

HIGH-LEVEL SEMINAR ON LABOUR MARKET EXPERIENCES: TOWARDS MORE EFFICIENT LABOUR MARKETS

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Tackling the jobs crisis: What role for labour market policies?

Stefano Scarpetta

**Head of the Employment Analysis and Policy
OECD**

The jobs crisis

■ An unprecedented jobs crisis

- OECD-area **unemployment rate** jumped from 28-year low at 5.8% at the end of 2007 to a post-war high of 8.8% in December 2009 (+18 mln), in March 8.7%.

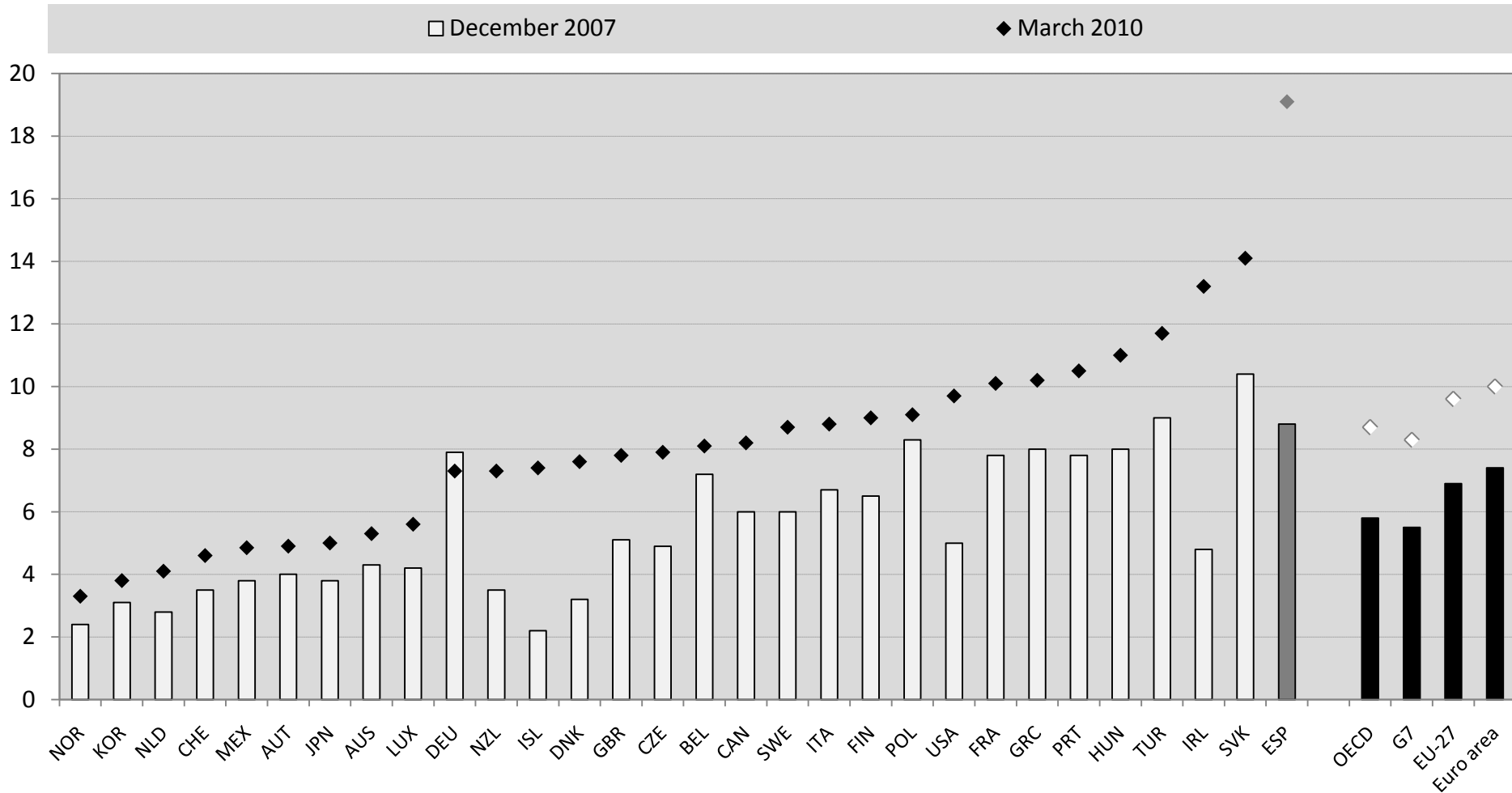
■ While recovery is underway, the jobs crisis is far from over

- OECD unemployment rate may have peaked, but it is not expected to decline significantly in 2010 or and even 2011; by end of 2011 **the jobs gap** can still be around 3.9%: ~ 20mln. jobs.
- **Labour market and social policies** are facing a hard test dealing with a large pool unemployed and under-employed when the fiscal space is rapidly shrinking

Part I

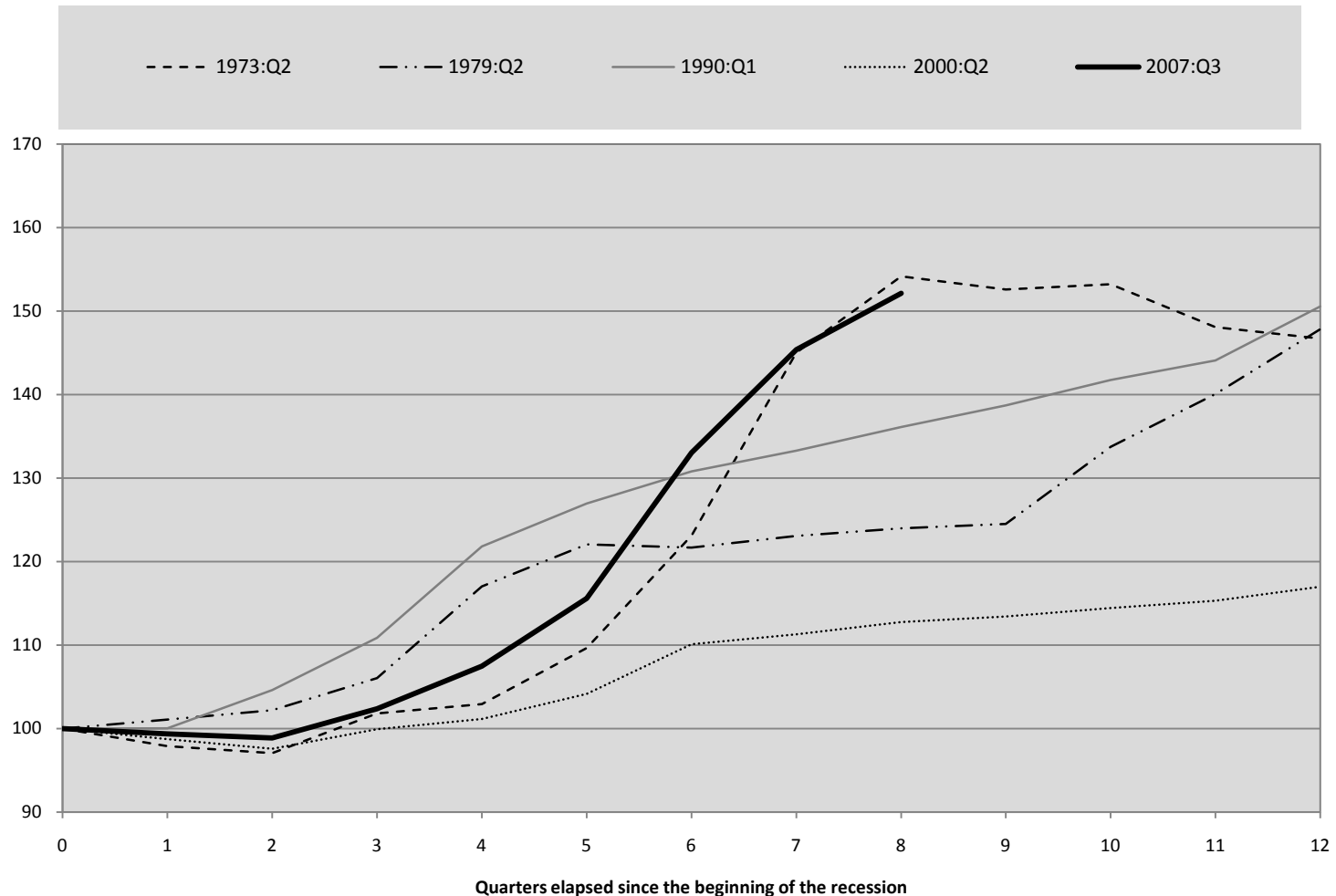
- **What are the labour market impacts of the crisis?**
 - Historical patterns and recent trends

