

OECD High-Level Parliamentary Seminar

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Tackling the jobs crisis: An OECD perspective

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The jobs crisis

- **An unprecedented jobs crisis**
 - OECD-area unemployment rate jumped from 25-year low at 5.6% in 2007 to post-war high of 8.8% in December 2009 (+16.3 mln)

- **While recovery is underway, the jobs crisis is far from over**
 - OECD unemployment rate is expected to rise to 9.1% by end 2010, but still be at 8.6% by end 2011.

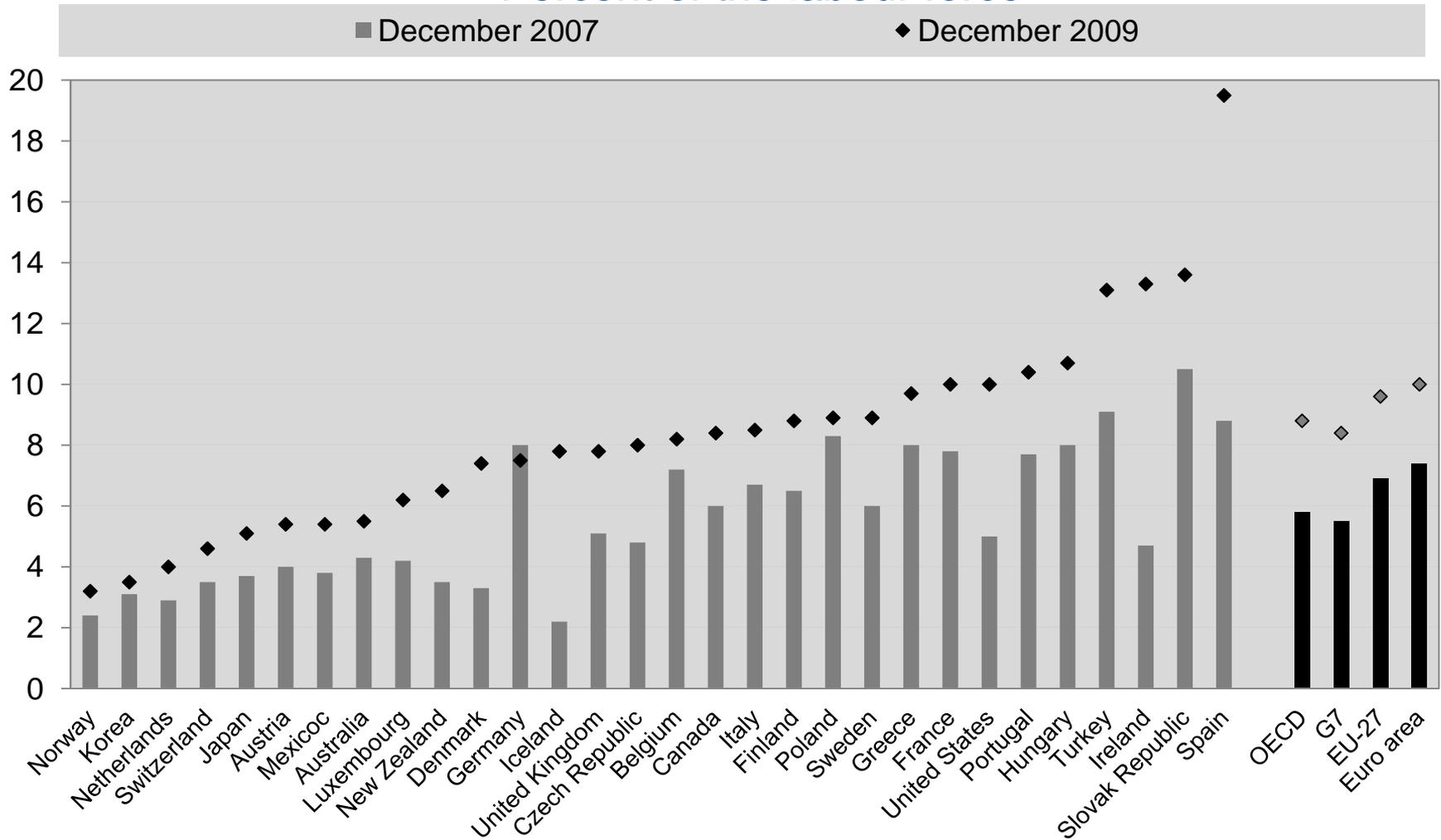
- **Bold action needed to tackle high and persistent unemployment**
 - Individuals in jobless households are 5 times more likely to be poor on average
 - Social costs go well beyond the loss of income (e.g. health, crime etc.)
 - High risk of persistent unemployment well into the recovery

