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## Low wages and job insecurity as a destructive global standard

### How economic globalization is undermining economic development by driving many workers into low-paid, insecure jobs.

Evert-jan Quak, Annemarie van de Vijzel | November 26, 2014

It is a political choice to allow the spread of insecure employment conditions, for example by deregulating the relationship between employers and employees. It is also a political choice to reverse this trend, but one that requires a broader understanding of the global economic context in which policy decisions have to be made. And this should be a concern for all, not only for the 'losers' of globalization. Increasing job insecurity and low wages have a negative impact on macroeconomic development and growth. (This is a discussion paper in preparation for the FNV Mondiaal conference on precarious work on 27 and 28 November 2014. [Download the report as a PDF file.](#))

While highly-regulated labour markets were well suited to the relatively closed economies of the period up to the 1970s, the intensity and range of competition since the onset of globalization has called for more adaptable production systems and labour markets. Neoclassical economists argue that such flexibility is an inherent precondition for employment creation and economic growth in today's global economy. <sup>1</sup> Dynamics over the past three decades have challenged what Leah Vosko, Professor in Feminist Political Economy at York University, calls the existing 'standard employment relationship' (SER). Reliance on a traditional relationship between employer and employee, structured in a permanent and full-time contractual engagement, proved no longer suitable to cope with the new pressures and demands of the global economy. These include outsourcing production processes across borders and competitive pricing enforced by growing international competition. This has led to a decline in the significance of full-time and permanent employment in favour of the expansion of 'non-standard' flexible forms of employment, such as temporary and part-time work. <sup>2</sup>

In practice, flexibilization refers to the externalization of labour, meaning that companies

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hire an increasing share of their workforce from outside. While companies used to organize their workforce internally, employers have now created new types of employment relationships that allow them to adapt more easily to market-related fluctuations. This structural change in the nature of the labour market thus implies not only a transformation of the employment relationship, but also a shift in responsibility for the risk from the principal employer to the employee. These new flexible arrangements signify a move towards work that is insecure, unpredictable and risky from the point of view of the worker, because of a lack of protection and the associated social benefits.<sup>3</sup> This combination of uncertainty and the absence of labour protection reduces the quality of work.<sup>4</sup>

Even if flexibilization is argued to be good for job creation and growth, it has become more and more synonymous with lower pay, insecurity and more regular unemployment. This increase in insecure employment conditions is often explained using the concept of 'precarious work'. The formal labour market is seen as being divided between better-off workers protected by national regulatory frameworks and a 'legion' of precarious workers with no job security.

## Debating precarious work

In the debate on precarious work, the concept is used to describe a situation which tends to be beneficial to employers but disadvantageous to employees because they face the negative consequences of insecure and unstable working conditions. For employers, flexibilization allows them to keep their labour force large and their labour costs low: Flexible forms of employment are key enablers for businesses to retain and create jobs whilst staying adaptable and competitive.<sup>5</sup> Overall, flexibilization is more often seen as advantageous for employers than for employees, as the former are in the position to decide on the latter's working hours and pay, which may change on a week-by-week basis.

It is this irregularity that leads authors like Arne Kalleberg, Ronald Dekker, Martin Oltshoorn and Paul de Beer to argue that, while flexible forms of employment may offer freedom and opportunities to certain groups, the insecurity and instability that accompany them can affect the physical and mental wellbeing of those who do not choose irregular working hours and pay.<sup>6</sup> Others, such as Gerry Rodgers and the ILO, note that the temporary contracts characteristic of flexible and precarious work do not always oblige employers to offer their workers certain rights and security, including fixed wages or opportunities for skill development.<sup>7</sup>

Although the concept of precarious work is defined in different ways,<sup>8</sup> it tends to focus on the formal relationship between employer and employee. Cynthia Cranford and Leah Vosko argue, however, that it is important not to focus too narrowly on "the form of employment and on work arrangements" when defining precarious work. It represents "a multi-dimensional phenomenon" embracing many dimensions, including "the employment relationship/contract, additional dimensions of precarious employment (such as income), occupational/industrial context, and social location".<sup>9</sup>

This discussion paper applies a broad definition of precarious work, encompassing all factors contributing to a trend in which more and more people are being pushed in the direction of unstable, irregular, unprotected and insecure work, due for a large part to global processes that will be described below.

## Measuring precarious work

Half of all jobs worldwide are now considered precarious.<sup>10</sup> In many developing and emerging countries, precarious work may be older and more widespread, and may have a more far-reaching impact on workers when solid social protection systems and the protection of workers' rights have not been fully established. As the concept of precariousness is ambiguous and difficult to measure, hard data on the number of precarious jobs in different regions of the world cannot be given. Trends in precarious work can, however, be approximated by examining elements of precarious work that can be measured more reliably, such as temporary and part-time work, in-work poverty and low wages.

By way of example, more than 10% of employees in OECD countries currently have an employment contract for half a year or less.<sup>11</sup> Prevalence is especially high among young people entering the labour market; according to the ILO, 40.5% of employed youth had a temporary contract in 2011.<sup>12</sup> As figure 1 shows, the incidence of temporary work increased in OECD

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countries and the European Union between 1985 and 2007. The financial and economic crisis has also led to a rise in temporary work since 2008. In transition economies in Eastern Europe, the prevalence of temporary work has also increased, as figure 2 shows.

Another phenomenon that can be measured is part-time work, which can indicate a precarious working situation, especially when it is involuntary. Not many data are available on the number of people who involuntarily have a part-time contract, but OECD calculations show that the number of people with part-time contracts in developed regions has increased in recent decades. <sup>13</sup> In 1985, around 9% of workers in OECD countries had part-time jobs, while this had increased to 12% by 2007. According to John Evans and Euan Gibb, part-time work is generally higher among the elderly, young people and women. <sup>14</sup> The ILO calculates that in 2011 a quarter of employed youth worked part-time and often involuntarily. <sup>15</sup> One study shows that 22% of part-time work in advanced economies is involuntary, 40% is due to 'family or personal responsibilities', and about one-third is voluntary. The proportion of involuntary part-time work suggests that it is not always a choice but a refuge from unemployment. <sup>16</sup> The ILO attributes the trend of more part-time work to "the increase in the number of women in the labour market, but also to attempts to introduce labour market flexibility in reaction to changing work organization within industry and to the growth of the services sector." <sup>17</sup> In transition economies in Eastern Europe, the incidence of part-time employment between 1991 and 2006 shows a mixed picture. In some countries, most notably Slovenia, part-time work increased, but in others, especially Romania, it sharply decreased, as can be seen in figure 3.

