



Informality and the quality of employment in G20 countries

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I. Introduction

G20 Leaders' goal of more and better jobs requires an integrated set of policies that work at both the macroeconomic and labour market levels. This report reviews trends in informality and the quality of employment and concludes that strategies to facilitate the transition to formality, reduce working poverty, reconnect wage and productivity trends and reduce job insecurity, in particular by addressing labour market segmentation, offer strong potential dividends for meeting the growth and employment goals of the G20 not least by supporting aggregate demand.

For many G20 countries, structural underemployment, informality and qualitative indicators of employment are more significant measures of the challenges they face in achieving inclusive growth and decent employment for all than unemployment rates alone.

In general, comparable data and definitions are less available for the qualitative than the quantitative aspects of employment. This note presents the latest available information around four indicators of job quality: informality, working poverty, wages and job insecurity. It should be noted that underemployment is closely associated with and cuts across the three indicators of informality, working poverty and job insecurity. Furthermore, while different methodologies are used to assess each of these four dimensions, there are close interactions amongst them and naturally partial overlaps: for example, in many countries a great percentage of the working poor may be engaged in informal employment; similarly those in working poverty are concentrated amongst the low paid.

The common thread amongst these indicators is that they help in assessing the challenges of those who have a job but in conditions and with characteristics that are sub-optimal both for the individual as well as for the economy as a whole. Using different proxies helps in assessing the contributing factors and drivers of low quality employment and indicating the policy changes that are most relevant to different country contexts.

¹ This report was prepared by the ILO and benefitted from valuable comments from the OECD and World Bank

The policy implications of a focus on the quality of jobs -- in all of the above dimensions -- are manifold, including for the growth strategies and the employment plans that are currently being developed by G20 countries.

2. Informality in G20 countries - trends and policy approaches

The concept of informality has evolved substantially since the 1970's, when the term “informal sector” was coined for the first time, to today's broader notion of the “informal economy” as agreed at the 2002 International Labour Conference.² Under this broader and updated concept, informality can be found in both wage employment and self-employment and across various economic sectors. It can be present in the “informal sector” in informal economic units as well as in formal establishments.³

In 2014, informality remains an important characteristic of many G20 labour markets, with millions of economic units operating and hundreds of millions of workers pursuing their livelihoods in conditions of informality. It has shown resilience, including in countries that have recorded high and steady economic growth; it has reappeared under new forms in the context of globalizing economies and increased in several countries as a result of the global financial crisis. Informality exists in both advanced and emerging economies of the G20, although it is more prevalent in the latter, where it is related to structural underemployment. The particular characteristics and circumstances of informality vary greatly across countries and regions.

Trends in emerging G20 economies

Based on the most recent data collected by the ILO, which applies the latest methodology under the broad notion of informal economy (see box below), the following results are found for selected G20 countries.⁴

The share of non-agricultural informal employment varies from 30.6 per cent in Turkey and 32.7 per cent in South Africa to 72.5 per cent in Indonesia and 83.6 per cent in India (Figure 1).

The majority of informal employment occurs in the informal sector. For instance, two out of three informal jobs are in the informal sector in India. However a significant number of workers in formal enterprises are informally employed. In fact, twelve to twenty per cent of workers in the selected countries are informally employed outside the informal sector. In Mexico more than one out of three informal jobs fall in this category. (Figure 2)

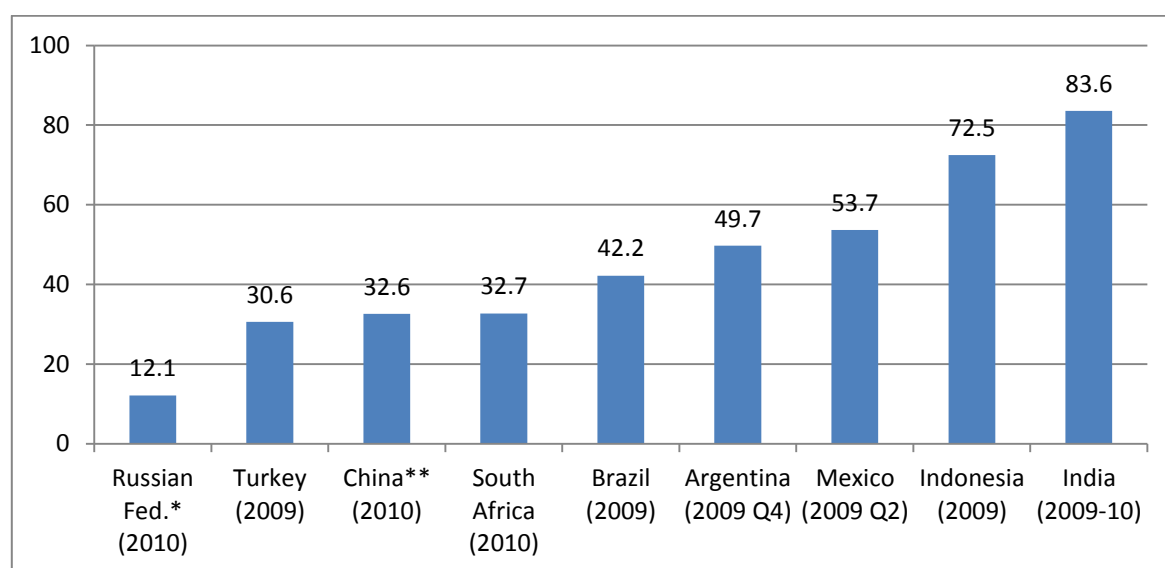
² *The Informal Economy and Decent Work : A policy resource guide*, ILO, Geneva 2013; available at:

http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_policy/documents/publication/wcms_212689.pdf

³ *Measurement of the Informal Economy* in *The Informal Economy and Decent Work : A policy resource guide*, ILO, Geneva 2013 and, *Measuring informality: A statistical manual* ILO, Geneva, 2013

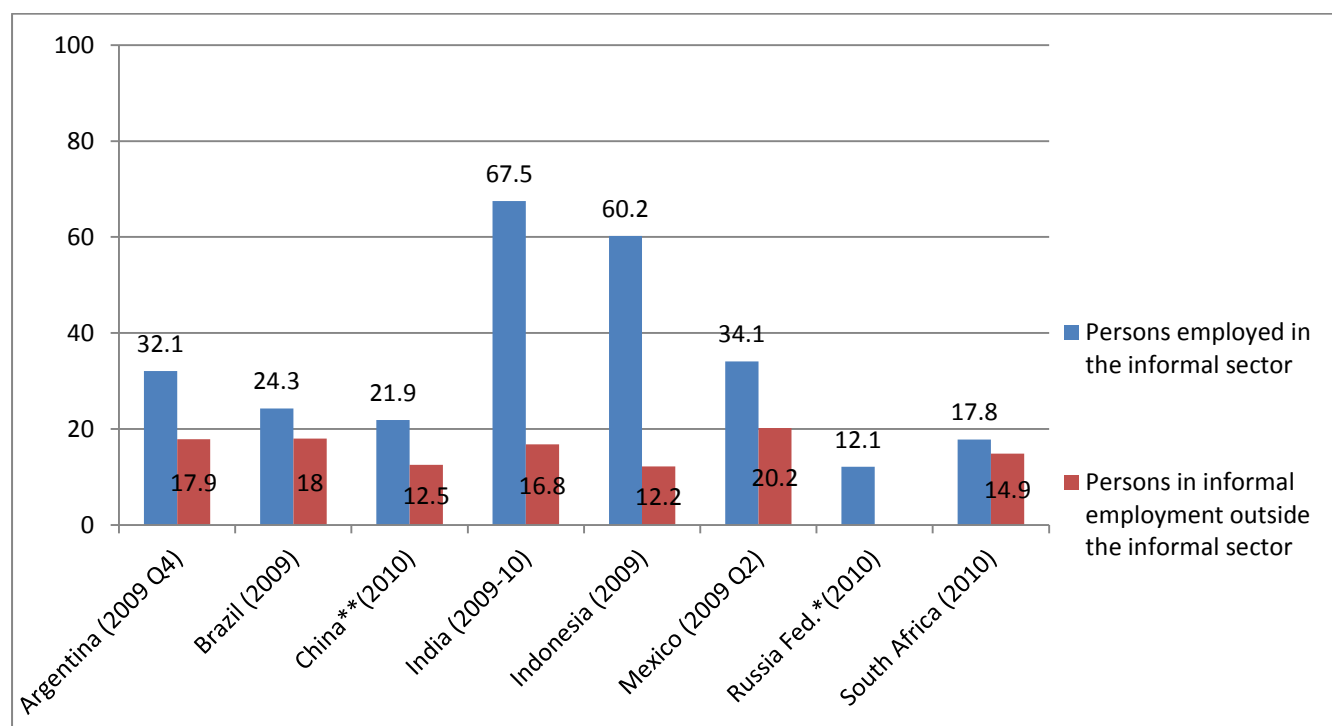
⁴ The statistics were prepared on the basis of data obtained from a range of sources: responses to a questionnaire, which the ILO Department of Statistics had sent to countries to request data and meta-data on employment in the informal economy; special tabulations of national survey data accessible to the ILO and to WIEGO, including the household survey micro-data base held by the ILO/SIALC (Panama) for Latin American countries; extracts from survey reports, etc. The primary data sources were national labour force surveys in most cases, and informal sector surveys, living standards measurement surveys or other household surveys in some other cases. Persons with more than one job during the survey reference period were classified as being employed in the informal sector or in an informal job on the basis of the characteristics of their main job. The same applies to their classification by kind of economic activity (industry) or by status in employment.

