

TACKLING THE JOB CRISIS: FEW REACTIONS FROM A DEVELOPING COUNTRY PROSPECTIVE

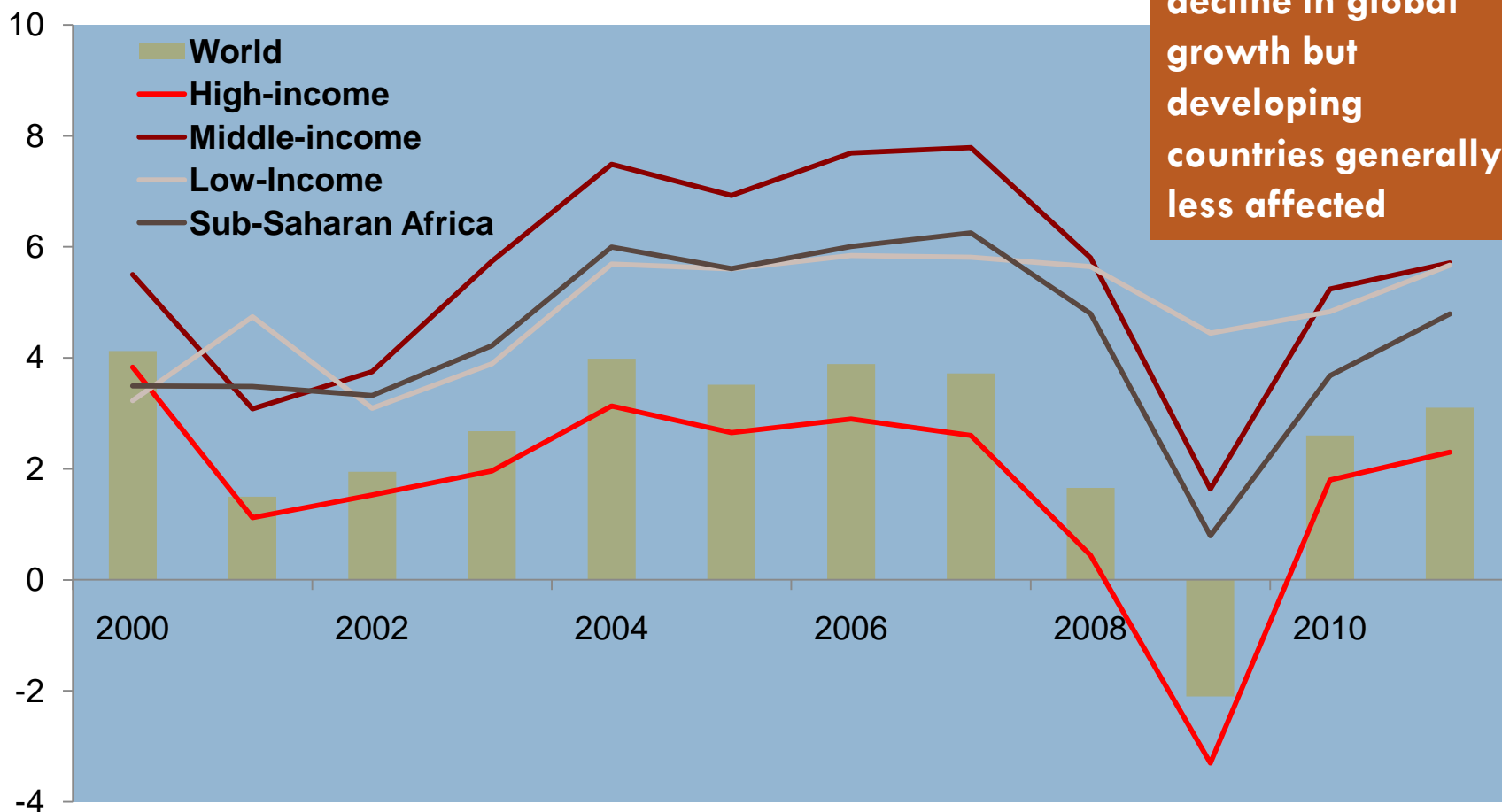


Ana Revenga, PRMPR

Developing countries have been less hit than higher-income countries

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The crisis has caused a sharp decline in global growth but developing countries generally less affected