For developing countries it is more difficult to measure precarious work, because a large part of the labour force works in the informal sector. Some commentators, however, argue that labour market reforms in developing countries have also facilitated the use of temporary contracts and subcontracting arrangements. This has not only had an effect on the formal employment relationship but the presence of an abundant informal sector has allowed the use of informal wage and salary work arrangements to generate significant tax and dismissal cost savings and hiring flexibility by comparison with permanent work arrangements. This has pushed even more people into the informal sector. <sup>18</sup>



The conclusion is that there is clear evidence of an increase in all elements of precarious work in advanced and developing economies, although the patterns differ significantly from country to country. And this changing employment pattern has an effect on the distribution of household wages and opportunities on the labour market between employees with standard and precarious work. The increase in these forms of employment could therefore represent a new source of income inequality in many parts of the world.

## The wages of precarious workers

Low wages can also be an element of precarious work. In 2009, almost a quarter of employees in the United States were in low-wage work, earning less than two-thirds of the median income.<sup>19</sup> As figure 4 shows, some other Western countries have similarly high percentages. A quarter of all workers worldwide earn US\$2 a day or less. According to the ILO, the number of working poor – those who have paying jobs but who still cannot make ends meet – in developing countries is decreasing,<sup>20</sup> but more than 30% of the workforce still live in poor households and another 25% live in households just above the international poverty line of US\$1.25 a day.<sup>20</sup> Another trend can be seen in Europe and the United States, where working poverty is increasing, although the figures in industrialized countries remain well below the global average. According to Eurostat figures for 2010, 8.2% of workers in the Eurozone earned less than the region's average poverty rate of €10,240 euros a year for a single adult worker, up from 7.3% in 2006. These figures are nearly double in Spain and Greece. In addition, according to Alderman, the US Labour Department estimated that 7% of single adult workers in the United States were living below the poverty threshold of \$10,830 (or approximately €7,873) in 2009, up from 5.1% in 2006.<sup>22</sup>

Research also shows that 'non-standard' (e.g. temporary and part-time) jobs pay less than permanent jobs, even when controlled for different sectors, the seniority of the wage earner or skill intensity. Both temporary and part-time workers in the service and industrial sectors are paid less than workers with a permanent contract in the same sectors, showing that working without a permanent contract reduces wages and widens the wage gap, at least in advanced and transition economies.<sup>23</sup> The only exception was Ireland where until the start of the economic crisis in 2008, the two types of work paid equally in both sectors. The extreme cases, however, are Spain, Portugal, Greece and Germany, where wages for flexible and part-time work are about 25% per cent lower than standard work in the industrial sector. In the service sector, the wage gap is even higher, with flexible and part-time workers receiving 40% less than full-time workers in the years prior to 2008.

And although it is certainly true that having an insecure, temporary contract can help workers to obtain a permanent contract, there is also evidence that such upward mobility is far from common. It depends on the nature of the contract: well-defined fixed-term contracts offer more opportunities for job mobility and an increase in wages than indefinite contracts.<sup>24</sup> Subcontracting also forces many into insecure and low-paid jobs, through a shift in power relations. This varies, however, between skill levels and sectors.

## Working in the global market

The above-mentioned trends relating to precarious work reflect a shift in the formal relationship between employers and employees, which is permitted and even stimulated by governmental policies aimed at deregulating labour markets and decreasing the power of trade unions in favour of employers' organizations. These political choices gained ground after the widespread adoption of an economic model based on economic globalization and the free market. The employment relationship was allowed to change in this way so that it could adapt better and easily to market-related fluctuations. This was necessary due to international competition generated by trade liberalization and the free movement of capital.<sup>25</sup>

To reverse the trend towards more insecure, unstable, unprotected and low-paid work currently affecting many workers all around the world, the solution must also take account of the broader context of power relations within the global economy. This is becoming even more important as, at global level, economic power relations are pushing workers more and more in the direction of job insecurity. Many may not yet be in a situation that qualifies as precarious, but they face a near future of increasingly insecure, unstable, unprotected and low-paid work.

Many commentators argue that economic globalization is one of the drivers behind changing employment relations, one trend in which is the increase in precarious work and another is job polarization.<sup>26</sup> Job polarization means that jobs that are associated with the middle class are losing out in the globalized world, especially tradable and routine jobs that easily can be offshored to lower-wage countries, pushing the workers that lose out into the direction of precarious work.<sup>27</sup> And this especially makes sense in light of the correlation between the decline in manufacturing jobs in advanced economies during the 1990s and start of the 2000s and a steep increase in imports from emerging economies.<sup>28</sup> It is estimated that at least one-third of the total decline in US manufacturing jobs can be attributed to increased imports from emerging markets.<sup>29</sup> In some cases, trade unions agreed to a percentage of temporary workers in order to save jobs. In other cases, workers had to move to jobs in the non-tradable service sector, where not only is the pay lower, but the work is generally irregular, unstable and insecure. US workers who leave manufacturing to take jobs in the service sector suffer a wage decline of between 6% and 22%, and mostly without job security or labour protection schemes.<sup>30</sup>

This is supported by evidence from the US that workers in the auto industry are forced to accept lower wages and insecure



work when other auto plants relocate some of their operations abroad.<sup>31</sup> This threat is less serious when affiliate activities are established in Europe, where wages and working conditions are more or less the same or even higher. However, most firm relocations are to developing countries and exert downward pressure on wages and working conditions. This means that firms that find it easier to relocate to regions with lower labour costs have an advantage in bargaining with trade unions on lower wages for the remaining workers and use this situation to change the relationship between employer and employee.<sup>32</sup>

In short, foreign competition has an impact on wage-setting and other labour practices, at least in the US. Although most research comes from the US, however, there is a substantial body of evidence showing that foreign competition from low-wage economies can displace low- and medium-skilled workers in all advanced economies, particularly those performing high routine tasks with a low service component and that require little abstract thinking.<sup>33</sup> This pressure is being used to enforce different employment relationships between employers and employees and lower wages. Even in export economies like Germany, for example, a large percentage of the workforce in the manufacturing sector is engaged in precarious work, specifically temporary and agency work, which can at least partly be accounted for by increasing international competition.