Figure 1: Persons in informal employment, percentage of non-agricultural employment



Source: ILO, *Women and Men in the Informal Economy: A Statistical Picture*, Geneva, 2013. * Data for the Russian Federation correspond only to persons employed in the informal sector; ** China: six cities only including Fuzhou, Guangzhou, Shanghai, Shenyang, Wuban and Xi-an. Indonesia: only Banten and Yogyakarta.

Figure 2: Persons employed in the informal sector and in informal employment outside the informal sector, percentage of non-agricultural employment



Source: ILO, *Women and Men in the Informal Economy: A Statistical Picture*, Geneva, 2013.

* Data for the Russian Federation correspond only to persons employed in the informal sector; ** China: six cities only including Fuzhou, Guangzhou, Shanghai, Shenyang, Wuban and Xi-an. Indonesia: only Banten and Yogyakarta.

Concepts of informality and measurement

The understanding of informality and the measurement of informal employment have evolved considerably over past decades.

The ILO's 2002 International Labour Conference (ILC) Resolution and Conclusions concerning Decent Work and the informal economy marked a breakthrough in the analysis of the nature, diversity and scope of informality and proposed the term "informal economy" as a broader framework than that of "informal sector". By this definition, the informal economy includes "all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements".

While the earlier informal sector concept referred to informal sector enterprises, informal economic activity also includes informal jobs. Employment in the informal economy is defined as the sum of employment in the informal sector and of informal employment found outside the informal sector. The two concepts are not interchangeable, but complementary. They are both useful for descriptive and policy purposes.

Based on the 2002 ILC conceptual framework, the Seventeenth International Conference of Labour Statisticians (ICLS) in 2003 adopted "Guidelines concerning a statistical definition of informal employment". The Guidelines define "informal employment" as the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises or households, during a given reference period. Informal employment comprises employees whose employment relationship is not subject to labour regulation, taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.); own account workers, employers and members of producers' cooperatives in informal production units; all contributing (unpaid) family workers; and persons engaged in the production of goods for own final use. The ICLS Guidelines leave the operational criteria for defining informal jobs to be determined in accordance with national circumstances. This updating of the definition and measurements should be kept in mind when comparing trends over time in a single country or across countries, including data presented in this Note.

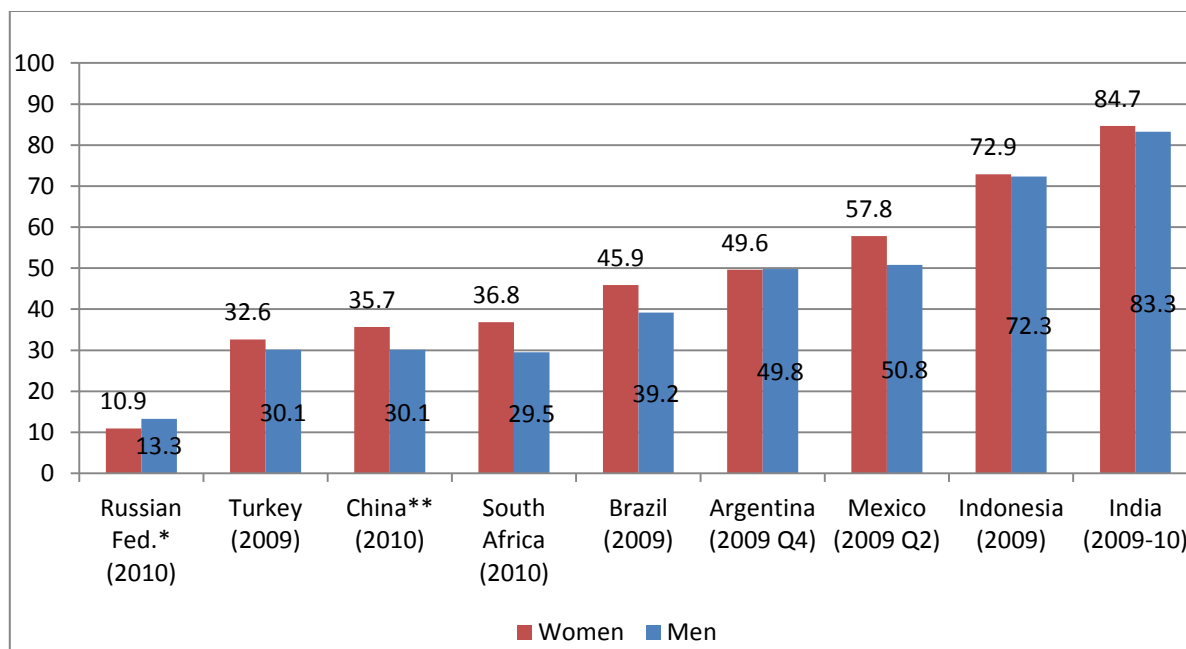
Women tend to be affected more by informality than men, except in the case of the Russian Federation⁵ (Figure 3). For instance, the share of informal non-farm employment for women in Brazil is 6.7 percentage points higher than men; this gender gap is up to 7.0 percentage points in Mexico and South Africa. Diverse economic, social and cultural factors are observed to negatively affect women's access to formal employment. On average, women are especially vulnerable to informal employment and often have a higher share in the most disadvantaged and marginalized segments of the informal economy.

This is particularly important for the G20 commitment to increase women's labour force participation, because an increase in women's participation without a corresponding increase in the quality of their employment could lead to more women being trapped in low-paid, low-productivity informal employment. A gender lens for understanding the characteristics of informality in specific national contexts is needed. Action to increase women's labour force

⁵ The Russian Federation is an advanced G20 economy; however the availability of data according to this methodology is used for sake of comparability.

participation and quality employment opportunities should also ensure adequate outreach to women in the informal economy through a set of gender responsive policies and institutions that address adequately women’s productive and reproductive roles.⁶

Figure 3: Informal non-agricultural employment (per cent), by gender



Source: ILO, *Women and Men in the Informal Economy: A Statistical Picture*, Geneva, 2013.

*Data for the Russian Federation correspond only to persons employed in the informal sector.

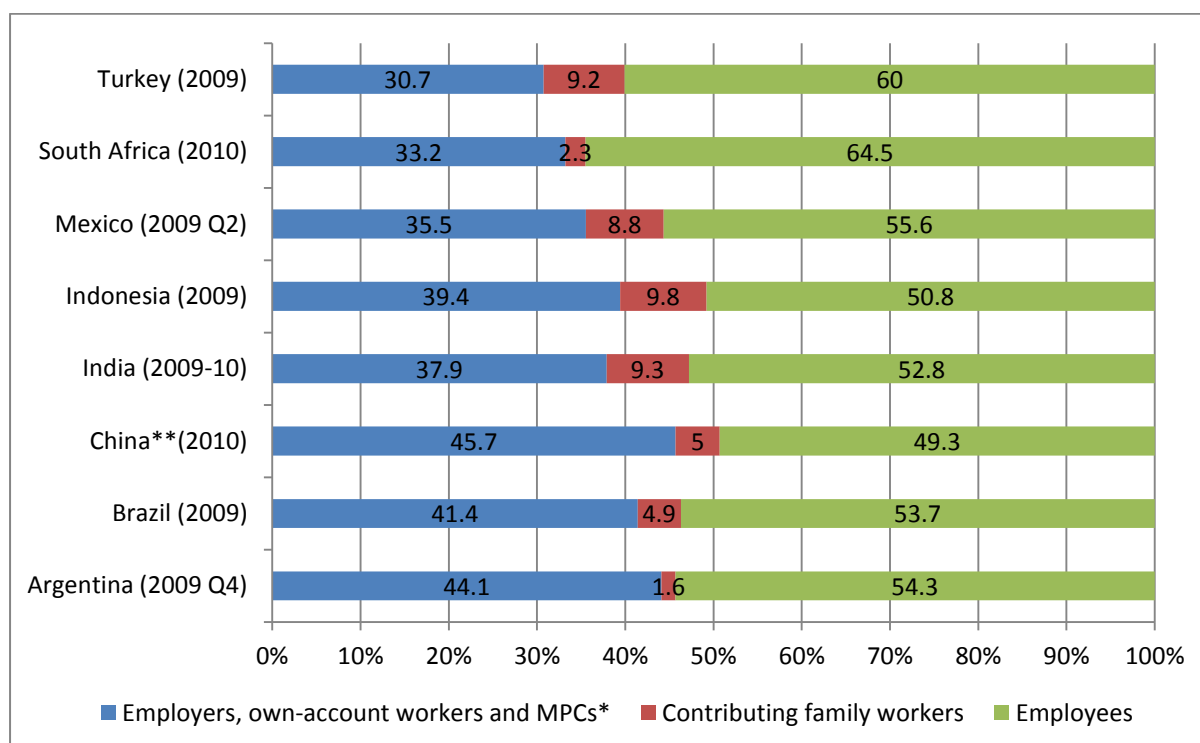
**Six cities only.

