Recovery impaired

In 2021, up to 90 per cent of the world’s workers continued to reside in countries that had some form of workplace closures. A world of work already in transition, as a result of demographic shifts, technological disruptions and climate change, descended further into disarray as the pandemic continued. Few had anticipated that the pandemic would last this long or cut so deep. As resurgent waves of the pandemic plagued countries for a second year, not only did health systems struggle with the scourge, but governments were forced to continue to rely on lockdowns, physical distancing and mask mandates and to rest their hopes on vaccinations to stop the contagion. Challenges in relation to the production, distribution and public acceptance of vaccinations, nonetheless, continue to slow down inoculation efforts. This is prolonging the need for restrictions that continue to disrupt economic activity. As concerns mount with regard to possible further waves of the pandemic, governments struggle to balance health and safety with economic and labour market considerations.
Countries have resumed economic activity at different rates and times, creating uneven patterns of recovery. In the second year of the pandemic, governments operated under high uncertainty about when and whether another wave would strike and what variant strains of the virus might emerge. They instituted pandemic-related containment measures in fits and starts, to varying degrees, and in different patterns across geographies and sectors. In a closely interconnected global economy, closures in one country spill over to activity in other countries. In the absence of additional shocks, economic recovery in aggregate is expected to continue so that global gross domestic product (GDP) will grow by 4.2 per cent in 2022 (IMF 2021). But this aggregate growth masks variations across geographies and sectors, which will cause the labour market to recover in an uneven manner.

The risks to labour market recovery are strongly tilted to the downside. The unpredictability of the future development of the pandemic itself, and of the responses that will be chosen by governments and societies, makes all the projections presented in this report highly uncertain. The crisis may turn out to have permanently damaged the fabric of the economy and the labour market to a greater extent than currently expected, making any process of recovery more difficult. Furthermore, macroeconomic risk factors increase the risk of a prolonged jobs crisis. For instance, if inflation becomes more endemic, there may be greater risk that premature austerity measures will be implemented.

The uneven recovery is widening the gaps between more and less developed countries. Uneven vaccination rates, for instance, were a major differentiating factor between countries that were able to resume some semblance of normal economic activity over the course of 2021 (nearly all developed nations) and those that were not (IMF 2021). Employment trends in middle-income countries have remained significantly below those of richer economies; when restrictions were lifted, the latter experienced faster labour market recovery than did the former. The asymmetric recovery of the global economy is already causing long-term knock-on effects in terms of persistent uncertainty, continuing instability, and production bottlenecks that are fuelling price hikes. A global scenario of fast-rising prices despite weak economic growth is not an impossible consequence of this crisis (Ernst 2020).

The pandemic’s impact has been particularly devastating for developing nations that have higher levels of inequality, more heterogeneous working conditions, weaker social protection systems and constrained fiscal space. There has been growing divergence within countries too, exemplified by a strong recovery in some sectors and a weak recovery in others. These countries’ prospects of recovery are far worse than those of rich countries. The policy reaction to the pandemic in advanced economies, particularly in deploying a range of fiscal support measures, was strong and swift. In contrast, although developing countries have used a similarly large range of measures to address the crisis, they have instituted smaller relief packages owing to fiscal restrictions after they had incurred unforeseen expenses in responding to the pandemic. Moreover, the large informal economy in many developing countries reduces the efficacy of some policy instruments, many of which target only formal employees and enterprises.

Developing economies that rely on exports of labour-intensive goods or commodities as well as tourism-dependent economies have struggled to adjust to volatile and shifting demand. Tourism-dependent economies have suffered heavily from border closures and lost revenue. Employment losses and reductions in working hours have shrunk incomes. In the absence of adequate safety nets or large enough cash transfers in many developing countries, the income losses have compounded the financial stress for already economically vulnerable households and brought cascading effects for health and nutrition. Estimates suggest that the pandemic has pushed as many as 77 million children and adults into extreme poverty (Mahler et al. 2021). Under the assumption that children continued to constitute 50 per cent of the extreme poor in 2020, as they did before the crisis (World Bank 2020), the number of adults living in extreme poverty had risen by 38.5 million since 2019.

1 The World Bank estimates that the number of people living in extreme poverty (on less than US$1.90 PPP (purchasing power parity) per day) went up by 77 million between 2019 and 2020. The impact of the COVID-19 crisis goes beyond that, though, because the number of people living in extreme poverty worldwide would be expected to have decreased by 20 million in the absence of the crisis.
1. (Re)building a resilient world of work after the COVID-19 pandemic

Poverty has increased significantly among working people. The share of workers living in extreme poverty went up from 6.7 per cent in 2019 to 7.2 per cent in 2020, which equates to an increase of 8 million in the number of working poor. Yet, the poverty increase has been much more pronounced among those who were not working in 2020 – a result of the large losses in global employment being concentrated among low-income households (see box 1.1). New estimates suggest that in 2020, an additional 30 million adults fell into extreme out-of-work poverty, comprising those who lost their job during the course of the crisis and those who did not have one to begin with. Low- and lower-middle-income countries are estimated to have experienced the largest rise in working poverty rates between 2019 and 2020, with increases of 1 and 0.9 percentage points, respectively, which represent a significant reversal of previous trends.

Box 1.1 Making sense of estimates of working poverty

The massive loss of working hours and incomes during the COVID-19 crisis has pushed many workers into poverty and thus may be expected to have increased the number of the working poor. The crisis has also caused many people to lose their employment, which is likely to have dampened the increase in working poverty numbers if such job losses have affected those who were already among the working poor before the crisis.

The previous edition of this report (ILO 2021a) estimated the first effect above to be much more important than the second, hence a large increase in working poverty in the year 2020. However, new evidence shows that employment losses have been particularly great among low-income households (APU 2021) and low-wage workers (ILO 2021b), with the consequence that the increase in the number of the working poor is significantly lower than previously estimated. This is not good news, because it means that most of the additional 38.5 million adults living in extreme poverty (on less than US$1.90 PPP per day) in 2020 had no income from work at all, as opposed to having some – even if reduced. The World Bank’s downward revision of global extreme poverty by around 20 million people constitutes another source of the revision of working poverty with respect to the previous edition of this report.