The unemployment impact so far differs greatly across countries



Comparing unemployment rate trajectories during this and previous recessions

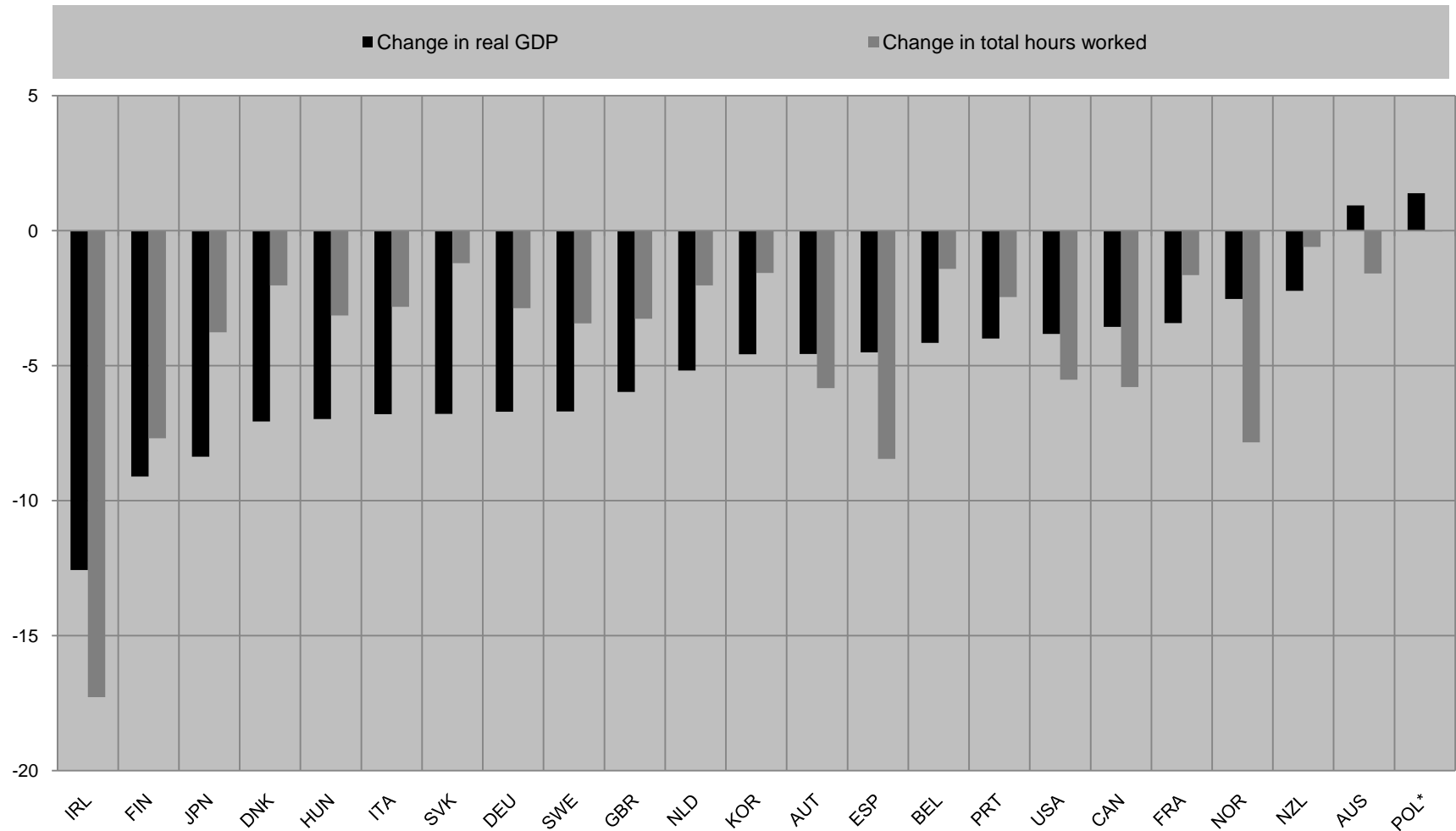
Index base 100 = unemployment rate at the preceding business-cycle peak (based on output gap), quarterly data