Regarding the status in employment, employees⁷ account for the majority of informal non-agricultural employment in G20 countries. The incidence of informality is disproportionately high among contributing family workers, members of producers' cooperatives and own-account workers (Figure 4).

⁶ For a full discussion see “Promoting Equality and Addressing Discrimination” in *The Informal Economy and Decent Work: A policy resource guide*, ILO, Geneva 2013

⁷ Employees in informal enterprises and employees in formal enterprises without social protection coverage.

Figure 4: Informal non-agricultural employment by status in employment (per cent)



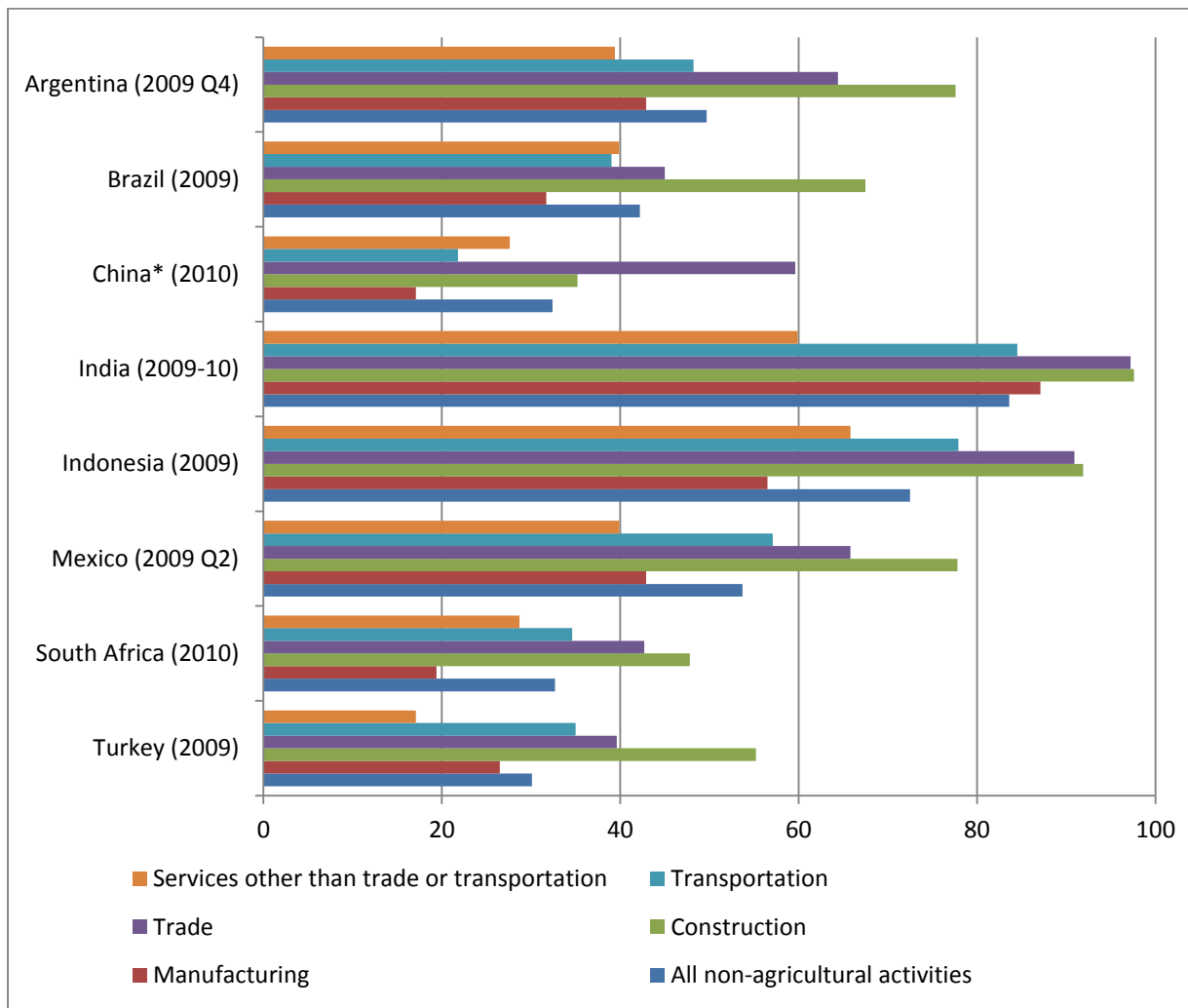
Source: ILO, *Women and Men in the Informal Economy: A Statistical Picture*, Geneva, 2013.

*Members of producers' cooperatives

** Six cities only.

The incidence of non-agricultural informal employment differs by economic sectors, with workers in the trade and construction sectors more likely to be in informal employment than workers in other sectors (Figure 5). The high proportion of construction workers in informal employment is a serious concern, as the sector is prone to occupational injuries and unsafe and unhealthy working conditions.

Figure 5: Share of informal employment (%) by kind of non-agricultural activity



Source: ILO, *Women and Men in the Informal Economy: A Statistical Picture*, Geneva, 2013.

* Six cities only.

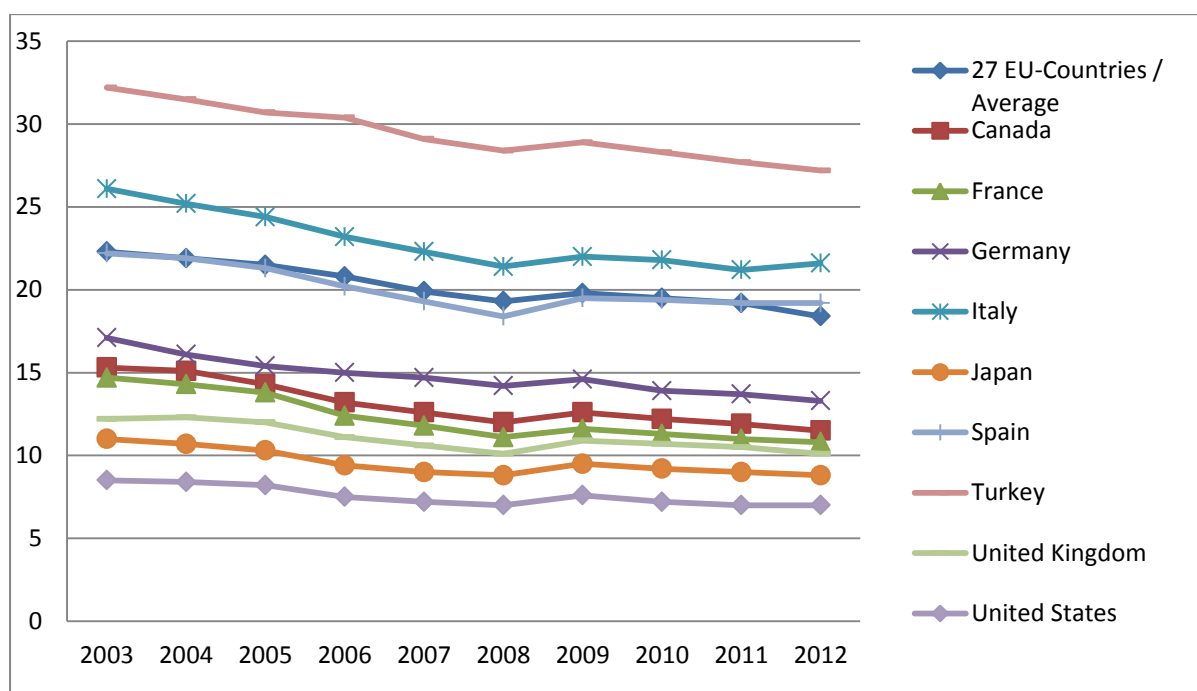
Trends in advanced G20 economies

The phenomenon of informality in advanced countries is associated with the development of non-standard forms of employment, in cases where the employment relationship is not recognized, through triangular agency work and through undeclared and under-declared work.⁸ For example, estimations show that in the EU countries, the undeclared economy, while declining, still accounts for a significant part of official GDP.⁹ The size of the undeclared economy varies significantly across advanced economies (Figure 6).

⁸ Undeclared work is defined in the European Union as ‘any paid activities that are lawful as regards their nature but not declared to public authorities, taking into account differences in the regulatory system of Member States’.

⁹ *Tackling undeclared work in 27 European Union Member States and Norway: Approaches and measures since 2008*, Eurofound, Dublin (2013),

Figure 6: Changing size of the undeclared economy as a per cent of GDP, 2003-2012



Source: Friedrich Schneider, *Size and Development of the Shadow Economy of 31 European and 5 other OECD Countries from 2003 to 2012: Some New Facts*, 2012.

Note: The size and development of the shadow economy is calculated with the MIMIC (Multiple Indicators and Multiple Courses) estimation procedure.

Policy responses

There is a growing consensus that informality is a suboptimal solution for most of society: workers, formal employers, governments and economies as a whole. It is a drag on productivity and economic and employment growth. And, contrary to early expectations that economic growth would absorb surplus labour and eradicate informality, informal activities, enterprises and jobs have not only persisted, but have also emerged in new guises and unexpected places. As a result there is a renewed interest in developing policies and institutional frameworks that promote the transition to formality as an important dimension of inclusive development and growth strategies and a major goal of employment policies. Several G20 countries are leading the way in this respect by making transition to formality a policy priority, with strategies and practices to curb informality through the adoption and implementation of a mix of policy measures showing promising results.