Part I

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

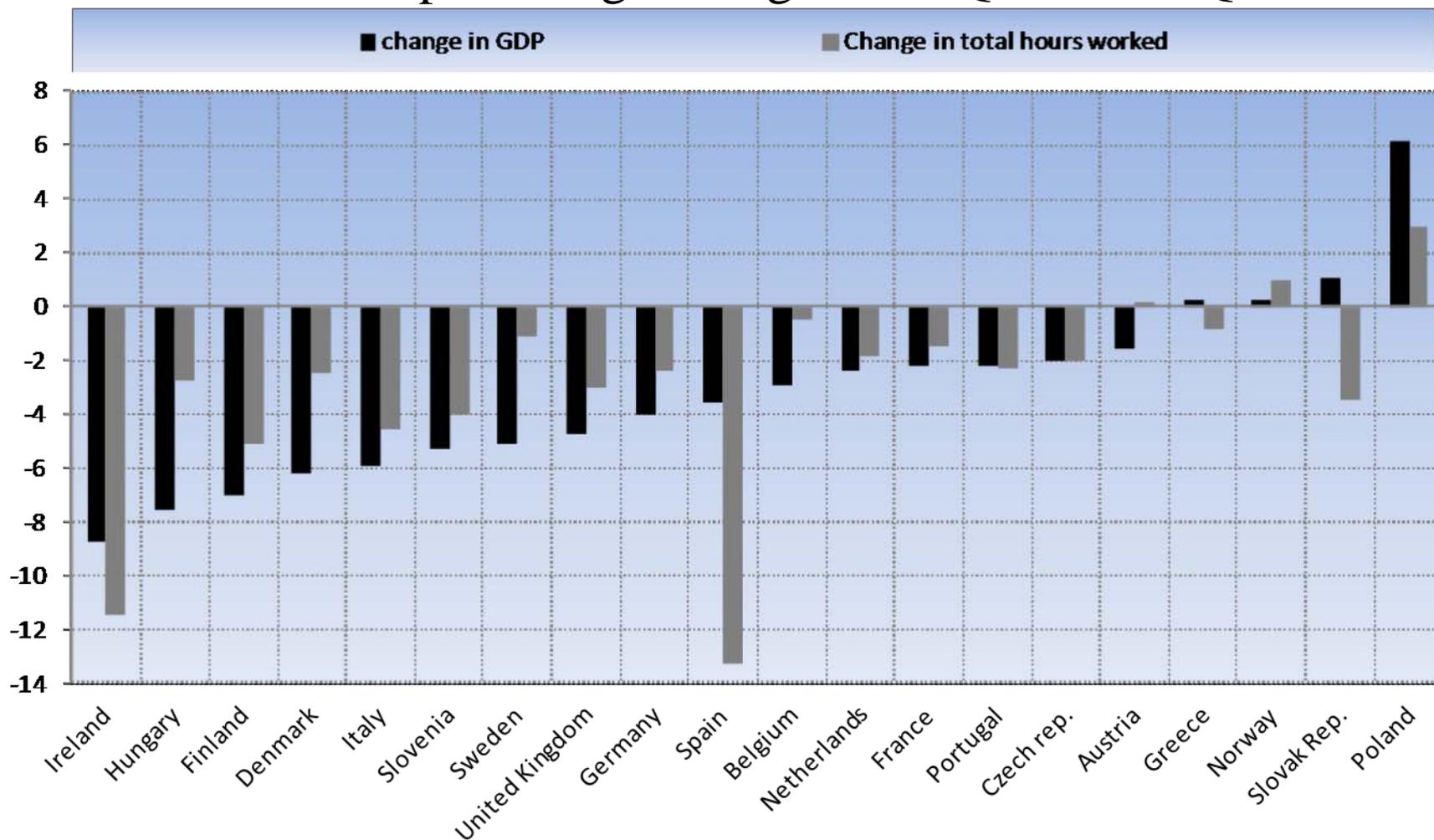
The unemployment impact so far differs greatly across countries