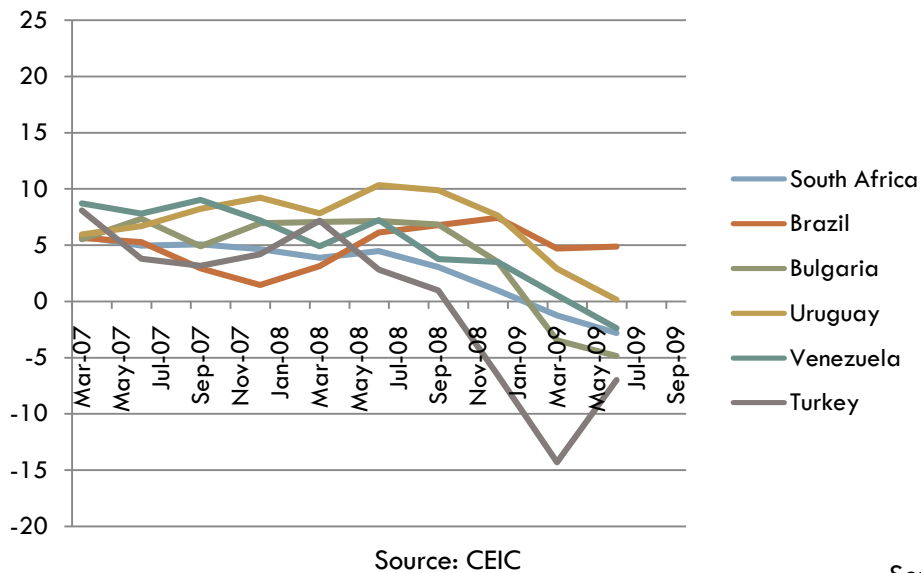
Huge heterogeneity across countries

GDP Growth

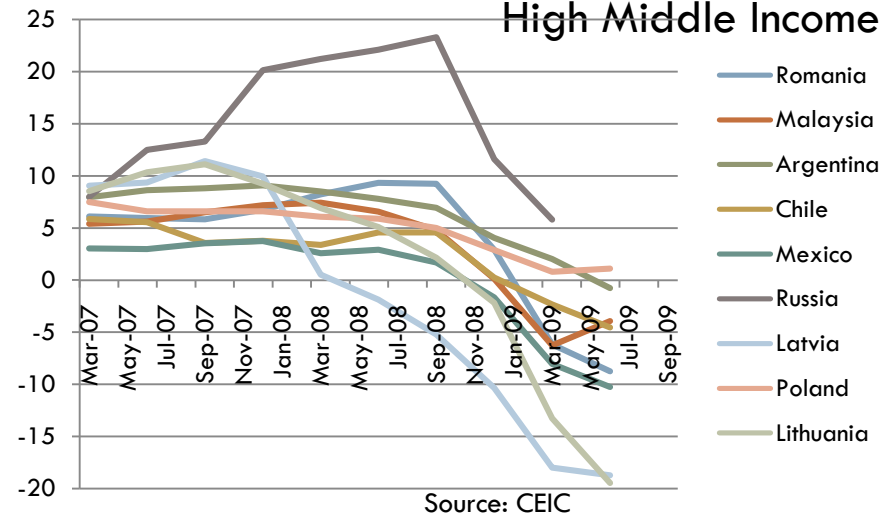
The crisis hit all regions in the last quarter of 2008 but ECA was the most hit.

All income groups were hit but the high-end middle income countries were the worst hit.