The relationship of informality to economic growth is complex and multi-faceted. While sustained economic growth and structural change with higher productivity are crucial for reducing informality, countries at similar levels of per capita GDP exhibit significant variations in the incidence of informality.¹⁰ Patterns of growth matter as much as growth itself. The recent

¹⁰ For a fuller discussion on economic growth and informality see “*Growth Strategies and Quality Employment generation*” in *The Informal Economy and Decent Work: A policy resource guide*, ILO, Geneva 2013

experience of a number of G20 countries suggests that policy mix is of great importance. A combination of investment strategies and macroeconomic frameworks that favour job creation in the formal economy and structural shifts to higher productivity activities combined with relevant labour markets policies and institutions enable transition to formality. This experience also demonstrates the critical role of public policies and social dialogue in reducing informality. Incremental but steady declines of the size of the informal economy in some G20 countries show that informality can be addressed through innovative and appropriate policy approaches and measures.

In Indonesia, for example, the share of informal employment has been on the decline.¹¹ Between 2001 and 2013 the National Statistics Office estimates that the share of informal employment in total non-agriculture employment has dropped by 8.5 percentage points, from 61.5 per cent to 53.0 per cent. Of the about 22 million jobs created since 2001, 82 per cent have been in the formal economy.¹² Indonesia has maintained the momentum of economic expansion thanks to robust growth in investment, domestic consumption and the extension of social protection. Between 2005 and 2012, employment creation outpaced labour force growth. Robust domestic consumption has been supported by anti-poverty policy interventions and income policies. However, challenges remain. Many workers are employed in low productivity activities, which have kept real incomes low for most Indonesians. The combination of low incomes and limited coverage of social protection schemes means that many Indonesians remain vulnerable.

During the last decade, the Latin American and Caribbean region also experienced progress on formalization, with the urban unemployment rate falling to 6.4 per cent in 2012, an historic low.¹³ A combination of positive macroeconomic performance, significant political and policy priority attached to the transition to formalization and the judicious mix of policy measures in several countries have resulted in a significant reduction in informality. Argentina and Brazil achieved a steady, decade-long decline in informality (14.5 percentage points and 13.9 respectively) and Mexico's more recent efforts have started showing results (Table 1).

Table 1: Declines in informality, by country (percentage point change)

Countries	Indicator	Period	Results
Argentina	Unregistered wage employment	2003-2012	↓14.5
Brazil	Informal employment (% total employment)	2002-2012	↓13.9
Mexico	Informal employment (% total employment)	2010-2013	↓0.7

Source: ILO, 2014.

¹¹ National Statistics Office (Badan Pusat Statistik) defines informal and formal employment by a matrix of employment status and main occupation. See *Labour force situation in Indonesia*: Jakarta, BPS August 2012. The matrix differs from the conceptual framework of informal employment endorsed by the 17th International Conference of Labour Statisticians in 2003. The framework uses type of production unit and type of job to distinguish formal and informal employment. It should be noted that BPS changed data weight to labour force surveys in 2011.

¹² ILO staff calculation based on national labour force survey data. National Statistics Office (Badan Pusat Statistik) defines informal and formal employment by a matrix of employment status and main occupation that differs somewhat from the methodology used in graphs 1 to 5.

¹³ *Labour Overview. Latin America and the Caribbean*, Regional Office for Latin America and the Caribbean, ILO Lima, 2013

By contrast, the ILO estimates that if economic growth were to continue at levels similar to those recorded over the past decade without the types of specific complementary policies that were adopted by these countries to formalize employment, it would take more than 50 years to reduce informality by half.¹⁴

Argentina's experience in recent years also demonstrates that significant reductions in informality require an integrated strategy across government ministries. In Argentina this included an employment-centred macroeconomic framework (adopted after the 2002 crisis), together with targeted programmes and actions, such as the National Programme for Employment Regularization and programmes on employment maintenance during the most severe periods of the crisis, which helped to prevent transitions to unemployment and to informality. Between 2003 and 2012, informal employment as measured by non-registered wage employment (NWE) fell 14.5 percentage points, from 49.1 per cent to 34.6 per cent. The fall also represented a break in the upward trend of NWE since the middle of the 1970s, which became more pronounced during the 1990s. Nonetheless, the employment informality rate estimated for the total working population is still significant, at about 44 per cent in 2010, with about two thirds of the total made up of wage workers and one third self-employed workers.¹⁵

Brazil represents another positive experience, with a significant reversal in the rise of informality and steady progress in formalisation. The strong macroeconomic performance of the 2000s translated into the growth of formal jobs. After the devaluation in 1999, the real exchange rate remained highly competitive, boosting exports and domestic industries with net new job creation, particularly in the export sector, but also in the import-competing manufacturing sector.¹⁶ As of December 2011, Brazil had about 37.6 million formal workers, an increase of approximately 60 per cent compared to 2003, when there were only 23 million.¹⁷ Among the policy measures contributing to this successful evolution were the adoption of targeted measures such as the "Simples Law", introduced in 1996, which included a progressive tax structure and a simplification of the collection of taxes and social insurance contributions. Analysis suggests that this change was responsible for the formalisation of some 500,000 microenterprises from 2000 to 2005, accounting for 2 million jobs.¹⁸ Complementary policy measures included programmes to improve access for small businesses to financial services; increases in the minimum wage and extension of social protection in specific sectors (e.g. rural workers and domestic workers).

¹⁴ Ibid. p.63. To estimate the number of years necessary, the ILO methodology applies a formal employment to output elasticity calculated econometrically by Macroconsult (2012) at the regional level. It assumes that all other variables remain constant.

¹⁵ *Employment formalization in Argentina: recent developments and the road ahead*, FORLAC Notes on Formalization, ILO, Geneva 2014.

¹⁶ *Unemployment and the Real Exchange Rate in Latin America World Development*, Frenkel, R. and Ros, J. 34(4):631-646, 2006

¹⁷ Experiencia en Brasil. I) Uso de la planilla electrónica e inspección del trabajo para promover la formalización del trabajo doméstico; y, II) reducción de las multas por el cumplimiento en periodo de gracia, FORLAC notes, OIT forthcoming.

¹⁸ "Avaliação do Simples: Implicações à formalização previdenciária," Delgado, Guilherme, Ana Carolina Querino, André Campos, Fábio Vaz, Leonardo Rangel and Matheus Stivali (2007) IPEA, Texto para Discussão no. 1277

The Brazilian government responded to the 2008 financial crisis with a strategy of domestic demand-led growth by increasing family incomes and stimulating domestic investments.¹⁹ In recognition of the importance to support workers and their families at risk of poverty, the Brazilian government extended the conditional cash transfer programme Bolsa Família to 1.3 million additional extremely poor families; extended the duration of unemployment insurance benefit payments; and maintained real increases in the official minimum wage. It is estimated that in 2009 this affected more than 20 per cent of the population. By boosting the incomes of lower income households, these policies helped prevent their resort to informal activities and functioned as an important element of the domestic demand-led growth.

Over the past decade, China has made sustained progress in addressing informality. The informal economy includes a heterogeneous group of rural-urban migrants, whose number increased in the last decade;²⁰ small and micro enterprises with total employment of 150 million;²¹ and people engaged informally in start-ups, with an estimated number of 9.62 million by 2012.²² The Government has adopted a series of policies to improve the quality of employment and formalize informal employment, including through extension of social protection.²³ New health insurance schemes were established in 2003 and 2007, for the rural population and the previously uninsured urban population. Together with other existing health insurance schemes, more than 96 per cent of the population or 1.34 billion people are now covered. In 2009 and 2011, two new old-age pension schemes were introduced, for the rural population and uninsured urban residents.²⁴

In Turkey, GDP and employment growth were sustained by a process of structural transformation and formalization of employment. Overall, 86.9 per cent of net employment generation between 2005 and 2011 was in formal employment (i.e., workers with social security coverage), versus 13.1 per cent in informal employment.²⁵ However, the 2009 Household Labour Force Survey showed that some 30.6 per cent of all persons in non-agricultural employment were in undeclared work, illustrating the continuing nature of the challenge.²⁶ The Turkish government introduced a series of tax reforms, reducing tax distortions and simplifying the system, to encourage formal declaration, as well as both general and targeted reductions of social insurance contributions and significant tax reductions for enterprises investing in less developed regions. The incentives were coupled with a deterrence approach, whereby those discovered to

¹⁹ *ILO World Social Protection Report, 2014/15*, box 6.4. ILO, Geneva, 2014.

²⁰ *National Rural Migrant Workers Monitoring Report 2013*. National Statistical Bureau, China, 2013.

²¹ *National Small and Micro Enterprises Development Report*. by National Administration of Industry and Commerce, China, 28 March 2014.

²² Study on National Statistics and Social Security on E-business in China, conducted by China Association for Employment Promotion (CAEP) and the Alibaba Group, 2012.

²³ *World Social Protection Report, 2014/15*, box 6.5, ILO, Geneva, 2014.

²⁴ *World Social Protection Report 2014/15*, particularly box 6.5. ILO, Geneva, 2014.