Different responses of employment to output declines

Total change from peak to trough

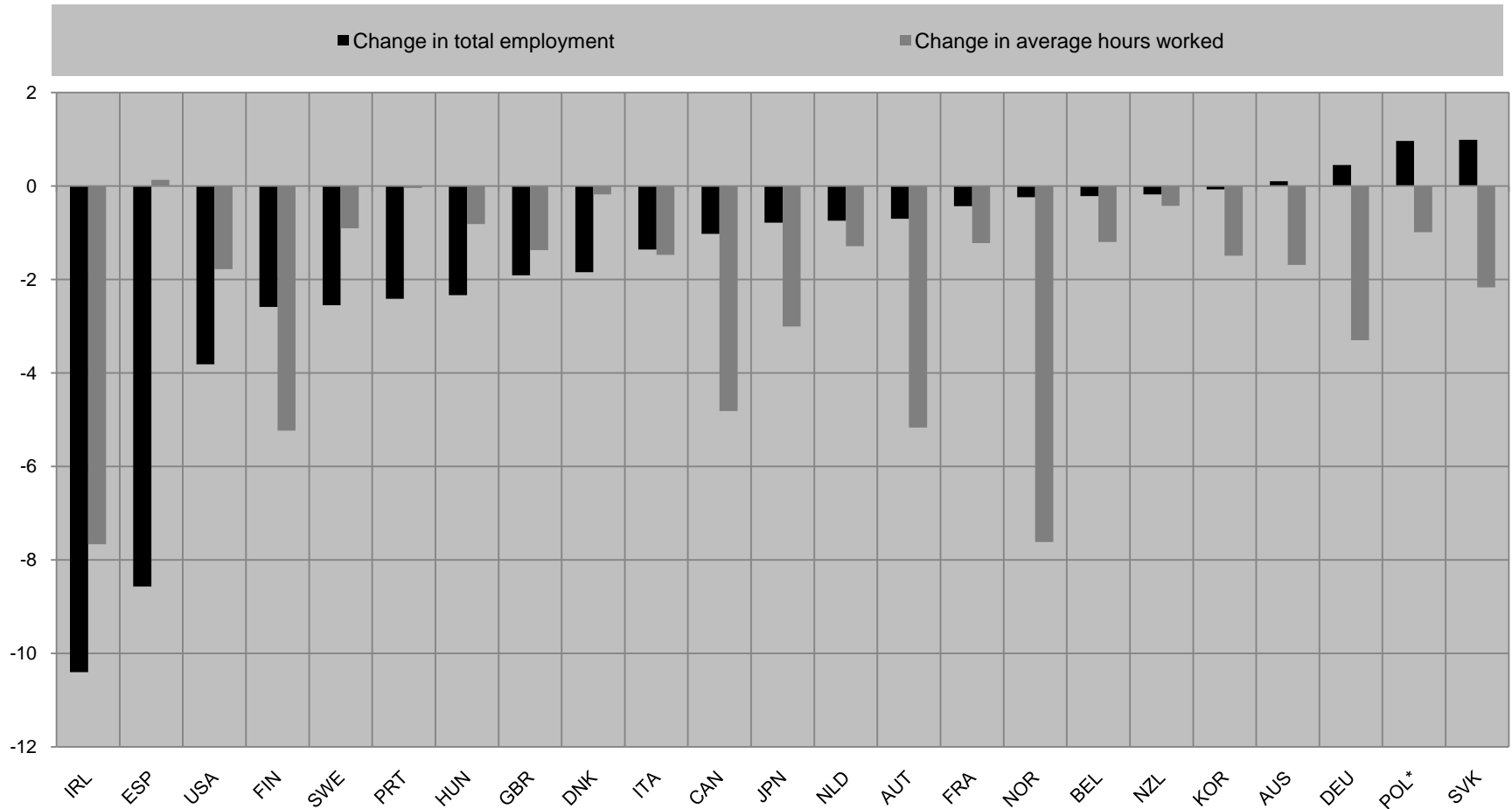


* Poland did not have a recession in the 2008-09 period but is shown for comparison purposes over the period 2008 Q2 to 2009 Q2.



Different margins of adj. in the labour market: employment vs. hours

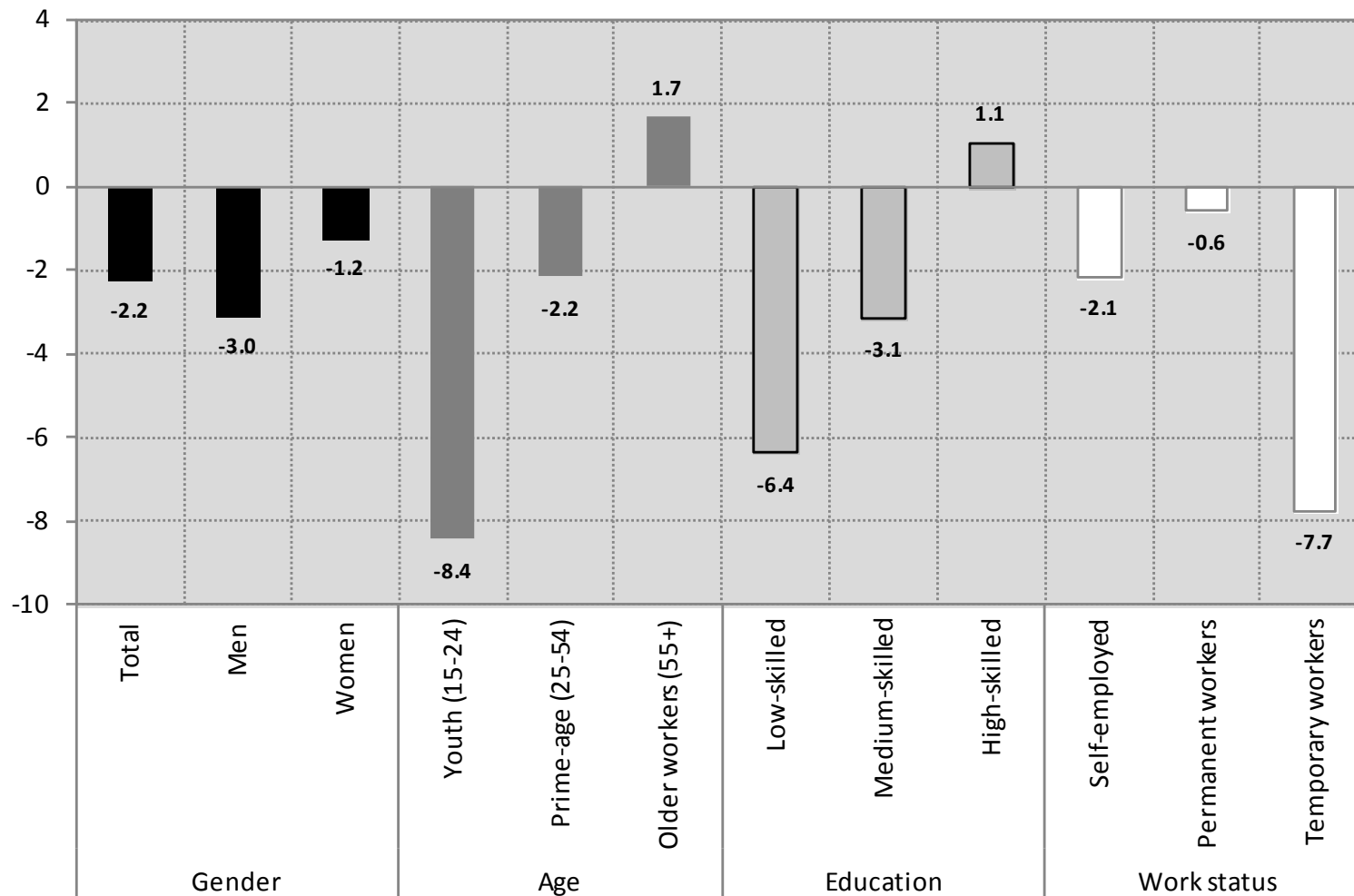
Total change from peak to trough



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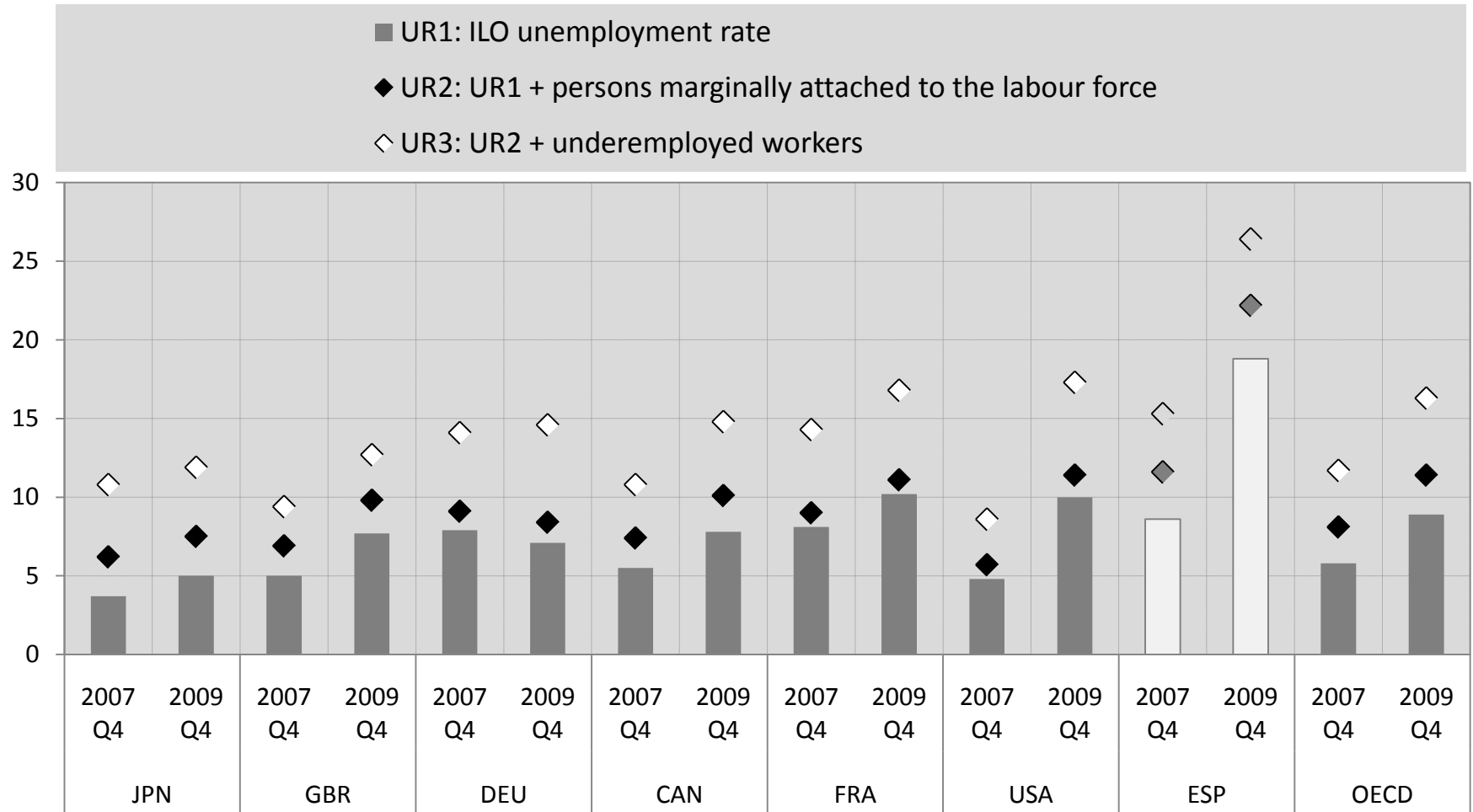
Some workforce groups have been hit especially hard, including groups that fared relatively better during earlier recessions