Percent of the labour force



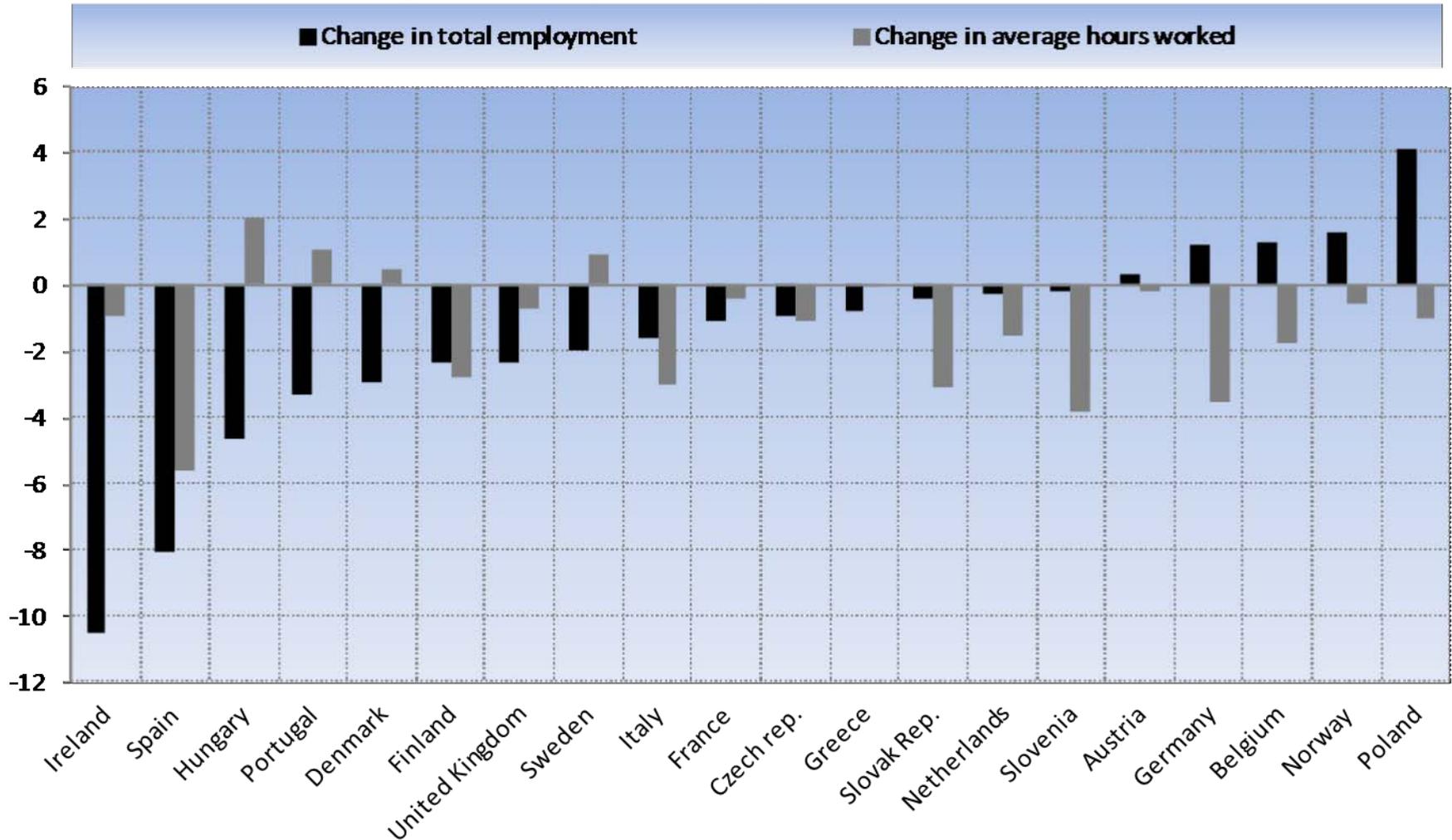
Different responses of employment to output declines