²⁵ *Good Jobs in Turkey*, Report No: 83818-TR. Rebekka Grun and al., 2013 (World Bank), p.xi.

²⁶ *Database of measures against undeclared work*, Williams, Colin C.; Barić, Marijana; Renooy, Piet, in *Tackling undeclared work in Turkey*, EUROFOUND, 2013.

have employed workers not registered with social security are not entitled to the reductions in social insurance contributions.²⁷

In facilitating transition to formality, some G20 countries adopted measures to bring certain previously uncovered categories of workers under the umbrella of social security legislation. For example, South Africa included domestic workers under its Unemployment Insurance Fund in 2003. As a result, as of 2013, the 654,000 insured domestic workers, most of them women, enjoy greater income security in case of maternity or unemployment.²⁸ Fiscal incentives have also played a major role in encouraging employers of domestic workers to formalize employment relationships in Brazil, France and Germany.²⁹

Several countries have adopted measures to foster social insurance coverage for self-employed workers and employees in small and micro-enterprises. As part of a broader strategy, such measures have contributed to a significant reduction in informal employment.³⁰

In advanced economies, dealing with “undeclared” and “under-declared work” and disguised employment relationship show the importance of a) improved compliance and law enforcement combined with incentives based measures; and b) policy approaches to women, youth, elderly and migrant labour who are particularly vulnerable to these types of work.

The experience of countries which have successfully curbed informality shows the need for a mix of policies to encourage employment-centred growth in the formal economy together with extension of social protection. These include an adequate regulatory framework with reinforced compliance measures and tailor-made responses to specific sectoral or target group needs. Policies to encourage the transition to formality can be implemented gradually and achieve mutually reinforcing effects. They underscore the need for public policies that encourage transition to formality through both incentive-based and compliance-based strategies. By contrast, ad-hoc or isolated policies are unlikely to make a sustained impact on informality. What is needed is a comprehensive and integrated approach across a range of policy areas, and policy coherence among these measures.

The *2013 ILO Policy Resource Guide* presents a synthesis of innovative strategies that have shown results in specific policy areas (e.g., employment, social protection, rights, regulatory frameworks,

²⁷ *Database of measures against undeclared work*, Williams, Colin C.; Barić, Marijana; Renooy, Piet, in *Tackling undeclared work in Turkey*, EUROFOUND, 2013.

²⁸ Data refer to March 2013; based on Republic of South Africa: *Unemployment Insurance Fund - Annual Report 2013*, 2013 available at: <http://www.labour.gov.za/DOL/downloads/documents/annual-reports/unemployment-insurance-fund/2013/UIF%20Annual%20Report%202013.pdf>.

²⁹ *Social security for social justice and a fair globalization: Recurrent discussion on social protection (social security) under the ILO Declaration on Social Justice for a Fair Globalization, Report VI*, 100th Session of the International Labour Conference Report VI, ILO, Geneva, 2011. http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_152819.pdf.

³⁰ *Labour formalization and declining inequality in Argentina and Brazil in 2000s: A dynamic approach*, Maurizio, R., ILO Research Paper No. 9, ILO Geneva, 2014 http://www.ilo.org/wcmsp5/groups/public/---dgreports/---inst/documents/publication/wcms_235111.pdf; *Informalidad laboral en Argentina: segmentos críticos y políticas para la formalización*, Bertranou, F. and Casanova, L., OIT, Argentina, 2013.; *Informality and Employment Quality in Argentina Country case study on labor market segmentation*, Bertranou, F.; Casanova, L.; Jiménez, M., and Jiménez, M., ILO Buenos Aires, 2014.

equality and non-discrimination) and that take into account the diversity and heterogeneity of the informal economy across countries as well as within countries.³¹

An additional recent development at the international level is the start in 2014 of a two year discussion at the ILO's policy making International Labour Conference, designed to produce a new international labour standard (possibly a non-binding but authoritative recommendation) on the transition from the informal to formal economy. Such instruments require a consensus among the 185 ILO Member States and the employers' and workers' organizations in those countries, thus lending a strong global legitimacy that combines public and private sector perspectives. The recommendation would provide further guidance in this important policy area.³²

3. Working poverty

The second qualitative indicator examined in this note is that of working poverty. Over the past two decades, emerging G20 economies have made tremendous progress in reducing the number and share of workers and their families living in extreme working poverty (below the US\$ 1.25 poverty line), with the number of working poor declining from 582 million in 1991 to 175 million in 2013 (Figure 7).

In 2013, the share of workers living in extreme poverty stood at 10.7 per cent, versus 47.4 per cent in 1991. The proportion of workers living in moderate poverty (between US\$1.25 and US\$2 per day) also declined, though less markedly, from 25.4 per cent of total employment in 1991 to 16.5 per cent in 2013. Altogether, an estimated 447 million workers in emerging G20 economies were poor in 2013, a reduction by half since 1991.

An estimated 217 million workers remain "near poor", living with their families on between US\$2 and US\$4 per family member per day. These workers are engaged in activities that are productive enough to escape extreme deprivation, but not by a margin that ensures their ability to withstand future economic shocks. Taking into account these near-poor workers, some 837 million workers, equal to just over half of the workforce in emerging G20 countries, were either poor or just above the poverty line in 2013.

Progress in reducing working poverty has been uneven among emerging G20 economies, with the poverty reduction in China accounting for around 80 per cent of the aggregate reduction in extreme working poverty in emerging G20 countries and for almost 100 per cent of the reduction in the number of moderate working poor. Between 1993 and 2008, the share of extreme working poor in China declined from 55.2 to 11.5 per cent, while the share of moderate working poor fell by around 10 percentage points to an estimated 15.6 per cent in 2008 (Figure 8).

Among other countries with high initial shares of working poor, Indonesia was also very successful in reducing extreme working poverty (with the share declining from 52.3 to 15.5 per

³¹ op.cit.

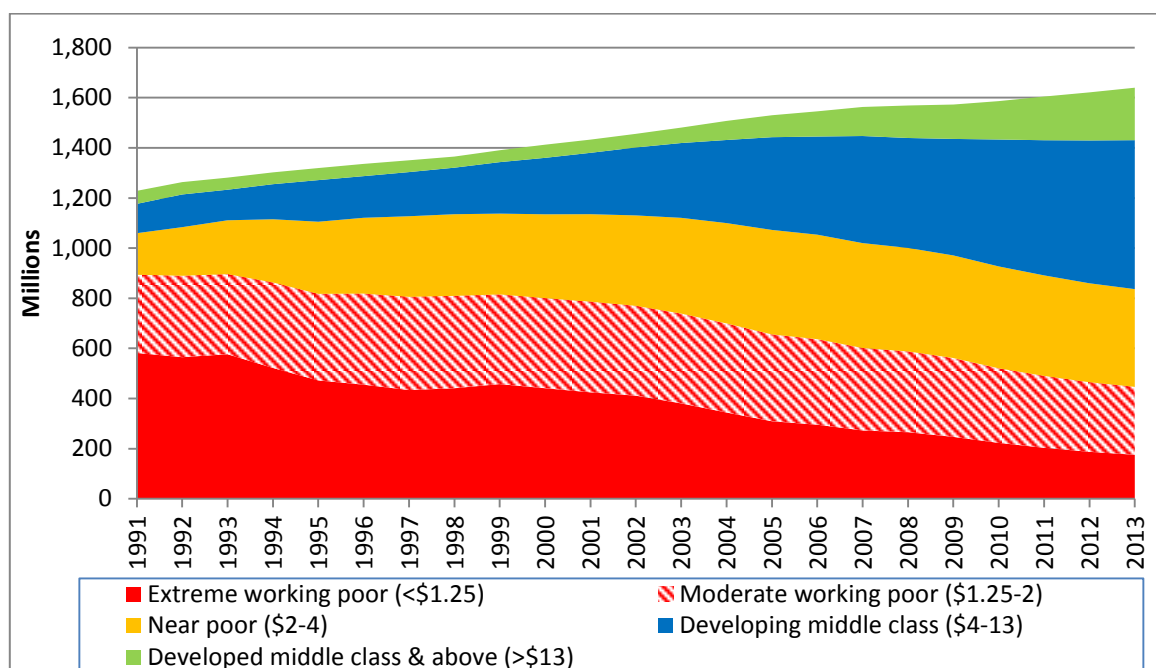
³² *Transitioning from the informal to the formal economy, Report V(1)*, ILC 103rd Session, ILO, Geneva 2013; and *Transitioning from the informal to the formal economy, Report V(2)*, ILC 103rd Session, ILO, Geneva 2014

cent between 1993 and 2011), however the proportion of Indonesian workers living in moderate poverty rose from 30.5 to 37 per cent over the same period.

India also managed to reduce the share of workers living in extreme poverty; however 29 per cent of India's workers remained among the extreme working poor in 2010, with a further 37 per cent living in moderate poverty. The National Rural Employment Guarantee Act (NREGA), which guarantees 100 days' employment at the rural minimum wage for rural households, substantially raised incomes and enhanced income security for the participating households. Studies have also found wider positive effects on rural labour markets, such as lifting a higher proportion of rural workers, particularly women, above the low pay threshold and reducing distress migration.