Prolonged lockdowns and travel bans, unthinkable before the pandemic, have disrupted supply chains, leading to negative consequences for direct and indirect employment linked to production networks. Estimates suggest that 97 million jobs connected to supply chains were highly adversely affected in April 2021 by the drop in global consumer demand for manufactured products. Overall, nearly one in three jobs in manufacturing supply chains globally are likely, as a result of the pandemic, to have undergone termination, a reduction in working hours or payment, or other worsened conditions (ILO 2021c). Some of the worst impacts were felt in garment supply chains, which employ large shares of women workers (ILO 2021c).

The impact has been particularly pronounced in lower-middle-income countries that have long leveraged participation in production chains as a source of employment and growth. Lower-middle-income countries saw the largest decline, 11.8 per cent, in manufacturing employment, compared with 7.4 per cent in upper-middle-income, 3.4 per cent in low-income and 3.9 per cent in high-income countries (figure 1.1).

Figure 1.1 Growth in manufacturing employment, 2019–20, by country income group (percentages)

| Country Income Group          | Change |
|-------------------------------|--------|
| Low-income countries          | -3.4   |
| Lower-middle-income countries | -11.8  |
| Upper-middle-income countries | -7.4   |
| High-income countries         | -3.9   |

Source: ILOSTAT, ILO modelled estimates, November 2020.
In addition to the jobs that are directly tied to production in complex supplier networks, the “servicification of manufacturing” – or growing reliance of manufacturing on services as inputs, as activities within firms or as outputs accompanying goods (Nordwall 2016; Miroudot 2017; Miroudot and Cadestin 2017) – has also widened the cohort of people whose livelihoods will be affected by disruptions in production chains.

Labour supply disruptions have been widespread. With over 237 million confirmed COVID-19 cases worldwide as of October 2021 (WHO 2021) – a number that will continue to rise – illness has kept many from work. Others have stayed at home because physical workplaces have been closed owing to mandatory restrictions, for fear of contracting the virus or to take care of sick relatives. These factors have induced staff shortages in location-tethered work (Manpower Group 2021). Widespread school closures have caused a rise in unpaid care work at home, the burden of which has disproportionately and largely fallen on women. Geographically targeted or sector-specific restrictions have meant that some areas and sectors have experienced labour shortages (Renna and Coate 2021) while others have seen a surplus of labour (Frohm 2021), making it difficult for labour markets to recover swiftly even in countries with large fiscal stimulus packages.

The contraction in labour demand owing to factors other than direct workplace closures became more pronounced in the second year of the pandemic. Supply chain disruptions, shifts in market demand, and pandemic-induced changes in labour supply all created bottlenecks in manufacturing. The stark geographical differences in these supply disruptions prevented a balanced return to pre-pandemic levels of labour demand (Goodman and Chokshi 2021; UNCTAD 2021). In turn, services linked to manufacturing value chains – transport and insurance for instance – were also adversely affected. Travel restrictions and the rise of remote working have changed business travel, causing a further decline in demand for services (Bharathi and Dinesh 2021; UNCTAD 2021). At the same time, some countries have seen a rise in online retail, gig work and other forms of self-employment in services. Service output has yet to rebound to pre-pandemic levels (Romei 2020). These trends affect not only the workers who are directly employed in these sectors, but also those in connected sectors.

The pandemic has restructured labour markets as some sectors and their workers have experienced retrenchment while others have seen expansion. During 2021, patterns of recovery varied across sectors. Some sectors such as hospitality, tourism and physical retail continued to flag, whereas others such as information and communication, logistics and e-commerce underwent expansion. The uneven sectoral impact has fostered inequality. To the extent that employment in these sectors is tied to specific worker profiles – for example, high skilled or low skilled, predominantly male or predominantly female – changes in the fortunes of the sectors have also exacerbated inequalities between workers. The longer the pandemic and associated restrictions persist, the more entrenched and lasting the effects on labour markets and employment trajectories are likely to be.

Smaller businesses have seen greater declines in employment and working hours than have larger ones. Many businesses, big and small, suffered with the onset of the pandemic, but smaller businesses with fewer financial reserves were less equipped to deal with the shocks. Before the pandemic, micro, small and medium-sized enterprises (MSMEs) constituted over 90 per cent of enterprises in most countries (OECD 2021a) and were estimated to account for 60 to 70 per cent of global employment (ITC 2015, 2021). Many collapsed during 2021 as economic activity waxed and waned in response to resurgent virus waves and containment measures. This differential impact on smaller companies led to an apparent increase in labour productivity, since larger companies tend to have higher levels of output per hour worked than smaller ones. As low-productivity, smaller enterprises were pushed out of business by the pandemic, average output per worker increased (ILO 2021b).

Studies corroborate the observation that smaller firms have experienced not only larger employment losses but also deeper declines in hours worked than have larger firms (ILO 2021b).

2 A meaningful analysis of the impact of the COVID-19 crisis on productivity would need to study productivity at the firm level, or at least at a detailed sectoral level. Such studies are not feasible with the data currently available.
1. (Re)building a resilient world of work after the COVID-19 pandemic

decline in working hours (figure 1.2). Moreover, many small businesses that have managed to survive are weighed down with debt that will affect future investment and productivity growth and may result in consolidation.

There has been an uptick in business creation in some developed and developing countries (O’Donnell, Newman and Fikri 2021). Among the factors contributing to this is the fall in regular waged work as some of those who have lost jobs, or had trouble finding work, decide to start their own businesses. In what is being dubbed the “Great Resignation” in developed countries, initial evidence also suggests that some people may be quitting their jobs to try their hand at other ventures (Thompson 2021; BLS 2021). The United States of America saw an increase between August 2020 and August 2021 in both the number of quits and the quit rate, that is, the number of quits during the entire month expressed as a share of total employment (BLS 2021). Although these trends suggest a surge in business creation rates, they may really reflect a further informalization of work in both developed and developing countries.