## The impact of financialization on insecure work and low wages

One specific aspect of economic globalization is the financialization of the economy. Due to financial liberalization, financialization is a global trend without borders, where money is moved from one country to another.<sup>34</sup> The ILO argues in its World of Work report of 2011 that the switch in the 1980s to corporate governance systems based on maximizing shareholder value and the rise of private equity funds, hedge funds, institutional investors and investment banking put pressure on firms to increase profits, especially in the short-term.<sup>35</sup> As a result, the profit share has increased since the mid-1970s, but this has been accompanied by a fall in productive investment. Rather than being invested in productive sectors or in human capital, profits have been used to get the highest profit for investors and shareholders, mainly in speculative capital markets.<sup>36</sup> Although some groups of employees, particularly top executives, may have benefited from financialization through deferred salaries in the form of pension funds and other types of capital gains, such as bonuses expressed in shareholder value, the evidence shows that for the average worker, such gains are much more limited. In particular, financial globalization has weakened workers' bargaining positions, as capital is much more mobile and can move more easily to other regions.<sup>37</sup> Consequently, while the rising profit-share has not been associated with investment-boosting activity for the economy and in particular for labour, the parallel fall in the wage share has led to lower pay, and insecure, less protected work for a large part of the workforce.<sup>38</sup>

In other words, within the logic of financialization, labour - and particularly in lower skilled jobs – became more and more an excessive cost. To achieve higher profits, labour costs had to be kept as low as possible, which impacted not only on wage

levels, but also on the formal relationship between employer and employee. It was better to subcontract work, which would make it more flexible, create more temporary, unprotected and insecure jobs within a triangular relationship, where employment agencies mediate between employers and employees. Furthermore, in the debate on the rise of self-employment in the countries of the European Union, it is increasingly argued that self-employment is both low paid and highly insecure. Most self-employed people do not have enough work to work full-time. Self-employment has less to do with creativity and entrepreneurship and more with precarious work; it is better to have at least some income rather than nothing and being dependent on social benefits. As such unemployment is declining, but precarious work is on the rise, hidden in rising self-employment figures.

On the other hand, senior positions, management and more creative jobs are seen as investments in quality. Not all these jobs in the top segments are based on permanent contracts, but even if they are subcontracted, the pay remains significantly higher. Financialization therefore generates not only an increase in income inequality, but also a strong push towards precarious work for workers who cannot compete at a higher level. Indeed, while the formation of a global financial class could be described as a new integrating and collectivizing element in the global economy, the shadow side is the emergence of a global precarious work society.<sup>39</sup> Wherever a global financial class emerges, a precarious layer of work relationships is not far behind.<sup>40</sup>

## A shifting debate

It would be easy to conclude from all this that the rise of job insecurity and low wages affect only part of the workforce, those who are losing out in the process of economic globalization. However, the 'winners' of globalization should also be concerned about insecure work and low wages as they have a negative impact on macroeconomic development and growth. Insecure and flexible work, for example, pushes up mental health and security costs.<sup>41</sup> When more and more people have no access to secure employment, they are not able to secure loans, which impacts on the housing market and educational investments in children, contributing to social security payments and lower tax revenues. In the US, for example, according to economist David Autor, the costs of all kind of benefits outpace the benefits of cheaper imports due to free trade.

There is increasing evidence suggesting a link between precarious work and income inequality. Significantly, wage differentials between workers with a permanent contract and those with unstable and temporary contracts are particularly high in OECD countries among low earners, while earnings remain almost the same among high earners.<sup>42</sup> Other studies show that a lack of upward job mobility, especially for those with unstable and indefinite contracts and low wages, is exacerbating income inequality.<sup>43</sup> The conclusion is that the changes in employment patterns associated with insecure jobs are affecting the distribution of household income as the wage gap between 'standard' and insecure, unprotected, temporary work widens.

The link between precarious work and rising income inequality ties in with the current hot debate on inequality. For a long time, income inequality was not an important topic in economics and politics. There was widespread optimism that competitive markets would generate a trickle-down effect<sup>44</sup> as a result of economic growth. Inequality is now seen as a problem that cannot be addressed by the market alone. High income inequality is recognized, also by economists at the World Bank and IMF, as a major threat to future well-being and sustainable economic growth that cannot be solved by the trickle-down effect. High-level IMF economists Andrew G. Berg and Jonathan D. Ostry, for example, found that inequality leads not to sustainable economic growth but interrupted growth of a relatively short duration.<sup>45</sup> They also discovered that longer growth spells are robustly associated with more equality in income distribution. It is safe to conclude that there is now a growing consensus that assessments of economic performance should not focus solely on overall income growth, but also take account of income distribution.<sup>46</sup> This can be illustrated by a quote from an IMF working paper in 2007: 'Surprisingly, we find that the welfare costs of inequality outweigh the benefits of growth in most cases.'<sup>47</sup>

If there is a causal link between precarious work and income inequality – and though there are many indications that this is the case, there is still much debate about it – this would mean not only that a rise in precarious work harms economic development by driving up the costs of health care, security and social security costs and reducing tax revenues, but that the resulting rise in income inequality also negatively impacts on sustainable growth in the long term. And arguably, this pushes precarious work higher up the political agenda.

## The role of trade unions in securing growth

This is where trade unions step in. Richard Wilkinson and Kate Pickett, authors of the bestselling book *The Spirit Level* on the social impact of increasing inequality on society, conclude in a new paper that the widening income gap "seems...to reflect a lack of any effective democratic constraint on top incomes".<sup>48</sup> 'Democratic constraint' refers mainly to the labour movement

and the role it played in reducing inequality, increasing job security and securing labour protection schemes during the 20th century. The weakening of the labour movement in the last quarter of that century has had a significant impact on the ability of working people to influence their standard of living and quality of life.

The link between inequality and the power of trade unions has been analyzed in many ways, and there appears to be a clear correlation between the increase and decrease in trade union power and the fall and rise of inequality within nations (see figure 5). There is broad consensus in qualitative and quantitative international research that increases in inequality have been associated with declining unionization rates in developed and developing countries alike. Works by Laurence Mishel, Daniele Checchi and Jelle Visser have found that unions' impact on the labour share of income has been positive and redistributive.<sup>49</sup> This trend has been observed worldwide, with the OECD reporting on the existence of a negative correlation between union coverage and income inequality.<sup>50</sup>

Though there is sufficient evidence to prove that there is a link between rising inequality and declining trade union power, a direct link between the declining power of unions and an increase in precarious work has not been found. However, it seems safe to conclude that the declining bargaining power of workers has also impacted negatively on job security, labour protection and permanent contracting.

One of the main causes of these problems is that powerful corporations have been able to successfully lobby for economic policies that reflect their interests, especially tax cuts for the rich which have contributed to rising inequality. Unions' decreasing strength, due to changes in the institutional landscape and specifically in the employment protection legislation that has contributed to their weaker bargaining power, has led to stagnant wages and a weakened political voice for workers, and no countervailing power to offset the voices that are louder.<sup>51</sup> But the costs of more unequal societies, of the rise in precarious work and of redistribution could be considerably reduced if labour movements and trade unions could increase their power base in this globalized world.