Brazil, which had a comparatively lower initial share of working poor, reduced the total share of poor (below US\$2) to 6.4 per cent in 2009, down from 18.6 per cent in 1992.

Figure 7: Aggregate employment by economic class in G20 emerging countries (millions), 1991-2013



Source: S. Kapsos and E. Bourmpoula, "Employment and economic class in the developing world", ILO Research Paper No. 6 (Geneva, 2013); ILO, Trends Econometric Models, April 2014.

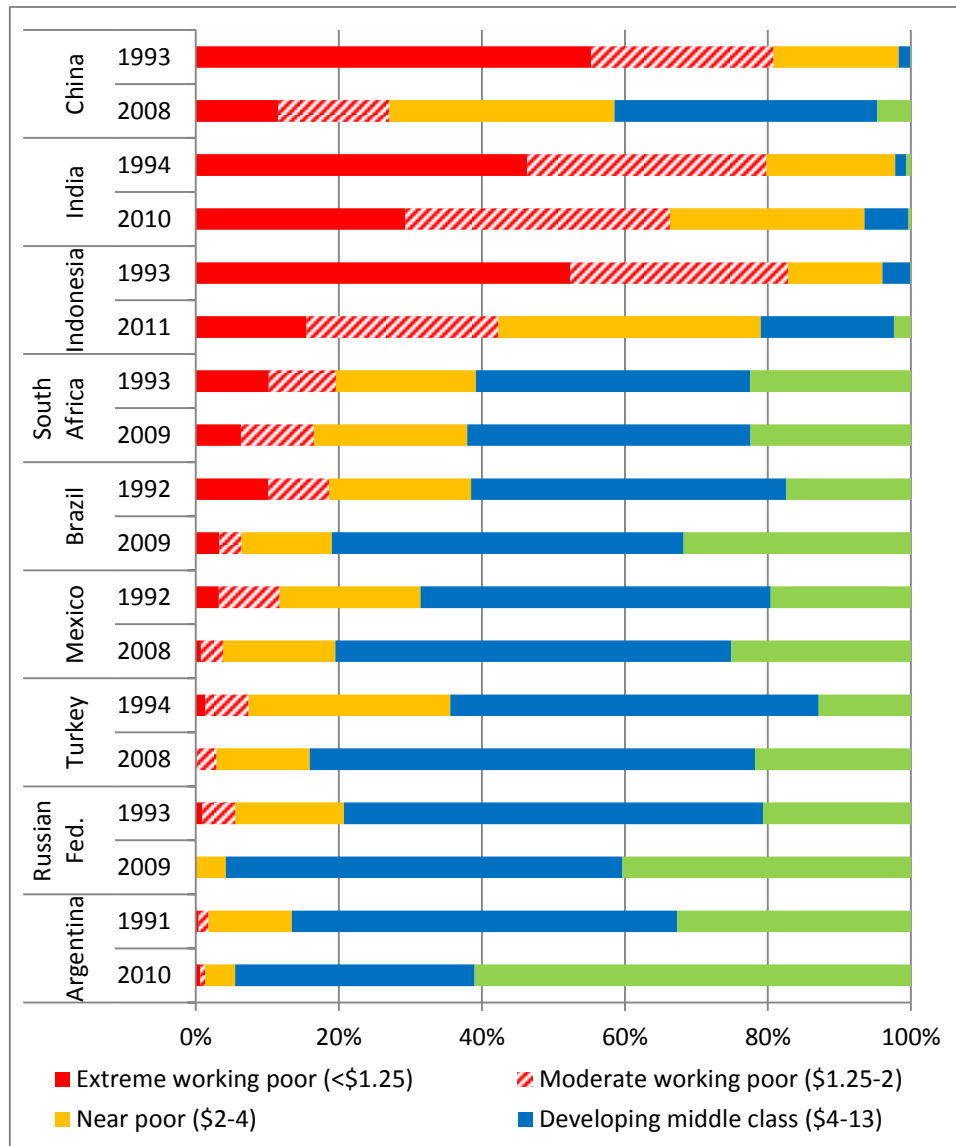
Note: Aggregate includes Argentina, Brazil, China, India, Indonesia, Mexico, Russian Federation, Saudi Arabia, South Africa and Turkey.

Rapid growth in labour productivity, underpinned both by within-sector productivity gains and productive structural transformation (reductions in workers engaged in the comparatively low productivity agricultural sector and increases in employment in industry and higher value-added services) has been a key characteristic of countries that have seen the most progress in reducing working poverty over the past two decades.



This transformation, in turn, has been facilitated in large part by significant increases in average educational attainment and skills enhancement, equipping workers with the knowledge and skills to take up higher productivity jobs, alongside an enabling environment for enterprises to expand production and increase their workforce.

Figure 8: Employment by economic class in developing and emerging G20 countries (per cent of total employment), early 1990s and most recent year



Source: ILO, *Key Indicators of the Labour Market*, 8th Edition.

Future progress in reducing working poverty and growing the middle class in emerging G20 economies will depend, in part, on successful implementation of policies to facilitate productive structural transformation, thereby increasing employment opportunities in manufacturing and higher value added services activities. This, in turn, will require that workers are equipped with the education and skills needed to take up new employment opportunities that require different

skillsets. It will also require an enabling environment for enterprises, including avoiding unfair competition from informal enterprises.

At the same time, as a large share of the poorest are engaged in low productivity, often subsistence-level agricultural activities, it is also vital to invest in rural areas. Boosting agricultural productivity and promoting rural enterprises outside of the agricultural sector is key to continued progress in reducing working poverty. In addition, it is important to note that during the global economic crisis, in particular over the 2008-09 period, progress towards reducing working poverty slowed significantly across the G20 economies as a whole. This serves as a reminder of the importance of establishing and maintaining strong and comprehensive social protection systems to guard against the adverse effects of future economic shocks.

4. Wage trends and wage policies

An important aspect of the quality of employment is trends in wages. Looking at the G20 as a whole, three important features stand out: the decline in the labour share in national income; the growing rupture between productivity growth and wage growth in most G20 countries; and stagnation of real wage growth in several economies. A striking trend in almost all G20 countries is the long-term erosion of the labour income share of i.e. total labour compensation in GDP. (Figure 9)

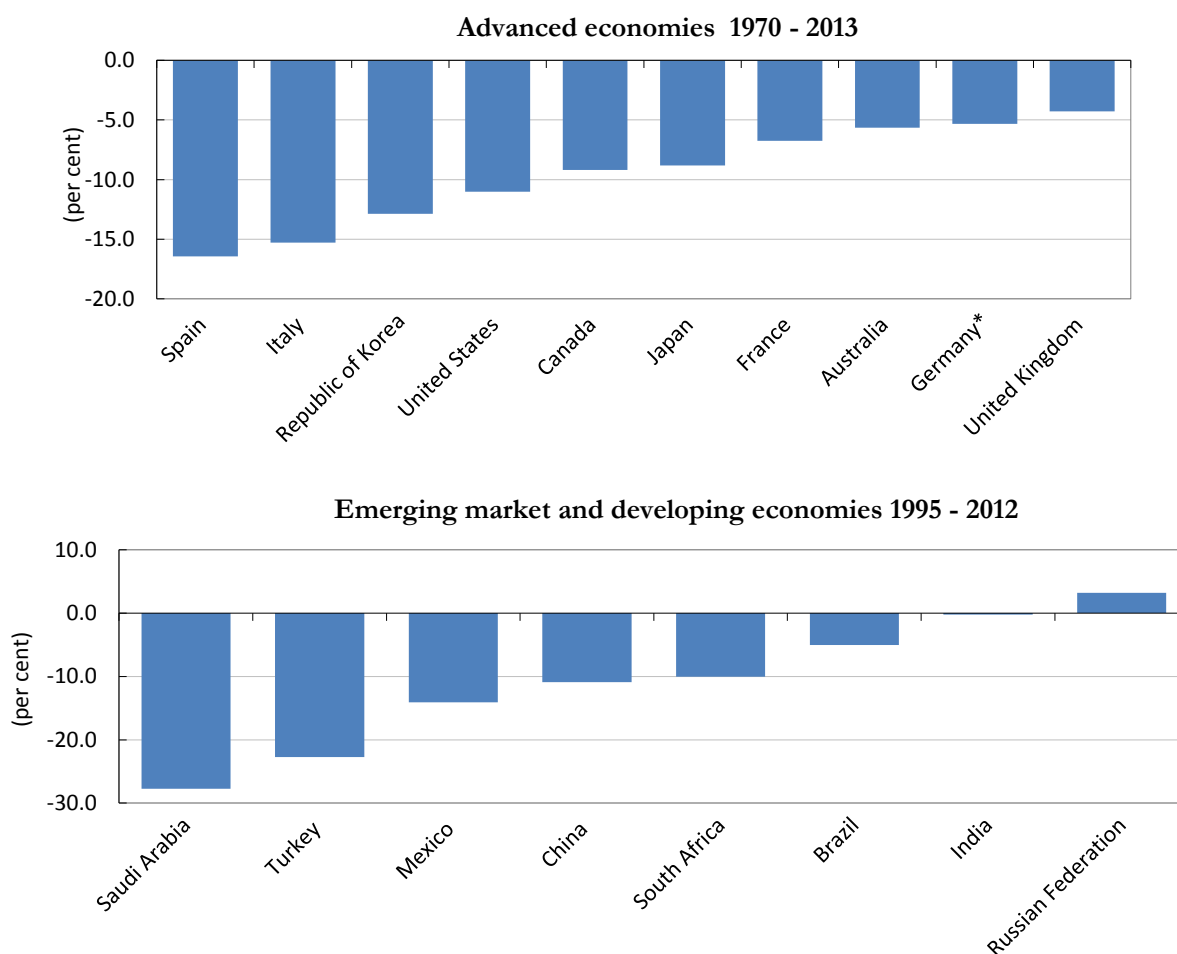
This has resulted in stagnation or slow growth of household incomes and weak consumption demand, both domestic demand and demand for exports. In some G20 countries this was offset for a while through unsustainable borrowing, but that fed the crisis and must now be repaid.