The vast majority of informal enterprises are small or micro; informal enterprises have fared worse in the pandemic than formal ones, partly because they have been unable to access formal lines of credit or COVID-19-related government support. The quality of the new emerging enterprises matters for their prospects of growth and their ability to bring about decent work. In general, it will take a while before enterprises that went out of business are replaced, if they ever are. Much depends on whether start-ups and micro and small businesses receive the support they need. In the meantime, this trend will continue to depress labour demand.

The result of labour supply and demand disruptions was that in 2021 labour markets continued to struggle, gaining modest ground but not returning to pre-pandemic levels. The number of employed individuals living in extreme or moderate poverty rose in 2020. This adverse trend chipped away at the hard-won development gains of the pre-pandemic years, setting back the progress made towards achievement of many of the Sustainable Development Goals. For instance, between 1999 and 2019 the number of people in extreme poverty fell by more than 1 billion, but now, for the first time in 20 years, global poverty has risen significantly: the COVID-19 pandemic pushed almost 80 million people back into poverty in 2020 (Mahler et al. 2021). Labour market disruptions and the loss of livelihoods have contributed to bringing about this worrying break in the trend of poverty reduction.
Employment trends spotlight

Labour market recovery will remain weak through 2023. Employment losses and a drop in labour income characterized 2021 as they had the year before. Low- and lower-middle-income countries have fared the worst (table 1.1). Moreover, people who already faced a disadvantage in the labour market – such as women, youth, the elderly, and migrant workers – have experienced higher employment losses than have other groups.

The varied impact of the crisis on labour markets is best understood by examining working hours. Data on losses in working hours put the spotlight on those who either became unemployed or left the labour force, and also on those who have continued to work, whether as employees or self-employed, but whose hours of work have gone down as a result of the pandemic. The reduction in working hours may have been remunerated by government or firm-based employment retention schemes, or it may not.

Adjusted for population growth, employment, hours worked and labour force participation remained below pre-pandemic levels in 2021 and are expected to remain so until at least 2023. In 2022, the ratio of hours worked to the population aged 15–64 is projected to remain 1.8 per cent below its 2019 level; the corresponding projected ratios are 1.7 per cent below the 2019 level for employment and 1.1 per cent below the 2019 level for the labour force (figure 1.3).

Assuming a 48-hour work week, the decline in hours worked was equivalent to a deficit of about 125 million full-time jobs globally in 2021 relative to the fourth quarter of 2019. The employment deficit in 2021 was 92 million, and the decline in the labour force participation rate (LFPR) relative to 2019 levels corresponds to a labour force deficit of 67 million people (figure 1.4). Although the deficits are becoming smaller, they are projected to continue to be significant through 2023. Continuous population growth raises the headcount for key labour market indicators even though the corresponding ratios, such as the employment-to-population ratio (EPR), remain below their pre-crisis levels. For this reason, total global hours worked, employment and the labour force are projected to surpass their 2019 levels in 2022 (table 1.1).

Hours worked per person employed are projected to recover to around pre-crisis levels if economic activity picks up but employment and labour force growth lag behind. The large fall in hours per worker driven by temporary workplace closures constituted roughly half of the total fall

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1 Normalizing by population aged 15–64 allows the best comparison of labour market indicators over time, since this is the population most likely to be economically active. The labour force as a proportion of the total population tends to decline over time when the population is ageing, because of the rising proportion of retirees.
## Table 1.1 Weekly hours worked, employment, unemployment and labour force (world and country income groups), 2019–23

| Country group                  | Ratio of total weekly hours worked to population aged 15–64 (percentages) | Total weekly working hours in full-time equivalent jobs (FTE = 48 hours/week) (millions) |
|-------------------------------|-----------------------------------------------------------------------|-------------------------------------------------------------------------------------|
|                               | 2019 | 2020 | 2021 | 2022 | 2023 | 2019 | 2020 | 2021 | 2022 | 2023 |
| World                         | 27.5 | 25.1 | 26.3 | 27.0 | 27.2 | 2883 | 2653 | 2810 | 2908 | 2958 |
| Low-income countries          | 23.5 | 21.9 | 22.3 | 22.9 | 23.2 | 174  | 167  | 175  | 186  | 195  |
| Lower-middle-income countries | 25.5 | 22.7 | 23.8 | 24.8 | 25.1 | 1125 | 1015 | 1081 | 1142 | 1175 |
| Upper-middle-income countries | 30.5 | 28.3 | 30.0 | 30.3 | 30.3 | 1127 | 1048 | 1113 | 1125 | 1128 |
| High-income countries         | 27.8 | 25.7 | 26.8 | 27.7 | 28.0 | 457  | 423  | 441  | 455  | 460  |

| Country group                  | Employment-to-population ratio (percentages) | Employment (millions) |
|-------------------------------|---------------------------------------------|-----------------------|
|                               | 2019 | 2020 | 2021 | 2022 | 2023 | 2019 | 2020 | 2021 | 2022 | 2023 |
| World                         | 57.3 | 54.8 | 55.4 | 55.8 | 56.0 | 3287 | 3183 | 3257 | 3325 | 3375 |
| Low-income countries          | 64.0 | 61.7 | 61.9 | 62.2 | 62.6 | 240  | 239  | 248  | 257  | 267  |
| Lower-middle-income countries | 52.0 | 49.0 | 49.9 | 50.6 | 50.9 | 1198 | 1149 | 1189 | 1228 | 1255 |
| Upper-middle-income countries | 61.6 | 59.3 | 59.7 | 59.9 | 59.9 | 1262 | 1223 | 1240 | 1252 | 1261 |
| High-income countries         | 58.1 | 56.3 | 56.9 | 57.4 | 57.5 | 587  | 572  | 581  | 588  | 592  |

