

SPECIAL REPORT  
THE FUTURE OF JOBS

# The great mismatch

In the new world of work, unemployment is high yet skilled and talented people are in short supply. Matthew Bishop explains

## *A global labour market will not make every individual in the world better off: there will be losers as well as winners*

"FAR AND AWAY the best prize that life offers is the chance to work hard at work worth doing," observed Theodore Roosevelt, then America's president, in a Labour day speech on September 7th 1903. Today the billions of people the world over who seek that prize are encountering simultaneous feast and famine. Even in developed economies that are currently struggling, many people, perhaps more than ever, are doing the job of their dreams, taking home both a good salary and a sense of having done something worthwhile. In booming emerging countries such as China and India, many at least have a better job than they ever thought possible. Yet at the same time in much of the world unemployment is persistently high and many of the jobs on offer are badly paid, onerous and unsatisfying.

This has serious political implications, not least for America's current president, Barack Obama, who risks losing his own dream job because of his perceived failure to have created enough work for his fellow citizens. As Mr Obama entered the White House in January 2009, the country's unemployment rate was about to climb above 8%, up from around 5% a year earlier. It has not recovered since and is currently around 9%. Until the presidential election in November next year Mr Obama is likely to be dogged by the phrase "jobless recovery"—always assuming that the recovery does not double-dip into an even more jobless recession.

Much as Americans complain, compared with some other countries their economy presents a picture of good health. In the weaker economies of the euro zone, jobs have been sacrificed in the name of austerity, especially in the public sector, to avoid defaulting on debts built up by free-spending governments. Anger at high unemployment has caused unrest and may have been a contributory factor in the riots in Britain last month. In late July thousands of unemployed young Spaniards, known as *los indignados* (the indignant), having protested in cities across their own country, began a long march to Brussels to draw attention to the shockingly high jobless rate of over 40% among their age group.

Outside the rich world, the Arab Spring that brought down the governments of Tunisia and Egypt earlier this year was triggered in part by the lack of decent work for young people. Even in booming China and India policymakers worry about how to ensure there are enough decent jobs, especially for young people and graduates. Both countries still have hundreds of millions of people living in abject poverty, especially in rural areas. A good job would be the best way out.

Yet even as many people face a job famine, a minority is benefiting from an intensifying war for talent. That minority is well placed to demand interesting and fulfilling work and set its own terms and conditions. But above all the pay of such people—from executives to investment bankers and software engineers in Silicon Valley—is soaring. The most talented increasingly get a multiple of the salary of the average performer. This has led to rising inequality in incomes in many countries which may be increasing social tensions.

Mr Obama can reasonably point out that he was elected in the wake of a financial meltdown that had threatened to bring about another Great Depression, with an unemployment rate that would make the current one look like a lucky escape. The coordinated global stimulus by members of the G20 in 2009, though far from perfect, helped save the world from something much worse—though that probably provides little comfort to the 205m people round the globe who are now unemployed. Nor is there much scope for further stimulus.



But today's jobs pain is about more than the aftermath of the financial crisis. Globalisation and technological innovation are bringing about long-term changes in the world economy that are altering the structure of the labour market. As a result, unemployment is likely to remain high in the rich economies even as it falls in the poorer ones. Edmund Phelps, a Nobel prize-winning economist, thinks that in America the "natural rate" of unemployment (below which higher demand would push up inflation) in the medium term is now around 7.5%, significantly higher than only a few years ago.

Michael Spence, another Nobel prize-winning economist, in a recent article in *Foreign Affairs* agrees that technology is hitting jobs in America and other rich countries, but argues that globalisation is the more potent factor. Some 98% of the 27m net new jobs created in America between 1990 and 2008 were in the non-tradable sector of the economy, which remains relatively untouched by globalisation, and especially in government and health care—the first of which, at least, seems unlikely to generate many new jobs in the foreseeable future. At the same time, says Mr Spence, the mix of jobs available to Americans in the tradable sector (including manufacturing) that serves global markets is shifting rapidly, with a growing share of the positions suitable only for skilled and educated people.