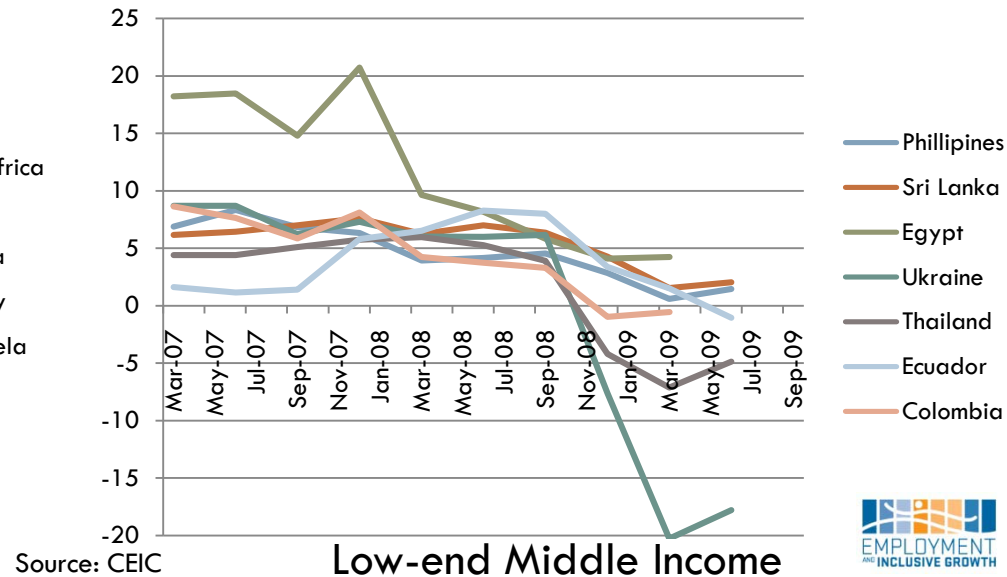
Middle Income



High Middle Income



Low-end Middle Income



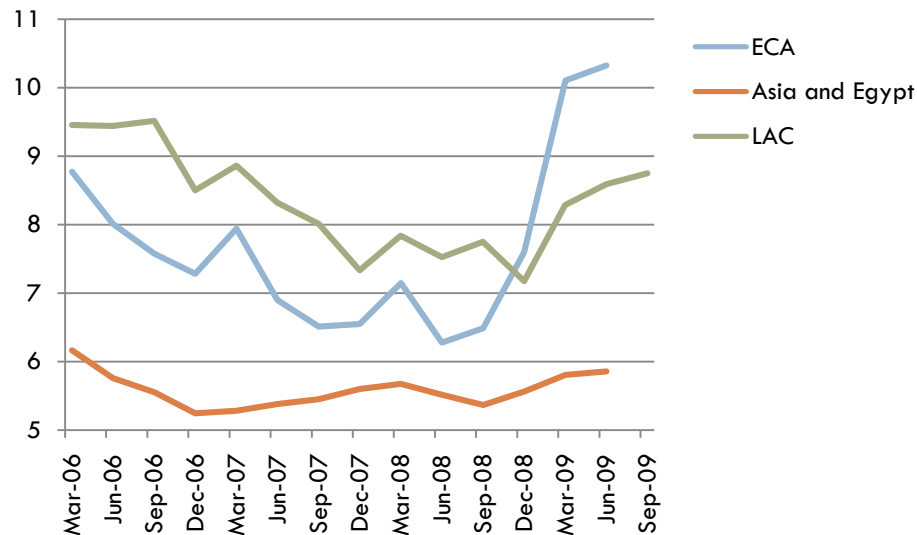
Main transmission mechanisms : Within countries

From macro shocks to *household impacts*: transmission within countries occurred via

- ▣ Credit markets
- ▣ **Labor markets** – *significant impacts*
 - Job losses, emerging unemployment, falling labor earnings
 - Return migration and urban-rural
- ▣ Fiscal policy

Unemployment is rising but not everywhere

Unemployment Rate



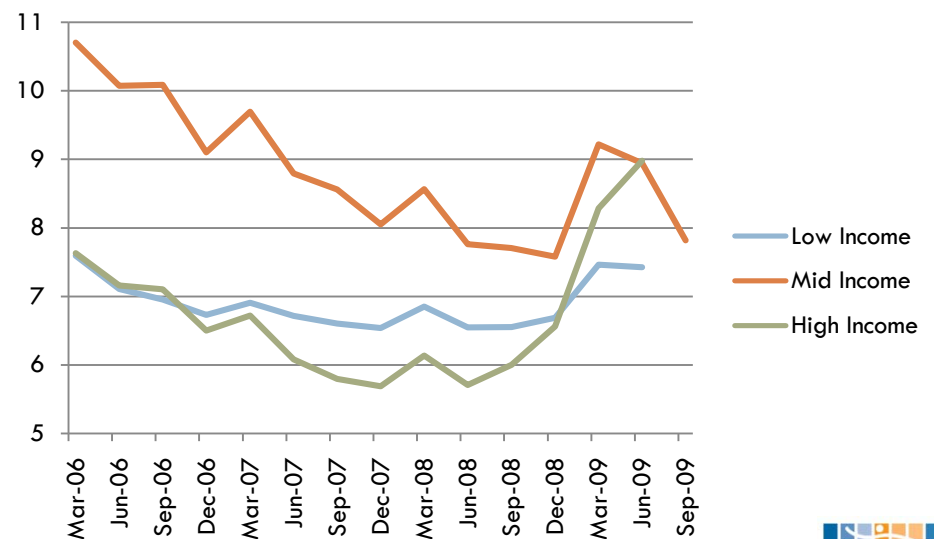
In ECA registered unemployment has increased sharply; less so in LAC, Asia

