

World Bank Brown Bag Seminar

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The Jobs Crisis: What Are the Implications for Employment and Social Policy?

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The jobs crisis (1)

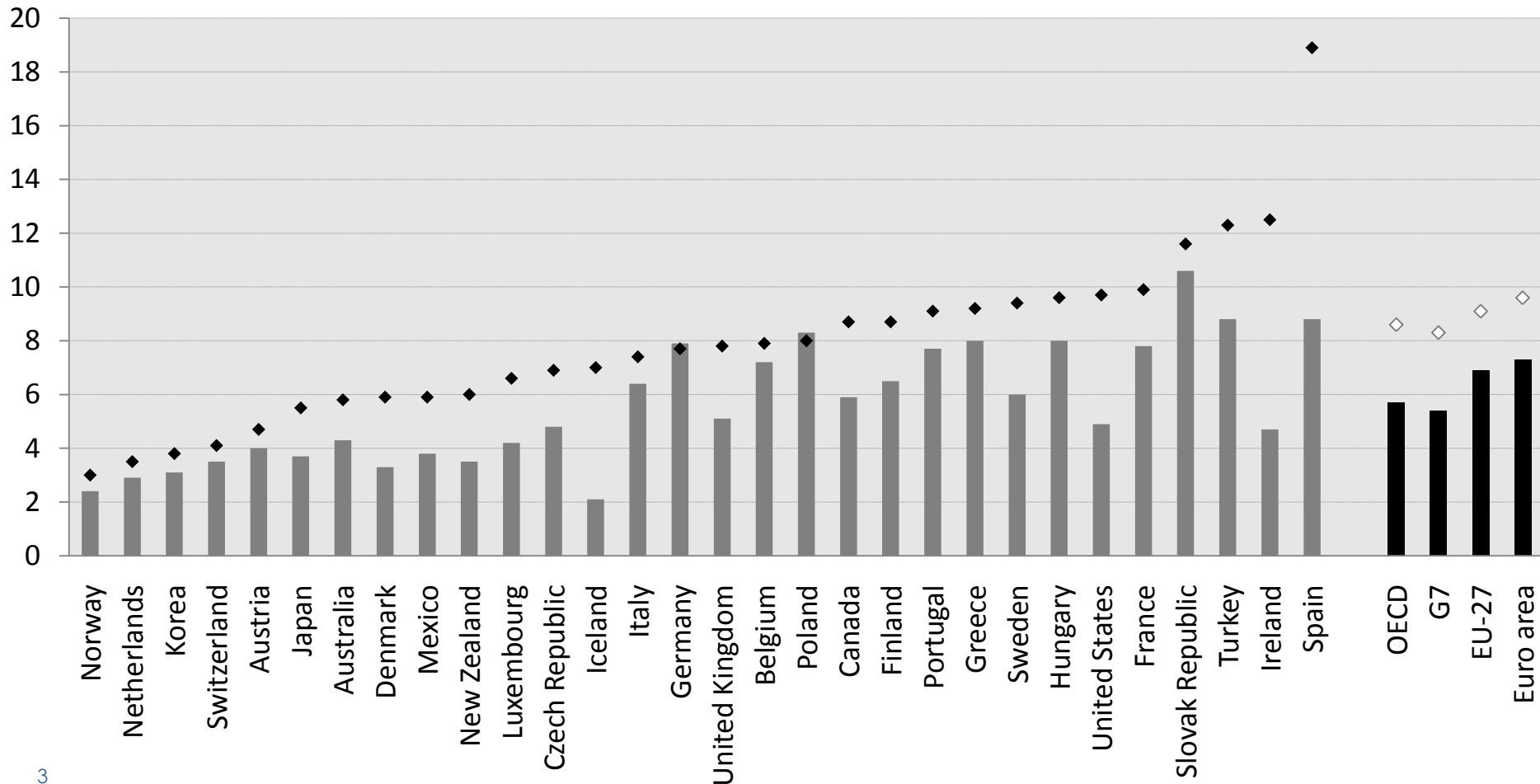
- Latest data show a **mixed picture**
 - OECD unemployment rate hit a post-war high of 8.6% in September 2009.
 - Pre-recession 25-year low was 5.6% in 2007
 - Some easing in the pace of unemployment increase in some countries (US, GER, FRA) but continued deterioration in others (UK, IRE and ESP)
 - A decline in unemployment in Australia
- **Different adjustment process** across OECD countries:
 - **Employment** has fallen significantly in the US, IRL, SPA and more recently UK; FRA has been less affected and GER has seen little change
 - Large declines in **hours worked**, particularly in GER and some other European countries
 - Widespread reduction in **participation** of youth; some reduction among prime-aged workers (BEL, IRL, ITA) and older workers (ICE, KOR, MEX)

The unemployment impact so far differs greatly across countries

OECD harmonized unemployment rate (%)

