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Economic Briefing

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Content

Foreword

On the eve of the OECD Ministerial Council, the OECD published its May 2013 Economic Outlook. The Organisation again revised downwards its forecast for GDP growth for 2013 to 1.2% compared to 1.4% last November. The average numbers mask major divergences between OECD regions. What it dubs *"multiple paths to recovery"* downplays the fact that the contraction in the Euro area will be at -0.6% this year compared to the -0.1% that was forecast last November. US growth (at 1.9%) is close to the previous forecast. Meanwhile, Japan's growth is now forecast to be at 1.6% in 2013 vis-à-vis the 0.7% forecast of last December as a result of the fiscal and monetary expansion. Despite this, the OECD does not draw the conclusion that contractionary fiscal policies in Europe are contributing to recession, whilst expansionary policies in Japan are raising growth. The results place fiscal consolidation recommendations at odds with the call for job creation and growth acceleration. It is likely that growth will also be stalling in the major emerging economies in the second part of this year. The result is that unemployment levels are forecast to rise globally over the course of the year.

This "Economic Brief" is designed to provide digestible information for affiliates and Global Unions to assist on advocacy to shift policy from austerity to job creation. At the forthcoming G20 and other meetings Global Unions will be calling for a Jobs Plan that supports aggregate demand by increasing investment in key areas of productive infrastructure and by supporting the incomes of those on the lower part of the income distribution so as to increase purchasing power.

The "Brief" has been prepared principally by Carolin Vollmann of the Economic and Social Policy Department of the ITUC. It is the second of a series which is intended to be regular economic briefings prepared by the ITUC and TUAC.

John Evans
ITUC-TUAC
June 2013

John Evans, ITUC Chief Economist.

Economic Briefing

1 "Recovery" remains illusive

In April 2013, the IMF corrected its global GDP growth forecast downward for the fourth time consecutively and altogether for the seventh time since April 2011. Global output is now expected to grow at a rate of 3.3 % in 2013 and 4.0 % in 2014.[1] OECD forecasts, issued in May 2013, predict a global growth rate of only 3.1 % for 2013.[2] Compared to pre-crisis levels of real GDP growth of around 5.0 %, the global economy is still far from real recovery.

The IMF and the OECD once again forecast that the world economy will recover, while admitting that 'huge downside risks' remain. The UN DESA forecast for 2013 is less optimistic. They expect a global growth of 2.4 % in 2013 and 3.2 % in 2014, which is "well below potential" as they stress, and not strong enough to lift the majority of countries out of this economic deadlock.[3]

The IMF euphemistically coined the term "three-speed-recovery" to illustrate diverging global growth patterns with relatively strong growth in the developing and emerging world, while advanced economies are divided into those that are merely growing and others that are completely stagnating. This optimism is especially surprising in the light of little change in policy action and with main obstacles for stability and recovery still remaining.[4]

1.1 Regions' growth performance diverge further

The IMF estimates that output growth in advanced economies remains equal to 2012 at 1.2 % in 2013 and increases to a mere 2.2 % in 2014. The Euro area will continue to underperform even this moderate growth trajectory. After a contraction of -0.6 % in 2012, growth prospects in the Euro area will continue to shrink at a rate of -0.3 % in 2013. The expected weak recovery of 1.1 % in 2014 will barely serve as a growth engine for other regions.[5]

Similarly, according to OECD estimates, the OECD area is expected to grow by 1.2 % in 2013 and by 2.3 % in 2014. However, they are more pessimistic for the Euro area, expecting it to contract by -0.6 % this year, which would be double the estimate issued by the IMF.[6] This difference might have been influenced by the latest Eurostat data.

According to Eurostat, the Euro Area shrunk by -1.0 % in the first quarter of 2013, the EU 27 region by -0.7 %, while the US on the other hand grew by 1.8 % on a year to year comparison.