Total percentage change, 2007Q3 to 2009Q3



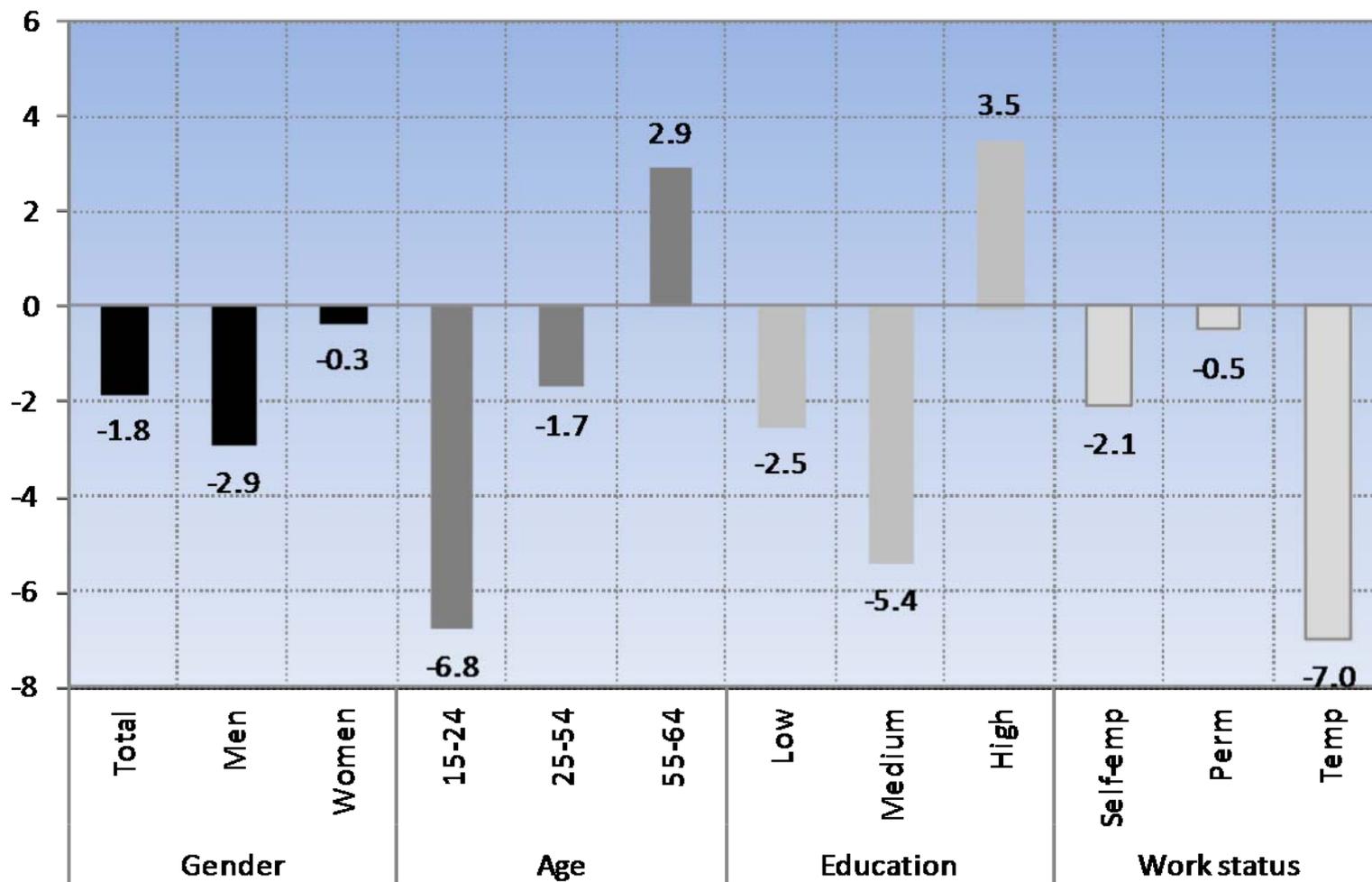
Different margins of adj. in the labour market: employment vs. hours