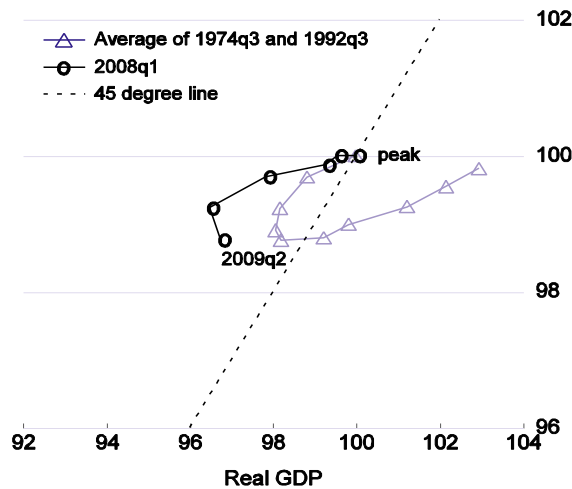
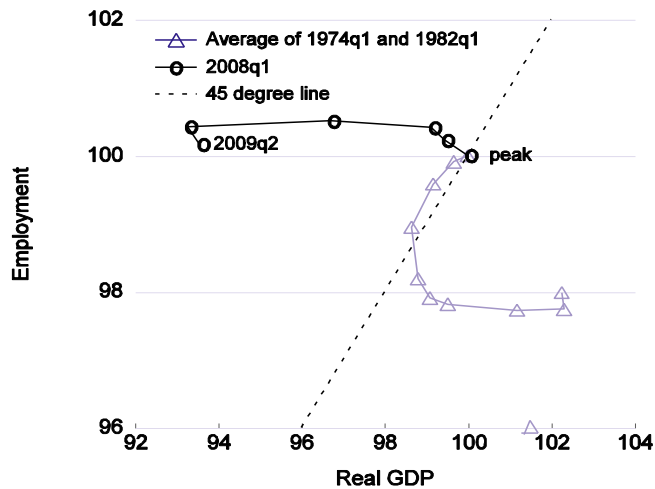
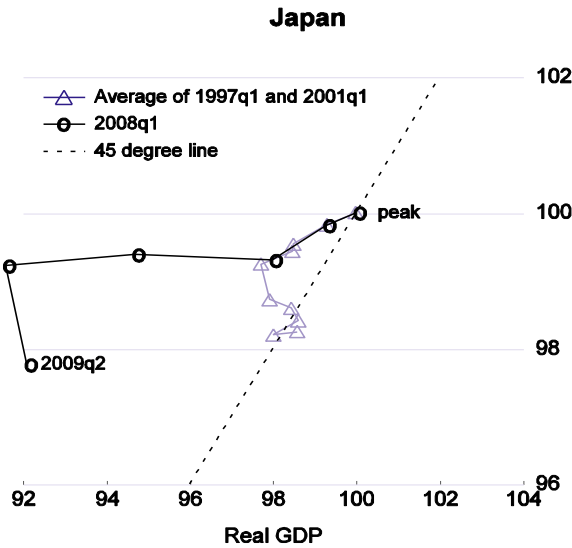
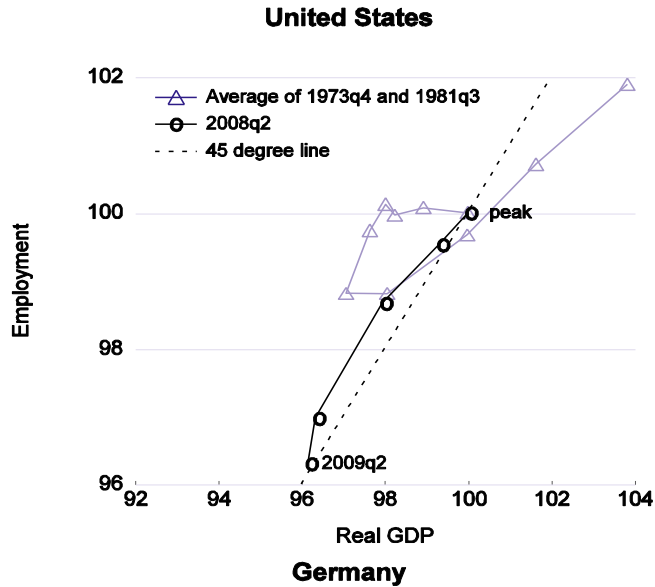
■ December 2007

◆ August 2009



Employment and real GDP in major recessions

Index GDP and employment at GDP peak = 100, legend indicates recession peaks



Note: For the earlier recessions, up to nine quarters after the peak are reported.

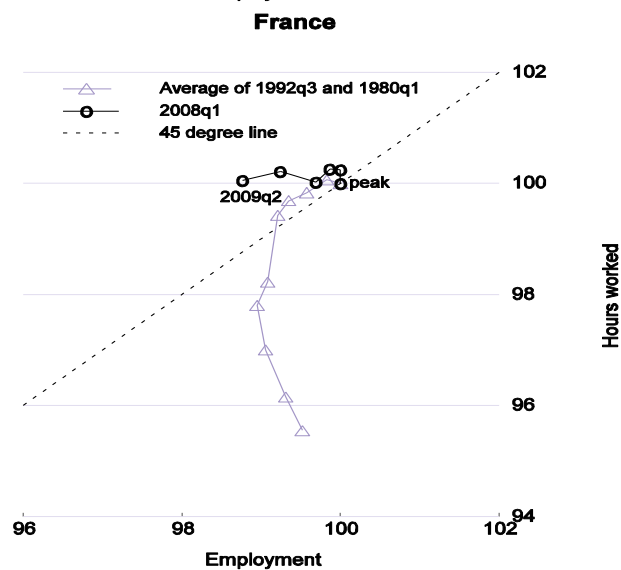
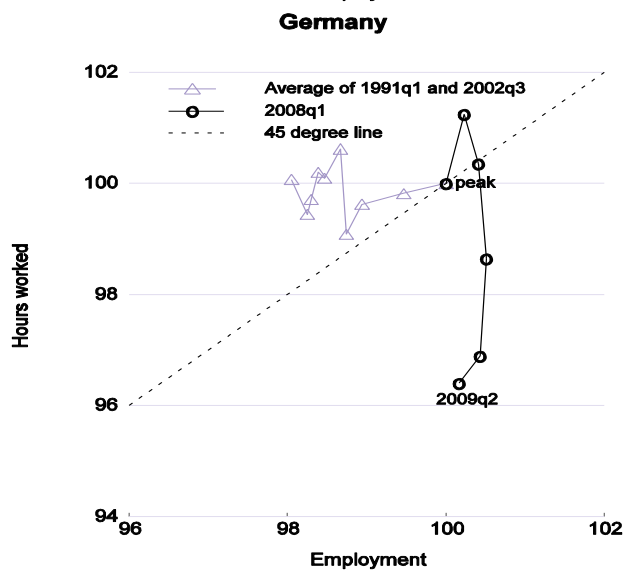
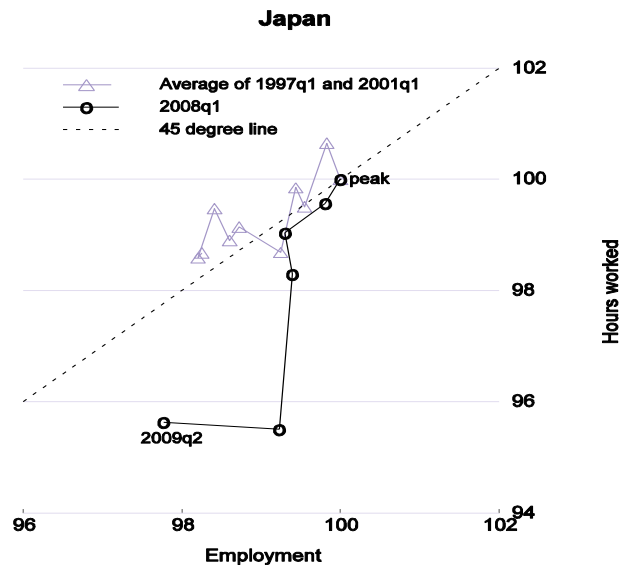
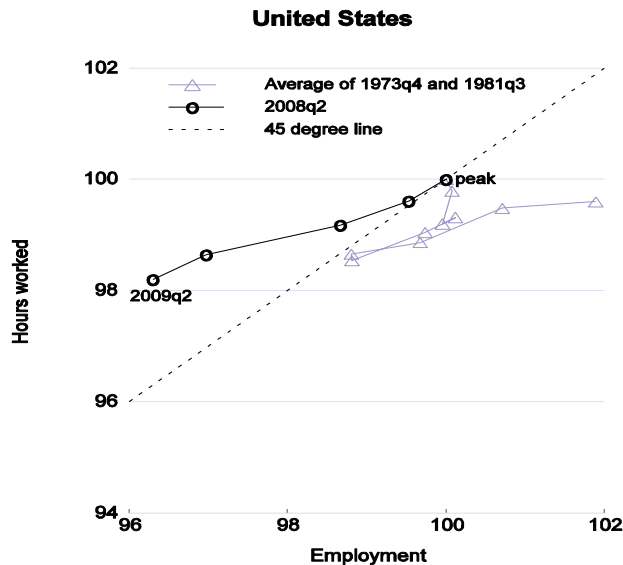
Source: OECD Economic Outlook 86.