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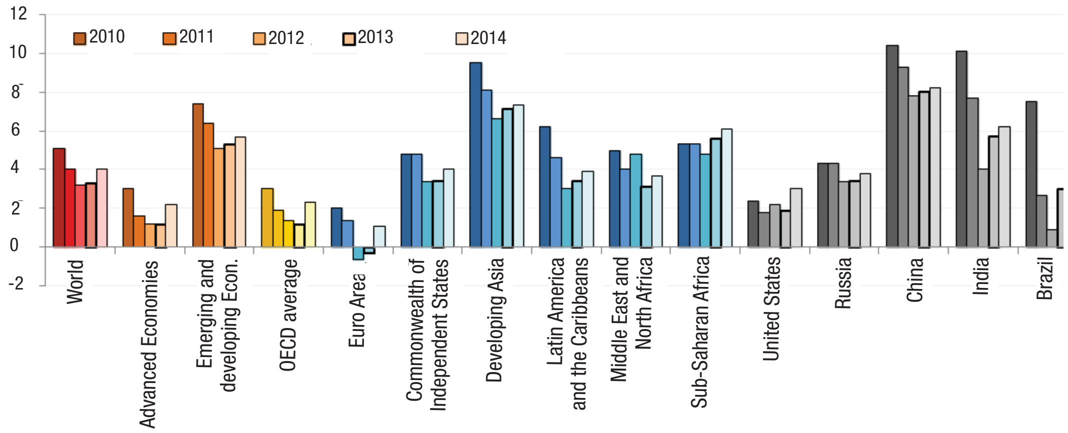
1 IMF, World Economic Outlook, April 2013, p. 2, available at http://www.imf.org/external/pubs/ft/weo/2013/01/.
2 OECD, Economic Outlook, May 2013, p. 12.
3 UN DESA, World Economic Situation and Prospects 2013, January 2013, available at http://www.un.org/en/development/desa/publications/wesp2013.html.
4 IMF, World Economic Outlook, April 2013.
5 Ibid.
6 OECD, Economic Outlook, May 2013, p. 12.

The European crisis countries (Greece, Spain, Italy, Cyprus and Portugal) remain in free fall. GDP contraction in these countries ranges from -2.0 % in Spain to -5.3 % in Greece[7] in the first quarter of 2013 (y/y). In all countries, quarterly GDP was shrinking consecutively during 2012 up until now, the Greek economy even for the 19th consecutive quarter – almost 5 years.

Making the situation for crisis countries even bleaker, also relatively strong economies start to stumble. France is heading back into recession, as are Finland and the Netherlands. The German economy slowed down, as well, and is prone to fall into recession with a contraction of -0.3 % in the first quarter of 2013.[8]

Figure 1: Real GDP growth rates across the world



Source: IMF, World Economic Outlook, October 2012 and April 2013; and OECD, Economic Outlook, May 2013 for the OECD average.

Spill over effects from the European crisis caused emerging markets and developing economies to experience a severe slowdown in 2012 growing only by 5.1 %, down from 6.4 % in 2011. They are projected to follow a gradually increasing growth path over the coming years. However, this will also depend on the very uncertain future economic developments in industrialized countries.[9]

Table 1: Selected Economic Indicators in the MENA Region

	Average 2000-07	2008	2009	2010	2011	2012	Projections 2013	Projections 2014
Real GDP (annual growth)	5.9	5.2	3.0	5.5	4.0	4.8	3.1	3.7
Current Account Balance	10.3	14.7	2.5	7.7	14.0	12.5	10.8	8.9
Overall Fiscal Balance	4.3	8.4	-2.7	0.4	3.4	3.2	1.5	0.7
Inflation (annual growth)	6.6	13.6	5.8	6.6	9.3	11.3	10.3	9.0

Source: IMF, Regional Economic Outlook Update, Middle East and Central Asia Department, May 2013.

7 Data for Greece refer to non-seasonally adjusted data.
8 EU, Eurostat newsrelease euroindicators, 74/2013, May 15, 2013, available at: http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-15052013-AP/EN/2-15052013-AP-EN.PDF.3
9 IMF, World Economic Outlook, April 2013, p. 2, available at http://www.imf.org/external/pubs/ft/weo/2013/01/.

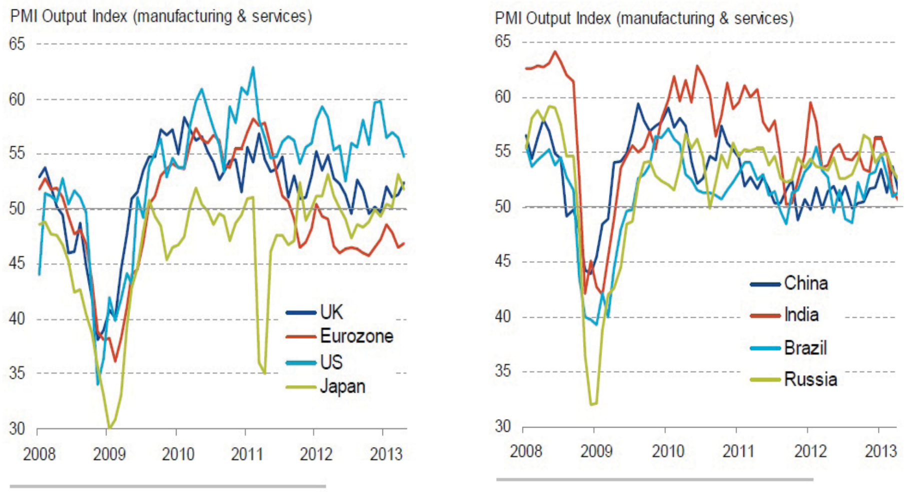
The MENA region is also subject to high downside risks. While growth remained stable in 2012, there is a clear divide between oil exporters, who enjoy stable growth rates, and oil importers that face more difficulties. Constantly high inflation rates also enhance downside risks (see Table 1). These uncertain economic prospects are additionally overshadowed by political and social turmoil.[10]