How can this be achieved? Different approaches have been suggested over time to find a balance between a competitive and dynamic labour market and continued job security and protection for workers. One such approach has been pushed by trade unions working globally. These global union federations actively negotiate Global Framework Agreements (GFA) with transnational companies, based on voluntary compliance and enforcement. In 2012, Volkswagen signed an agreement limiting temporary work at their plants and setting principles for the use of temporary contracts in the entire Volkswagen Group worldwide. This GFA was encouraged by the global trade union IndustriALL and came as a response to a growing body of 'precarious workers' that were employed by Volkswagen as a "key flexibility tool".<sup>52</sup> The work and growing relevance of IndustriALL is an example of contemporary responses to the global labour market.

As this example shows, increased mobility of capital has challenged workers' bargaining power and rights.<sup>53</sup> A lack of a central workplace and social representation perpetuates marginalization and vulnerability for precarious workers. Reportedly, since the 1970s, fewer workers have joined or continued their membership with trade unions, according to the ILO an indication of an increase in global insecurity and inequality.<sup>54</sup> Global unions like IndustriALL have adopted one way of addressing the global movement of capital and labour: with labour rights beyond the reach of nations and regular labour movements to regulate, they attempt to negotiate them across national borders.<sup>55</sup>

The ILO finds that, without workplace empowerment through trade unions and collective representation, legal provisions and regulations for this group of flex workers often do not materialize in practice. Corporations that largely rely on subcontractors should be urged to take steps to decrease this rate of flexibility and make no distinction between employees and subcontracted workers. This could be achieved through negotiations with global or local trade unions, but can also be encouraged by governments. However, as UK think tank the Policy Network finds, traditional social protection systems are often poorly equipped to negotiate such demands following the structural changes in labour markets.<sup>56</sup>

## Policy recommendations

As precarious work was legally created and allowed to develop, there are remedies to reverse these trends. First of all, there must be a legal framework regulating the relationship between employers and employees. Governments should encourage companies to take steps to improve the contracting of workers, with a minimum level of flexible work hours, differentiated by sector. It is therefore important that the bargaining power of workers improves. Trade unions should be empowered to act, especially on a global scale, to deal directly in negotiations with international corporations.

What this paper aims to add to this debate is that the broader global economic context must be included in measures to combat insecure work. Measures on wage-led growth, inclusive growth, redefining the ownership of capital, and regulating the financial sector must be all part of an effort to rebalance the economy in favour of creating more secure jobs. This is not only the domain of labour market policy. As long as financial globalization, trade liberalization, the under-taxation of capital related to labour, and the weakening of the bargaining power of employees continue, the creation of insecure work will remain a problem, because it continues to increase the pressure to change the legal relationships between employers and employees, resulting in more temporary and agency work, while also reducing workers' bargaining power. Job insecurity and low wages should therefore not be the sole domain of labour economics and policy. Reversing the vicious cycle of mutually reinforcing elements of the current globalization regime, in which precarious employment is a key element, will require a comprehensive set of policy responses that reach far beyond labour market policies. Monetary, fiscal, financial, social, economic, labour, gender and environmental policies need to be geared towards reducing inequality, strengthening democracy in the workplace, and providing income security, good working conditions and employment opportunities.

For example, an alternative trade regime should be designed that gives governments more tools to increase job opportunities and encourage investment in productive sectors rather than for speculative purposes. Trade and investment policies must stimulate and protect sectors that can become the job-generating motor of the future. The obsession with reducing production costs to compete internationally must be refocused, away from the current fixation on lower labour costs, which includes the incentive to change forms of relationships between employers and employees. Instead, policy should support innovative attempts to reduce other production costs.

All this fits with the conclusion of the outcome document to the Workers' Symposium on Policies and Regulations to combat precarious work with the title From Precarious Work to Decent Work. To quote one of the main conclusions: 'Combating precarious work requires a comprehensive policy response that includes economic, fiscal and social policies geared towards full employment and income equality, a regulatory framework to reduce and ultimately eradicate precarious work, and greater efforts to empower workers by promoting the extension of collective bargaining and ensuring that all workers can access and exercise their right to associate, and to bargain collectively, freely, and without fear. Minimum wages globally, basic income security through a universal Social Protection Floor and policies to combat the erosion of the employment relationship are indispensable to limit precarious employment, indecent working and living conditions.'

And the debate on precarious work can benefit from the current political debate on inequality. High income inequality is nowadays accepted as a damaging force for economic development. As there are many indications of a causal link between precarious work and income inequality, this could push precarious work higher up the political agenda.

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## Figures



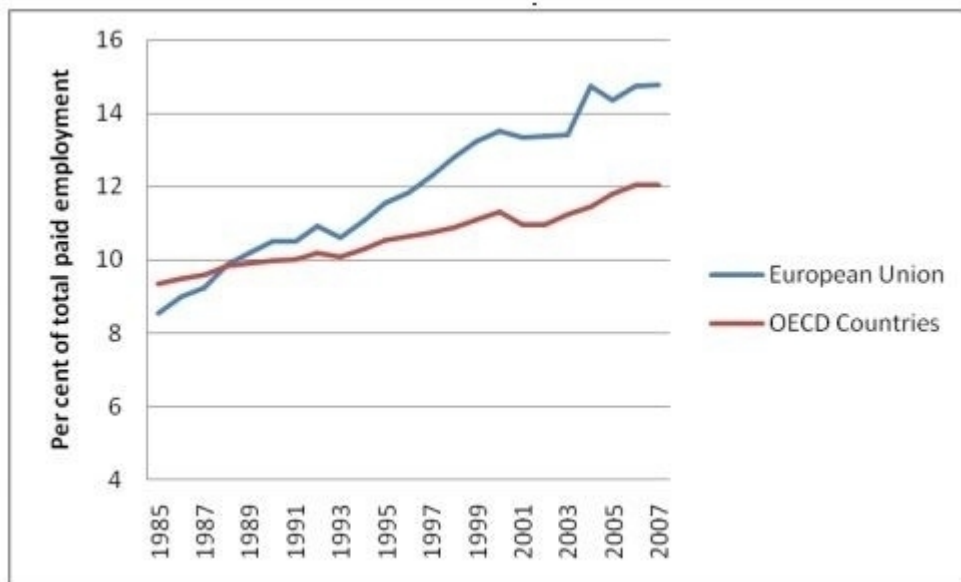


Figure 1. Growing prevalence of temporary work in OECD countries, 1987-2007. OECD via International Labour Organization (ILO) (2012) From Precarious Work to Decent Work: Outcome Document to the Workers' Symposium on Policies and Regulations to Combat Precarious Employment (pdf). ILO, Bureau for Workers' Activities.