Employment

Employment

Hours worked per worker and employment in major recessions

Index employment and hours worked at GDP peak = 100, legend indicates recession peaks



Note: Averages for previous recessions. Data refer to up to nine quarters after the peak.

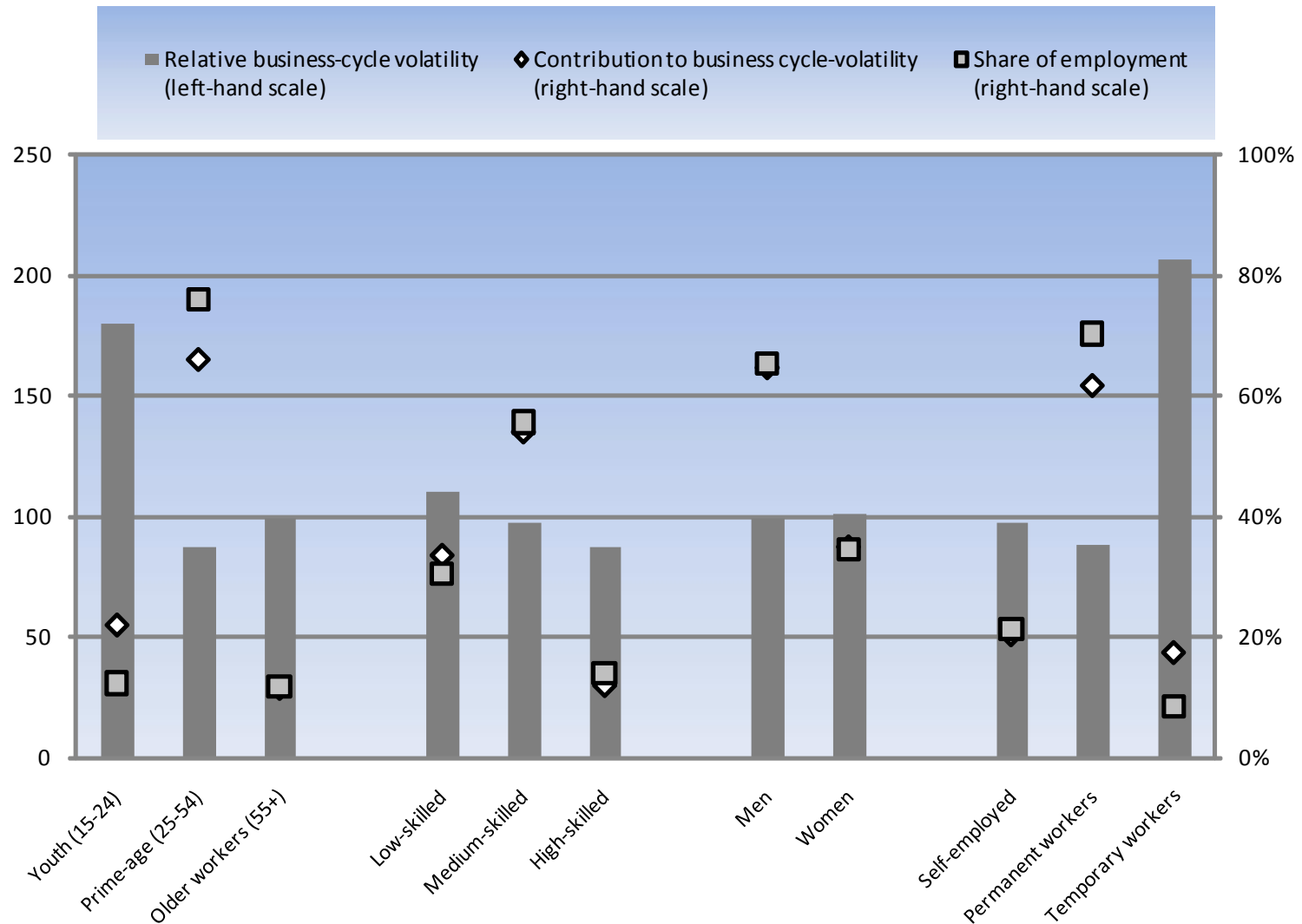
Source: OECD Economic Outlook 86 database; Datastream.

The jobs crisis (2)

- **Vulnerable groups** are bearing most of the brunt^{*}:
 - The OECD **youth** (15-24) unemployment rate reached 18% in Sept 2009: 41.7% in SPA and around 25% in FRA, ITA and in the US (among teenagers);
 - Job losses concentrated on **temporary contracts** in many EU countries, e.g. SPA, ITA and FRA;
 - The unemployment rate of **immigrants** increased much more than that of natives: e.g. SPA it is 50% higher than the already very high overall rate (19.3%)
- While the recovery is in sight, **unemployment and under-employment are expected to rise further**
 - The recovery is expected to be weak
 - Job creation lags output growth early in a recovery
- A real **risk that high unemployment will persist** into the recovery:
 - Different mechanisms at work: depreciation of human capital and demoralization; Long-term unemployed are less attractive hires for employers; Insider-outside effects (e.g. in wage setting)