Panel A. Percentage change in employment by workforce groups, 2008Q4 to 2009Q4



The increase in unemployment was accompanied by growth of other forms of unemployment and underemployment

Alternative measures of labour market slack, 2007 Q4-2009 Q4*



Part II

- **What are the labour market policy challenges?**
 - Strategic choices and policy response

Labour market policy challenges

- **Short-term challenges vary a lot across countries**
 - Providing an **adequate safety net** to job losers.
 - Providing **effective re-employment services**.
 - What to do with the unemployed when labour demand is weak?
 - Is the **work-first approach** recession-proof?
 - Maintaining viable employment/promoting job creation.
 - How to sustain **effective labour supply**?

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

The risk of hysteresis:

Potential vulnerability to an increase in structural unemployment varies by country

		Change in unemployment rates from peak to latest available data ^a		
		No/small unemployment impact <i>(Less than a 1.5pp increase)</i>	Medium-small unemployment impact <i>(At least a 1.5pp increase but less than a 3pp increase)</i>	Large unemployment impact <i>(At least a 3pp increase)</i>
Estimated relative sensitivity of structural unemployment to a cyclical increase in aggregate unemployment ^b	Low	Korea	Canada	Denmark
		Mexico		Iceland
				New Zealand
				Sweden
			United States	
	Medium	Australia	Austria	Hungary
		Germany	Finland	
		Japan	France	
		Luxembourg	United Kingdom	
		Norway		
	High	Belgium	Greece	Czech Republic
		Netherlands	Italy	Ireland
Switzerland		Portugal	Spain	
		Turkey		

pp: Percentage-point.

a) Peak defined in terms of real quarterly GDP.

b) Based on OECD estimates of how the impact of recessions on structural unemployment is affected by cross-country differences in labour market institutions and policies (see Guichard and Rusticelli, 2010).

Labour market policy: new orientations in OECD countries

- Over the past decade, major efforts towards an *activation strategy*
- **Activation measures are actions which:**
 - are targeted at people of working age not in employment but who are apt to work and are receiving income-replacement benefits
 - encourage jobseekers to become more active in their efforts to find work and increase their employability
 - make benefit payments conditional on a set of behavioural criteria (mutual obligation principle)
- ***Examples include:***
 - Regular monitoring of work availability and job search
 - Direct referrals of unemployed clients to vacant jobs
 - The setting up of back-to-work agreements and action plans
 - Referral to ALMPs (active period of benefits)

Activation for whom?

■ Unemployment benefit recipients

- Intensive intervention and mutual obligation regime will keep the unemployed in contact with the labour market and increase their chances of a return to work
- Activation measures are particularly called for and have greatest impact in countries with long-duration or indefinite duration (when followed by social assistance) benefits.

■ Recipients of social assistance benefits

- Employable SA recipients are in some countries subject to availability-for-work and activation requirements.

■ Recipients of “inactive” benefits

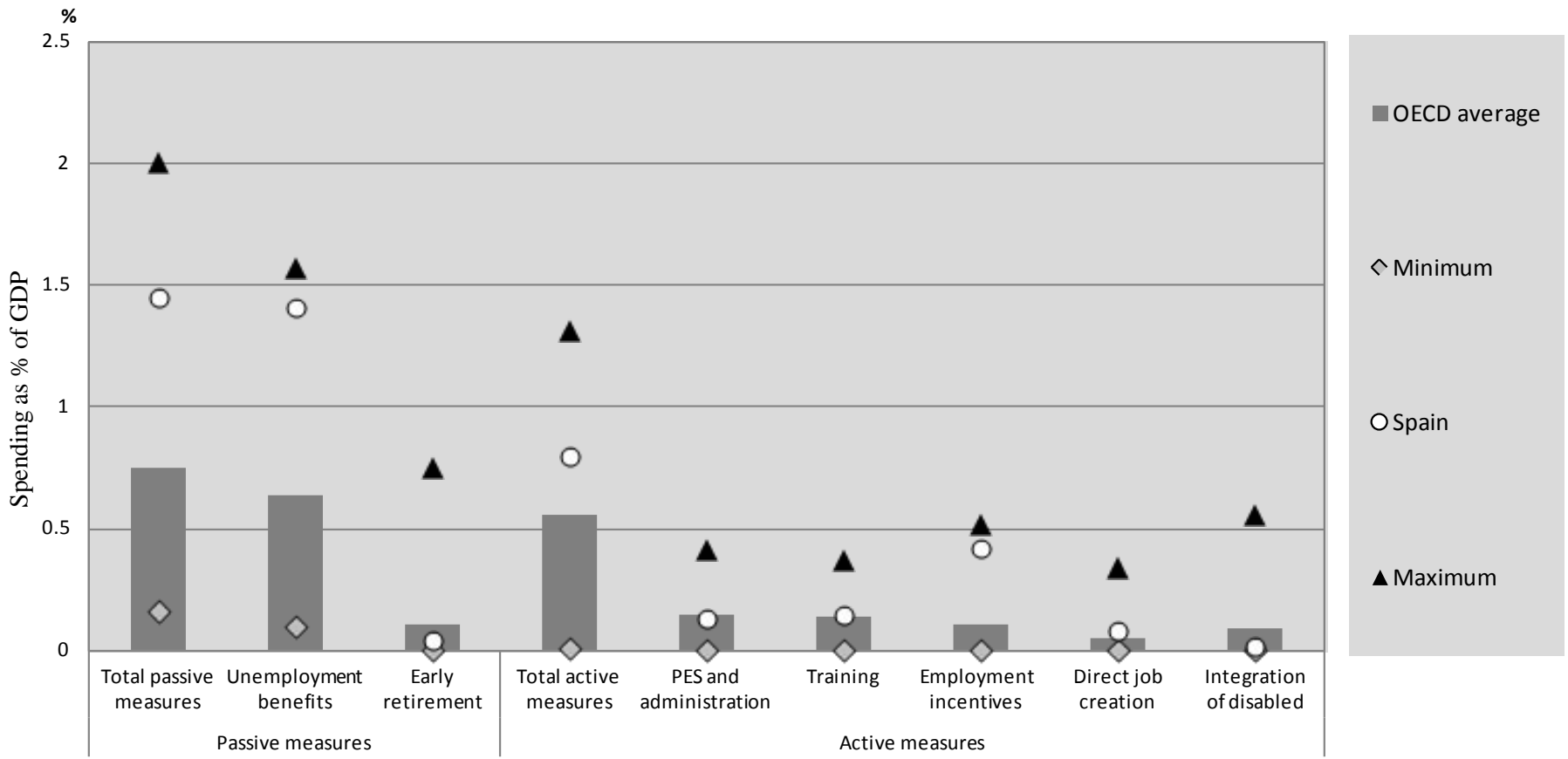
- Sharp increase in many countries in number of working-age recipients of non-employment benefits, such as people with disabilities or lone parents.
- Recipients of such benefits can often work and have gradually become another target group for labour market policies and activation measures.