| Country group                  | Unemployment rate (percentages) | Unemployment (millions) |
|-------------------------------|---------------------------------|-------------------------|
|                               | 2019 | 2020 | 2021 | 2022 | 2023 | 2019 | 2020 | 2021 | 2022 | 2023 |
| World                         | 5.4  | 6.6  | 6.2  | 5.9  | 5.7  | 186  | 224  | 214  | 207  | 203  |
| Low-income countries          | 4.9  | 5.6  | 5.9  | 6.0  | 5.7  | 12   | 14   | 15   | 16   | 16   |
| Lower-middle-income countries | 5.1  | 6.6  | 5.9  | 5.6  | 5.4  | 64   | 81   | 74   | 72   | 72   |
| Upper-middle-income countries | 6.0  | 6.7  | 6.7  | 6.6  | 6.3  | 80   | 88   | 90   | 88   | 85   |
| High-income countries         | 4.8  | 6.5  | 5.6  | 4.9  | 4.7  | 29   | 40   | 35   | 31   | 29   |

| Country group                  | Labour force participation rate (percentages) | Labour force (millions) |
|-------------------------------|-----------------------------------------------|-------------------------|
|                               | 2019 | 2020 | 2021 | 2022 | 2023 | 2019 | 2020 | 2021 | 2022 | 2023 |
| World                         | 60.5 | 58.6 | 59.0 | 59.3 | 59.4 | 3473 | 3407 | 3471 | 3532 | 3578 |
| Low-income countries          | 67.3 | 65.4 | 65.7 | 66.2 | 66.4 | 253  | 253  | 263  | 273  | 283  |
| Lower-middle-income countries | 54.8 | 52.5 | 53.0 | 53.6 | 53.8 | 1262 | 1230 | 1263 | 1300 | 1327 |
| Upper-middle-income countries | 65.5 | 63.6 | 64.0 | 64.1 | 64.0 | 1342 | 1312 | 1330 | 1340 | 1346 |
| High-income countries         | 61.0 | 60.2 | 60.3 | 60.3 | 60.4 | 617  | 611  | 616  | 618  | 622  |

**Note:** The employment-to-population ratio and the labour force participation rate are with respect to the population aged 15 and older.

**Source:** ILOSTAT, ILO modelled estimates, November 2021.
in working hours in 2020, the other half coming from employment losses. The employment deficit, in turn, was driven to a large extent by exits from the labour force, as opposed to an increase in unemployment (figure 1.5). The exodus from the labour force is projected to become the main contributor to the lasting impact of the crisis, whereas weekly hours worked per worker are projected to recover to a large degree by 2023.

The global LFPR, having fallen by almost 2 percentage points between 2019 and 2020, is projected to recover only partially, to 59.4 per cent by 2023, more than 1 percentage point below its 2019 level of 60.5 per cent. With employment recovery projected to be even slower than labour force recovery, the global unemployment rate is projected to remain above its 2019 level until at least 2023 (table 1.1). The total number of the unemployed is projected to decline in both 2022 and 2023. Despite this progress, global unemployment is projected to remain stubbornly higher than its 2019 level of 186 million, at 203 million in 2023. Furthermore, unemployment recovery is expected to be concentrated in high-income countries, which will account for half of the global decline in unemployment between 2021 and 2023 but contain only 18 per cent of the global labour force. Since only people participating in the labour force can
become unemployed, the uncertainty around the projections of unemployment is compounded by the unclear recovery of the labour force.

Since the very beginning of the pandemic, lower-middle-income countries have fared the worst. They have seen the largest drop in the ratio of total weekly hours worked to the population aged 15–64, in the employment rate and in the LFPR. They are also seeing the slowest recovery. Poverty estimates suggest that eight out of ten new poor in 2020 were in middle-income countries (World Bank 2020).

The pandemic has had a disproportionately negative impact on women’s employment and on youth employment.4 Although the percentage point gap in the EPR in 2020, relative to 2019, is somewhat comparable between women and men, women had a much lower employment rate to begin with. Consequently, the relative drop in women’s EPR has been larger than that of men, and it is projected to remain so in the coming years (figure 1.6). However, women in high-income countries experienced roughly the same relative employment losses as men in 2020 and regained employment faster than men in 2021. Young people (aged 15–24) have fared much worse than those older than 25 during this crisis (ILO 2021b, 2021d). The forthcoming ILO report Global Employment Trends for Youth 2022 will cover in detail the labour market situation and prospects of young people.

Figure 1.6 Employment-to-population ratio, 2019–22, by sex, world and country income groups (percentages)

| World                  | 2019      | 2020      | 2021      | 2022      |
|------------------------|-----------|-----------|-----------|-----------|
| Male                   | 69.4      | 66.6      | 67.3      | 67.9      |
| Female                 | 45.2      | 43.0      | 43.4      | 43.8      |

| Low-income countries   | 2019      | 2020      | 2021      | 2022      |
|------------------------|-----------|-----------|-----------|-----------|
| Male                   | 72.6      | 70.5      | 70.7      | 70.8      |
| Female                 | 55.7      | 53.2      | 53.3      | 53.8      |

| Lower-middle-income countries | 2019      | 2020      | 2021      | 2022      |
|-------------------------------|-----------|-----------|-----------|-----------|
| Male                          | 70.5      | 66.6      | 67.8      | 68.7      |
| Female                        | 33.2      | 31.1      | 31.6      | 32.2      |

| Upper-middle-income countries | 2019      | 2020      | 2021      | 2022      |
|-------------------------------|-----------|-----------|-----------|-----------|
| Male                          | 69.6      | 67.4      | 68.0      | 68.1      |
| Female                        | 53.6      | 51.3      | 51.5      | 51.8      |

| High-income countries        | 2019      | 2020      | 2021      | 2022      |
|-------------------------------|-----------|-----------|-----------|-----------|
| Male                          | 65.3      | 63.2      | 63.8      | 64.3      |
| Female                        | 51.0      | 49.4      | 50.2      | 50.5      |

Source: ILOSTAT, ILO modelled estimates, November 2021.

