. For export -oriented firms the need to do this is obvious. For import-competing firms increasing trade liberalization is forcing them to upgrade their techniques of production in order to survive the new competition from imports. In the case of several Latin American countries trade liberalization has been accompanied by significant labour-shedding in the modern manufacturing sector as a result of increased competitive pressures unleashed by trade liberalization.

There are also explanations based on the nature of economic policy-making in an era of where neo-liberalism is the dominant ideology. The leading role of the state in promoting economic development in the early days of development economics has withered away with the growing dominance of markets. Ministries of Planning and development Plans and strategies are an endangered species in developing countries.

A major consequence of globalization has also been the significant loss of policy space in developing countries. Financial liberalization has exposed more and more countries to volatile global

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[15] T. N. Srinivasan ' Employment and India's development and reforms' *Journal of Comparative Economics* 38 (2010) 82-100

[16] Eli Berman and Stephen Machin ' Globalization, Skill-Biased Technological Change and Labour Demand' in Eddy Lee and Marco Vivarelli (Eds) *Understanding Globalization, Employment and Poverty Reduction* (Palgrave McMillan, 2004)

financial flows and the risk of financial crises. The Asian financial crisis of 1997-8 was a dramatic illustration of how decades of highly successful development can be stopped dead in its tracks and compromised thereafter. Hasty and ill-prepared financial liberalization has also imposed severe constraints on economic policies. With open capital accounts there is loss of control over exchange rate policy. Surges of capital inflows lead to an over-valuation of the exchange rate. This retards export growth and, by reducing the cost of imported capital goods, encourages greater capital-intensity in the choice of techniques of production. In general, most countries have not been able to use instruments to maintain a competitive exchange rate as part of a desirable development strategy or, indeed to use exchange rate under-valuation as a tool for export-led growth. The exception is China which has successfully done so in the face of much criticism on the grounds that in consequence its exports are unfairly damaging competitors.

Large capital inflows can also lead to asset bubbles which not only crowds out productive investments but also adds to economic instability. Similarly, fiscal and monetary policy is now subject to the capricious judgements of financial markets. Even when economic fundamentals are sound there is little leeway to finance productive investments with high rates of return through government borrowing because financial markets have a strong aversion to fiscal deficits. The same constraint applies to the use of expansionary fiscal policy to counteract a slump in output. Monetary policy is also constrained by the prevailing orthodoxy in financial circles in favour of low inflation and the view that this is the overriding goal of monetary policy. These constraints make it increasingly difficult to use macroeconomic policy to promote growth and employment.

The new rules of global governance are also making it extremely difficult for developing countries to use targeted policies to promote industrialization, productive structural transformation and a more labour-intensive pattern of growth. The protection of potentially viable infant industries is largely ruled out by WTO rules. Similarly the use of export-promotion measures and the provision of incentives to overcome market-failures which retard pioneering investments in new industries are largely ruled out. Yet there is a strong case that such measures, when carefully designed to be time-bound, incentive-compatible, and in line with a country's comparative advantage, are important instruments for promoting positive structural transformation and development.

Globalization has also contributed a rise in inequality in the developing countries in the same way that it has done so in most developed countries. The size distribution of income has increased in many developing countries.[17] A notable exception to this trend has been observed in several Latin American countries largely has a result of the strengthening of social protection measures such as

[17] Janine Berg (Editor) *Labour Markets, Institutions and Inequality* (Edward Elgar, Forthcoming)

cash transfer programmes. There has also been deterioration in the functional distribution of income in most developing countries for which such data are available

Many explanations have been advanced for this trend. A basic one to explain the decline in wage shares is that globalization has weakened the bargaining position of labour since production is now more footloose and employers can use the threat of relocation to restrain wage claims. A related argument is that increasing international competition for Foreign Direct Investment and export markets among developing countries has led to a 'race to the bottom' in labour standards as well as in taxes on corporate income. A related factor has been the growing number of countries that have been persuaded by the International Financial Institutions to weaken protective labour legislation (such as minimum wage and employment security laws) in the hope of achieving greater 'labour market flexibility'.

It has also been argued that wage inequality has been pushed up by the increasing role of skill-biased technical progress that was discussed earlier. Over and above all this there has been the growing retreat from the redistributive role of the state. Redistributive land reform that was once considered to be an important means for alleviating rural poverty has disappeared from the policy agenda. The role of the state in alleviating rural poverty, though agricultural extension services, rural credit programmes, the development of rural infrastructure and agricultural research has declined significantly in the developing world.