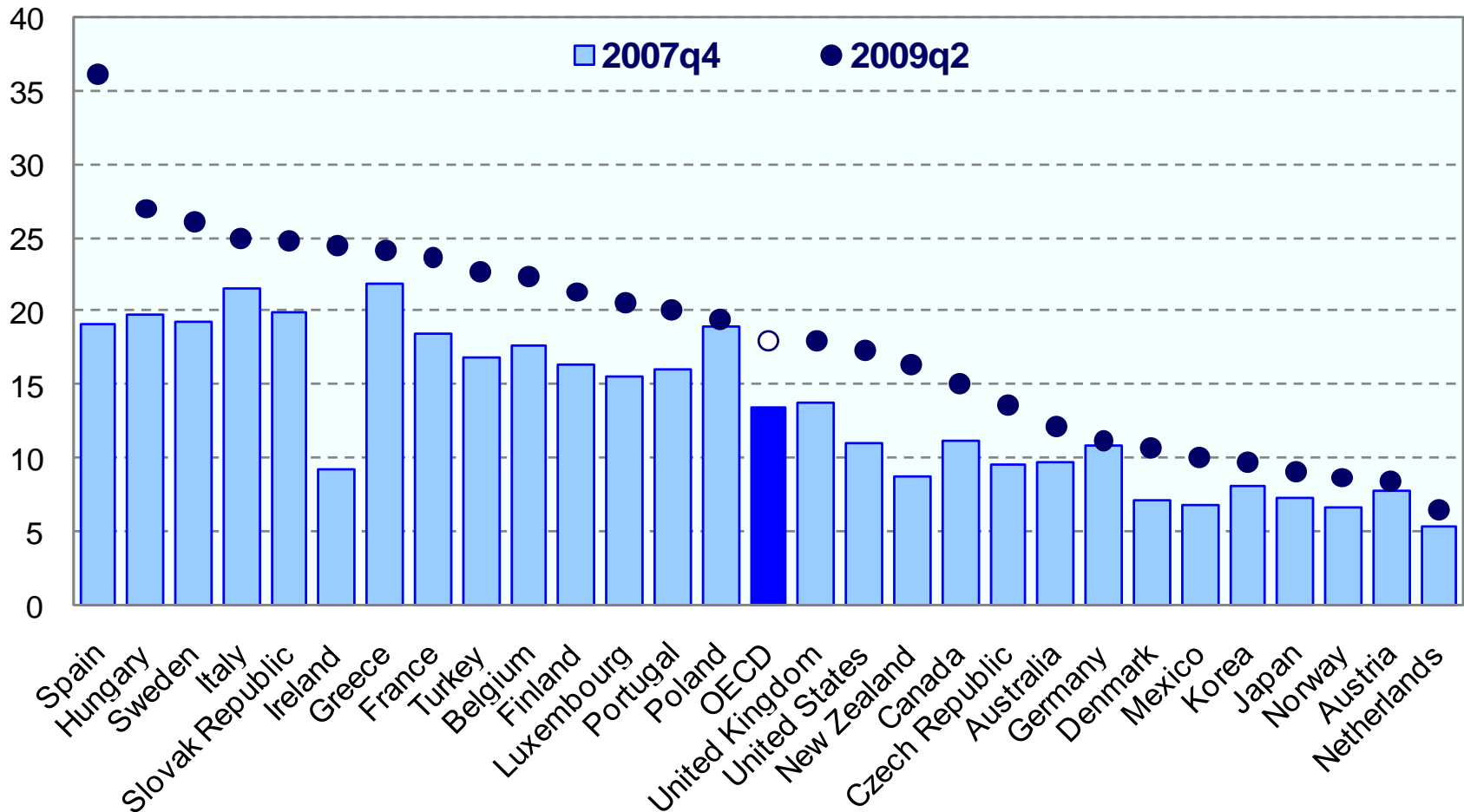
Already disadvantaged groups bear the brunt of falling labour demand

Index of relative business-cycle volatility (national average=100)^a



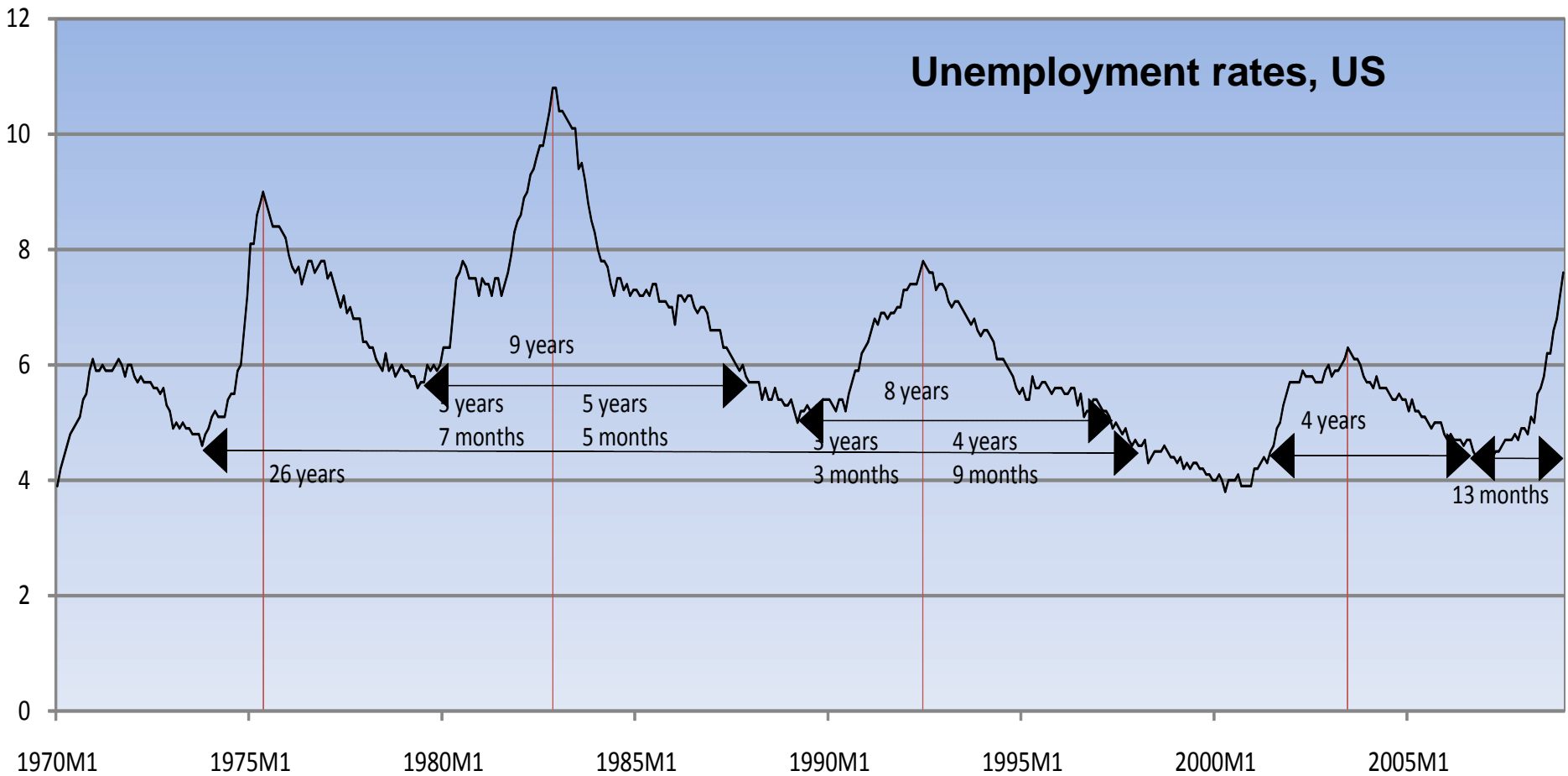
Youth are particularly exposed to a major downturn