Source: CEIC

By Region

By income, unemployment rise sharper in high-income and high-middle income

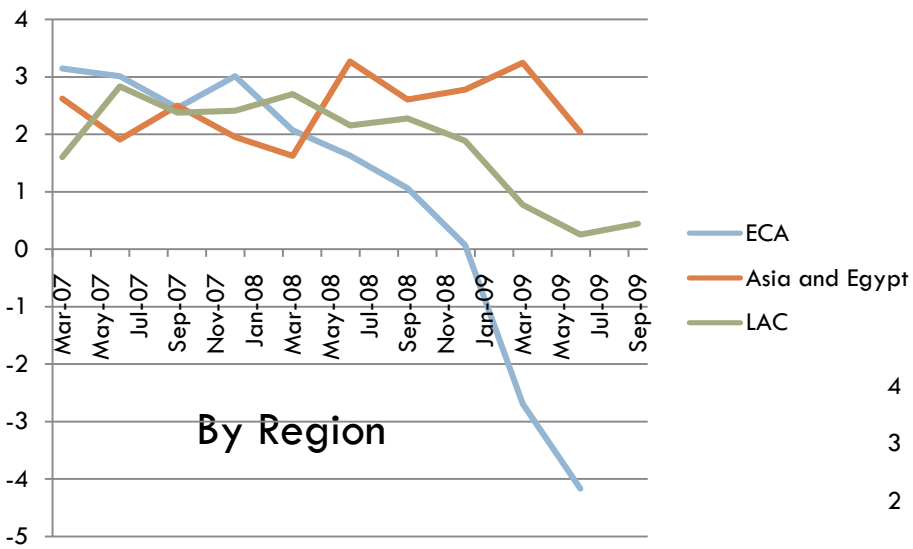
By Income



Source: CEIC

Employment has continued to grow (except ECA) but at a lower rate

Year on Year Change in Employment (%)

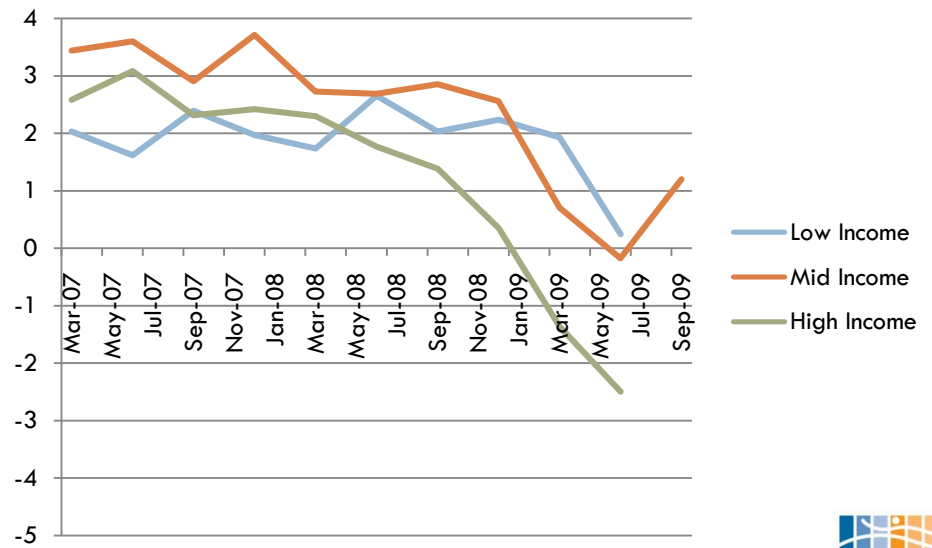


By Region

Source: CEIC

High income countries had the sharpest drops in employment.