There are grounds for believing that this rise in income inequality in developing countries has been harmful to both growth and employment creation. Several cross-section studies indicate high inequality is associated with lower growth. It also makes it more difficult to reduce poverty and is also detrimental to social cohesion and solidarity.

A high level of inequality also tends to reduce the employment-intensity of growth in developing countries. The techniques of production for goods and services consumed by the poor are generally more labour-intensive and less import-intensive than for those consumed by higher-income groups. Thus a redistribution of incomes towards lower-income groups would tend to increase the employment-intensity of growth and also boost domestic demand.

What emerges clearly from this review of the literature is that globalization has exerted a strong and growing influence on employment growth and on the quality of employment in the world economy. While globalization has expanded the opportunities for growth in developing countries, not all countries have been able to seize them evenly. At the same time globalization has unleashed forces that make it more difficult for developing countries to achieve growth with positive structural transformation and to generate high rates of growth in productive employment. These same forces have also generated increasing income inequality and increasing pressures on the quality of employment. More importantly, increasing globalization, together with the growing ascendency of the neo-liberal approach to economic policy over this period, has also made it more difficult to find policy responses to these new challenges to productive employment creation.

Before proceeding to discuss some strategic policy issues posed by these developments, it is necessary to point out that the review of the literature has not in fact cast much further light on the basic empirical question of whether or not the world economy has moved closer to the goal of full employment adopted by the Social Summit. Instead, the literature has mainly highlighted the various ways in which achieving this goal has become more difficult since 1995. There has in fact been no specific study that has directly addressed this issue. There have, of course been a number of country case studies on employment performance but it has been difficult to draw any general conclusions from these studies.[18] A striking fact to note about these country studies is that no country stands out as a clear 'success story' in terms of how to achieve the goal of 'full employment' adopted by the Social Summit.

4. Strategic Policy Issues

The *leitmotif* of the preceding discussion was that the global shift to economic liberalization, a reduced role of the state and an embrace of globalization has delivered higher growth in many countries but not a distinct improvement in employment performance.

A basic issue is the role of the state in economic management and in promoting employment. Although the standing of market fundamentalism has been dented in the wake of the global financial crisis, the prevailing orthodoxy in economic policy circles is still in favour of economic liberalization and a smaller role of the state. In addition, there is still a general presumption that trade and financial liberalization should be carried out swiftly and thoroughly. The same presumption applies in the case of the deregulation of markets, including labour markets, and privatization.

For most countries this has rule out the 'middle way' approach that, while accepting that there are substantial benefits from economic liberalization and globalization, contends that a more gradual approach to the timing, pace and extent of economic liberalization would in fact yield greater benefits. There is in fact significant evidence in support of this position. There are few

[18] See in particular A.R. Khan *Growth, Employment and Poverty: An analysis of the Vital Nexus based on some recent UNDP and ILO-SIDA Studies* (ILO, Issues in Employment and Poverty Discussion Paper No: 19, 2005)

examples of developing countries that have prospered through full-blooded liberalization. A case in point is Latin America where many countries adopted extensive trade and financial liberalization since the 1990s without managing to accelerate growth. An earlier and more extreme example would be the disastrous experiences of a 'big bang' approach to transition to a market economy by the former communist economies in Eastern Europe after the fall of the Berlin wall in 1989. These countries experienced sharp falls in output, mass unemployment and huge social costs. Conversely, recent major success stories in Asia such as China, India, and Vietnam, have in fact followed heterodox policies that involved controlled rather than all-out liberalization. These countries maintained a measure of import protection, followed selective industrial promotion policies and retained controls over FDI and the capital account.

A plausible explanation of these contrasting outcomes is that an abrupt and full-blooded approach to economic liberalization suffers from two disadvantages. The first is that certain threshold conditions in terms of well-functioning markets that are free of major distortions and that are well regulated are a pre-condition for maximising the benefits of liberalization and for minimising social costs. For example, in the case of financial liberalization even the IMF has made such a case.[19] Thus an abrupt liberalization does not allow sufficient time for this essential institutional-building to take place. In contrast, a more gradual approach would do so.

The second reason is that a more gradual approach would also be a means of controlling the social costs of the economic liberalization programme. For, example job losses from firms unable to face new import-competition could be moderated through transitional arrangements to maintain protection. A gradual approach would also allow more time for developing institutions and policies that could be used to redeploy unemployed workers towards emerging competitive firms as well as to provide social protection.

While persuasive, these arguments are unlikely to convince market fundamentalists since they still imply a significant role for state intervention. Hence the case has to be made that state intervention is still essential for promoting growth and employment. The fundamental basis of this case is that developing countries are still characterised by serious market failures and underdeveloped market institutions. These deficiencies will not be self-correcting once market forces are unleashed. What is more likely to transpire is an inefficient and inequitable pseudo market-system dominated by vested interests.