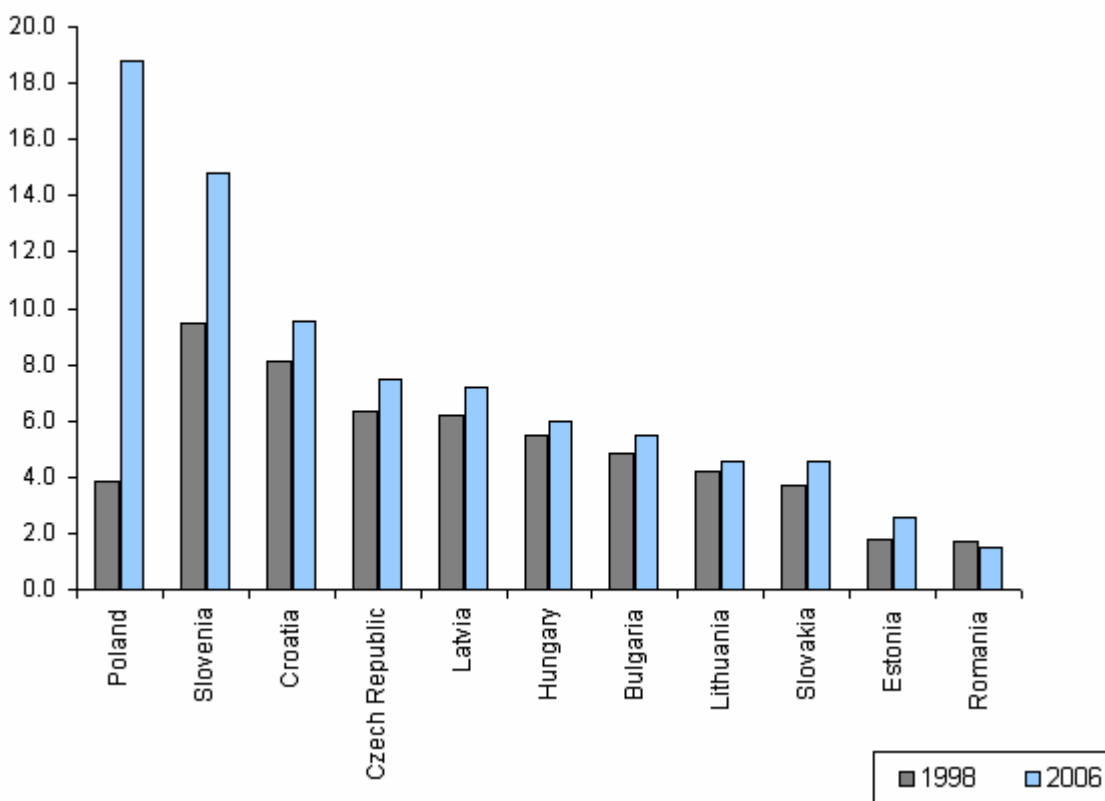


Figure 2. Incidence of temporary employment, transition economies, 1991 and 2006. ILS estimates based on Eurostat Labour Force Survey and OECD. In: Rani, Uma (2008) Impact of changing work patterns on income inequality (pdf). ILO discussion paper 193, p.4.

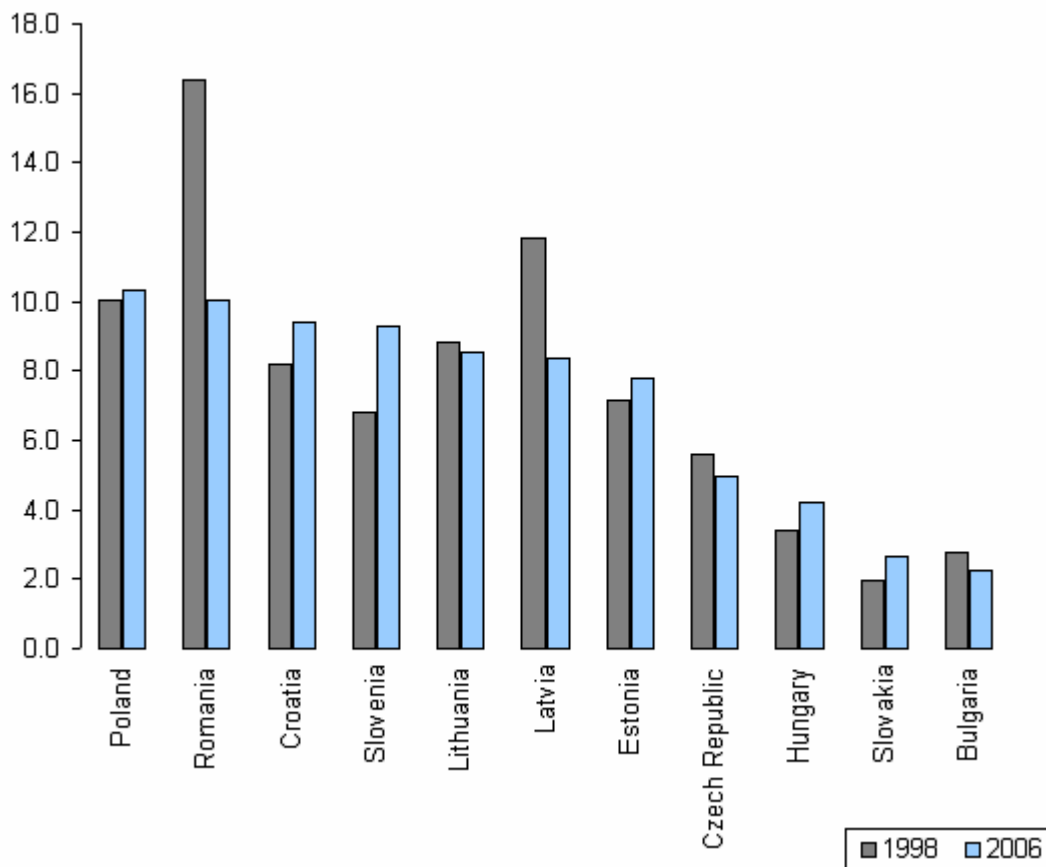
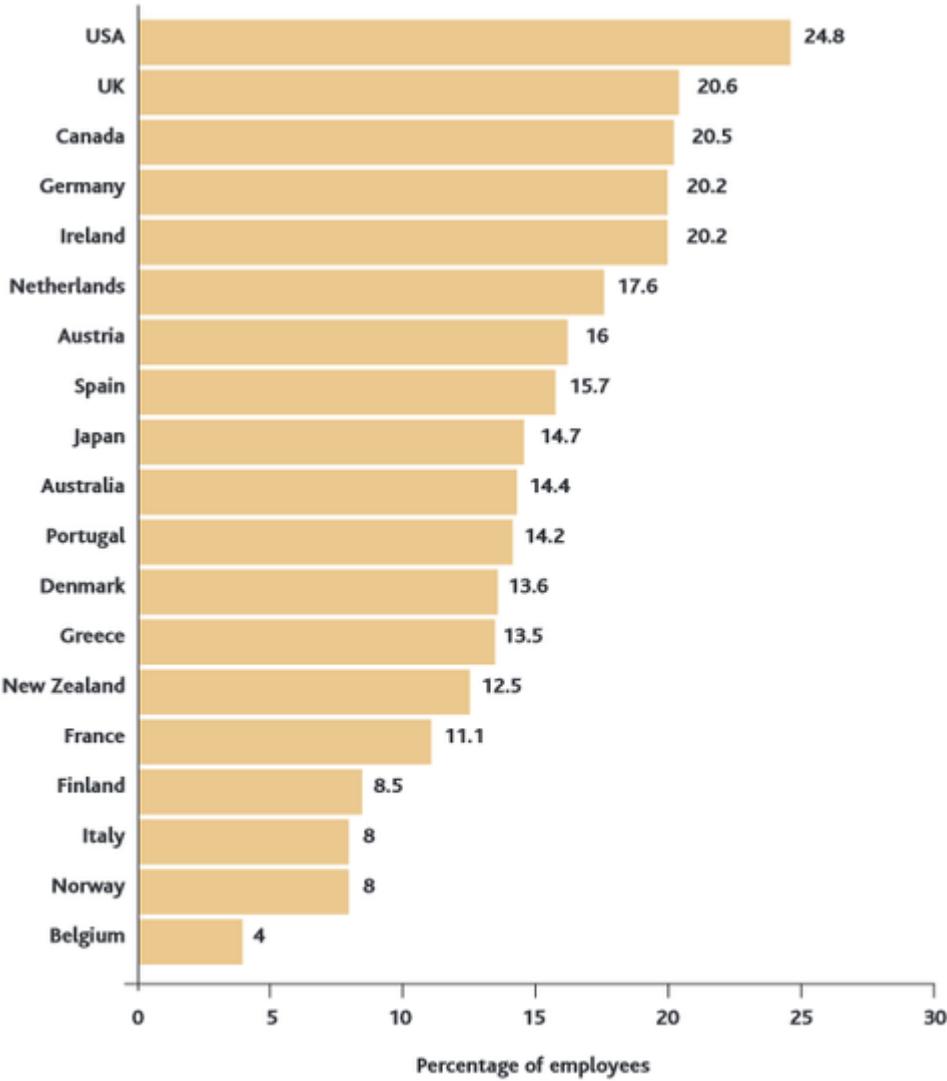