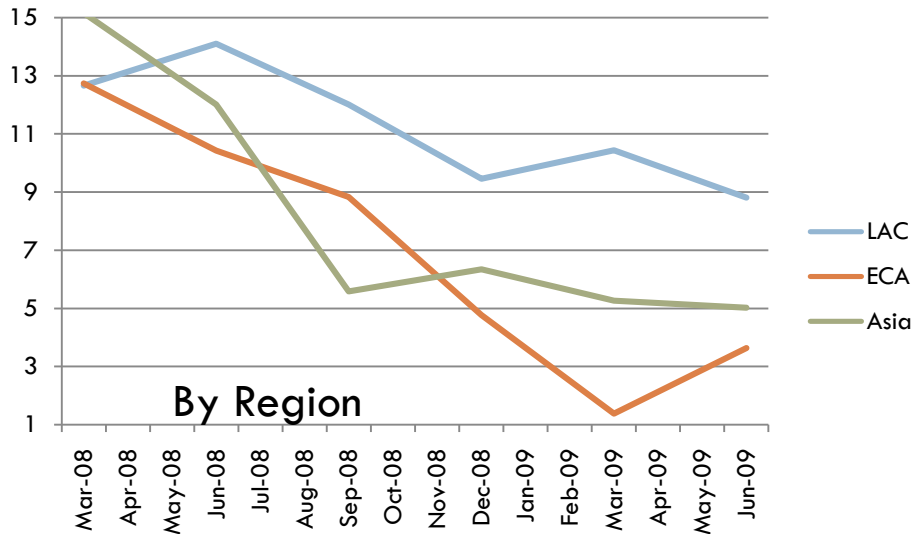
Slowdown in growth of employment, except ECA where it has plummeted
By Income



Source: CEIC

Earnings have also continued to grow, only slower

Rate of Growth of Earnings (%)

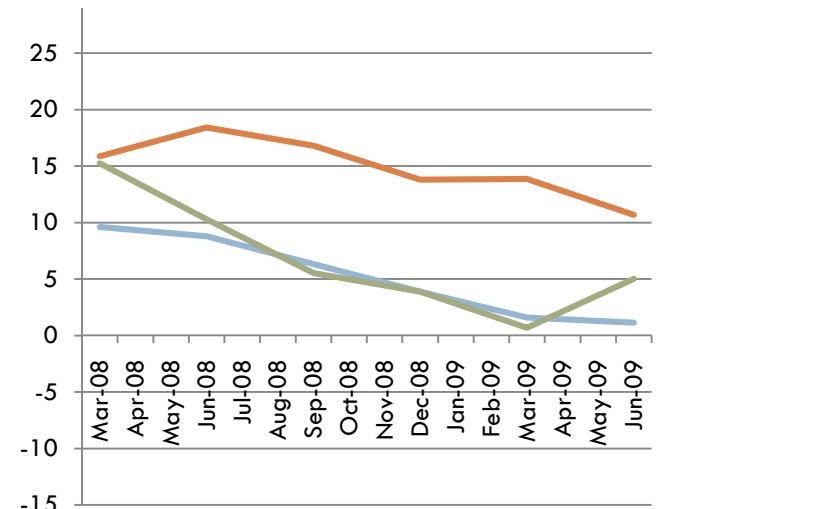


Source: CEIC

High income countries also had the largest fall in earnings growth.

While most ECA countries saw a fall in the rate of growth of earnings, the evidence for the LAC countries is mixed.