Role of private providers

- **Increasing tendency to rely on private intermediaries for activation strategies**
 - Within OECD area, Australia was first to set up a large-scale reintegration market with contractual arrangements, followed by the Netherlands. Partial reintegration markets now also in UK and some other countries
- **Key characteristics:**
 - A clear split between purchaser and provider
 - private sector and non-profit organisations compete for the acquisition of publicly-funded tenders
- **In AUS/NLD/UK there has been a trial and error process of continuous adaptation of reintegration market features:**
 - Role of price in deciding among bids vs. pricing fixed by purchaser
 - Proportion of funding for commencement/service delivery/”outcomes”
 - Definition of “outcome” in terms of job durability
 - Complete selection by tender vs. roll-over of best performers
 - transfer of all jobseekers to private providers vs. only of hard-to-place

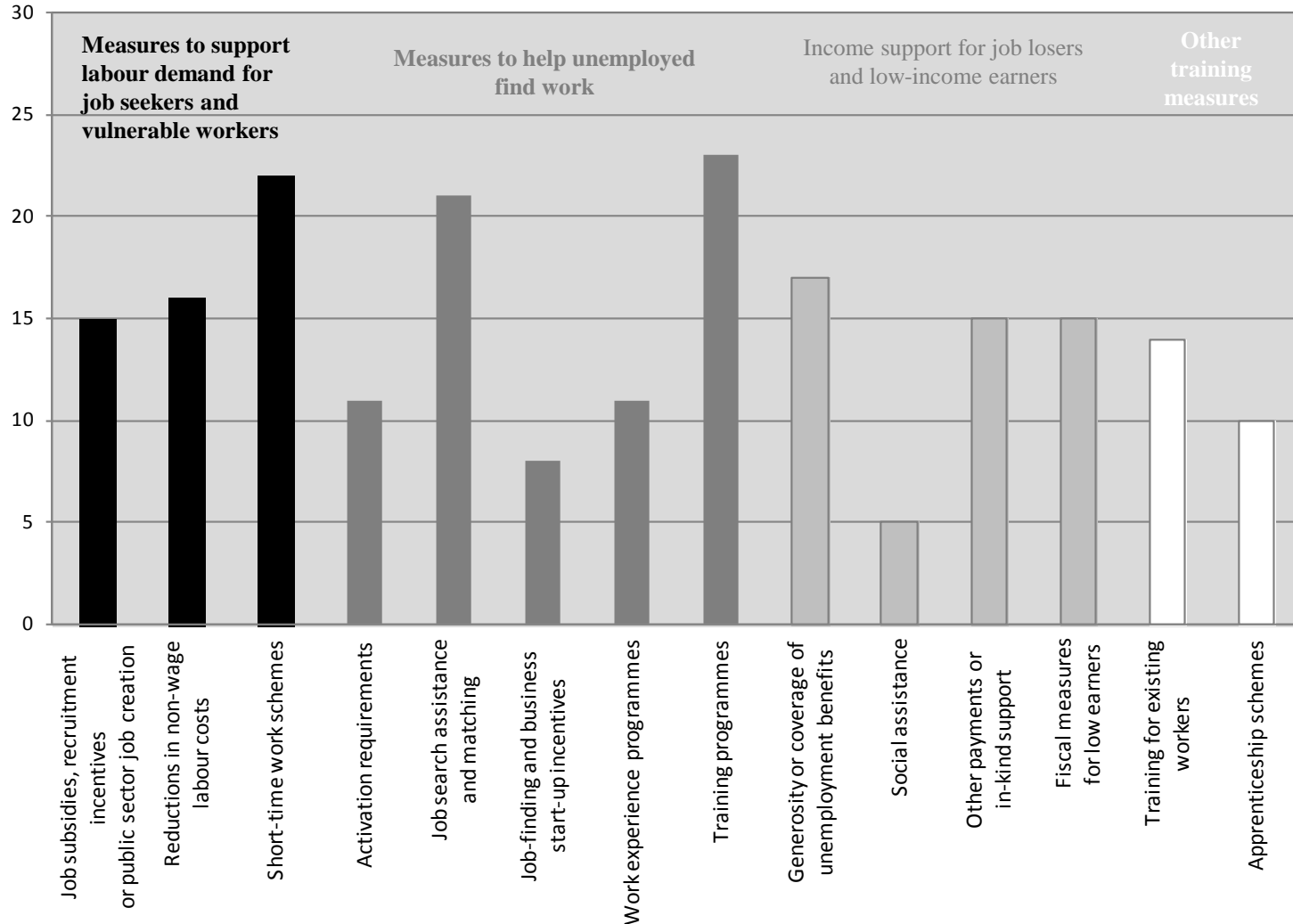
Dealing with the jobs crisis: funds available for LMPs