[19] M. Ayhan Kose et. al. *Financial Globalization : A Reappraisal* (Research Department, IMF, Dec. 2006

This implies that that there should be greater openness to the use of heterodox policies to promote positive structural transformation and a higher rate of growth of productive employment by developing countries in the post-2015 era. The neo-liberal approach of the past two decades has clearly failed to achieve this and it is time to experiment with different approaches rather than remain shackled by market fundamentalism.

The rise in income inequality also poses new threats to employment growth, labour earnings and the quality of employment. As pointed out earlier high inequality is detrimental to the growth of output as well as to labour demand. It also undermines social cohesion which in turn makes it more difficult to achieve full employment, an improvement in the quality of employment and in levels of social protection.

Facing up to these threats requires a more active role of the state rather than a further abdication of its responsibilities. The very market forces that produced rising inequality are unlikely to solve this problem of its own accord; they are more likely to exacerbate the problem. This more active role of the state will require a reversal of the trend towards greater regression in the fiscal system (tax cuts for the rich, welfare cuts and reduced public services for the poor) that has occurred across the world. Taxes on capital and on high incomes need to be increased in order to provide the fiscal space to maintain adequate social protection and social services. In the industrialized countries this will to necessary in order to repair the damage that has been done to the welfare state through austerity programmes in the wake of the financial crisis. While reforms are needed to welfare systems and public services the basic policy stance cannot be one of less redistribution in the face of rising inequality. In developing countries the additional fiscal space is required to develop stronger systems of social protection and public services vital for development and poverty reduction such as basic education and health care.

An active role of the state is also required for correcting the many ills that now beset labour markets across the world: - falling wage shares in the functional distribution of income as wages remain stagnant or as wage increases lag behind increases in labour productivity, rising wage inequality and labour-market polarization, reduced employment security and the rise of poorly-paid and precarious work. As in the case of rising inequality in the overall distribution of income, these labour market ills will not be self-correcting without state intervention. To a large extent the emergence of these labour market ills has been the result of the weakening of labour market regulation in the drive for labour market flexibility. While the decline of trade union power and changes in technology also played a role, the weakening of labour market regulation is likely to have been the major factor. For example, the rise of precarious forms of employment such as 'zero hour' contracts in some countries was the result of deliberate government policy.

Thus, in order to reverse these negative labour market trends it is essential that governments should desist from any further weakening of labour protection, recognise that this would be perverse in the current conjuncture and constitute overkill, and re-commit to the fundamental values of social justice in labour markets and society at large. Guided by these values it should rethink its approach to labour market policy in order to find innovative ways of ensuring a better deal for workers in an era where the interests of workers are no longer adequately defended by trade unions.

One possible area of action is the introduction of measures to limit grossly excessive pay for top executives. In some countries such remuneration has reached proportions that cannot conceivably be justified on any principle of economic efficiency, merit or equity. These measures could include reforms to corporate governance that give workers a voice on remuneration and other aspects of corporate policy. A complementary area for action is that of raising the wages of the lowest-paid workers through measures such as raising the minimum wage, providing incentives for employers to pay a 'living wage' and the creation of institutions to ensure greater fairness in wage-determination. The latter would be an important means for restoring the broken link between wage and labour productivity that has been a major cause of the decline in the wage share in national income. Another area for action could be to promote the expansion of profit-sharing schemes. Such arrangements have much to recommend them on the grounds of both economic efficiency and fairness.

Ultimately, the role of the state is essential for ensuring full employment, decent employment conditions, and a fair distribution of incomes. Unfettered market mechanisms are unlikely to lead to any of these socially desirable outcomes. For example, capitalists are hostile to the idea of[20] maintaining full employment as a norm since this would strengthen the position of workers, weaken the prerogatives of employers, and shift the distribution of income and political influence away from the rich. Similarly, action to improve employment security and to ensure a decent wage will be opposed because they will be seen in terms of a zero-sum distributional conflict. The era of full employment in the industrialised countries that prevailed until the 1970s was not the result of a favourable conjunction of market forces or the benevolence of capitalist 'job creators' but was the culmination of a long social and political struggle spearheaded by the labour movement.

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[20] M. Kaleci 'Political Aspects of Full Employment *'Political quarterly 1943*

The global financial crisis and the still lingering legacy of relapses into recession and the persistence of low growth and high unemployment in the industrialized countries also illustrates the dangers of relying on unregulated markets to deliver stable growth and full employment. Few now dispute that the deregulation of financial markets was the primary cause of crisis. There was no invisible hand in deregulated financial markets to ensure benefits to society as whole but only the grasping hands of private greed.