Total percentage change, 2007Q3 to 2009Q3



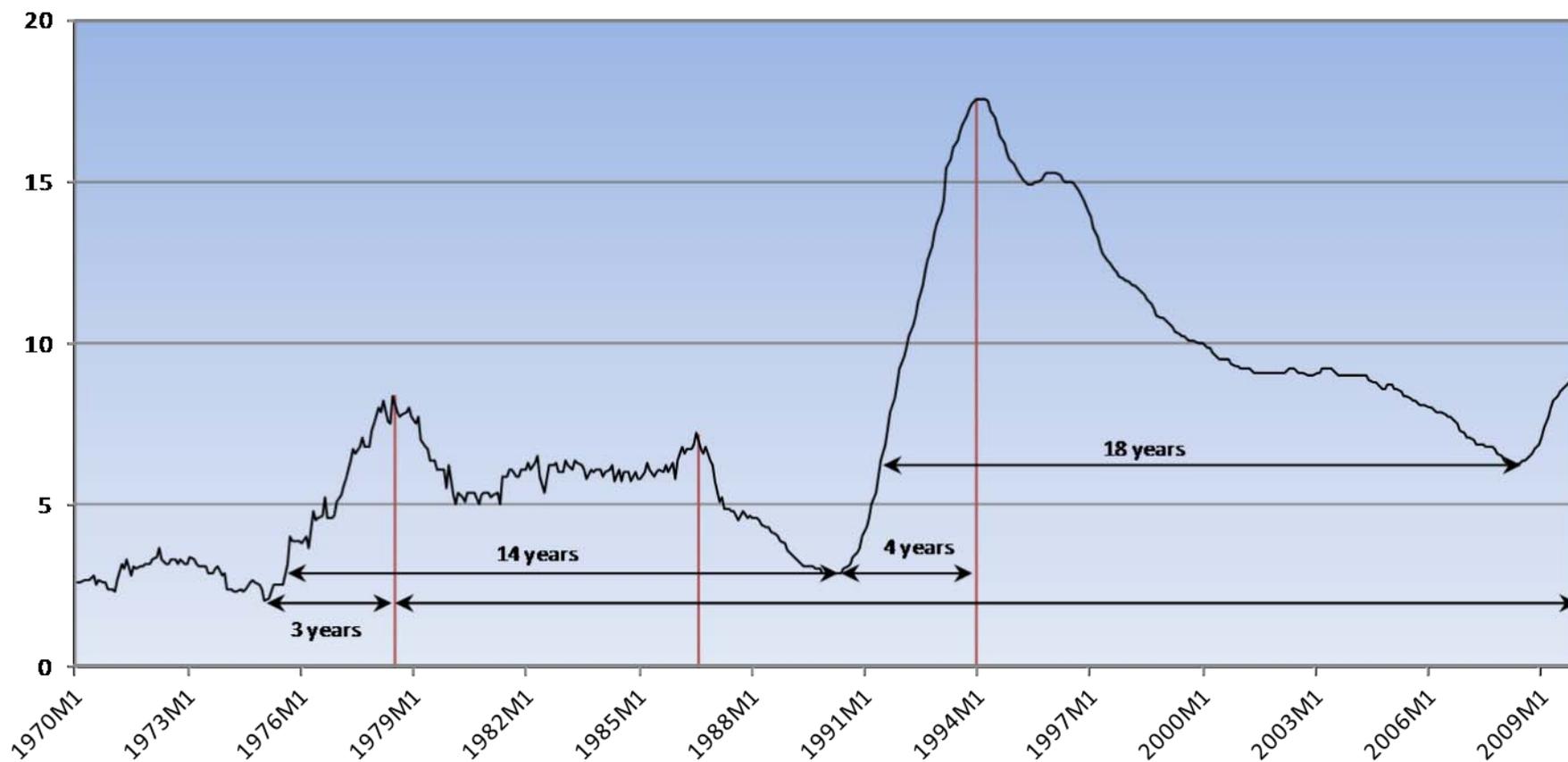
Disadvantaged groups bear the brunt of falling labour demand