Unemployed as a % of the labour force

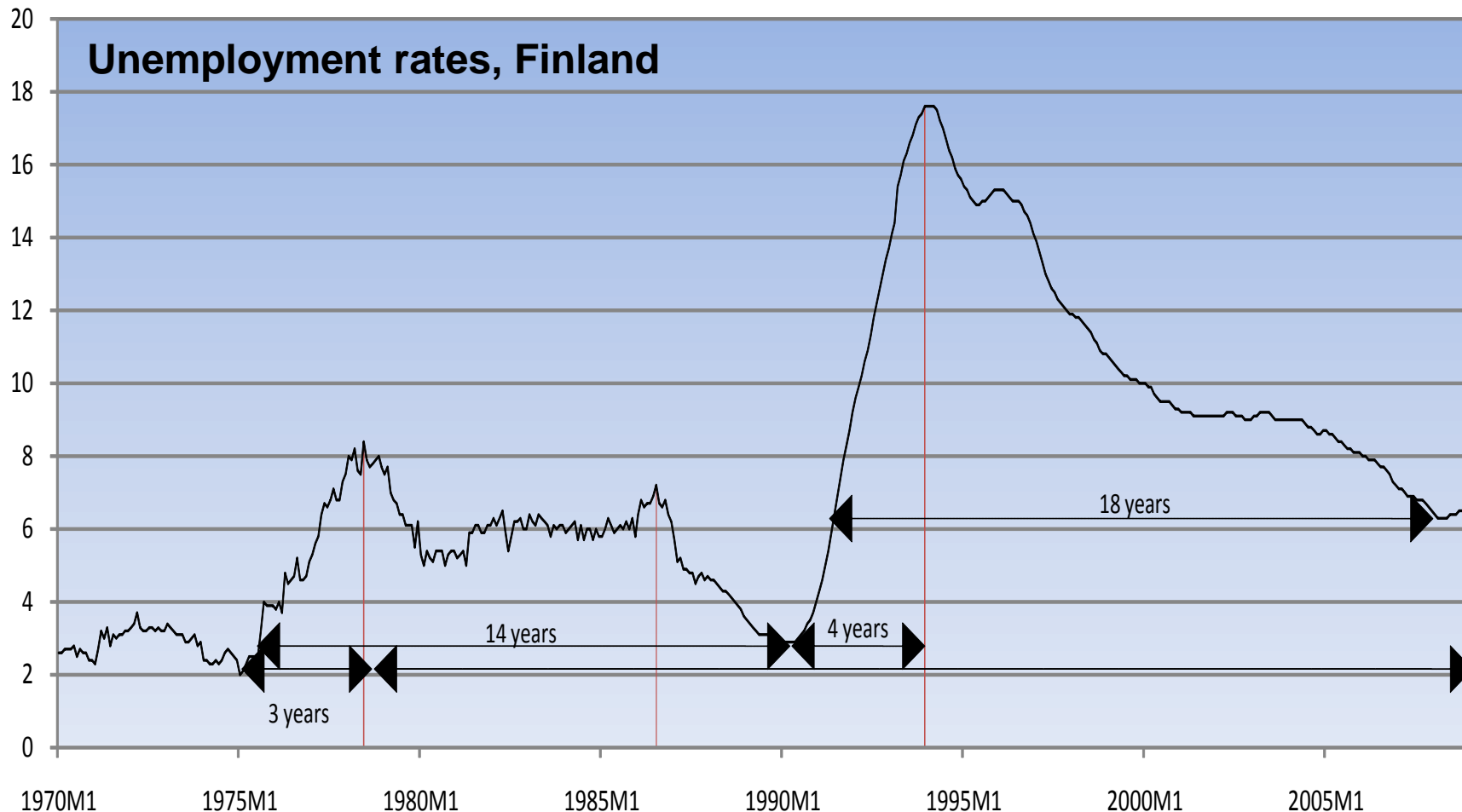


Source: National labour force surveys.

Recessions hurt lots of people and take a long time to fix



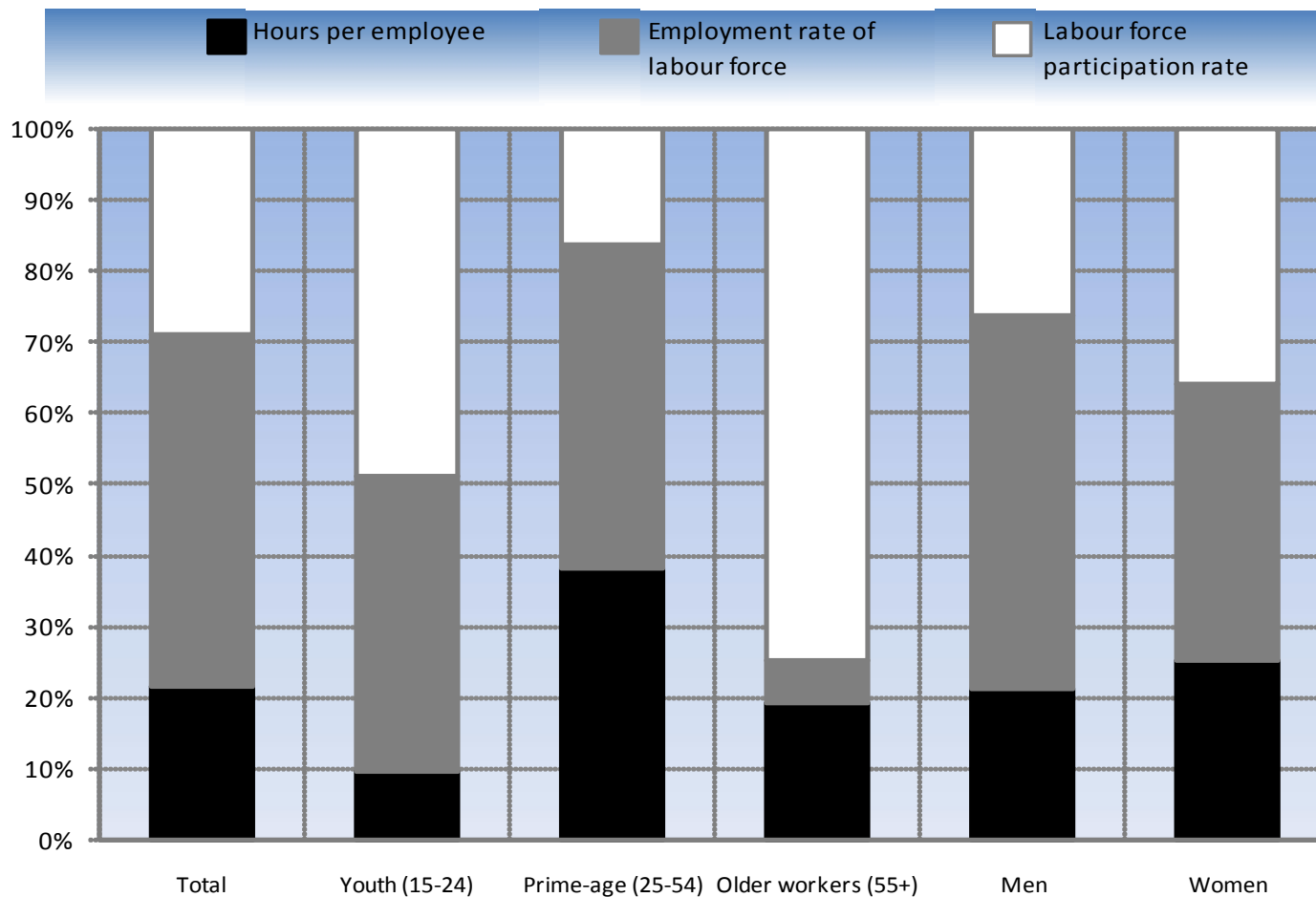
Recessions not only hurt lots of people, but also take a long time to fix



