

Informal employment in the West will hurt working and retired life of workers

A new spectre is gripping the world economy: informality. The term describes people either working in informal arrangements with employers or in irregular self-employment occupations but without employment security or social security. Now, informality seems to arise as the social downside of the drive for more flexibility in the face of structural change and economic decline. Till recently, any mention of that word implied that one was talking about the developing world.

That is no longer the case. With a staggering increase in youth unemployment in the West, informality has gone global. Newspapers in France, Spain and elsewhere are full of reports about the 'new precariousness'. With fewer job prospects, it affects people in the middle and late stages of their working lives. Both developed and developing countries have aimed to provide more inclusive growth. What is different now is that it is the developing countries that have an easier time realising this goal. Large parts of their populations are shifting to the middle-class.

In contrast, from the indignados in Spain and the Occupy Wall Street movement in the US to short-term contract holders in successful countries such as Germany, there is a widening sense of exclusion and frustration. There also is a growing concern about whether the limits of growth have been reached here.

Even in the ever-optimistic US, young Americans move back home because they can find no jobs after graduating. Reports in US newspapers about such 'boomerang' kids are nothing new, but they used to refer to slowdowns in faraway countries like Italy.

A serious element of Italian precariousness can now be found in the US itself. This gives Europe no reason to cheer. Viewed in a jobs context, these countries may find some relief in declining birth numbers. As baby boomers retire in larger numbers, young people will eventually find jobs. But some of these hopes may be an illusion. There is low evidence of the transferability of jobs from the old to the young.

While that may or may not help combat the prevailing sense of precariousness, it does not add up to a growth strategy. Nor does it make the social security system any more stable. However, a smoothly functioning social security system is precisely what constitutes the difference between formality and informality.

Informality takes a high toll on young workers. Young workers who begin their working lives on temporary or short-term contracts start out at lower wages, which lowers their lifetime earning potential. While workers in their 20s do not tend to think about retirement, their retirement prospects are already being short-changed by informality. They are also less likely to receive the schooling and training opportunities that formal-sector employers provide.

The increasing level of informality in the West is driven, in part, by employers seeking to lower their costs by resorting to alternative but legal arrangements with employees. Employers are doing what is best for the company, not for the worker.

This is another manifestation of the short-termitis that afflicts Western, particularly American, companies. In order to reduce the cost of benefits, training and wages, many companies are inclined to systematically overlook the value of investing in employees' skills and loyalty. Obviously, the prolonged recession of the late 2000s and early 2010s has hastened companies down this path. But will informality have become too deeply ingrained in the system when better economic times return?

The picture currently looks dismal in the Western world. But it is still a far cry from the situation in many parts of the developing world. For all the excitement about rapid growth, moving the overall population beyond a precarious form of existence is a century-long project. For example, only around 6% of India's workforce is part of the formal economy. Still, the important difference is in the direction of economic aspirations.

For over two centuries, they worked almost exclusively in the West's favour. But now, we find that the sense of optimism and growing personal economic security that long characterised the West is shifting south.

As in the industrialised economies over the past century and a half, there now is a lot of optimism from the dynamism that has caught much of the developing world. The rebalancing of global labour market dynamics is only fair and long overdue.

That could push back informality and precariousness in these economies. But there are some clear risks. The dramatic increase in the size of the young population, especially in India and Africa, means that the benefits of this profound change can easily become dampened, if not lost.

The situation in China is quite the opposite. After a big wave of labour market entries, its working-age population has just passed its peak. In China, growing poverty among the ageing is emerging as a big problem. That topic is also discussed intensely in 'rich' countries such as Germany and Japan.

This shows that informality and precariousness are fast becoming a unifying criterion - a common condition of humanity across the world.

That is not exactly a reason to cheer. Still, it is a potent symbol of global economic integration - and the shared need to find new solutions and a more flexible and adaptable society.