Percentage change of employment over 2008 Q2 to 2009 Q2



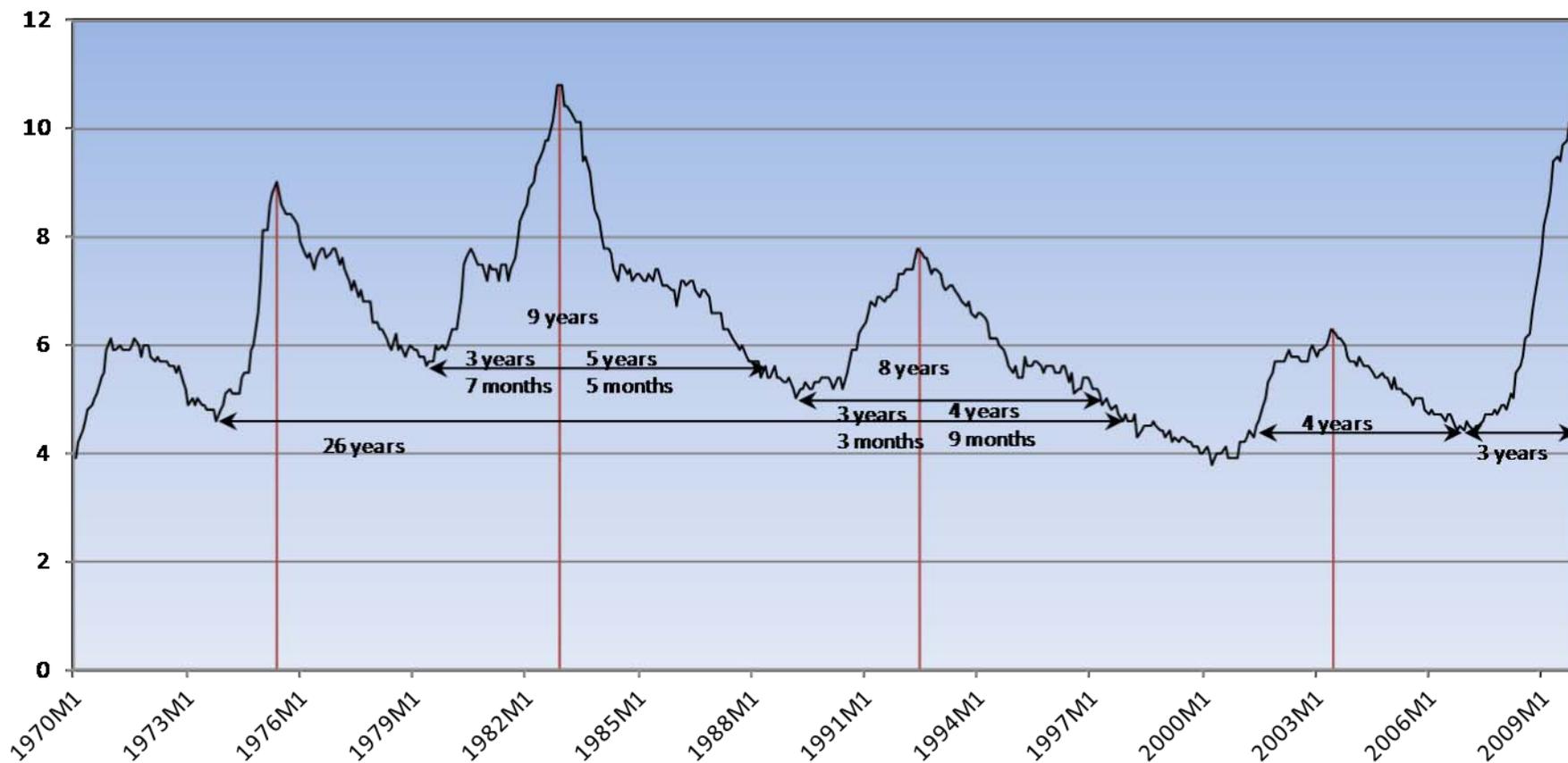
Recession not only hurt lots of people, but also take a long time to fix