In addition to job losses, hours reductions and LF withdrawals also account for falling labour demand

Unweighted average across countries

Share of total variance explained by variation of the cyclical component of:



Estimates based on the EU Labour Force Survey

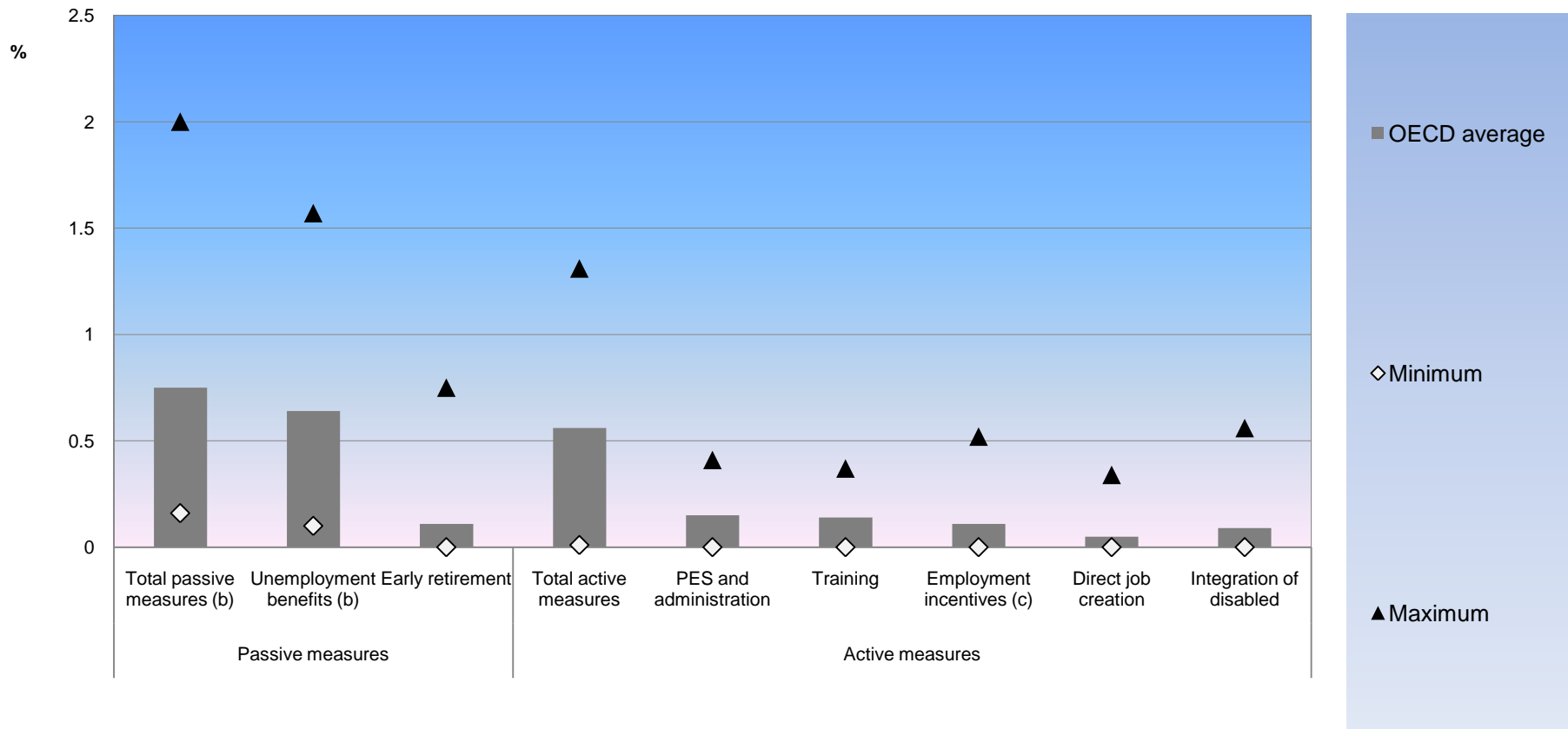
Labour market policy challenges

- **Short-term challenges**
 - Are social security systems appropriate?
 - Is the work-first approach recession-proof? How to activate the unemployed when LD is weak?
 - Should labour demand policies play a major role?
 - How to sustain effective labour supply?

- Avoid allowing high unemployment to persist or **undermining long-term LM efficiency**