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4 ILO (2021g) presents the heterogeneous impact of the crisis across multiple dimensions of demographics and also its impact across labour market characteristics.
The sluggish and uneven recovery in working hours in 2021 prevented a broad-based recovery of lost labour income. Since most workers in the world have had inadequate, if any, income replacement (ILO 2021), demand will remain depressed as families run down their savings. The effect has been particularly pronounced in developing countries where the proportion of economically vulnerable populations is larger and the size of stimulus packages was smaller.

The uneven economic impact of the pandemic across sectors, along with pent-up demand and supply chain bottlenecks, has fuelled inflation and price hikes in certain sectors. The consensus is that these price fluctuations are largely expected to stabilize, though they foster uncertainty that is not conducive to a rekindling of spending (BLS 2021). Although some countries and sectors have witnessed catch-up consumption, the sporadic nature of reopening and uncertainty have continued to impede spending. Rises in food and energy prices, made worse by climate change, are exerting further downward pressure on household budgets, consumption and production and therefore on the demand for workers (World Bank 2021).

Large fiscal stimulus packages in advanced economies will help boost labour demand as governments seek not only to stimulate spending in the short term, but to “build back better” and cultivate resilience in the long run. The pandemic has cast a harsh spotlight on the lack of institutional preparedness in countries – both developed and developing – to deal with a crisis such as COVID-19. This should prompt structural change to make businesses and workers more resilient. But heightened awareness that such crises can happen and that they can be devastating will not by itself fill the gaps in institutional preparedness to face future crises of this magnitude.

The pandemic reset

The damaging impact of the pandemic on jobs and livelihoods, if not quickly reversed, will run the risk of inducing long-term structural change with enduring adverse implications for labour markets. Uneven impacts of containment measures and the decent work deficits that they have contributed to are threatening the prospects for sustainable and inclusive economic growth. Temporary shifts in inflation rates and prices, or changes in the cost of capital relative to the price of labour, pose more risk of generating structural problems the longer they persist. Moreover, the pandemic is exacerbating inequality. It has had a disproportionately adverse impact on women, youth, migrants and the elderly. By accelerating technological change, the pandemic has revealed a deepening digital divide. Intense and prolonged supply chain shocks are creating uncertainty in the business climate and raise the spectre of a reconfiguration of the geography of production in ways that will have serious implications for employment.

Macroeconomic shifts

For the moment, most analysts agree that inflation rate fluctuations are a result of uneven patterns of opening up, pent-up demand, and supply chain bottlenecks. As economies settle, these drastic price swings are likely to stabilize (BLS 2021; World Bank 2021). However, should there be a resurgence in the pandemic, or other crises related to climate change for instance, the inflationary impact could become more structural in nature. The COVID-19 pandemic has highlighted the extent to which crises can generate volatility that extends beyond capital markets to affect labour markets with devastating consequences, especially for the most vulnerable. Thus far, the massive amount of investment required to revive depressed economies, together with a continuing shortage of workers in certain essential services, seems to have restored the bargaining power of low-income households in some countries. In the United States, for example, wages for low-income workers have increased at their fastest rate since before the 2008 financial crisis (Federal Reserve of Atlanta 2021). However, if inflation should
become more endemic, there would be some risk that premature austerity measures would be implemented and hence the risk of a prolonged jobs crisis.

In some developed countries, the monetary response to the pandemic has fuelled asset prices, favouring capital owners and rent-seeking over productive investment and employment creation. It is a well-acknowledged fact that labour’s share of national income has been dropping and that of capital increasing for the better part of three decades (IMF 2017; ILO 2020a; Dao et al. 2017; Guerriero 2019). The lack of a strong macro-prudential framework and faltering support for the real economy with stronger public investment have meant that in many advanced economies unconventional monetary policy has proved to be a boon for shareholders and house owners, pushing global stock markets to unseen heights, worsening wealth inequality and contributing to further market concentration (Colciago, Samarina and de Haan 2019; Dossche, Sláčálek and Wolswijk 2021). Not only does this endanger socio-political stability, but it also risks destabilizing economic growth by constricting wage-based household consumption (Onaran and Galanis 2013; Ernst and Saliba 2018).

Longer-term demographic trends tend to reduce labour supply. Alongside other developed countries, some East Asian countries have experienced rapid ageing of their populations, which will reduce the labour supply for many years to come. In some sectors – such as those relating to technology – rapid expansion since the onset of the pandemic has generated the need for more workers. As these developments unfold, a rapid rise in demand for labour could lead to higher wages in those sectors; such increases in wages could become more widespread if international migration resumes.

On the other hand, the pandemic has revealed signs of accelerating technology adoption (Dewan and Ernst 2020), which can be labour saving. At the same time, many sectors across the globe, such as construction, retail and hospitality, have shed jobs, at least temporarily. This is driving a flow of workers into other sectors. The sectors that are seeing a growing need for workers are ones that tend to demand higher skills, such as in tech-related industries. These trends are contributing to a further polarization of wages and working conditions. The effects of this pattern are even more deleterious in developing countries, many of which already struggle to provide enough jobs for their large and growing populations. The importation of technology before labour markets are ready to adjust to the ensuing changes can often lead to job losses and other kinds of labour dislocation (Carbonero, Ernst and Weber 2020).

Going forward, macro-policymakers face some difficult choices. On the one hand, runaway inflation may require policy to be tightened more quickly than it has been so far. At the same time, the recovery is asymmetric, and tightening would hit low-income households disproportionately. In addition, monetary policymakers are constrained by the high level of (public) debt: raising interest rates prematurely or too fast is likely to force fiscal policymakers to scale down their support measures, thereby magnifying any tightening of monetary policy. What is most likely is that major central banks will scale down their asset purchases without raising rates at the expense of continuing stimulus of the private (banking) sector. Fiscal policymakers are likely to become more parsimonious with their support as well, targeting it more selectively. Rate rises are nevertheless already happening, with consequences for exchange rates and capital flows, putting further pressure on the recovery, especially in low- and lower-middle-income countries, where the stagflation pattern is felt more strongly.