Harmonised unemployment rates in Finland, January 1970-December 2009



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

Harmonised unemployment rates in the United States, January 1970-December 2009



Part II

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

LM policy challenges

■ Short-term challenges

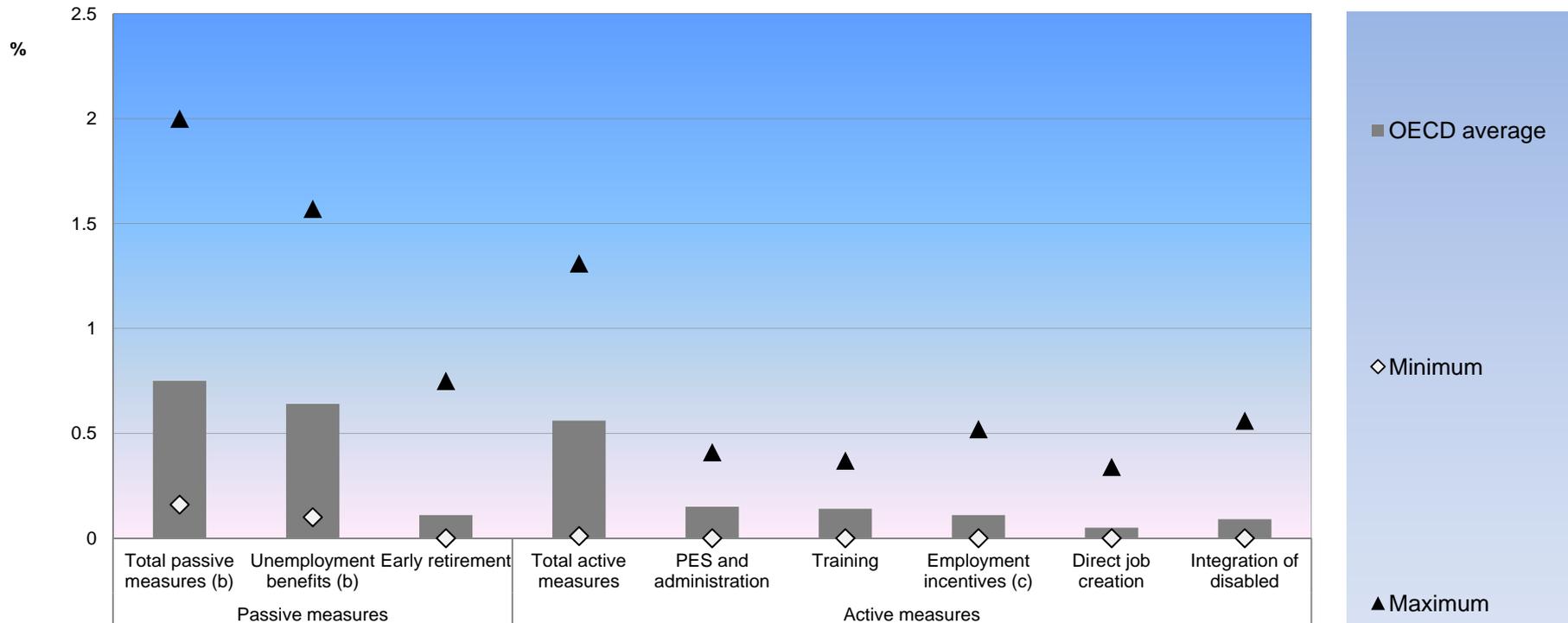
- Should labour demand policies play a major role?
- Is the social safety net adequate?
- Is the work-first approach recession-proof?

■ Long-term challenges

- How to avoid high unemployment from persisting?
- How to avoid undermining long-run labour supply?
- How to avoid undermining long-term labour market 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