1.2 The components of growth

Global growth in trade of goods and services in real terms decelerated sharply during the last two years from 12.6 % in 2010 to only 2.5 % in 2012, as European growth stagnates. In 2010, exports grew by 12.1 % in advanced and by 13.3 % in emerging markets. These figures plummeted to 1.9 % and 3.7 % respectively in 2012. Forecasts of the IMF envisage a strong recovery for 2014.[11]

However, the recent evolution of the Purchasing Managers' Index (PMI) - an early indicator for changes in output and trade growth - gives little grounds for the IMF's optimistic outlook (see Figure 2).

Figure 2: PMI Output Index (manufacturing & service) across the world

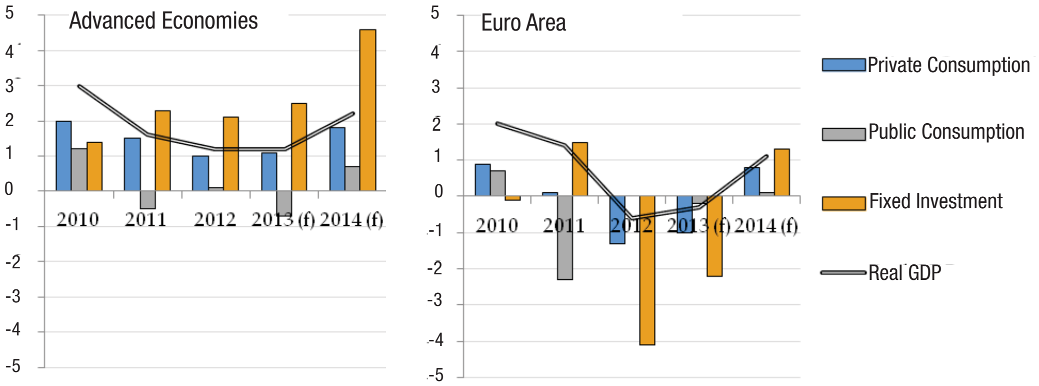


Note: A PMI above 50 indicates an increase in trade and output. The PMI is calculated on a variety of variables, including output, business activity, new orders, incoming new business, export orders, backlogs of work, business outstanding, employment, quantity of purchases, input costs, output prices, prices charged, suppliers' delivery times, stocks of purchases, stocks of finished goods.
Source: Markit Economics Limited.

World investment was at 23.6 % of GDP in 2012, only 0.3 percentage points below its value in 2008. However, the share of investment between advanced and developing markets has shifted. Advanced economies invested 18.8 % of GDP in 2012 compared to 21.1 % in 2008.[12]

10 IMF, Regional Economic Outlook Update, Middle East and Central Asia Department, May 2013.
11 IMF, World Economic Outlook, April 2013 and October 2012.
12 IMF, World Economic Outlook, April 2013. -

Figure 3: Percentage change of selected components of GDP



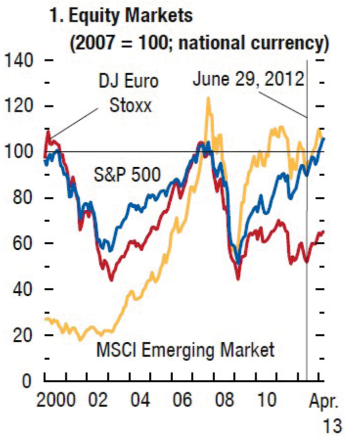
Source: IMF, World Economic Outlook, April 2013.

As Figure 3 illustrates, advanced economies suffered from declining public consumption after 2010 as a consequence of austerity policies – affecting countries that did not suffer from fiscal imbalances. However, this was offset by private consumption and investment in some countries, including the United States, Canada and Japan, which recently announced another stimulus package. A different picture presents itself for the Euro Area (Figure 3, right side), where fiscal consolidation was not as moderate in 2011 as in other advanced economies and consequently dragged fixed investment as well as private consumption down, smothering any hope for a quick recovery.