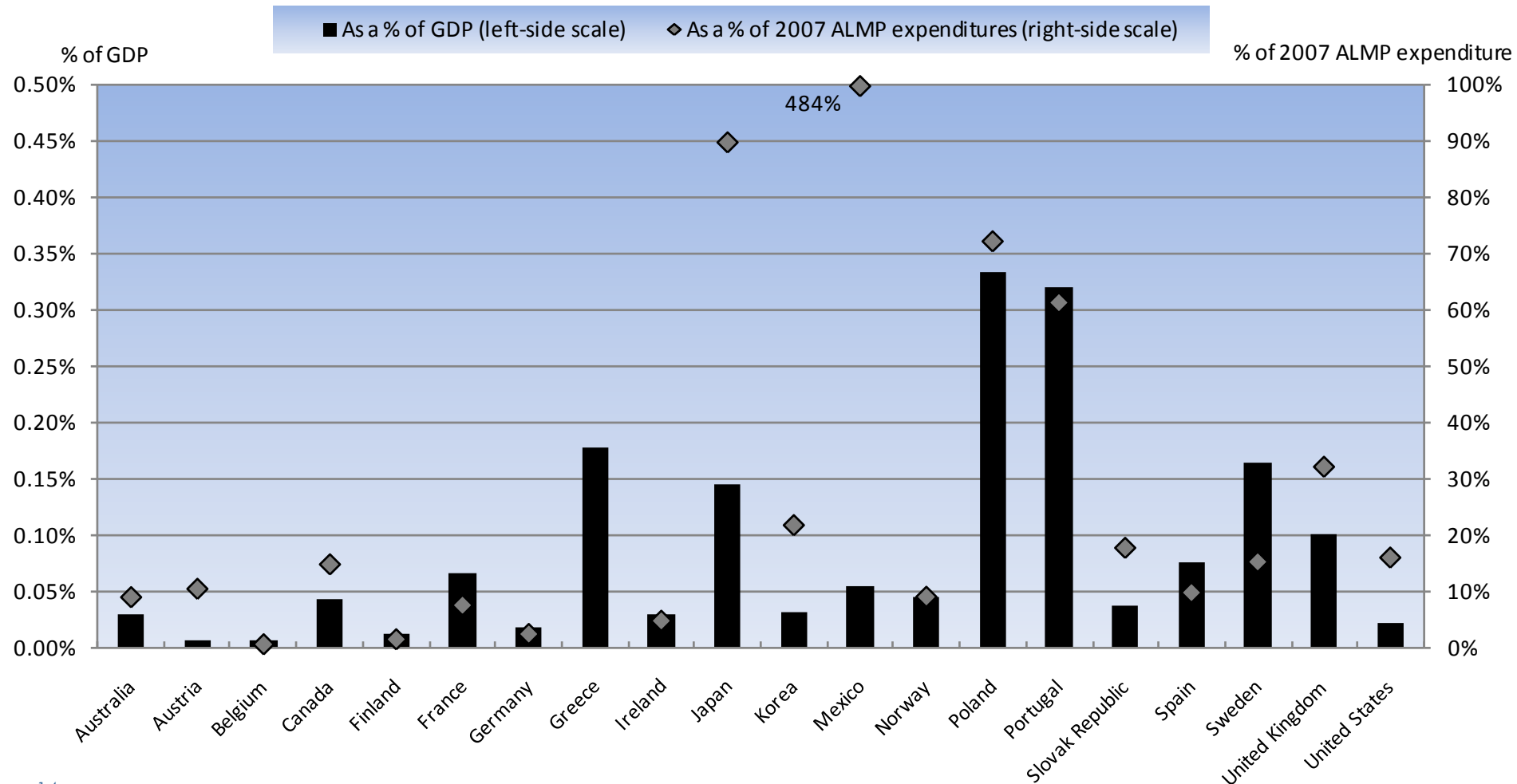
Resources available for LM policies differ across OECD countries

- On average in 2007, 1.3% of GDP of which: 0.8% passive and 0.6% active
- Large differences across countries: from 0.01% (MEX) to 0.4% (US) to 2.8% (DEN)
- Spending on UBs exceeds spending on ALMPs in almost all countries



Additional funds for ALMPs during the crisis are generally limited

Average annual planned additional expenditure in response to the economic downturn



Governments have taken many types of measures in response to the jobs crisis

Discretionary changes in labour market policy in response to the economic downturn

	Number of OECD countries that have taken different types of measures
Measures to support labour demand for job seekers and vulnerable workers	
Job subsidies, recruitment incentives or public sector job creation	15
Reductions in non-wage labour costs	16
Short-time work schemes	20
Measures to help unemployed find work	
Activation requirements	11
Job search assistance and matching	21
Job-finding and business start-up incentives	8
Work experience programmes	11
Training programmes	23
Income support for job losers and low-income earners	
Generosity or coverage of unemployment benefits	17
Social assistance	5
Other payments or in-kind support	15
Fiscal measures for low earners	15
Other training measures	
Training for existing workers	14
Apprenticeship schemes	10

a) Statistics based on 29 countries, Iceland being excluded.

b) Does not include measures to increase aggregate labour demand such as fiscal stimulus packages.

Ensuring that measures to support labour demand are well targeted and temporary

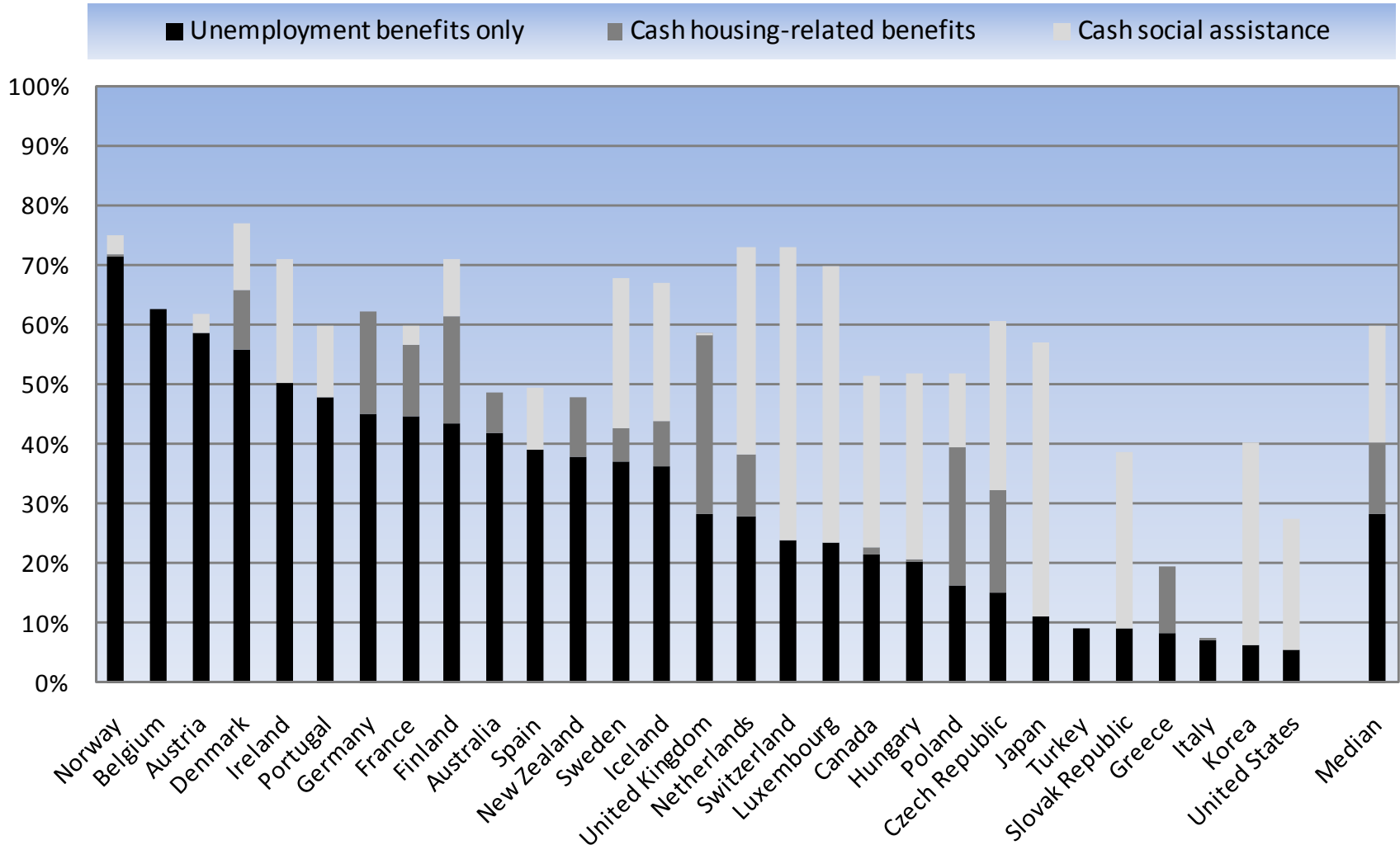
- Many countries have introduced **measures to support labour demand**:
 - Subsidies for the reduction in working time (22 OECD countries)
 - Reductions in non-wage labour costs, in some cases targeted at SMEs, disadvantaged groups (16 countries)
 - Hiring subsidies and work experience, generally targeted at disadvantaged groups (16 countries)
- **S-T labour demand should be unwound when recovery becomes firmly established**
 - By protecting job matches these measures have reduced socially and economically inefficient job losses ...
 - ...but risk increasing dualism (U highly concentrated on already disadvantaged groups and new entrants)...
 -and slow-down efficiency-enhancing labour reallocation
 - Hiring subsidies may help promoting employment for disadvantaged groups, but have to be well targeted and with strict conditions for employers.