V. Future Employment Challenges

Looking ahead, the overriding employment challenge is to restore pre-crisis levels of growth in the global economy. Recovery from the depths of the crisis has been feeble and hesitant and some observers now worry that further problems lie ahead. In the industrialised countries 'cumulative output losses (since the crisis) relative to 1995-2007 trends now stand at 78 percent of annual GDP for the US and 60 percent for the Euro Zone. That is an extraordinarily large amount of forgone prosperity-and a far worse outcome than was expected.'[21] 'Collectively, the annual growth rate in the major developed economies averaged a little less than 0.7 percent in the first half of 2014.' [22]These economies 'are finding it especially difficult to shrug off the impact of shocks and break out of anaemic growth trajectories.'[23]

After a brief initial spell of adopting Keynesian policies of fiscal stimulus, fiscal austerity coupled with monetary easing became the order of the day. This new policy regime has yet to deliver the vigorous recovery that its proponents promised. At the same time there has been relatively little progress in reforming financial systems, leaving the industrialized countries vulnerable to new financial crises.

This state of disarray in the industrialised countries has negative repercussions for developing countries since it depresses global effective demand. Growth in developing countries as a whole, while still significantly higher than in the industrialized countries, has slowed compared to pre-crisis levels. This problem has also affected systemically important countries such as China, India and Brazil and this further depresses the growth prospects for the rest of the developing world.

The world economy is thus at a conjuncture which cries out for cooperative international action to revive efforts to reform the structure of governance of the global economy. The coordination of macroeconomic policies to revive global effective demand is a priority area of action as is progress on multilateral trade liberalization. It is also of vital importance to proceed with

[21] J. Branford DeLong ' The Greater Depression' *Project Syndicate* 31 August 2014
[22] Stephen Roach ' The Stall-Speed Syndrome *Project Syndicate* 31 August 2014
[23] Ibid.

reforms to the global financial system to end the vicious cycle of financial crises that has plagued the global economy since the 1990s. These crises have all had highly damaging effects on employment. The reform of the global system should also restore policy space to developing countries to pursue development strategies to optimise their terms of integration into the global economy and to promote positive transformation of their economic structures.

Another global challenge that has strong implications for employment is that of environmental degradation and global warning. If there is no effective global response to this challenge there will be massive negative effects on employment through slower growth, the destruction of livelihoods based on the ecosystem, and increasing frequency of natural disasters. Conversely, there is ample potential for employment creation through a shift to a low-carbon and environment-friendly economy.[24] This 'green job' potential can be realised through policies to facilitate the redeployment of labour to new economic activities based on new environment-friendly technologies. This potential highlights one important complementary relationship between employment and environmental concerns in the post-2015 Social Development Goals.

There is also growing anxiety over the labour-replacing effects of new technologies based on robotics, artificial intelligence, and more powerful computing capacity and software. The number of examples where this has happened is increasing.[25] This includes how search engines have wiped out the need for librarians and research assistants, how massive open online courses are reducing the demand for university professors, and the imminent introduction of self-driving cars. The ultimate dread is that this will usher in the end of work.

This anxiety is overblown. One reason for saying so is that there have been regular outbreaks of such anxieties ever since the Luddites first raised the alarm in the early 19th century. Every single alarm since then has turned out to be false due to the fact that economies adjusted and prospered from absorbing each new wave of labour-saving technological change. Of course it is possible that it could be different this time. This, however, is unlikely. Even if robots come to have absolute advantage over human labour in all tasks, the law of comparative advantage will still apply. Humans will still have a comparative advantage in tasks where the absolute disadvantage vis-a-vis machines is least. Thus work will not end but the problem then becomes one of ensuring that work remains meaningful and adequately remunerated.[26] Another technical economic argument is that so long as the supply of labour remains more inelastic than that of capital, labour will continue to

[24] ILO and UNEP *Green Jobs: Towards Decent Work in a sustainable low-carbon economy,* 2008

[25] Erik Brynjolfsson and Andrew McAfee The Second Machine Age: Work, Progress and Prosperity in A Time of Brilliant Technologies (W. W. Norton, New York)

[26] Richard B. Freeman ' Who owns the Robots rules the World' IZA *World of Labour* 2014: 5

benefit from both labour-saving and capital-saving technical change. There is nothing in the current 'end of work' literature to suggest that this has changed.