- 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

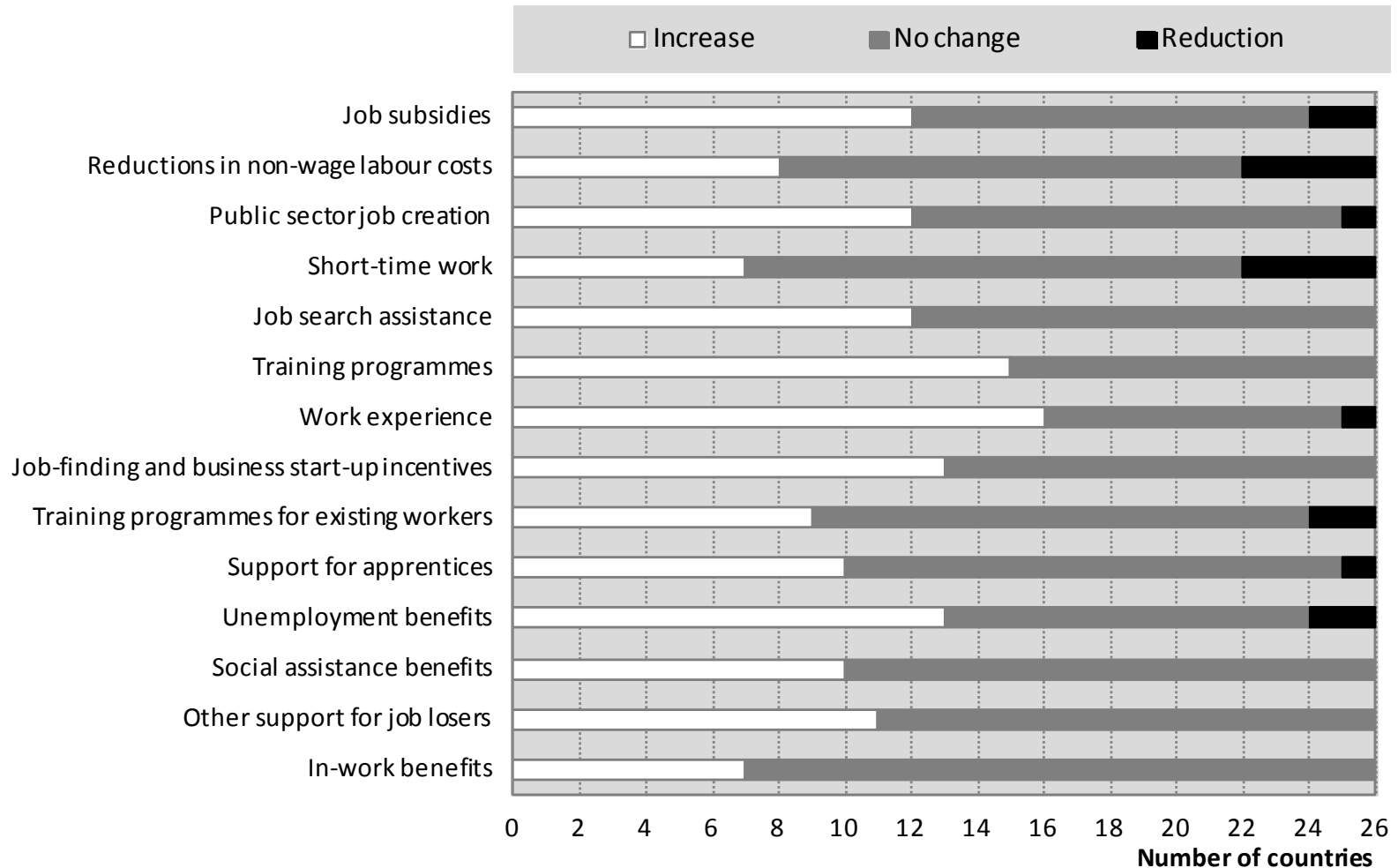


Discretionary changes in labour market policy in response to the economic downturn

Number of OECD countries that have taken different types of measures



Anticipated change in resources devoted to labour market policy, 2010 compared with 2009

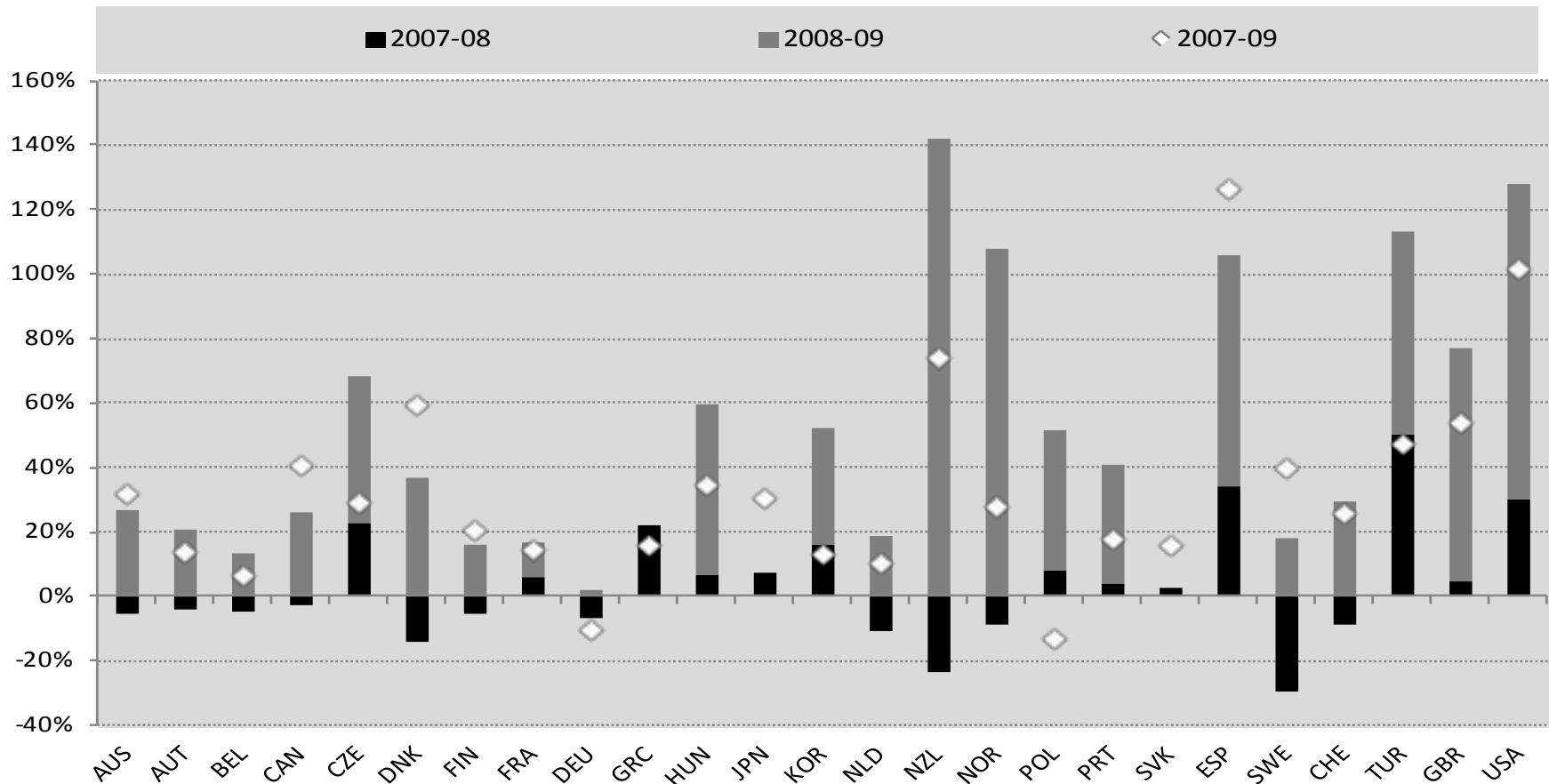


Providing an adequate safety nets while minimising benefit dependency

- The jobs crisis is leading 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
- **The crisis can also be an opportunity to reform unemployment benefits** to provide adequate safety nets to vulnerable groups, conditional on job search, and participation in ALMPs.

Growth in unemployment benefit recipients and unemployment

As a percentage of 2007 level



Note: “Benefits” is the sum of recipients of unemployment insurance (UI) and unemployment assistance (UA). It is possible that some people could receive both UI and UA in a single year and so be counted twice. Annual unemployment data for 2007 and 2009 are used, except for New Zealand, the Slovak Republic, Switzerland, Turkey and the United Kingdom, which use data for Q3 2009.

How to adjust activation during the jobs 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. Consequently:

- 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.