2 Financial market conditions

Since the 1980s, highly pro-cyclical capital flows have increased and became more volatile.[13] Shadow banking, one of the primary causes of the crisis, has increased globally from 26 trillion USD in 2002 to 62 trillion USD in 2007. After a short scale-back in 2008, it surged again to 67 trillion USD in 2011 accounting for 111 % of aggregate GDP.[14] Today, five years after the crisis, regulation, taxation and even monitoring remains weak. The deadlock with regard to the creation of a banking union in Europe is possibly the most apparent example. Italy's newly elected Prime Minister Enrico Letta called upon the European Union to speed up the process: *"The EU cannot continue to be timid and lack decisiveness as it has up to now, if it does not step on the accelerator it will implode"*.[15] The fear of a new bubble seems justified in light of surging equity prices, which rose by 15 % since the summer of 2012 (see Figure 4).

Figure 4: Equity Markets



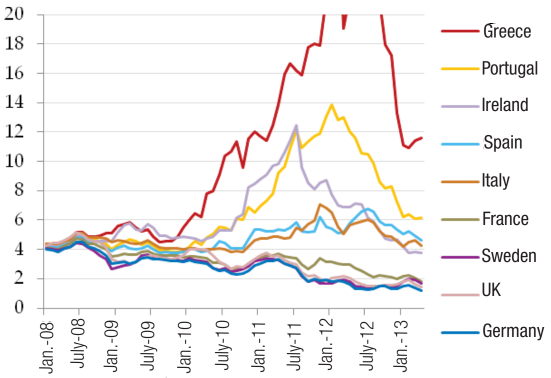
Source: IMF, World Economic Outlook, April 2013, p. 4.

According to the ILO rising profits have led to higher cash holdings: in 2000 cash holdings of publically listed enterprises stood at 2.3 trillion USD, leaped to 5.2 trillion USD in 2008 and surged even further to 6.5 trillion USD in 2011. This trend accounts for advanced as well as for emerging and developing economies. [16]

13 Broner, F., Tatiana Didier, Aitor Erce and Sergio Schmukler, Gross Capital Flows: Dynamics and Crises, CEPR Discussion Papers 8591, 2011, p. 25.
14 Financial Stability Board, Global Shadow Banking Monitoring Report 2012, November 2012, p. 3.
15 Reuters, EU must make faster progress on banking union - Italy PM Letta, May 21, 2013, available at: http://uk.reuters.com/article/2013/05/21/uk-eu-banking-italy-idUKBRE94K0KX20130521.
16 ILO, World of Work Report 2013, June 2013, p. 75.

Fixed Investment

Figure 5: 10-year bond yields



Source: European Central Bank.

The easing of monetary policy has helped Japan in recent months. The US has also shown higher resilience than European countries that are lacking the comfort of an own printing press. The Japanese yen has fallen 30 % against the US dollar since November 2012, causing some doubts about whether Japan will stick to the G 7 agreement reached in February 2013 that foresees economic policies to opt for domestic instruments rather than targeting exchange rates. For now, the G7 found that Japan is still complying.[17] The ECB lowered their interest rate by 0.25 % to 0.5 % in the beginning of May 2013, which was met with high internal scepticism that this would alter real interest rates for the private sector in southern Europe, where bank credits remain tight.[18]

In terms of public refinancing, crisis countries experience a recent alleviation of high bond yields (Figure 5). Greek yields fell to 11.4 % in March 2013 but are picking up again more recently. Portuguese decreased to 6.1 % and Italian to 4.6 %. Governments on the other range of the scale such as Germany, the UK, Sweden, and France benefited in a considerable way from the speculations on government default in the South. As Figure 5 shows, government borrowing costs in the northern countries decreased considerably over the last years. In January 2008, the average bond yield in Germany, the UK, Sweden and France stood at 4.1 %. Until April 2013, it went down by more than 60 % to 1.5 % giving them the opportunity to refinance in a much cheaper way and save money without relying on austerity measures.[19]

3 The consequences of austerity

Table 2: General government gross debt (% of GDP)

	2010/Q1	2012/Q4	Difference
Euro area	81.7	92.7	11.0
EU (27 countries)	76.7	85.4	8.7
Ireland	78.0	117.6	39.6
Portugal	84.5	123.6	39.1
Spain	55.7	84.1	28.4
Greece	133.3	156.9	23.6
Cyprus	62.3	85.8	23.5
United Kingdom	73.9	90.0	16.1
Netherlands	61.5	71.2	9.7
France	81.3	90.4	9.1
Italy	118.3	127.0	8.7
Finland	45.2	53.0	7.8

16 ILO, World of Work Report 2013, June 2013, p. 75.
17 Financial Times, G7 reaffirms commitment on currency depreciation, May 12, 2013.
18 Financial Times, ECB 'ready' for more action after rate cut, May 2 and The Economist, The world economy, Shaken not stirred, May 11 – 17, 2013, p. 68.
19 Own calculations based on data from the European Central Bank, available at http://www.ecb.int/stats/money/long/html/index.en.html.