Although the end of work is unlikely to be imminent, it is undeniable that we are in the midst of rapid and wide-ranging technical change that is having profound effects on the world of work and the distribution of incomes. This requires two fundamental responses.

The first is the obvious need for a massive expansion of the opportunities for people to acquire the education and skills that are required for an increasingly skill-intensive economy. This will go a long way towards countering the interrelated problems of labour market polarisation, declining social mobility and growing wage and income inequality. This expansion of opportunities for skill acquisition will require increased public investment in education and skill development as well as affirmative action to ensure equal access for the socially deprived.

The second is that it is imperative to halt the disintegration of social solidarity and the withering away of the social contract caused by the sharp rise in inequality. The new super rich have been gaining a dominant influence over economic and social policies through the funding of political campaigns and policy think-tanks, through lobbying and through control of the media. Through these means economic and social policies increasingly reflecting the interests of the rich rather than those of society as a whole. Free market thinking sees the distribution of income determined by market forces as a just reflection of relative individual contributions to the production process and presumes that the need for social welfare is mostly the outcome of individual failings and fecklessness. The winners feel that they are receiving no more than their just deserts and, by the same token, feel little empathy for the poor and the unemployed. Furthermore because free market thinking, especially the doctrine of the invisible hand, portrays them as creators of wealth and jobs than benefits society at large they feel no further social obligations beyond the maximisation of personal gain. At the same time the penetration of market values into more and more spheres of life and the increasing hold of consumerism and individualism in mass culture has created fertile ground for the public to accept these messages on the wonders of free markets.[27] In addition, as a result of the current trend towards reducing the role of the state, cuts in welfare and the privatization of public services there is declining faith in the capacity of government to advance social justice.

There is also a need to build a new social contract that can guarantee a socially just resolution of the problems of growing inequality and the angst over the future of employment. As an illustration of the value of a social contract let us assume that the doomsayers are right and the end

[27] Michael Sandel *What Money Can't Buy: The Moral Limits of Markets*(Farrar, Straus and Giroux, New York, 2012)

of work is nigh. Is catastrophe then inevitable? Not at all; there are alternative ways of dealing with the problem within the framework of a social contract. One could be through a socially coordinated and fair scheme of work-sharing that confers increased leisure time to all underpinned by a fair system for distributing total social income. This would be welfare enhancing whereas without social coordination there would be a nightmarish scramble for ever fewer jobs resulting in jobs for a privileged minority and idleness and deprivation for the rest. An alternative would be some form of profit sharing in enterprises that gives workers a share of the income generated by the machines that replaced them.[28]

More generally, in a market economy the attainment of full employment as called for by the Social summit in 1995 is only feasible if there is a strong social consensus behind this goal. Without this, even severe unemployment will be accepted with indifference by the majority of the polity that is fortunate enough to be untouched by it. This would give governments free rein to downgrade employment considerations in their choice of economic policy as evidenced by the response to the recent financial crisis. Austerity centred on cut-backs in public sector employment and welfare benefits, while granting tax cuts to the rich, would not have been the path taken if there had been a strong legal or political restraint against wilfully raising the level of unemployment.

6. Concluding Remarks

It has proved difficult to give a clear answer to the overarching question we posed at the outset of whether employment performance in the global economy has moved closer to the goal of full employment adopted by the Social Summit in 1995. There remain too many serious gaps in the data and research base to allow us to do this. Correcting these deficiencies is an obvious priority for the post-2015 agenda on employment.

A tentative judgement is as follows. In terms of unemployment rates there would appear to have been little or no progress towards full employment. At the same time there are strong reasons to believe that because of rapid globalization and technical change, the increasing frequency and severity of financial crises, and shifts in policy thinking the task of achieving a high rate of growth in productive employment has become more difficult across the world. Growing income and labour market inequalities across the world have compounded these difficulties.

There is, however, one significant achievement to celebrate. This is the substantial decline in the problem of ‘working poverty’ in developing countries since 1995. Although it is lamentable that we do not know more about why and how this occurred, it must be true that millions of workers

[28] Freeman op. cit.

across the developing world are earning more from work. The gains may be paltry in absolute terms and could have been greater if inequality had not increased since 1995 but the fact that there have been gains is surely something to celebrate.

It is also clear that there has been a profound change in the political approach to employment issues since 1995. The rise of free market thinking that has occurred in tandem with the rise in income inequality since 1995 has weakened social solidarity and the commitment to full employment across the world. Building the sort of political and social consensus around this goal that was forged in Copenhagen appears to be far more difficult today. Yet without this there is little hope of achieving full employment in the global economy in the post-2015 Agenda.