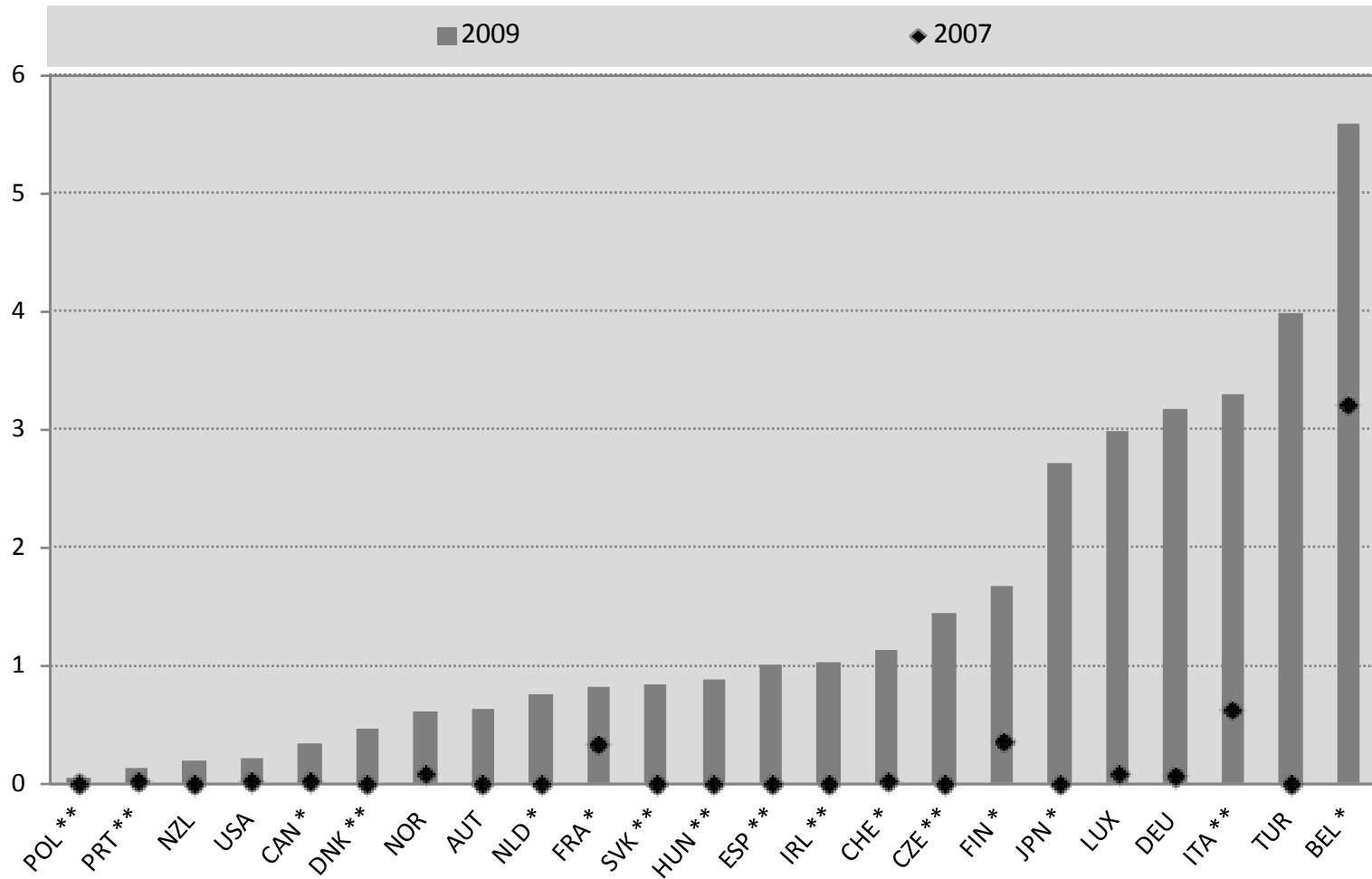


Ensuring that S-T measures to support labour demand are well targeted and temporary

- Most OECD countries have introduced **measures to support labour demand**:
 - Subsidies for the reduction in working time (22 countries, including ESP);
 - 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 (15 countries, , including ESP).

- **When and how to scale down labour demand support measures?**
 - 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.

Annual average stock of employees participating in short-time work schemes as percentage of all employees



Data on short-time workers are from the OECD-EC questionnaire, except in the following cases.

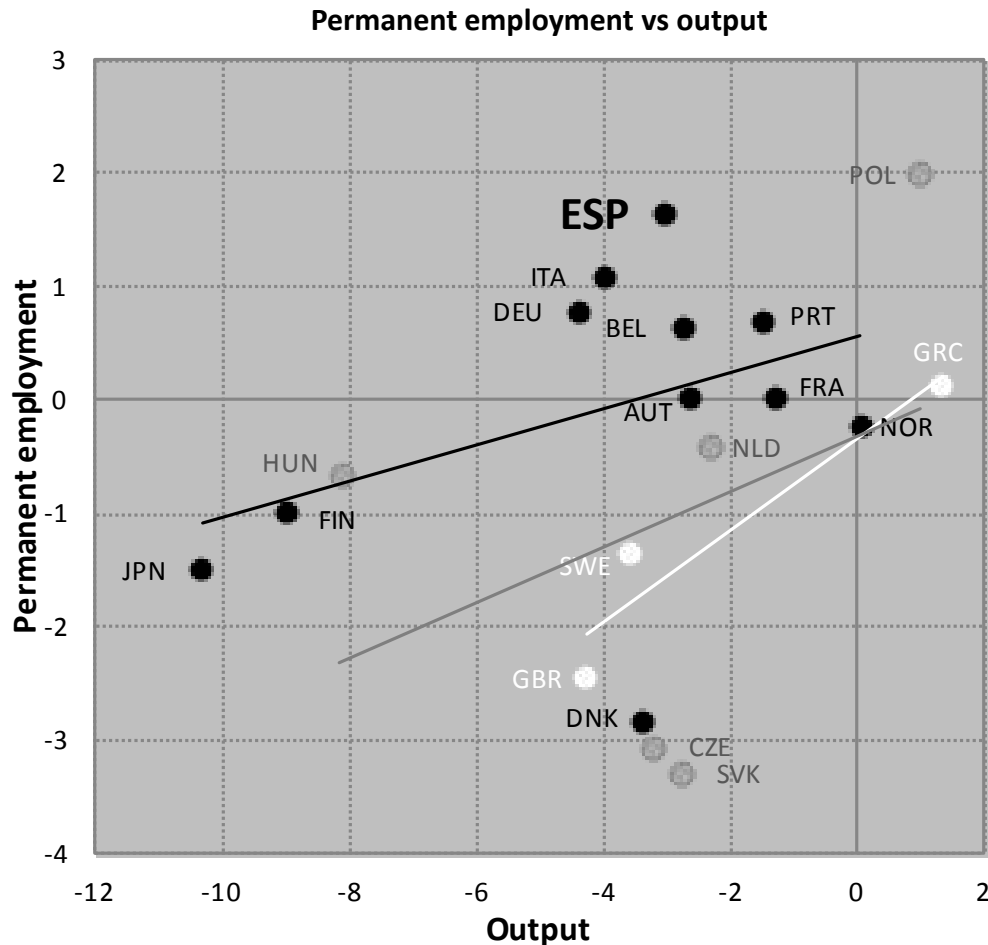
•* indicates that data are from national sources.

•** indicates that data are OECD estimates using flows data from the OECD-EC questionnaire or from national sources.

Did short-time work schemes affect labour market adjustment during the 2008-09 recession?

Percentage change between 2008 Q3 and 2009 Q3

- Countries with a short-time work scheme before the crisis
- Countries with a new short-time work scheme
- Countries without short-time work scheme