Germany	74.5	81.9	7.4
Austria	69.9	73.4	3.5
Sweden	40.5	38.2	-2.3
Norway	42.0	29.6	-12.4

Source: Eurostat database.

Massive austerity measures were applied across Europe since the beginning of 2010, even in countries with a very low debt level such as Spain (55.7 % of GDP in Q1 of 2010) or Bulgaria (14.7 % of GDP in Q1 of 2010).[20]

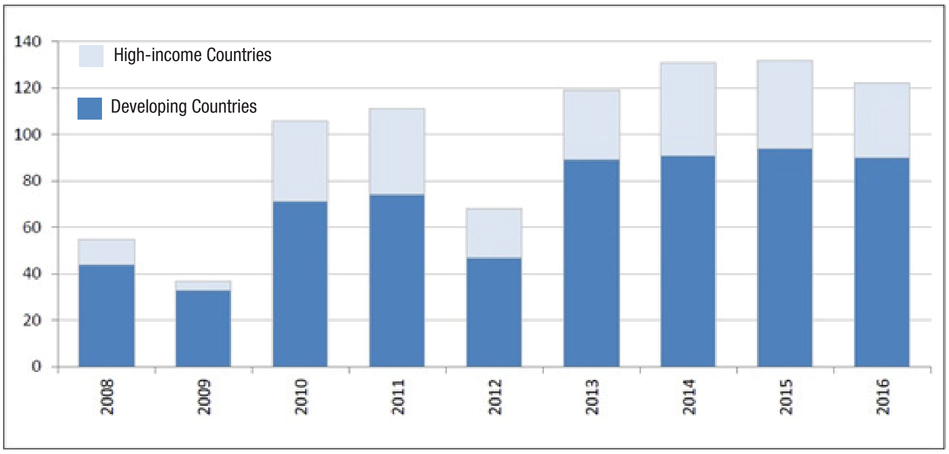
The first and foremost objective of austerity to bring down the debt-to-GDP-ratio, which had surged in the aftermath of the financial shock in 2007/2008 has failed, as Table 2 displays. Countries such as the UK, Spain, Portugal and Greece that have applied harsh austerity measures have a considerably higher increase in their debt-to-GDP ratio than others. Austerity was obviously outpaced by a shrinking GDP giving credit to William Easterly's statement, who wrote in 2008:

"A popular phrase during the era of macroeconomic stabilization of the 1990s was 'adjustment with growth.' The focus … is [now] on the surprising possibility that some types of fiscal austerity not only fail to bring growth, but they may not even bring 'adjustment' in the long run."[21]

It has also been shown that the yields of government bonds (Figure 5) reflect the actual financial situation by no means. Germany and Spain, for instance, share a similar debt-to-GDP-ratio but face very different costs of refinancing.

There were various debates in the academic and political society on the impact of fiscal multipliers[22] and on the role of public debt levels for growth,[23] which shook up the orthodox fundamentals of the arguments for austerity. However, the only consequence seemed to be a slowdown of austerity measures. Unfortunately, there hence are no signals of a real policy shift thus far.

Figure 6: Number of countries contracting public expenditures



Source: Ortiz and Cummins, The Age of Austerity: A Review of Public Expenditures and Adjustment Measures in 181 Countries, March 2013, p. 2.

20 Eurostat database.
21 Easterly, Irwin and Serven, Walking up the Down Escalator: Public Investment and Fiscal Stability, World Bank Research Observer, vol. 23,lissue 1, 2008, p. 37.
22 In January 2013 Blanchard and Leigh published an IMF working paper in which they admitted the underestimation of fiscal multipliers in the calculation of forecasts, for further details see Blanchard and Leigh, Growth Forecast Errors and Fiscal Multipliers, IMF Working Paper, WP/13/1, January 2013.
23 At the IFI Spring meeting in April 2013 this debate came up as consequence of a public critique on a Reinhart and Rogoff publication called "Growth in a Time of Debt", 2010. It served as justification and academic backing for austerity policy. The academics Herndon, Ash and Pollin recalculated the empirics and found no negative and significant relation between the two variables (see Herndon, Ash and Pollin, Does High Public Debt Consistently Stifle Economic Growth? A Critique of Reinhart and Rogoff, NBER, 2013). The latest development in this dispute was the publication of a errata by Reinhart and Rogoff with some major correction and the renewed conclusion that high debt slows down growth. For further information see http://www.ft.com/intl/cms/s/0/433778c4-b7e8-11e2-9f1a-00144feabdc0.html#axzz2Tvd1ifs4.