This erosion of the wage share is a widely recognized problem, but one that has not yet been addressed by the G20. The Governor of the Bank of England recently noted that “a greater shortage of demand tomorrow will develop unless the income of those who have taken on the debt picks up.”³³ The OECD warned that “the shift of income away from labour (and, in particular, away from low-wage workers) towards capital (and top earners) might also have a negative impact on aggregate demand, to the extent that workers with below-average pay tend to have a higher consumption propensity . . . which might result in a particularly adverse effect on the speed of recovery.”³⁴

³³ Speech, Mark Carney, Governor of the Bank of England, New York, held 9 December 2013.

³⁴ *OECD Employment Outlook 2012*, OECD, Paris, 2012.

Figure 9: Change in the adjusted labour share in selected G20 countries



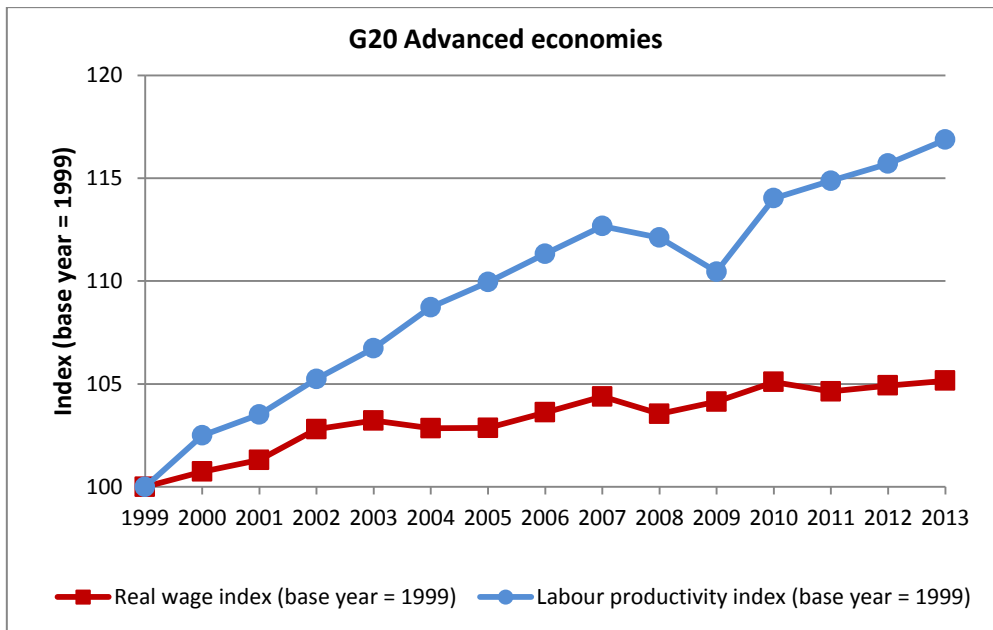
Sources: AMECO Database and ILO Databases

Notes: Figures refer to the change in the labour share between 1970-2013 for advanced economies and 1995-2012 for emerging market and developing economies. Exceptions include: Republic of Korea: 1991-2013, South Africa: 1995-2011, Brazil and India: 1995-2009, Saudi Arabia: 1995-2004 and China: 1995-2011. Data refer to the adjusted labour income share, except for the Russian Federation, Saudi Arabia, South Africa and China where the unadjusted labour income share is used. Data for Argentina and Indonesia are not available.

*Prior to 1991, the adjusted labour income share for Germany refers to West Germany.

Another way of looking at the erosion of labour share is to compare productivity growth with wage growth over the last two decades for the advanced G20 economies (Figure 10). In broad terms, this means that the distribution of labour productivity gains has been unequal as real wages did not progress at the same pace as labour productivity.

Figure 10: Productivity and wage index (G20 advanced economies)



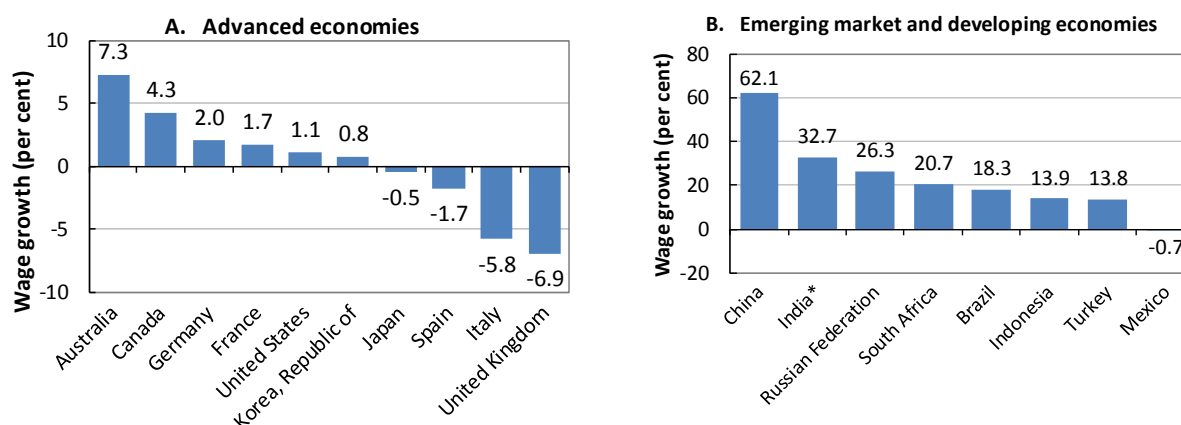
Source: ILO staff estimation, using data from the ILO Global Employment Trends reports and the ILO Global Wage Database, revised and updated.

Note: Labour productivity is defined as GDP per employed person and uses GDP in constant 2005 PPP\$ for all countries. Both indices are based on a weighted average of all the countries in the group that takes into account labour productivity and the size of paid employment. G20 advanced economies include: Australia, Canada, France, Germany, Italy, Japan, the Republic of Korea, the United Kingdom and the United States.

The pattern at a more disaggregated level is that the gap between productivity growth and wage growth has been large and growing over time in the US and Germany and growing more recently and beginning to widen sharply in Japan and Korea. In France and Italy wage and productivity growth have continued to roughly track each other. There has been a narrowing of the gap in recent years in Australia and Canada. The overall pattern in Figure 10 reflects the weight of the US, Germany and Japan in the global economy, and illustrates the importance of this structural disjuncture for the global economy. This is a long-term structural problem, a legacy vulnerability which was revealed by the crisis but was decades in the making. And it is a problem affecting most G20 economies, both current account surplus and current account deficit countries. It is also one key component of rising inequality.

Although the labour income share briefly behaved in a counter-cyclical way in 2008 and 2009, in most of the advanced G20, the long-term trends have been reinforced by slow or negative real wage growth during the crisis and post crisis period (Figure 11).

Figure 11: Total growth in real average wages, 2007-2012



Sources: ILO Global Wage Database, revised and updated. IMF World Economic Outlook - October 2013.

Notes: Saudi Arabia has been excluded because of data availability and Argentina identified some inconsistencies in its wage series in some years.

*In India, real wage growth is an ILO estimate based on the NSSO Employment-Unemployment Survey; for the years where this survey is unavailable, data from the Annual Survey of Industries are used to complement the NSSO Employment-Unemployment Survey in order to estimate wage trends over time.

A number of G20 countries have recognized these problems and several have responded with measures to raise wages through minimum wage policies and/or through strengthened collective bargaining. For example, the four largest economies—the US, China, Japan and Germany—have all announced or implemented policies to raise wages. These plans could make an important contribution to the G20’s ambitions for growth and employment and should be recognized and credited in the growth strategies and any quantification exercise. In addition to the benefits in strengthening domestic demand in the countries adopting such policies there are potentially strong positive spillovers from increased incomes and household consumption to other countries, which should boost global aggregate demand.

It is also important to recognize that coordinated policy to lift incomes avoids the beggar-thy-neighbour policy of trying to compete through a low-wage strategy rather than through comparative advantage, specialization and increased productivity.

Beyond the impact of wage policies at the macro level, the increased concentration of some vulnerable groups, including youth and women, in low pay jobs acts as a discouraging factor to labour market participation. In many cases low pay is compounded by lack of social protection and job insecurity.