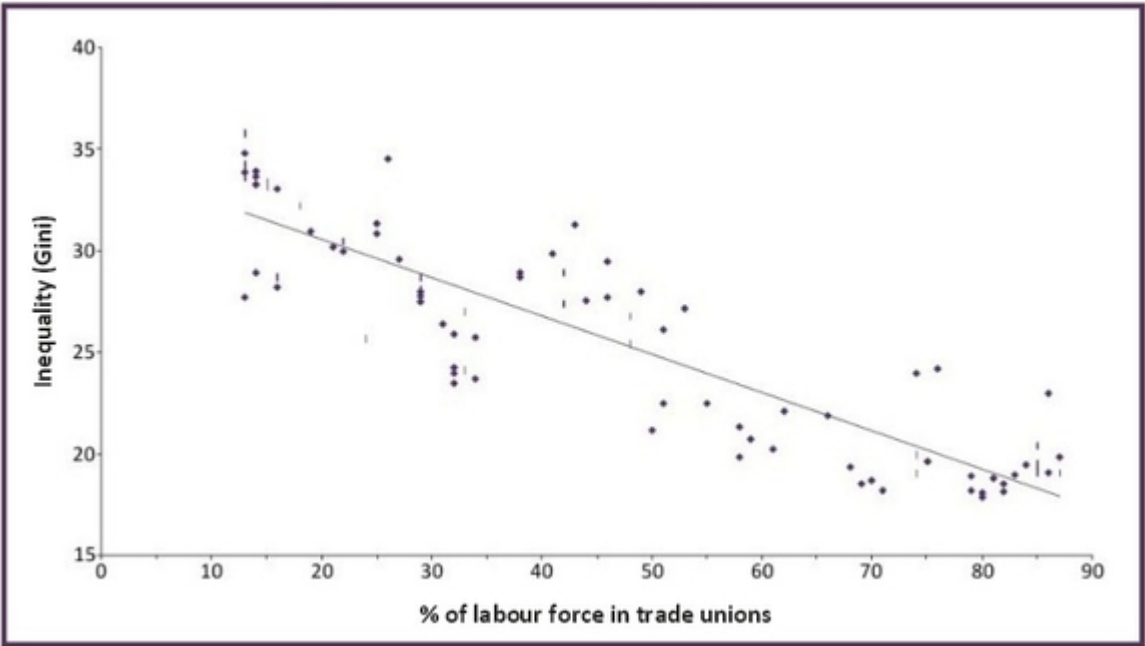
Figure 3. Incidence of part-time employment, transition economies, 1991 and 2006. ILS estimates based on Eurostat Labour Force Survey and OECD. In: Rani, Uma (2008) Impact of changing work patterns on income inequality (pdf). ILO discussion paper 193, p.4.



Source: Schmidt, 2012

Note: Low pay is defined as those below two-thirds of the median

Figure 4. Share of employees in low-wage work, 2009. Schmidt 2012. In: Lansley, Stewart, Howard Reed (2013) How to Boost the Wage Share (pdf). Touch Stone Pamphlet #13. TUC, p.19.



Gustafsson B., Johansson M.

Figure 5: Gustafsson B., Johansson M. In search for smoking guns: What makes income inequality vary over time in different countries?

American Sociological Review 1999:585-605. As it has been used in: Wilkinson, Richard, Kate Pickett (2014) The importance of the labour movement in reducing inequality (pdf). Think Piece. Centre for Labour and Social Studies (CLASS).