Missing its main objective was not the only shortcoming of austerity as it did not stop at the border of developed countries. Instead, it spilled over to developing economies through different channels such as reduced expenditure on development aid, as well as lower governmental revenues due to reduced remittances, consumption and demand of exports. A recent study based on IMF forecasts by Ortiz and Cummins found that fiscal contraction will globally affect 119 countries in 2013, 89 of which are developing countries (see Figure 6). 5.8 billion people – more than 80 % of global population – will be hit by austerity in 2013. [24]

The social consequences are severe. In their recent book, Stuckler and Basu analyse the social effects, expenditure cuts had in Europe and North America. Their results are shocking: on both continents more than 10,000 additional suicides and one million additional cases of depression have been recorded since austerity policy was applied; in the US at least five million people lost access to healthcare since the outbreak of the crisis; in the UK more than 10,000 families have lost their home. The most dramatic situation can be observed in Greece, where expenditures in health care were cut by 40 %. As a consequence, some hospitals lack even the most basic equipment like surgical gloves. HIV infections rose by 200 %, partly as a result of the surge of intravenous drug use; suicides, which were the lowest in Europe before the crisis, increased by 60 %. The authors extend their research to other recessions, including the Great Depression in the US, post-communist Russia, Sweden's banking crisis, the East-Asian crisis, etc. and analysed what caused suicide rates to rise. They found that specifically spending on active labour market policy and broader social protection and welfare, including health care makes a significant difference with regard to the surge of the number of suicides and to the speed of economic recovery in general.[25]

"That men do not learn very much from the lessons of history is the most important of all the lessons that history has to teach."

Aldous Huxley

1919/1920 While Germany was grimly trying to negotiate relief from the burden of reparations, its domestic economic policy, bad as it had been during the war, became worse. The country was in perpetual tumoil, constantly on the brink of revolution, run by a series of weak coalition governments, and was quite unable to control its finances.

…Germany's financial problems were mostly self-inflicted. Nevertheless, reparation payments made what was already a difficult fiscal situation impossible. …

…In 1920, the Bank of England chose the path of deflation, matching the Fed and raising interest rates to 7 percent. The budget was balanced. The economy plunged into sharp recession, two million men were thrown out of work. Nevertheless, by then end of 1922, the Bank had succeded in bringing prices down by 50 percent, and the pound….back to within 10 percent of its prewar parity …But whereas the U.S. economy, more dynamic and unhampered by a large internal debt, was quickly able to bounce back from the recession, Britain remained stuck. The number of unemployed would not fall below one million for the next twenty years.

Extracted from Liaquat Ahamed, Lords of Finance – The Bankers who broke the World, pp. 119 and 161.

[24] Ortiz and Cummins, The Age of Austerity: A Review of Public Expenditures and Adjustment Measures in 181 Countries, March 2013.
[25] Stuckler and Basu, The Body Economic: Why Austerity Kills, May 2013.

4 Labour markets and the development of income

The lates report of the ILO, issued in June 2013, estimates that the global unemployment rates remains 5.9 %, 0.5 percentage point above pre-crisis level and with return to a rising tendency since 2011.

The considerable increase of descouraged workers droping completely out of the labour market weakens the informative value of the unemployment rate as performance measure of labour markets. Until the end of 2012, inactivity rates have increased in half of all coutries for which information is available. Outstanding examples are Lithuania, Iceland and the US. In these countries, more than one percentage point of the reduction in unemployment between 2010 and 2012 was caused only by discouraged people that gave up seeking employment. [26]

Table 3: Unemployment by region, 2007, 2012, 2013 and 2015 (million)

Region	2007	2012	Projections	
			2013	2015
WORLD	169.7	195.4	201.5	207.8
Advanced economies	29.1	44.0	45.5	45.3
Central and South-Eastern Europe (non-EU) and CIS	14.3	15.0	15.0	14.9
East Asia	31.6	38.4	39.5	40.8
South-East Asia and the Pacific	16.4	14.0	14.3	14.8
South Asia	25.1	24.8	25.7	27.1
Latin America and the Caribbean	18.3	17.9	18.9	20.2
Middle East	6.4	8.0	8.3	8.8
North Africa	6.2	7.4	7.6	8.0
Sub-Saharan Africa	22.2	25.9	26.6	28.0

Source: ILO, World of Work Report 2013, June 2013.

Thus, the reversed measure, the rate and level of employment might be more helpful in analysing the current situation in the labour market.