Fear of continuing high unemployment also made a best-seller of Tyler Cowen's book, "The Great Stagnation: How America Ate All the Low-Hanging Fruit of Modern History, Got Sick, and Will (Eventually) Feel Better". It argues that for much of its history America (and to some extent other rich countries) enjoyed the benefits of free land, lots of immigrant labour and powerful new technologies. But over the past 40 years these advantages have faded and America has found itself on a technological plateau, he says. To the obvious question about the internet, he retorts that the web has provided lots of utility for users but much less in the way of profits—and relatively few new jobs.

Lowering this new natural rate of unemployment will require structural reforms, such as changing education to ensure that people enter work equipped with the sort of skills firms are willing to fight over, adjusting the tax system and modernising the welfare safety net, and more broadly creating a climate conducive to entrepreneurship and innovation. None of these reforms is easy, and all will take time to produce results, but governments around the world should press ahead with them.

As this special report will explain, the changes now under way will pose huge challenges not only to governments but also to employers and individual workers. Yet they also have the potential to create many new jobs and substantial new wealth.

To understand why these changes are so exciting for some people and so scary for others, a good place to start is the oConomy section on the website of oDesk, one of several booming online marketplaces for freelance workers. In July some 250,000 firms paid some 1.3m registered contractors who ply their trade there for over 1.8m hours of work, nearly twice as many as a year earlier.

oDesk, founded in Silicon Valley in 2003, is a "game-changer", says Gary Swart, its chief executive. His marketplace takes outsourcing, widely adopted by big business over the past decade, to the level of the individual worker. According to Mr

Swart, this "labour as a service" suits both employers, who can have workers on tap whenever they need them, and employees, who can earn money without the hassle of working for a big company, or even of leaving home.

It is still small, but oDesk shows how globalisation and innovation in information technology, the two big trends that have been under way for some time, are moving the world nearer to a single market for labour. Much of the work on oDesk comes from firms in rich economies and goes to people in developing countries, above all the Philippines and India. Getting a job done through oDesk can bring the cost down to as little as 10% of the usual rate. So the movement of work abroad in search of lower labour costs is no longer confined to manufacturing but now also includes white-collar jobs, from computer programming to copywriting and back-office legal tasks. That is likely to have a big impact on pay rates everywhere.

### Who ate my job?

This is causing alarm among middle-grade white-collar workers in the rich world, who saw what happened to manufacturing jobs in their economies. But workers in emerging markets who have those sorts of skills and qualifications are delighted. "I'm making in a week on oDesk what I made in a month as a schoolteacher, and I get to spend far more time with my family," says Ayesha Sadaf Kamal, a freelance copywriter in Islamabad. Conversely, Janet Vetter, who used to have a full-time job as a copywriter for a magazine in New York, lost her job and now moves between part-time and freelance work. "I feel isolated as a freelancer and have had no health insurance since the start of the year; it's too expensive," she says.

It is tempting to think of the globalisation of the labour market as a zero-sum game in which Mrs Kamal in Pakistan is benefiting at the direct expense of Ms Vetter in America. But economists point out that such calculations suffer from the "lump of labour fallacy"—the belief that there is only a fixed amount of work to go round. A better explanation, they say, is the theory of comparative advantage, one of the least controversial ideas in economics, which suggests that free markets make the world better off because everyone can concentrate on doing what they are best at.

All the same, a global labour market will not make every individual in the world better off: there will be losers as well as winners, and they may put up stiff resistance to change if the losses prove too painful. For instance, total global GDP could double if all barriers to the free movement of labour were removed, argues Michael Clemens in a recent paper, "Economics and Emigration: Trillion-Dollar Bills on the Sidewalk?". Yet the political implications of such mass migration make it improbable that governments, especially in rich countries, would unconditionally open their doors.

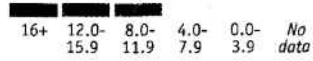
Compared with previous bursts of global integration and technological upheaval, the changes now taking place in the labour market may produce an unusually large number of losers, partly because they have coincided with a particularly deep recession and partly because they are happening exceptionally fast. The priority for policymakers must be to keep the number of losers as small as possible.