Photo credit main picture: Hard work/ ifoto.cl via flickr

## Footnotes

- 1. Rodgers, G. (2007) Labour Market Flexibility and Decent Work. DESA Working Paper No. 47 July 2007
- 2. According to Leah Vosko in her book, *Managing the Margins* (2010), page 5, “the SER enforced a ‘psychological contract’ premised upon shared beliefs among employers and employees about the nature of the employment relationship and mutual obligation and risk-sharing, through which employers provided workers with long-term incentives, not only offering continuity and stability but deferred pay and career opportunities, in exchange for loyalty and productivity.”
- 3. From Doogan, K. (2009) *New Capitalism, The Transformation of Work*. Polity Press: Cambridge: “David Harvey considered labour market flexibility as one of the key conditions of postmodernity. Richard Sennett’s account of work on the new capitalism considered ‘change in the modern institutional structure which has accompanied short-term, contract or episodic labour’. Manuel Castells’ Network Society described a new mode of development in contemporary society based on the new informational technologies, which lead him to conclude ‘that we are witnessing the end of salarization of employment’. Ulrich Beck’s account of *The Brave New World of Work* anticipated the ‘Brazilianization of the West’, which envisaged regression to some semi-feudal form of artisanal labour. Zygmunt Bauman described contemporary capitalism as profoundly individualized due to changes in the connections between capital and labour which globalization has frayed and rendered tenuous.”
- 4. For more information, see The Broker article by Bertil Videt and Danielle de Winter (2014), [Job insecurity as the norm](#).
- 5. The International Organization of Employers (IOE) emphasizes this positive aspect. In their words, “flexible forms of employment can help the most vulnerable groups, namely young people at the start of their careers, the long-term unemployed and low-skilled workers, to regain a foothold in the labour market by giving them the chance to acquire work experience and new skills” (IOE (2014) [Flexible forms of work](#). Position paper of the International Organization of Employers, p.ii).
- 6. Kalleberg, Arne (2009) ‘[Precarious Work, Insecure Workers: Employment Relations in Transition](#)’ (pdf), *American Sociological Review*, 74(1); Dekker, Ronald, Martin Olsthoorn, Paul de Beer (ed.) (2011) [Flexibilisering: de balans opgemaakt](#) (pdf). Amsterdam: De Burcht/Wetenschappelijk Bureau voor de Vakbeweging. For a more elaborate description of the debate on precarious work, see The Broker article by Bertil Videt and Danielle de Winter (2014), [Job insecurity as the norm](#).
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*Work: Outcome Document to the Workers' Symposium on Policies and Regulations to Combat Precarious Employment* (pdf). ILO, Bureau for Workers' Activities. For a broader description of trends in precarious work and

global employment in general see The Broker article by Annemarie van de Vijzel and Vanessa Nigten (2014), *Fragile employment*

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- 23. According to research in the 1990s in OECD countries, the hourly earnings of part-time workers represent between around 55 and 90% of those of full-timers, depending on the country (OECD (1999) *Employment Outlook* (pdf)) and in 2002, the wage gap further widened with flexible and part-time work receiving less wages than standard work (IILS estimates based on Structure of Earnings Survey, 2002). See also Gash, Vanessa (2005) *Bridge or Trap? To What Extent do Temporary Workers make more Transitions to Unemployment than to the Standard Employment Contract. A Comparative Analysis of Denmark, France and United Kingdom*, MPI-Berlin, Working Paper No. 3 for Employment Relationships at Risk Project; Mertens, Antje; Frances McGinnity (2005) *A "Two-Tier" Labour Market for Fixed-Term Jobs? Evaluating Evidence from West Germany Using Quantile Regression* (pdf), Working Paper no. 1 of the project Employment Relationships at Risk; Gash, Vanessa, Frances McGinnity (2005) *Temporary Contracts – the New European Inequality? Comparing men and women in West Germany and France*, Paper submitted to the 2005 EPUNet Conference, June 30th-July 2nd, 2005, Colchester, United Kingdom.
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- 25. The benefits from trade liberalization were expected to largely outweigh possible adjustment costs in the medium to long run. But more critical views on the adjustment costs of trade have changed the debate. The labour market adjusts only very slowly to a trade-induced price shock in one sector. The main factor accounting for this slow adjustment is sector-specific experience. Importantly, sector-specific experience is not transferrable across sectors. Workers who switch sectors start their new jobs with no sector-specific experience and as a consequence they become more vulnerable in the changing relationship between employers and employees. (See Coar, A. K. (2013) *Adjusting to Trade Liberalization: Reallocation and Labor Market Policies*, Manuscript.) There are different views on

adjustment to trade openness, as with limited mobility, especially for blue-collar workers, to move to the places with better job opportunities. Others argue that the age of displaced workers is one of the explanatory factors for sluggish adjustment. The older the laid-off workers, the more limited are their incentives to invest in retraining for a new job or moving places. See Artuç, E., Chaudhuri, S., & McLaren, J. (2010), *Trade Shocks and Labor Adjustment: A Structural Empirical Approach*, The American Economic Review, 100, 10081045. They investigate the implications of moving costs on job reallocation and wages following trade liberalization. They obtain very high average moving costs, and a very high standard deviation of costs on moving from one broadly aggregated sector of the economy to another. These costs suggest sluggish adjustment of the labour market to a trade shock, with the economy requiring several years to approach the new steady state.