In developing and emerging countries, the absolute level of employment is above pre-crisis level since 2011. However, employment growth could not keep up with the growth of the working age population. As a result, the employment rate remains roughly one percentage point below its level in 2007. Projections of the ILO presume that a return to the pre-crisis employment rate in this country group will not take place before 2015.

In advanced economies the situation is much bleaker. Almost in half of the analysed countries employment has fallen since the start of the crisis. Very few exceptional countries[27] could return to their previous employment rate. The remaining part had some growth in employment but still too low for a complete bounce back. Advanced economies in the agregate figure are not expected to reach the previouse employment rate before 2018.[28]

Precarious work is further on the rise, specifically in those countries that performed best in terms of employment growth since 2010. Involuntary temporary and part-time employment have increased in one-third and one-half respectively. Informal employment

25 OECD, Economic Outlook, May 2013, p. 34.
26 ILO, World of Work Report 2013, June 2013, p. 7f.
27 These exceptions are Germany, Hungary, Israel, Luxembourg, Malta and Switzerland.
28 ILO, World of Work Report 2013, June 2013, p. 3ff.
29 ILO, World of Work Report 2013, June 2013, p. 11.

remains equally high and is estimated to account for more than 40 % of total employment in two-third of developing and emerging labour markets.[29]

A recent report of the ILO on youth employment is equally devastating: the global youth unemployment rate increased in 2012 to 12.4 % and will further grow up to 12.6 % in 2013, equivalent to 73.4 million young people.

Table 4: Change in youth unemployment and unemployment rates between 1998 and 2008 and between 2008 and 2012, by region

Region	Change in youth unemployment (%), 1998-2008	Change in number of youth unemployed, 1998-2008	Change in youth unemployment (percentage point), 1998-2008	Change in youth unemployment (%), 2008-2012	Change in number of youth unemployed ('000), 2008-2012	change in youth unemployment (percentage point), 2008-2012
WORLD	0.5	368.0	-0.6	3.6	2527.7	0.7
Developed Economies and European Union	-12.3	-1193.4	-1.0	24.9	2127.7	4.8
Central and South-Eastern Europe (non-EU) and CIS	-21.3	-1243.7	-5.2	-5.7	-261.7	0.8
East Asia	-5.4	-759.9	-0.5	-1.7	-227.1	0.4
South-East Asia and the Pacific	23.7	1630.5	2.0	-11.0	-932.9	-1.4
South Asia	2.3	262.3	-0.4	5.6	656.7	0.8
Latin America and the Caribbean	-7.4	-610.0	-1.5	-5.1	-387.5	-0.6
Middle East	31.1	783.7	1.8	8.8	291.9	3.0
North Africa	-7.2	-221.3	-3.8	13.8	395.1	3.4
Sub-Saharan Africa	21.0	1719.8	-1.0	8.7	865.5	0.0

Source: ILO, Global Employment Trends for Youth – 2013, May 2013.

In 2018, it is expected to reach 12.8 % on a global scale. In developed countries, the number of unemployed youth increased by more than 2 million - equivalent to 25 % since 2008 (see Table 4 and Table 5).

Table 5: Youth unemployment rates in developed countries, second quarter

Country	2007	2008	2009	2010	2011	2012
Euro area (17 countries)	15.1	15.3	19.8	20.8	20.3	22.6
European Union (27 countries)	15.5	15.3	19.8	21.0	21.0	22.6
OECD - Total	11.8	12.3	16.6	16.8	16.2	16.2

Source: ILO, Global Employment Trends for Youth – 2013, May 2013.

29 ILO, World of Work Report 2013, June 2013, p. 11.

This age group is moreover exposed to a higher risk of being employed in non-standard jobs. In Europe, 40.5 % of employed young people work on temporary contracts. Long-term unemployment is also rising. One-third of young unemployed is searching employment for over six month in the majority of the OECD countries.

The situation of youth unemployment is equally disastrous in the Middle East and North Africa with rates of 28.3 % and 23.7 % respectively, which are expected to further increase over the next years (see Table 6).