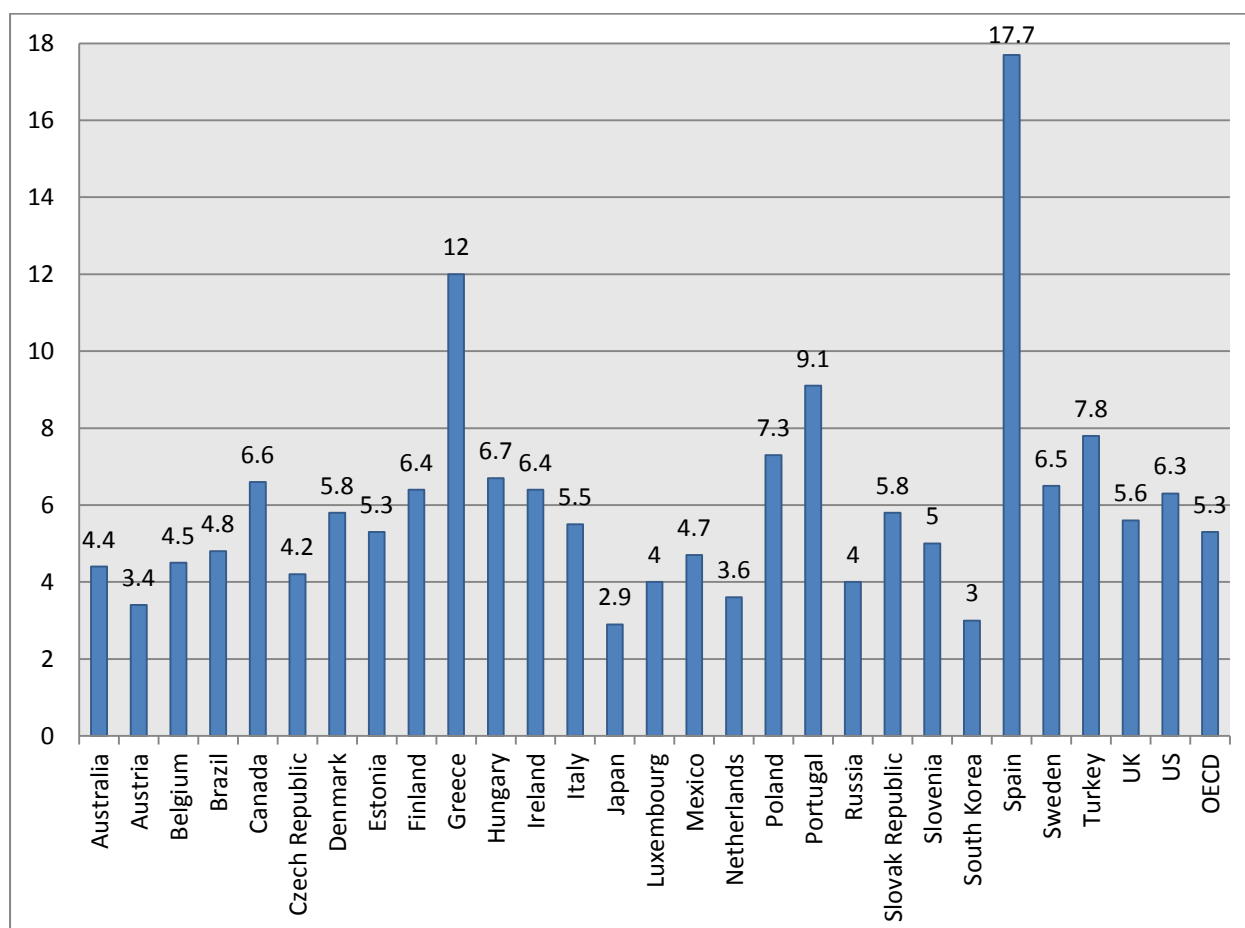
5. Job insecurity

Persistent and increasing trends in job insecurity present a pressing issue in many G20 countries. Though an agreed definition of job insecurity remains elusive, there is a general consensus that job insecurity includes both “objective” and “subjective” dimensions. Whereas objective job insecurity stems from the specific features of the job and is mostly associated with involuntary temporary or part-time work (such as short-term contracts or a forced reduction in working

hours), subjective job insecurity is more related to individual perceptions, including the fear of losing one's job.

Job insecurity has numerous negative implications, both for those directly affected and for the wider society. It has serious effects on employees' physical and psychological health and well-being. It also has negative effects on the workplace, including lower work commitment, weak employee-employer relationships, absenteeism and low job satisfaction.

Figure 12: OECD job security indicator 2014³⁵ (probability of job loss), in percentage



Source: OECD (2014). *Better Life Index Data*, OECD StatExtracts, available at:

<http://stats.oecd.org/Index.aspx?DataSetCode=BLI>

In the wider society, job insecurity affects both long-term life plans (such as getting married, having children) and consumer behaviour (such as buying a house, investing in children's education). Other research provides evidence that job insecurity increases a worker's motivation to save his /her income and also reduces consumption by other members of the household.³⁶

³⁵ The job security indicator is calculated as the number of people who were unemployed in year x, but were employed in x-1 over the total number of employed in x-1. Due to changes in measurement, the indicator cannot be compared over time.

³⁶ *The impact of job insecurity on the savings behaviour of German households*, Klemm, M., DIW, Berlin 2010 and *Precautionary Saving and Income Uncertainty in Germany - New Evidence from Microdata*, in *Journal of Economics and Statistics* (Jahrbücher für Nationalökonomie und Statistik), 228 (1), pp. 5-24, Bartzsch, N., Germany, 2008.

Job insecurity also puts additional financial pressure on social protection systems, because workers in involuntary temporary or part-time employment are often still dependent on welfare benefits where these are available.

In advanced G20 countries, high levels of job insecurity, including involuntary temporary employment (defined as the inability of workers who are engaged in temporary employment to find permanent jobs) and involuntary part-time employment (defined as the inability of workers who would prefer to work more) have been of concern since the onset of the global economic crisis.

Involuntary part-time work as share of total part-time work has increased in most G20 countries for which data was available between 2008 and 2012. The exceptions are Germany and France.³⁷ Even in those advanced economies where employment growth has resumed, the shares of involuntary temporary and part-time employment have increased. This has occurred in a third (for involuntary temporary employment) and half (for involuntary part-time employment) of the labour markets that performed best in terms of overall employment rates.³⁸

“Marginal” part-time work has also grown since the crisis. This is a complex phenomenon, but can be characterized as strongly atypical working-time arrangements marked by very short hours (usually 15 hours per week or less), widely varying lengths of shifts and a lack of predictability in working hours and work schedules. Examples include “work on demand” as a special type of part-time in Germany, “zero-hours contracts” in the United Kingdom and casual employment in Australia. Given the high levels of vulnerability inherent in such arrangements, marginal part-time work demands additional close attention.

According to the 2014 OECD annual job security indicator, the risk of losing your job is highest in Spain (17.7 per cent). In comparison, the probability of job loss is the lowest in Japan, South Korea (less than 3 per cent). In Brazil it is 4.8 per cent and in Russian Federation 4 per cent.³⁹ This average figure hides an even bleaker situation for certain categories of workers, for instance, youth.

Job insecurity is also high in emerging economies, where the higher incidence of informality and of working poverty renders those affected more vulnerable and insecure. Moreover, some emerging economies are experiencing increases in involuntary part-time and temporary employment similar to those seen in advanced economies.

6. Concluding remarks

G20 country experiences and empirical evidence show that achieving the G20 Leaders’ goal of more and better jobs requires an integrated set of policies that work at both the macroeconomic and labour market levels. Strategies facilitating transition to formality, reducing working poverty, reconnecting wage and productivity trends and reducing job insecurity in particular by addressing

³⁷ OECD.Stat Extracts, available at: <http://stats.oecd.org/>; Eurostat. Statistics Database, available at: http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database.

³⁸ *World of Work Report 2013*. ILO, Geneva, 2013.

³⁹ *Better Life Index: Data*, OECD Stat Extracts, OECD, 2014. available at: <http://stats.oecd.org/Index.aspx?DataSetCode=BLI>

labour market segmentation also present strong potential dividend for meeting the growth and employment goals in G20 countries by supporting aggregate demand.

The key elements of such strategies include pro-employment macroeconomic frameworks; industrial, investment and infrastructure policies that foster structural change toward higher productivity employment in the formal economy; strong, effective and inclusive labour market policies and institutions; and social protection systems that strengthen the resilience of workers and households and shield them from bearing a disproportionate share of economic risk.

There is a strong role for public policies to prevent and address the underutilization of labour and underemployment that result from high levels of informal work, working poverty, low pay and job insecurity. As these forms of underemployment particularly affect women, youth, older workers and other vulnerable groups, there are strong arguments for tailored policies to address their needs in the context of balanced overall policies with universal outreach. The success of policies to increase labour force participation of women and youth -- priorities for many G20 countries-- are also contingent upon effective strategies to improve the quality of their employment.

As highlighted earlier, the transition to formality is best achieved through a combination of incentives and compliance-based measures. In this respect, social dialogue with employers and workers, including the participation of vulnerable groups, can play a key role in supporting and facilitating the design and implementation of integrated, coherent and coordinated policy packages.

Finally, efforts in collecting and monitoring standardized data and statistics on qualitative aspects of employment both at national and international levels should be stepped up and more systematically used to inform policy making.

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