Employment Programs During the Crisis

David Newhouse
Labor Economist, Social Protection and Labor
December 7, 2011
How did labor markets and policies in developing countries respond to the crisis?

• How did labor markets in developing countries adjust to falling demand during the crisis?
  – Which types of workers suffered most?

• What employment or social safety net programs did governments implement in response to the crisis?

• What lessons (if any) have been learned?
How did labor markets in developing countries adjust?

• Focus on size of the slowdown (the decline in the growth rate)
  – Overall effects
    • Compare wage and employment growth from Q4 2008- Q3 2009 to growth average from previous two years
  – Effects of different workers
    • Compare employment growth for men in 2008-2009 to average growth from previous two years
    • Compare that to change in growth rate for women
  – Assumes that previous trends would have continued in absence of the crisis
1. How did labor markets in developing countries adjust?

- Data only available on earnings and employment in 25 countries
  - Mostly in ECA and LAC
  - Earnings data often from administrative rather than survey data
- Earnings adjustment dominated (we think)

<table>
<thead>
<tr>
<th>Decomposition of decline in wage bill growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>% due to real earnings</td>
</tr>
<tr>
<td>74.7%</td>
</tr>
<tr>
<td>% due to employment</td>
</tr>
<tr>
<td>25.3%</td>
</tr>
</tbody>
</table>

1. How did labor markets in developing countries adjust?

Effects on employment and unemployment smaller than GDP and earnings

Median annual change in GDP and labor indicators

Youth bore the brunt of employment adjustment

- According to data from 17 Middle Income Countries
- Main indicator is difference in employment slowdown between youth and adults

Male employment also heavily affected

![Graph showing disparity in change in change (pct points) vs. slowdown in GDP growth (pct points) for different countries.](chart.png)
Why did employment fall most for youth and men?

- Two causes for differences usually discussed
  - Firms tend to dismiss young workers first, because they are least valuable
  - Men were affected more because they were concentrated in industrial and manufacturing sectors

- One important cause for differences often overlooked
  - More adults and men work, meaning that equal percentage reductions affect more of them.
  - In fact this explains about 60 percent of the gender disparity
  - But none of the age disparity, which mostly occurred within each sector
Three types of labor policies used to address the crisis:

- **Support or Stimulate Labor Demand**
  - Wage subsidies for employees
  - Work sharing

- **Support Job Search and Preserve Skills**
  - Intermediation Counseling
  - Job-search assistance
  - Training
  - Skills certification

- **Income Support**
  - Unemployment benefits
  - Subsidized social insurance
  - Cash and in-kind transfers
  - Work fare

Subsidies for new hires
Public Works
Credit for self-employed and SMEs
NEW ENTRANTS

STOCK OF EMPLOYED
Many countries adopted labor policies

Support to SMEs, other ALMP measures, Public Works and transfers particularly popular

Percent of countries implementing at least one program

- Expanded social sec or min wage
- Expansion of non-contributory social ins
- Expanded unemp benefits
- Public works
- In-kind transfers
- Cash transfers
- Other ALMP measures
- Skills certification
- Job Search/Intermediation
- Training
- Other labor demand measures
- Work sharing
- Reduction in non-wage labor cost
- Wage subsidies for new jobs
- Wage Subsidies for Existing jobs
- Credit and Support to SMES

High income
Low and middle-income

Note: Other labor demand measures include miscellaneous measures for SMEs, microenterprises, or cooperatives such as excise or income tax reductions. Other ALMP measures include training, job orientation, Skills certification or other programs for youth, disabled, or vulnerable workers.

Source: ILO-WB Policy inventory, in Robalino, Newhouse, and Rother, “Labor and Social Protection Policies During the Crisis and Recovery”, forthcoming
Median country expenditure on programs tended to be small

• Except on income and social protection programs like public works or UI

Source: ILO-WB policy inventory
And programs covered few beneficiaries

Except for income and social protection programs
- tend to be cash and in kind transfer programs
- like Bolsa Familia, Families in Accion, Food Subsidies in Bangladesh

Source: ILO-WB policy inventory
Responses didn’t always match the nature of the crisis

- Countries with larger slowdowns not necessarily more likely to implement programs
  - Except wage subsidies
Some countries where youth lost jobs implemented youth programs, but not all.
No sign that harder hit countries were more aggressive in supporting employment...
or that countries with greater earnings reductions were aggressive in supporting income.
Labor demand measures: Some are worth consideration

• Work sharing or hours reductions
  – Implemented mostly in the OECD but also in Argentina, Costa Rica, Colombia, and Mexico
  – No evidence on effectiveness in developing countries
  – Evidence on effectiveness in developed countries mixed
    • Reduced employment in Germany (Hunt, 1999) and among those working part-time in Portugal (Raposo, 2010)
  – Doing it well requires high administrative capacity
    • To maintain overtime accounts, which helped reduce employment loss in Germany

• Public sector hiring
  – Helpful to maintain essential services (teachers, police, military)
  – Fiscal space is a concern

• Firm credits / loans
  – May be appropriate when survival of firms is threatened due to liquidity problems
  – But not always easy to distinguish liquidity crunch from structural problems
Labor demand: Others are more controversial