**Deepening inequality**

**Accelerated technological change is exacerbating the digital divide**

Even before the pandemic, technological advances were shaping media, retail, health, social interactions, financial transactions and politics. They were prompting labour substitution and creating new jobs, but also breaking up existing work into smaller gigs and fundamentally restructuring labour markets (Dewan 2018; ILO 2020b). In certain sectors technology adoption saves labour – for instance when robots are deployed in manufacturing or when technology raises productivity so that fewer workers are required. In other sectors, such as the gig economy, rising numbers of people are relying on platforms to generate income. In the midst of such changes, people who lack access to
technology, or the skills needed to engage with it, or who are victim to biases embedded in certain algorithms are already facing a significant disadvantage (ILO 2021f). The pandemic is now accelerating these changes and deepening the digital divide within and between countries.

Those who have access to the technology and are able to work from home have fared better in the COVID-19 crisis than those in location-tethered professions. The former also tend to be in higher-skilled professions and/or in larger, formal enterprises – a trend that widens the gap along these vectors.

As education and training institutions closed and shifted to online learning, only those with access to the technology and the skills to use it – whether teachers, trainers or students – were able to engage effectively. For some students unable to effectively access online learning, what they have lost will have important implications for their ability to make the transition from education to work. Economically vulnerable populations in developing countries, where the digital divide is more acute, have been particularly affected.

The pandemic has provided the impetus while technology has provided the means for consumption to become more distributed, impulsive and customized. The confluence of these trends has opened the way for e-commerce and growing platformization. They are enabling economic activity to continue, even through lockdowns, and at the same time are restructuring work. In retail, for example, the role of labour has morphed from engaging with consumers throughout the entire process to being merely the deliverer of goods.

Now acutely aware of the potential supply chain shocks that global crises can induce, more firms may choose to automate production to hedge against future disruptions. This also presents the possibility of nearshoring or reshoring production, or reorganizing supply chains, with significant labour market implications for trade-dependent emerging and developing economies. These shifts could include a higher degree of automation when those activities shift to countries with a different trade-off in the costs of labour and capital.

Finally, the unprecedented pace and scale of technological change, adoption and usage and the data generated are fuelling a concentration of power in technology companies. The soaring profits of these corporations are but one indicator. The loosening of the shared understanding of what it means to be a “worker” or “employer” is another. The untethering of social protection from employment (Dewan and Mukhopadhyay 2018), and the challenges of organizing workers who are self-employed and do not share the same work location (such as a factory floor) stand to further exacerbate such asymmetry.

The pandemic is fostering gender inequities

When it comes to the global labour market impacts of the pandemic, women, especially young women, have been among the worst affected, and their recovery has also been among the slowest. Even in non-crisis times, decent work deficits are more pronounced among women. They tend to receive lower remuneration for the same work and frequently endure poorer working conditions than their male counterparts (WEF 2019; ILO 2021a). They are also more susceptible to layoffs and face more barriers to re-entering the labour market than men do. Analysis by UN Women and the UN Development Programme (UNDP) suggested that by 2021 approximately 435 million women and girls around the world would be living on less than US$1.90 per day – and that 47 million would fall back into poverty as a result of pandemic-related shocks (UN Women 2020).

Women constitute a large share of the workforce in some of the sectors worst affected by the COVID-19 crisis. For instance, women constitute over 70 per cent of the workers in health and care institutions worldwide (ILO 2020c). A large share of women in developing economies rely on employment directly or indirectly linked to supply chains. Supply chain disruptions have had a significant negative impact on women’s employment. Moreover, when lockdowns kept men home from work, and children home from school, they added to household care burdens, of which women bore a disproportionate share (ILO 2020a).

Given that women are more likely than men to spend resources on supporting their families and communities, an adverse impact on women’s employment has a cascading impact on the welfare of households, communities and economies (World Bank 2012).
Learning loss that affects the long-term trajectories of students

The closure of schools, colleges and skills-training institutions for prolonged periods in many countries has weakened learning outcomes to an extent that will have cascading long-term implications for employment. Almost all respondents in an ILO and World Bank survey of technical and vocational education and training (TVET) stakeholders in 126 countries reported complete closure of TVET centres in their countries. Similarly, 98 per cent of respondents reported a disruption of work-based learning owing to the closure of enterprises, and 78 per cent reported postponement, and in some cases cancellation, of exams and assessments. As the pandemic persisted, it became clear that August 2020 estimates (UNICEF 2020) of 69 per cent of all children potentially being reached through online and broadcast media were overly optimistic. Those children who could access online learning had an advantage over those who could not, which has exacerbated inequalities between the haves and have-nots and created further obstacles to inclusive development. The loss of foundational abilities in literacy and numeracy, and in other subjects, will have a direct impact on all future learning of the students in question and thus on their preparedness for life and work.

Flexibility 2.0: Changes in informality and patterns of work

Every economic crisis since the 1990s has underscored the importance of building resilience through investments in social protection, while also raising questions about how to strike a balance between labour market flexibility and labour protections. Yet, over the last three decades, major transformations arising from technology, climate change and the pandemic have restructured labour markets and given rise to new trends in work that are recasting notions of flexibility.

Shifts in informality

In developing countries with a large informal economy, the efficacy of labour market regulations is limited. With a majority of workers in the informal economy, employment and wage flexibility are high, at the cost of a loss of productive potential. The informal economy comprises informal, or unregistered, enterprises that may choose to remain outside the formal economy because they do not have the capacity, know-how or will to deal with social contributions, compliances, or licensing requirements. This is why informal enterprises tend to be micro or small businesses. Not only have these businesses had fewer capital reserves to withstand the economic shocks brought on by the pandemic, but, by virtue of their informality, they have also been unable to avail themselves of government support. Informal employment also includes individuals who are working in the formal sector but are not covered by social protection and are beyond the purview of most labour protections. Two billion people, or 60 per cent of the globally employed, were in informal employment in 2019. Informal employment is characterized by low productivity and low wages (ILO 2021a; Dewan and Peek 2007).