Providing an adequate safety nets while minimising benefit dependency

- The jobs crisis leads to **longer average unemployment spells**
 - Where unemployment benefit durations are short, temporary extension during the crisis helps reducing the poverty risk among the long-term unemployed. Extension of benefits in e.g. Canada, Finland, Japan, Portugal and United States
- Increasing numbers of **ineligible jobseekers** due to the increase in non-standard work in some countries
 - Some countries have extended coverage while others maximum duration, e.g. Finland, France, Japan and United States
- **Extensions should be temporary** and targeted to the most vulnerable with enforcement of job-search requirements
- **The crisis can also be an opportunity to reform unemployment benefits** to provide a more adequate safety nets to vulnerable groups, conditional on job search, and participation in ALMPs

UB are only one element of safety nets for job losers

Average net replacement rates over a 5-year unemployment spell



How to adjust activation during the crisis

■ Threats to previously successful strategies:

- PES staff and ALMP funds tend not to increase in line with the rising stock of unemployed.
- Risk for intensity of interventions in the unemployment spell (job search controls; in-depth interviews; action plan follow-up...) to decrease
- Vacancy flows decline, resulting in a lower number of direct referrals.

■ Overriding goal: prevent job losers from becoming disconnected from the labour market

- Core element of activation regimes and mutual obligation principle should not be allowed to lapse or be overly diluted
- Adequate increase in resources is needed to:
 - handle client flows and maintain the range of PES interventions
 - compensate for the fall in vacancy notifications by scaling up short-term programmes such as job clubs, work trials or internships
 - increase institutional capacity for active programme offers to the long-term unemployed.

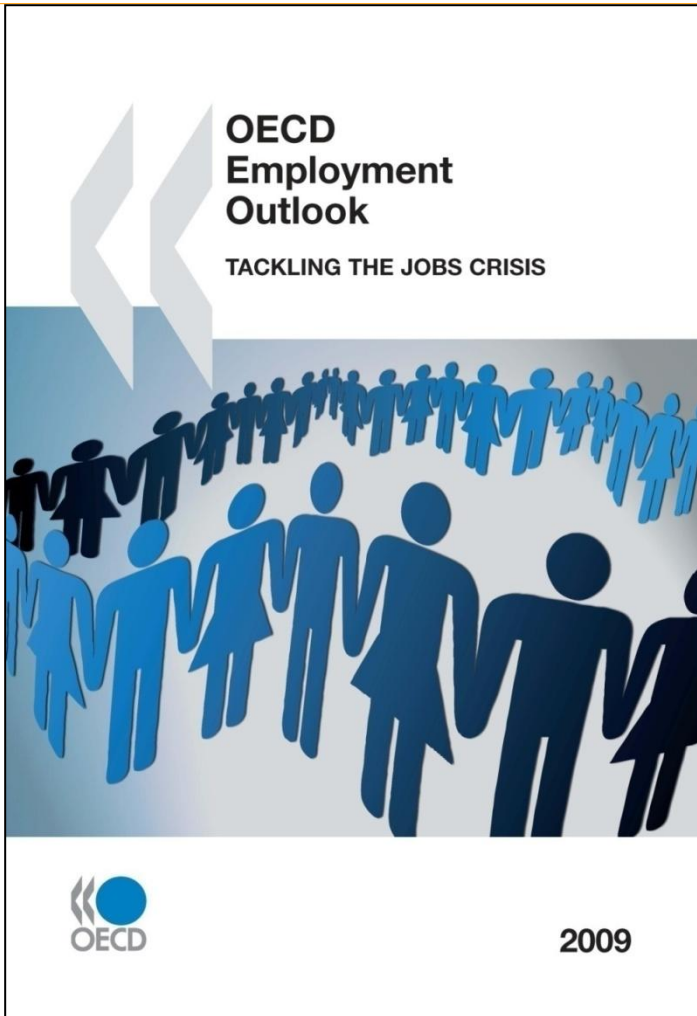
Avoiding long-lasting “scars” on youth

- Youth unemployment has increased disproportionately in many countries → risk of a **lost generation**
 - Youth employment twice as sensitive to cycle as that of prime-age workers
 - Youth unemployment rate much higher than other groups (e.g. 1/3 Spain; 1/4 among teenagers in the US)

- Need for **decisive actions targeted on at-risk youth**:
 - Redouble efforts to prevent youth entering the labour market without qualifications (e.g. second-chance school, subsidies for apprenticeships for un-skilled youth)
 - Out-of-school youth should have access to appropriate ALMPs even if they do not qualify for unemployment benefits

Concluding remarks

- OECD governments are intervening to prevent the jobs crisis from turning into a fully-blown social crisis
- With the recovery in sight, governments must not reduce their efforts to tackle high and persistent unemployment and under-employment
- Scaling-up labour market programmes raises a number of issues
 - Administrative capacity to scale up LM programmes and possible role of private providers
 - How to reach out those who are not eligible for income support schemes
 - Discretionary LM policy measures should be *timely, temporary* and *targeted*
 - The severe economic downturn could be an opportunity to invest on labour market institutions



Thank you