- 26. Economic globalization has been defined by Michael Spence, who shared the Nobel Prize in Economics in 2001, as worldwide market integration, which was possible first due to technology and management expertise that could reduce barriers like transportation costs and the costs of managing far-flung plants, and secondly due to a decline in tariffs on tradable goods (trade liberalization) and other political barriers. See Spence, Michael (2011) *The Evolving Structure of the American Economy and the Employment Challenge*. Council on Foreign Relations
- 27. See for example Autor, David (2010), "The Polarization of Job Opportunities in the U.S. Labor Market" (Washington: Center for American Progress and Hamilton Project), David Autor, David Dorn, and Gordon Hanson, 2011, "The China Syndrome: Local Labor Market Effects of Import Competition in the United States," MIT Working Paper, Maarten Goos, Alan Manning, Anna Salomons (2011) *Explaining Job Polarization in Europe: The Roles of Technology, Globalization and Institutions*, Centre for Economic Performance (CEP) Discussion Paper No 1026, for the ILO's conference Globalization and Labour Market Outcomes (June 2011).
- 28. International Monetary Fund (IMF) (2011) *World Economic Outlook (WEO) Slowing Growth, Rising Risks*. World Economic and Financial Surveys.
- 29. David Autor, David Dorn and Gordon Hanson (2013). *The China Syndrome: Local Labor Market Effects of Import Competition in the United States*, American Economic Review, 103, 212168.
- 30. Economist Michael Spence estimated that in the period from 1990 to 2008 97% of the 27.3 million jobs created in the US were in the non-tradable sector where the US has no international competition. Government and health care accounted for 40% of the jobs created in that period. Retail, construction and the hotel and restaurant industries were also major job creators. Most of these jobs are low wage, insecure and unprotected.
- 31. Jansen, Marion, Ralf Peters, José Manuel Salazar-Xirinachs (2013) *Trade and Employment: From myths to facts* (pdf). International Labour Organization. Geneva: International Labour Office.
- 32. The necessity of a shift in thinking on international trade and employment has been illustrated in *Trade and Employment: From myths to facts* (pdf) by Marion Jansen, Ralf Peters, and José Manuel Salazar-Xirinachs for the ILO. The report emphasizes the knowledge gaps and shortage of evidence in the trade debate. For example, most theoretical and empirical trade research ignores major trade-related realities, such as the existence of trade costs, the role of individual firms in trade performance, and the existence of informal labour markets. There is now a growing body of academic literature linking those theoretical and empirical approaches to labour markets and to employment, but it is still in its infancy. The ILO also shows that economists continue to struggle with the question on how to assess combined effects of trade policy as trade affects the labour market in many ways from the quality to the quantity of jobs.
- 33. *Trade and Employment: From myths to facts*.
- 34. In middle and low-income countries, the growth of international financial transactions and international capital flows – a higher degree of 'capital account openness' in economic terms and one aspect of financialization - is associated with a larger decline in the labour share. This has resulted in 'boom–bust cycles', leading to economic uncertainty, slow employment growth and stagnant wages. These results confirm the other observation that financial crises are associated with sharp declines in the wage share. This also underscores the point that the cost of financial instability has fallen disproportionately on labour and especially on the low and middle earners.
- 35. ILO (2011) *'World of Work Report 2011: Income Inequalities in the Age of Financial Globalization.'* (pdf).
- 36. The booming financial services sector – a mix of investment banks, private equity houses, hedge funds and wealth management companies – used growing profits to increasingly help fuel a boom in corporate and financial restructuring, notably through a surge in mergers and acquisitions and private equity activity and an avalanche of lucrative financial deal-making. This became the principal route to the accumulation of mass personal fortunes. The evidence is that while the architects of these schemes walked away with huge fees and bonuses, the impact on the productive base of the surge in financial engineering has often been negative. Many private equity and merger deals

have proved to be very bad news for the companies concerned and their staff. Accumulated surpluses that might have financed a rise of spending on infrastructure and new enterprise have instead been used to finance the post-millennium property and takeover boom along with the purchase of financial instruments and a very mixed bag of financial activity, much of which increased the fragility of the financial system. Read for example Lansley, Stewart, Howard Reed (2013) [How to Boost the Wage Share](#) (pdf). Touch Stone Pamphlet #13. TUC.

- 37. See for more information The Broker articles by Evert-jan Quak (2014) [Revaluing labour](#) and Niels Beerepoot (2014) [Creating a global labour market](#).
  - 38. The ILO's Global Wage Report uses a dataset encompassing developed, developing and emerging countries to investigate the decline in the labour share.[1] The ILO found that the average of labour shares in 16 developed countries for the 1970-2010 period declined from about 75% of national income in the mid-1970s to about 65% in the years just before the global economic and financial crisis. The fall in Britain and the US seems to be more moderate than in continental Europe; but this is to a large extent because top managerial wages, which have increased sharply in the Anglo-Saxon countries, are treated as part of labour compensation in the national accounts. If national accounts are corrected to exclude the working rich and calculate the wage share of the other 99%, the fall in Britain could mirror the larger fall in labour share seen in Europe, which is about 11 percentage points in the same period. In developing countries the labour share is lower in comparison with developed countries, as many people work in the low-remunerated subsistence sector. However, the ILO found that the average of labour shares from a group of 16 developing and emerging economies also declined from around 62% of GDP in the early 1990s to 58% just before the crisis. Even in China, a country where wages roughly tripled over the last decade, GDP increased at a faster rate than the total wage bill. Hence the labour income share went down from 65% in 1992 to less than 50% in 2008. See International Labour Organization (ILO) (2013) [Global Wage Report 2012/13: Wages and Equitable Growth](#) (pdf). Geneva: International Labour Office. For more information see The Broker article by Rolf van der Hoeven (2014) [Profits without wage benefits](#).
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  - 41. Sam Caldbick, Ronald Labonte, K.S. Mohindra, Arne Ruckert (2014), Globalization and the rise of precarious employment: the new frontier for workplace health promotion, *Global Health Promotion* June 2014 vol. 21 no. 2 23-31
- [1] For more information see Rani, Uma (2008) [Impact of changing work patterns on income inequality](#) (pdf). ILO discussion paper 193
- 42. For more information see Rani, Uma (2008) [Impact of changing work patterns on income inequality](#) (pdf). ILO discussion paper 193
  - 43. See for example Giesecke, J. and M. Gross (2004) 'External Labour Market Flexibility and Social Inequality', *European Societies* 6(3), p. 347-382 and Blanchard, Olivier, Augustin Landier (2002) 'The Perverse Effects of Partial Labour Market Reform: Fixed-term Contracts in France' (pdf), *The Economic Journal* 112, p. 214-244.
  - 44. Until very recently, however, many economists believed that economic growth would reduce inequality, rather than the other way around. Neoclassical economists argue that when economic growth occurs, the rich spend more on luxury goods, creating jobs for the non-rich. The latter then have more to spend, creating new jobs in, for example, the construction sector, as they can afford better housing. In this way, the wealth of the rich slowly trickles down to the non-rich, leading to the emergence of a middle class, as long as there is economic growth. Post-Keynesians like Nicholas Kaldor take the opposite view that job creation and the emergence of a middle class depend on investment, which is prior to economic growth.
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  - 47. Córdoba J. C. and Verdier G., *Lucas vs. Lucas: On Inequality and Growth*, IMF Working Paper, WP/07/17, 2007
  - 48. Wilkinson, Richard, Kate Pickett (2014) [The importance of the labour movement in reducing inequality](#) (pdf). Think Piece. Centre for Labour and Social Studies (CLASS).
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Institute. Issue Brief #342; Visser, Jelle, Daniele Cecchi (2009) '[Inequality and the Labour Market: Unions](#)'. Oxford Handbook on Economic Inequality, Oxford: OUP, Chapter 10, pp. 230-256.

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