In the initial stages of the pandemic, informal employees were three times more likely than formal employees to lose their jobs. As the pandemic has gone on, formal wage workers have managed to return to employment, while informal waged employment has remained stubbornly below its pre-crisis level in a sample of ten middle-income countries (figure 1.7). This suggests that formal enterprises have managed to weather the crisis better than informal ones. The informally self-employed, who experienced the largest employment drop in the second quarter of 2020 (2020 Q2), have recovered relatively fast: there was a significant narrowing of their jobs deficit by 2021 Q2. This suggests that some workers who have lost their job are entering informal work arrangements in order to stay afloat financially. This dynamic may be reducing joblessness but does raise concerns about the quality of employment creation during the recovery (see Chapter 2).

A large share of the informally employed are also own-account workers who operate their own economic enterprises, or engage independently in a profession or trade, but hire no employees. Contributing family workers participate in such family-owned activities without any contract or pay, and so they are informal by definition. The faltering of the labour market has pushed a lot of workers into contributing to family enterprises. The incidence of own-account and contributing family work increased in 2020, counteracting a long-term trend of decline (figure 1.8).
Evidence suggests that the pandemic is fuelling a rise in gig work that is expanding the pool of self-employed contractors. In many developing countries, self-employment already accounts for close to 50 per cent of employment. Continuing expansion of gig work could raise this share, not least in reaction to the crisis as workers who have lost their jobs enter gig work – a sector with lower barriers to entry. In developed countries, workers often do gig work to earn supplementary income whereas in developing and emerging economies gig work is the main source of income. Different kinds of gig work offer varying degrees of autonomy and flexibility (Bester, van der Linden and Dewan 2020). This form of work also breaks traditional work into smaller tasks and spreads it across more people. In developing economies, gig workers often subscribe to multiple platforms to try to access enough gigs and so piece together an income. The uncertainty of whether one will get enough gigs, among other factors, makes this form of work insecure (ILO 2021f).
Temporary work

Temporary employment as a proportion of total employment has been increasing over time, though not uniformly across sectors and countries, but the incidence of temporary work has remained relatively stable throughout the pandemic. Temporary work is by nature more flexible, allowing employers to hire and fire more easily and to respond to volatility in demand in the wake of a crisis. The consequence is that many temporary workers lost their job at the beginning of the pandemic but that economies have since seen a rise in new temporary jobs (see Chapter 3). The net effect of these two trends is that the incidence of temporary work has remained stable throughout the pandemic. More importantly, over a quarter of those in temporary work in the early part of 2021 had previously been in non-temporary jobs, which highlights the underlying economic uncertainty and the employment insecurity it has brought. This finding also provides evidence for the hypothesis that the pandemic is prompting structural change in labour markets.

The shifting patterns of work – through changes in informality, self-employment and temporary work – have implications both for the efficacy of labour protections and for workers’ access to social dialogue and even to basic social security. The more that welfare is delinked from employment, the greater the need for government provision of social protection financed through, among other mechanisms, tax systems that hold all actors accountable.

The rise of remote work

Against a backdrop of the pandemic-induced waxing and waning of different sectors, the crisis is changing not only the kind of work that exists but also where and how work is performed. Remote work offers greater flexibility but also threatens to exacerbate inequalities of various kinds. In businesses where remote work is possible, a larger pool of work and employees is available, since physical proximity is no longer a constraint. The flexibility of remote work offers the opportunity to better balance domestic responsibilities with income generation, which has important ramifications when women carry a disproportionate burden of household work. Yet, the pandemic has also expanded the already heavy load of domestic responsibilities that fall to women, intensifying their time poverty. Workers with access to technology and higher skills, who tend to work in larger businesses, will have options to participate in remote work while those who do not will not be able to do so. This is widening the chasm between the haves and have-nots.

The changing geography of work

The pandemic has cast a spotlight on the risks associated with fragmented supply chains spread over multiple countries. Employers who are considering how to hedge their risks may consider moving from “just-in-time” to “just-in-case” production, diversifying their base of potential suppliers. But another impact of the pandemic is that it is providing renewed impetus for nearshoring or reshoring. “Nearshoring” is when companies offshore production to locations closer to the final customer in order to better accommodate contingencies ensuing from unexpected shocks. “Reshoring” means a shift back to domestic production, especially in manufacturing.

Where countries once traded in primary commodities, or simple finished goods, that were produced close to where they would be consumed, the coming of cheaper technology and transportation enabled fragmented global supply chains in which multinational firms from developed countries outsourced certain production functions to developing and emerging economies (Dewan and Suedekum 2017). This form of offshoring has been an important source of employment and growth for many countries where it has capitalized on the availability of surplus, low-cost labour. However, fragmented production chains and complex supplier networks have also had negative implications for decent working conditions, something that the ILO, governments and social partners have been working hard to rectify.

In recent years, increasingly affordable technology has been enabling a reshoring of work; a trend the pandemic is likely to accelerate, though to what extent remains uncertain. Reshoring deals a double blow to the quantity of employment. It reverses the offshoring of production that has been a significant driver of job creation and growth in many developing and emerging economies. But, because this strategy
is technology enabled and capital intensive, new job creation in the home country is also likely to be limited. Reshoring offers the prospect of a world in which there is a consolidation of supply chains, production is less fragmented and supply chains generate less employment than previously. The extent of reshoring is unclear because firms may still want to locate production close to new consumers in emerging markets.