This special report will look at what this new world of work means for individuals and what they can do to ensure they are on the winning side. It will also look at the challenges facing companies as they compete to recruit the best talent. And it will examine what governments can do, even in these tough economic times, to equip their citizens to claim the prize described by Mr Roosevelt—and to protect the losers. ■



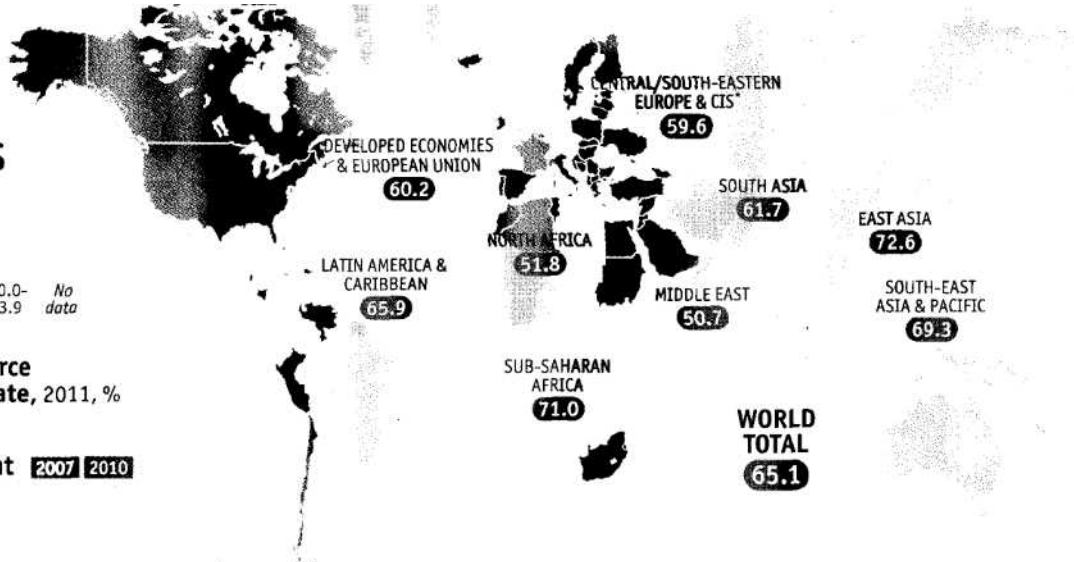
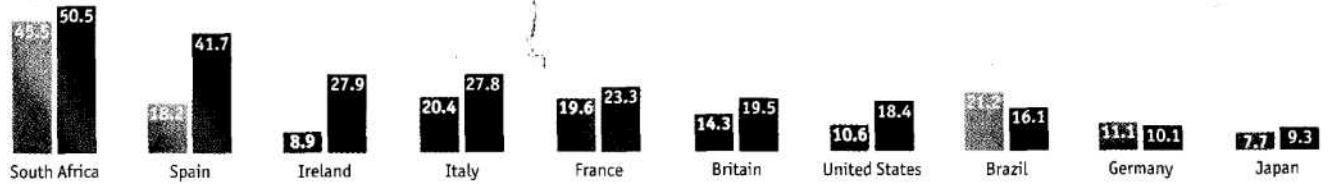
# Working the figures

## Unemployment rate 2010 or latest, %



## 0.0 Total labour-force participation rate, 2011, %

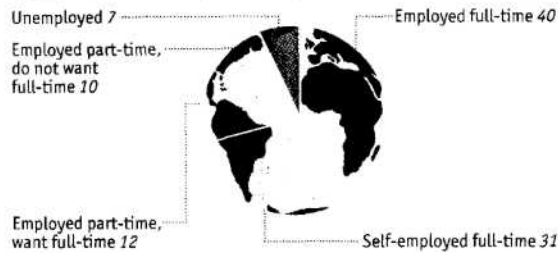
## Youth unemployment Aged 15-24, %



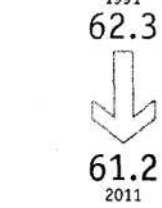
## Global employment, bn



## Global workforce, 2009-10, %



## Global employment-to-population ratio %



## Biggest employers, 2010

Number of employees, m



Sources: IMF; ILO; Gallup; Fortune; EU; The Economist

All 2011 data are forecasts \*Commonwealth of Independent States †Surveys conducted in 129 countries and areas ‡2008 §Includes franchise employees

### ACKNOWLEDGMENTS

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