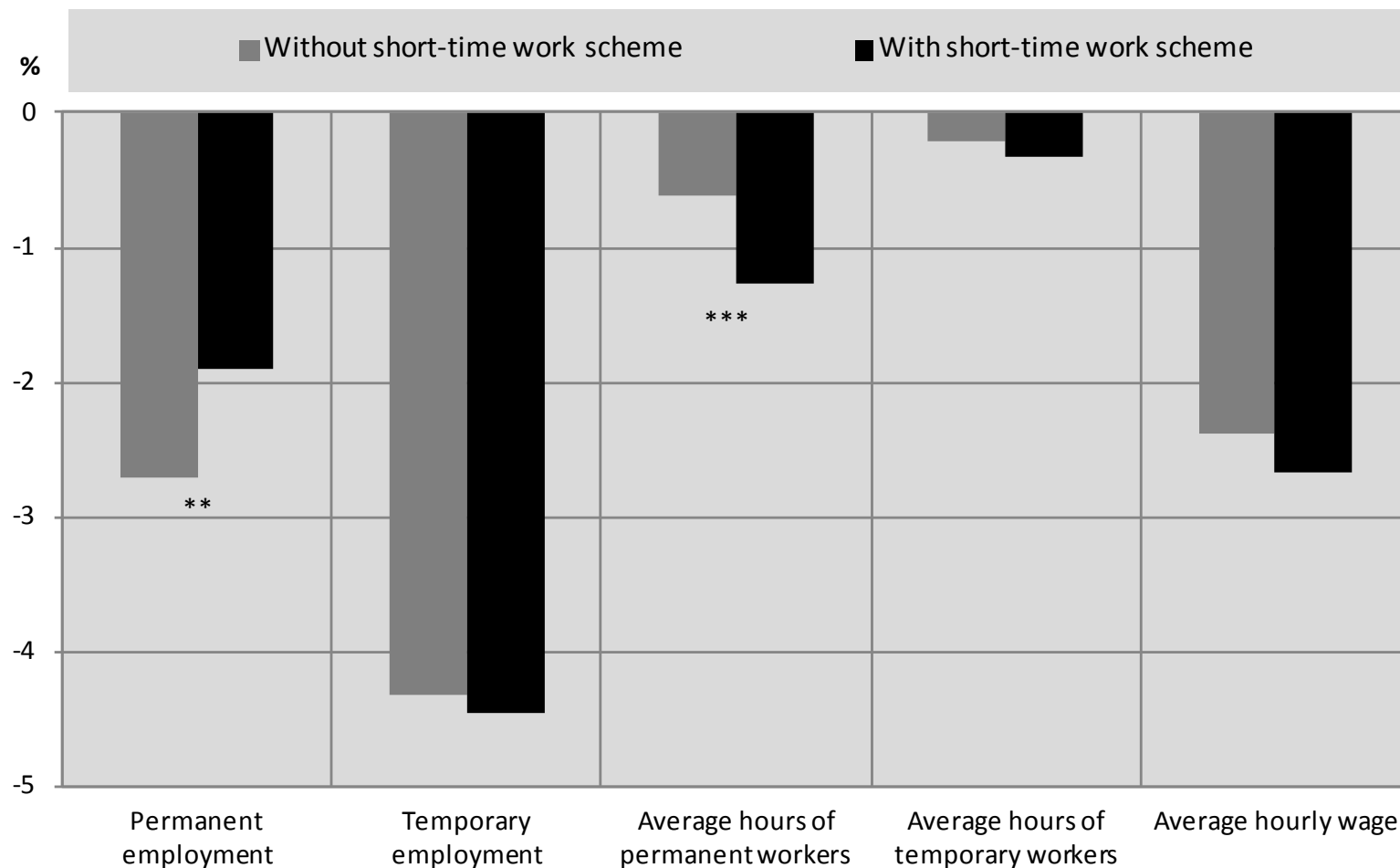
The role of short-time work schemes during the current downturn

- In order to assess the impact of short-time work on employment and average hours, the impact of the global crisis is compared across countries with and without short-time work schemes within the same industry.
- The empirical model can be represented as follows:

$$\Delta \ln l_{ikt} = \alpha_0 + \alpha_1 \Delta \ln y_{ikt} + \alpha_2 \Delta \ln y_{ikt} * D_{kt}^{crisis} + \alpha_3 \Delta \ln y_{ikt} * D_{kt}^{crisis} * T_{kt} + D_{kt}^{crisis} T_{kt} + D_{it} + D_k + \varepsilon_{ikt}$$

- where subscripts i , k , and t refer to industry, country and time, respectively and l refers to the outcome variable which may refer to permanent employment, temporary employment, average hours worked or the average hourly wage, y to gross output, D^{crisis} is a country-specific crisis dummy which is one from the last peak in quarterly GDP onwards, T refers to the avg. take up rate across industries and time.

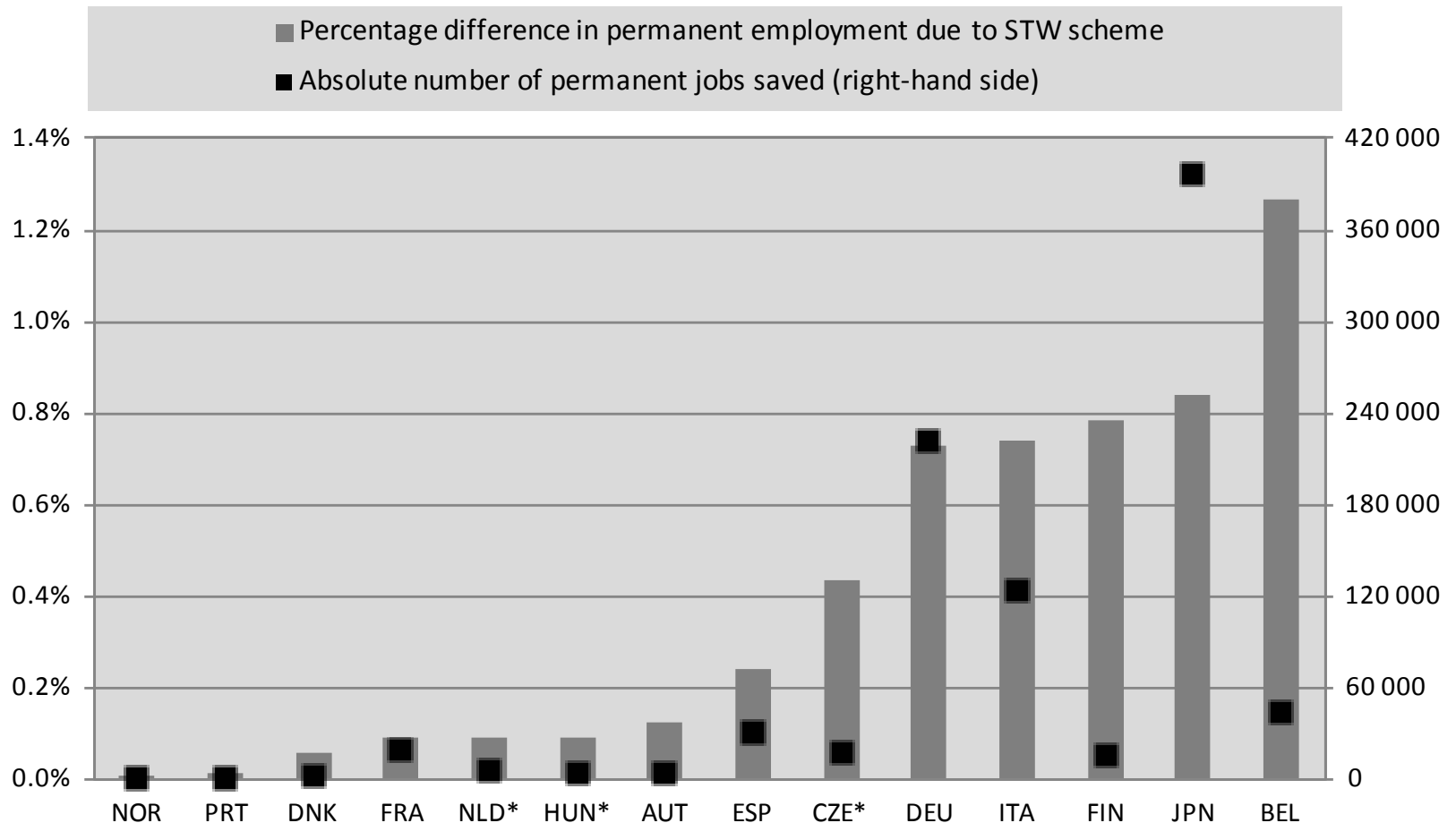
The impact on employment and average hours of a 10% reduction in output



*, **, *** statistically significant at the 10%, 5% and 1% level, respectively.

Country-specific impact of short-time work schemes on permanent workers

Proportional and absolute changes in permanent employment due to short-time work schemes (percentage changes)



* indicates countries that introduced a new short-time work scheme in response to the crisis. The estimated jobs impacts refer to period from which the short-time work scheme became operational until the end of 2009 Q3.

Concluding remarks

- OECD countries are facing a deep jobs crisis, but the nature of the crisis and policy challenges vary significantly across the board
- High unemployment and under-employment are likely to persist well into the recovery, posing severe challenges for labour market and social policies at the time when the fiscal space is going to be limited
- Recent LM policy reforms may have helped handling the rapid rise in unemployment...
- ...but addressing the challenges of the jobs crisis 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