Offshoring, reshoring and nearshoring all underscore the fact that technology encourages footloose industries, that is, industries that can relocate more easily to maintain their costs of production and their bottom line. Such geographic shuffling of economic activity not only weighs on where and what kinds of employment are created and lost, but also limits the bargaining power of workers (Dewan 2018).

What governments are doing

The post-pandemic policy context: From emergency assistance to “building back better”

In 2020, immediate policy responses to the COVID-19 pandemic reflected the urgency of the crisis and the consensus among national governments and multilateral institutions that a swift expansion of social protection was necessary to curb the most calamitous impacts of the pandemic. Around the world, nearly all countries sought to provide households with relief through unemployment insurance, expanding the pool of workers eligible for unemployment benefits, increasing the level of benefits, enhancing the speed of delivery of assistance and/or even launching new cash transfer programmes (ILO 2020d). In addition, many countries gave direct assistance to businesses to keep workers on payrolls and mitigate the loss of small businesses.

As the global public health crisis has persisted, the initial policy response aiming to provide emergency assistance has evolved into a more profound paradigm shift in global economic policymaking. Among most of the world’s major economies and multilateral institutions, a consensus has emerged around the concept of “building back better”, that is, rebuilding the economy in ways that address systemic and structural inequalities and other long-term social and economic challenges, such as climate change, that pre-dated COVID-19 (UNCTAD 2021). Initially used in the context of the pandemic by the new Biden administration in the United States, this phrase has become a global shorthand for treating pandemic recovery measures as an opportunity to address long-term challenges that the pandemic continued to intensify throughout 2021.

The ILO Centenary Declaration for the Future of Work provides a blueprint for a human-centred agenda to overcome the crisis, address existing challenges and lead to a better future. The Global Call to Action (ILO 2021g) represents a commitment by governments, employers and workers to accelerate the implementation of the human-centred agenda outlined in the Centenary Declaration. Its successful implementation will rely on four pillars: (a) inclusive economic growth and employment; (b) protection of all workers; (c) universal social protection; and (d) social dialogue.

This renewed emphasis on tackling inequality while addressing global existential threats through substantial public investment stands in contrast to the policy response to the global financial crisis of 2008. On that occasion, stimulus measures in most economies were quickly drawn down; in 2021, there was greater interest, particularly among the wealthiest economies, in maintaining robust government spending alongside accommodative monetary policy.

As governments and multilateral institutions seek to utilize the post-pandemic recovery to tackle structural and long-term concerns, a few priority areas of policy are emerging. First, governments around the world are seeking to encourage job and income growth for low- to moderate-income segments of their population. The pandemic has exposed and exacerbated deep inequalities in nearly every society around the globe,
inspiring greater focus on tackling labour market inequality. In the initial stages of the pandemic, governments emphasized the rapid expansion of social protection systems, especially unemployment insurance (ILO 2020d). As the pandemic has continued and economies have reopened, countries are now seeking ways to facilitate workers’ return to the labour market and at the same time to enhance job quality. Given that the pandemic is not over, the challenges in this endeavour are significant. Many workers are seeking to change careers, having been scarred by the difficulties of working in essential sectors during a global public health crisis, and others continue to face barriers to returning to work, such as increased care responsibilities and the unavailability of childcare. To address these issues, developing and developed countries are turning to a range of employment policies, including active labour market policies (ALMPs) such as investments in training, public employment programmes, employment subsidies, start-up incentives and labour market services (ILO 2020b).

In order to curb inequality and shore up the resources necessary to fund public investment, there is growing momentum towards global coordination on corporate taxation. This constitutes one of two cornerstones of a global “build back better” agenda. In July 2021, 131 member jurisdictions of the G20/OECD Inclusive Framework on Base Erosion and Profit Shifting, which together account for over 90 per cent of global GDP, joined an agreement to coordinate on taxation policy on the basis of two pillars: first, a fairer distribution of profits and taxing rights as they relate to the largest multinational enterprises; and, second, a global minimum corporate tax rate (OECD 2021b). This agreement is a major step forward in multilateral coordination on taxation, which has become especially complex because of the trend towards digitalization that has only been accelerated by the pandemic. A third element in the emerging “build back better” agenda is to accelerate investment in a green economy, which policymakers increasingly agree is necessary to curb the global rise in temperatures while also creating scope for new and better forms of employment.

Despite the consensus among governments around the world that the post-pandemic recovery must be structured in ways that address long-standing problems of inequality and poor-quality jobs, among other major challenges such as action on climate change, there are major obstacles to ensuring that low- and lower-middle-income countries are not left behind in this process. High-income countries have the resources and capacity for debt financing to enable them to make large public investments to reduce inequality. However, the pandemic has made it even more challenging for low- and lower-middle-income countries to finance these sorts of programmes; most have experienced net negative capital outflow owing to the uncertainties created by the crisis. Thus, high-income countries have been able to sustain pandemic-related stimulus measures, such as enhanced unemployment benefits, for much longer than low- or lower-middle-income countries. Moreover, analyses have shown that about 60 per cent of the additional revenue from proposed changes to global taxation policy would accrue to G7 countries (UNCTAD 2021). The vaccine roll-out, crucial to rejuvenating economic activity, is another example of how disparities have widened between lower- and higher-income countries. Without sustained, robust multilateral initiatives, and international commitments to financing important interventions in the service of high-quality job creation and a low-carbon future in low- and lower-middle-income countries, chances are high that “building back better” will be a privilege afforded to only the world’s wealthiest countries (ILO 2021h).

Fiscal space is limited in many countries, even more so following stimulus measures. But fiscal space depends on the ability to borrow internationally, which could also come under pressure should central banks in advanced economies decide to act aggressively against inflationary threats.

COVID-19 has forced countries on a journey that many did not anticipate or prepare for. Countries will need to become more resilient by ensuring they have sufficient capacity in the provision of public goods to cope with an increasingly uncertain and fragile global economy (Ernst 2021). To build up resilience, governments, employers and workers need to follow through on the Global Call to Action to prepare for the future of work.
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