Table 6: Youth unemployment rates 2008-2018, by region

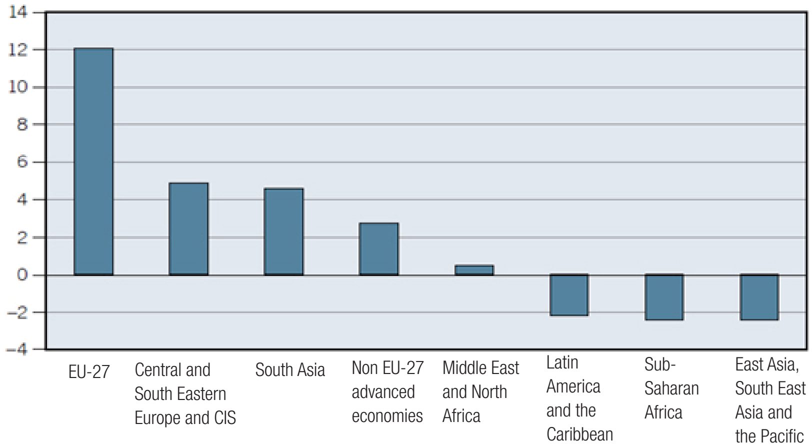
						Projections					
Region	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
WORLD	11.7	12.7	12.5	12.3	12.4	12.6	12.7	12.7	12.7	12.7	12.8
Developed Economies and European Union	13.3	17.4	18.1	17.6	18.1	17.9	17.5	17.0	16.5	16.1	15.9
Central and South-Eastern Europe (non-EU) and CIS	17.0	20.4	19.3	17.9	17.9	18.0	18.0	18.0	18.0	18.0	18.0
East Asia	9.1	9.2	8.9	9.2	9.5	9.8	10.0	10.2	10.3	10.4	10.5
South-East Asia and the Pacific	14.4	14.3	13.8	13.1	13.1	13.3	13.5	13.7	13.9	14.1	14.3
South Asia	8.5	9.4	9.7	9.2	9.3	9.4	9.6	9.6	9.7	9.8	9.8
Latin America and the Caribbean	13.5	15.4	14.0	13.3	12.9	13.2	13.3	13.4	13.5	13.5	13.6
Middle East	25.3	25.5	27.4	27.7	28.3	29.1	29.6	29.9	29.9	30.0	30.0
North Africa	20.3	20.4	20.1	23.3	23.7	23.9	23.9	23.9	24.0	24.0	23.9
Sub-Saharan Africa	11.8	11.8	11.8	11.7	11.8	11.7	11.7	11.7	11.7	11.7	11.7

Source: ILO, Global Employment Trends for Youth – 2013, May 2013.

The ILO elaborated a social unrest index, which takes into account various aspects of objective and subjective life quality.[30] Results reflect the devastating economic and employment situation in Europe, where the likelihood of social unrest increased the most during the crisis (see Figure 7).

[30] This index includes information on the confidence in governments, measurements of living standard, the local job market, the freedom in life and the access to internet. For further information see ILO, World of Work 2013, June 2013, p. 15.

Figure 7: Change in the social unrest index
pre-crisis (2006/07) versus post-crisis (2011/12)



Note: The scale of the index goes from 0 % to 100 % with 100 % being the highest risk of social unrest. The graph shows the percentage point increase or decrease in the risk of unrest. The bars show simple averages across regions.
Source: IILS calculations based on data from Gallup World Poll (2013), extracted from ILO, World of Work Report, June 2013

Income inequality has widened in most advanced economies during the last two years (2010-2012), reversing the decline which took place in the early stage of the crisis (2007-2010). Wage inequality and polarization is still surging, causing a shrinking middle class in many advanced countries.[31]

The most striking example of a dysfunctional wage setting was recently revealed by the British Trade Union Congress (TUC). In the UK, real average wages have been fallen for 40 month consecutively since November 2009 – something that has not happened since the 1870s.[32]

The ILO is consequently advocating a more efficient use of minimum wage mechanisms with the involvement of worker's and employer's organizations. This has to be combined with the implementation and strengthening of social protection floors and further measures like fighting tax evasion.

5 Future prospects

The pace of austerity has slowed in Europe. Prior to this, it reduced demand and growth significantly over the last two years. However, the upcoming threat is an even stronger shift to structural reforms, including the lowering of minimum wages, the weakening of employment protection, the destruction of collective bargaining institutions – in short a renewed attack on fundamental workers' rights and social justice.

Spain has already embarked on this path by replacing austerity with structural reforms. After tremendous labour market reforms in 2012, the new focus is now on pensions and their link to inflation.[33]

This is also very much the new credo of the IMF, according to which austerity has to be balanced with structural reforms. Similarly, the OECD states that *"structural reforms are essential to prevent cyclical unemployment from becoming structural."*[34]

The trade union movement has to be prepared once again to defend the foundations of a fair, sustainable and democratic society.

[31] ILO, World of Work Report 2013, June 2013, p. 45.
[32] Weldon, D., Britain's crisis: real wages have been falling for 40 months, 19 June 2013, available at: www.liberalconspiracy.org.
[33] Financial Times, Spain poised to ease austerity push, 23 April 2013.
[34] OECD, Economic Outlook, May 2013, p. 10.

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