By Income

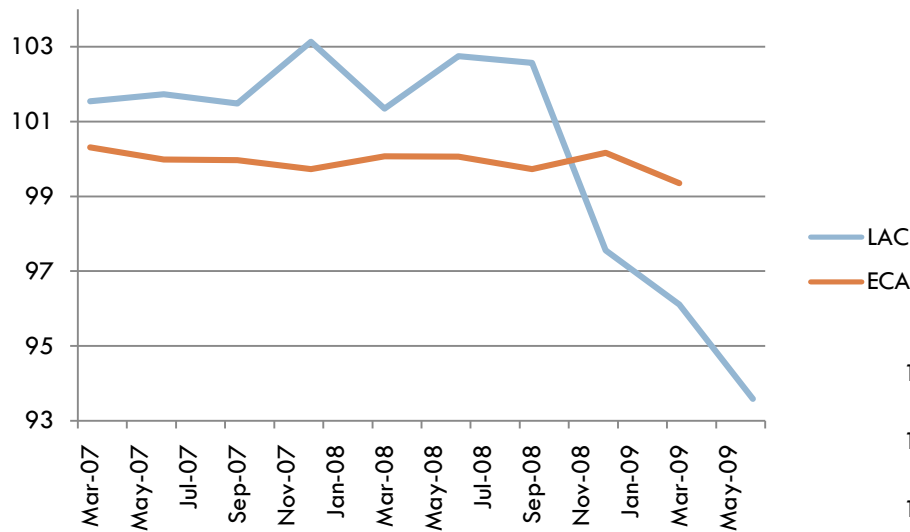


Source: CEIC

High End Mid Income
Mid Income
Low End Mid Income

In LAC (and EAP?) the adjustment has been via reduced hours

Index of Hours Worked

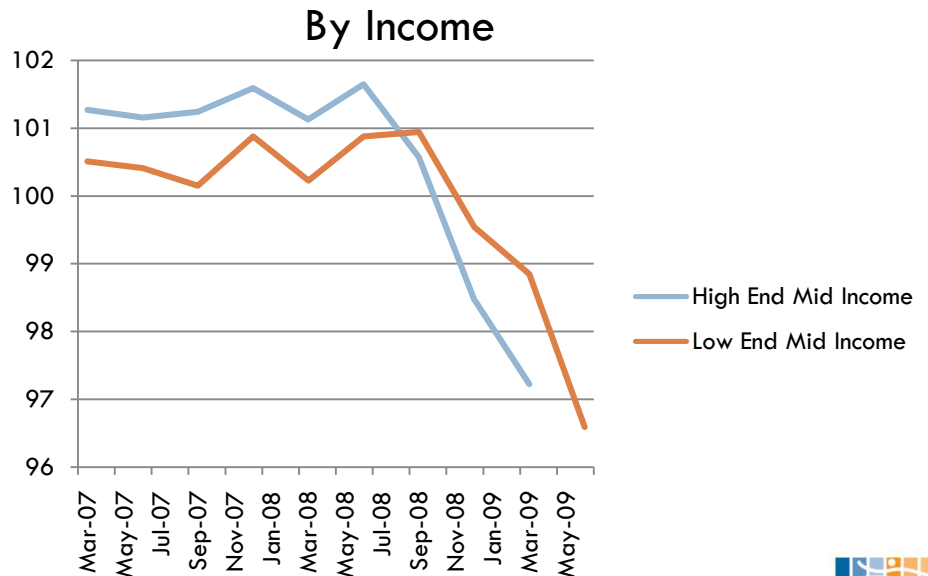


Source: CEIC

By Region

The High-End countries witnessed the sharpest drop in hours worked.

LAC saw a sharp reduction in the number of hours worked almost immediately.