- Wage subsidies
  - Generally poorly targeted
    - Most benefits go to workers who will not need it to prevent firing (or get rehired)
    - Do not generally benefit unregistered or self-employed workers
    - Experience in Turkey suggests that wage subsidies increased registration rather than economic activity (Betcherman et al, 2008)
  - May stigmatize recipients
    - Evidence from US (Burtless, 1985)
  - Can help prevent negative long-term impacts of temporary recessions
  - Can be targeted to poor or vulnerable workers
Labor demand: Others are more controversial

- **Firing regulations or Employment Protection Legislation**
  - Increases security but in an inefficient way
  - Negative effects during non-crisis times
    - Reduces employment in Latin American countries (Heckman and Pages, 2000)
    - Reduction in firing costs associated with reduced unemployment in Colombia (Kugler, 2000)
    - Regulations tends to protects insiders (wage workers) at the expense of outsiders (youth, women, immigrants) (Kahn, 2010)
  - Negative effects during crisis may be worse
    - Hinders reallocation of workers to more productive uses
Intermediation

- **Job search programs**
  - Intended more to improve matching than to improve employment
    - Short-term effects not clear
  - May be less effective during a downturn
  - Requires substantial administrative capacity to do well
    - Can be difficult to provide incentives for staff to respond effectively to clients
  - Generally small budgets and few beneficiaries (even after large increases in some countries)

### Budget for employment services in selected European countries

<table>
<thead>
<tr>
<th>Country</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slovenia</td>
<td></td>
<td>0.07</td>
</tr>
<tr>
<td>Estonia</td>
<td></td>
<td>0.12</td>
</tr>
<tr>
<td>Latvia</td>
<td></td>
<td>0.2</td>
</tr>
<tr>
<td>Lithuania</td>
<td></td>
<td>0.19</td>
</tr>
<tr>
<td>Bulgaria</td>
<td></td>
<td>0.16</td>
</tr>
<tr>
<td>Croatia</td>
<td></td>
<td>0.05</td>
</tr>
<tr>
<td>Bosnia &amp; Herzegovina</td>
<td></td>
<td>0.02</td>
</tr>
<tr>
<td>Montenegro</td>
<td></td>
<td>0.14</td>
</tr>
<tr>
<td>Armenia</td>
<td></td>
<td>0.02</td>
</tr>
</tbody>
</table>

Source: Public Employment Services
Training programs

- Training programs may be attractive
  - Lower opportunity cost of training during downturn
  - Can be combined with employment services or work-sharing arrangements

- Publicly provided training also raises challenges
  - Providing correct incentives for service providers
  - Most evaluations have been disappointing
  - Curriculum may not be match demand
  - Are private vouchers an option in middle-income contexts?
Income Support Programs

- Establishing public works programs is key for crisis response in developing countries
  - Can reach large numbers of those affected
    - Including unregistered or self-employed workers that would be overlooked by unemployment benefits or severance pay schemes.
  - Active labor market programs, while popular, tended to be tiny
    - Attractive politically
  - Most transfer programs (except for public works) target the poor rather than vulnerable
- Public works programs can be scaled up quickly
  - Mexico, Botswana, South Africa, Turkey, Kazakhstan: Expanded programs during the crisis
- But new programs take time to establish
  - PATI program in El Salvador took two years to develop
Summary: Adjustment and response

• Labor Market Adjustment
  – Countries mostly adjusted through declines in earnings growth
    • As best we can tell
  – Youth and men suffered largest declines in employment

• Policy response
  – Despite many programs, only income protection programs achieved sizeable resources and coverage
    • Mostly in countries where programs already existed
  – Little correlation between programs and nature of adjustment
Summary: Lessons learned

• Having public works programs in place are important

• Some labor demand programs may be useful
  – Work sharing, if there is administrative capacity
  – Maintaining public employment

• Little compelling evidence that active labor market programs are effective ways to preserve jobs during a crisis
  – Most active labor market programs that have been evaluated are not cost-effective (Betcherman et al, 2004)
  – Supply-side interventions such as employment services may be less effective in a downturn
  – Sweden tried a large-scale increase in ALMPs following 1990’s crisis, and they didn’t help much (Calmfors et al, 2002)
Summary: Lessons learned

• Stronger rationale for training programs for youth
  – Evaluations for comprehensive training and placement programs in Colombia (Attanasio, et al, 2010) and Dominican Republic (Card, et al, 2011) are more promising
  – Some indication that program for youth subsidies in Korea helped mitigate impacts of the crisis
  – Most evidence from OECD countries suggests persistent negative impacts of youth in the labor market from graduating during a recession.
Summary: Lessons learned

• It is very difficult to develop new programs during a crisis

• Crisis exacerbated pre-existing market failures
  – Lack of insurance or access to credit to protect against adverse labor shock
  – Highlights importance of income support programs
  – But crisis does not demand new policy paradigm

• Well-developed and comprehensive social protection systems are invaluable to help cope with crises
References


Attanasio, O, A Kugler, and C Meghir, “Training Disadvantaged Youth in Latin America: Evidence from a Randomized Trial”


Robalino, D, D Newhouse, and F Rother, “Labor and Social Protection Policies During the Crisis”, forthcoming