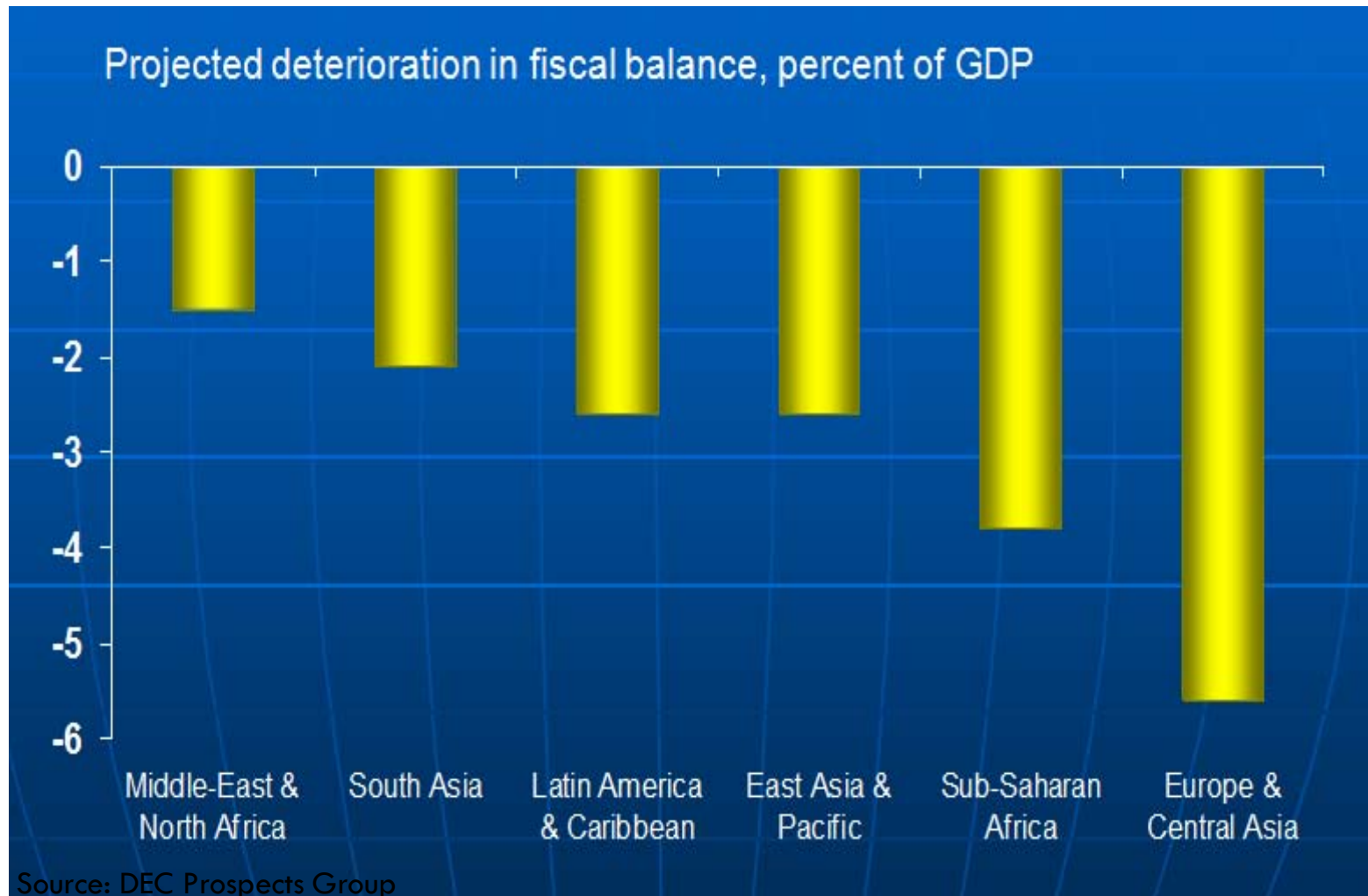


Source: CEIC

Designing effective policy responses – challenges (1)

- Monitoring and Assessing Impacts
 - Limited monitoring instruments and real time/high frequency info
 - Significant variation in transmission channels across countries
 - Changing nature and magnitude of impacts over time and across groups/space
 - Impacts across entire income distribution
- Thorny trade-offs
 - Inter-temporal trade-offs
 - Mitigating impact versus facilitating adjustments
 - Safety Ropes or Safety Nets
 - providing protection to the most vulnerable – typically the chronically poor – and
 - supporting those most directly affected by the crisis – those who lose their jobs and incomes
- Trade-offs more binding given tight (and tightening) fiscal constraints

Deteriorating fiscal balances limit scope for response



Designing effective policy responses – challenges (2)

- Responses so far:
 - ▣ Maintaining viable employment/promoting job creation
 - Focus on firms: facilitate access to credit (esp. among SMEs)
 - Focus on jobs: interventions to reduce job destruction
 - Focus on individuals: training to minimize skill depreciation and support employability
 - Focus on information: employment intermediation services
 - ▣ Tools to smooth consumption
 - Focus on income: automatic stabilizers (where available), work fare and targeted transfers
 - Focus on protecting HD outcomes: CCTs and food-for-work
- Evidence on effectiveness/impact of policy response
 - Experience from previous crisis
 - But very limited information on impact of current policy responses

Responses so far – example: East Asia

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- Rescue packages are substantial (3-7% of GDP, 5-30% additional budget in 2009)
 - ▣ About 3-15% on social policies; 60-75% on infrastructure
- What types of measures?
 - ▣ Support to SMEs (12 out of 15 countries in East Asia; support to ‘strategic industries’)
 - ▣ Safety nets (11 of 13)
 - ▣ Other employment generation (10 of 13)
- But ample scope for improving/rationalizing social programs and subsidies, for better targeting the poor
- Huge fiscal stimulus programs cannot be maintained beyond 2010

NO standard ‘optimal’ policy response exists but some important messages emerge:

- ***Being Prepared Pays Off:*** Programs and policies set up prior to crisis are arguably more effective in dealing with shocks than policy responses, which are designed “on the run”
- ***Policy packages preferable to isolated interventions :*** isolated responses are rarely effective. Taking a more comprehensive approach, by building institutions that can deliver a coordinated and coherent policy package is a more effective option
- Package must be **cost-effective** and **fiscally sustainable**
- But crises can also provide an **window of opportunity** to institute automatic stabilizers and set up safety nets.