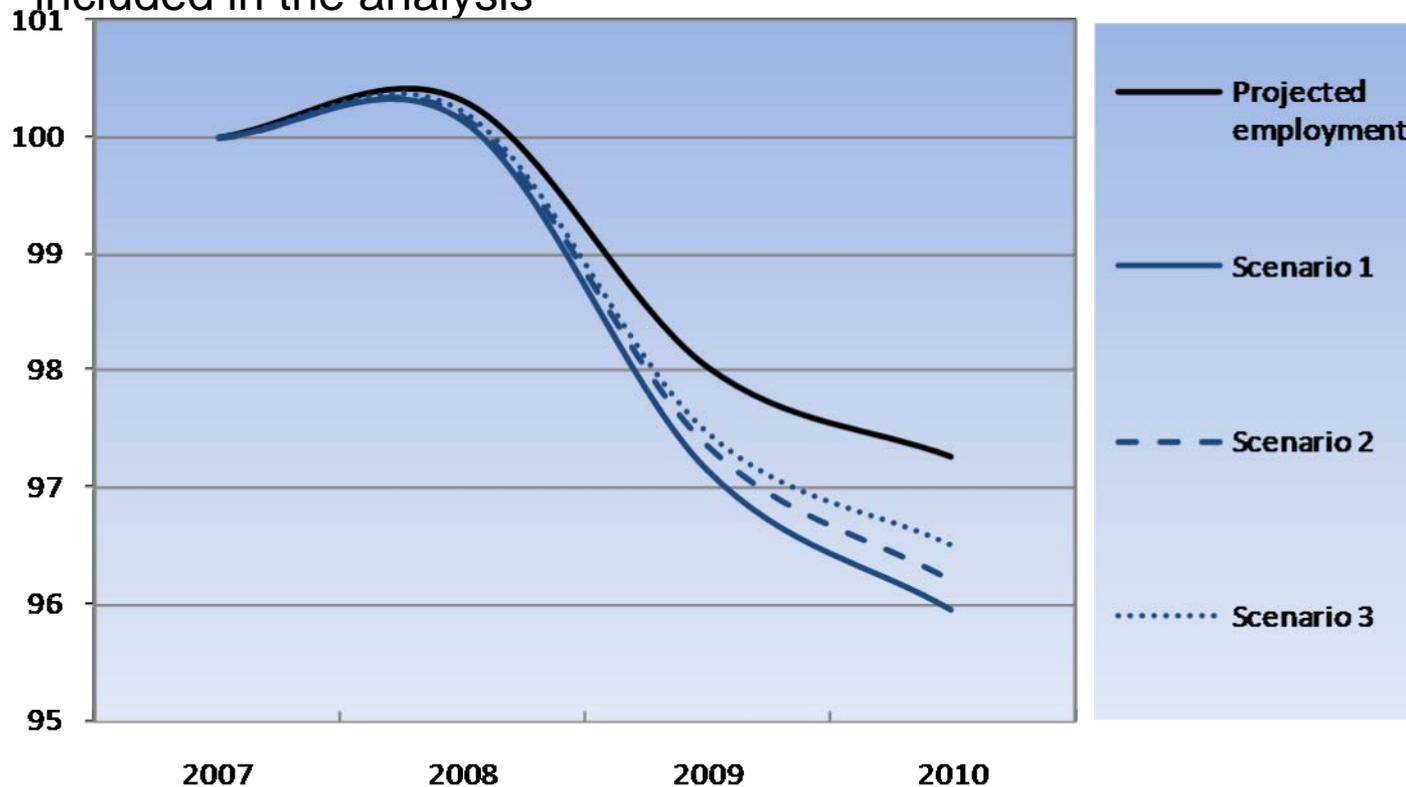


Governments have taken many types of measures in response to the jobs crisis

	Number of OECD countries that have taken different types of measures	Number of EU-19 countries that have taken different types of measures
Labour demand		
Job subsidies, recruitment incentives or public sector job creation	15	12
Reductions in non-wage labour costs	16	11
Short-time work schemes	22	14
Measures to help unemployed find work		
Activation requirements	11	8
Job search assistance and matching	21	14
Job-finding and business start-up incentives	8	6
Work experience programmes	11	6
Training programmes	23	15
Income support for job losers and low paid		
Generosity or coverage of unemployment benefits	17	10
Social assistance	5	3
Other payments or in-kind support	15	9
Fiscal measures for low earners	15	12
Other training measures		
Training for existing workers	14	13
Apprenticeship schemes	10	7

Supporting labour demand

- Vigorous macro-economic policy response, including large fiscal packages, to boost aggregate demand
 - Estimated to save 3.2 to 5.5 jobs in 2010 in the 19 OECD countries included in the analysis



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

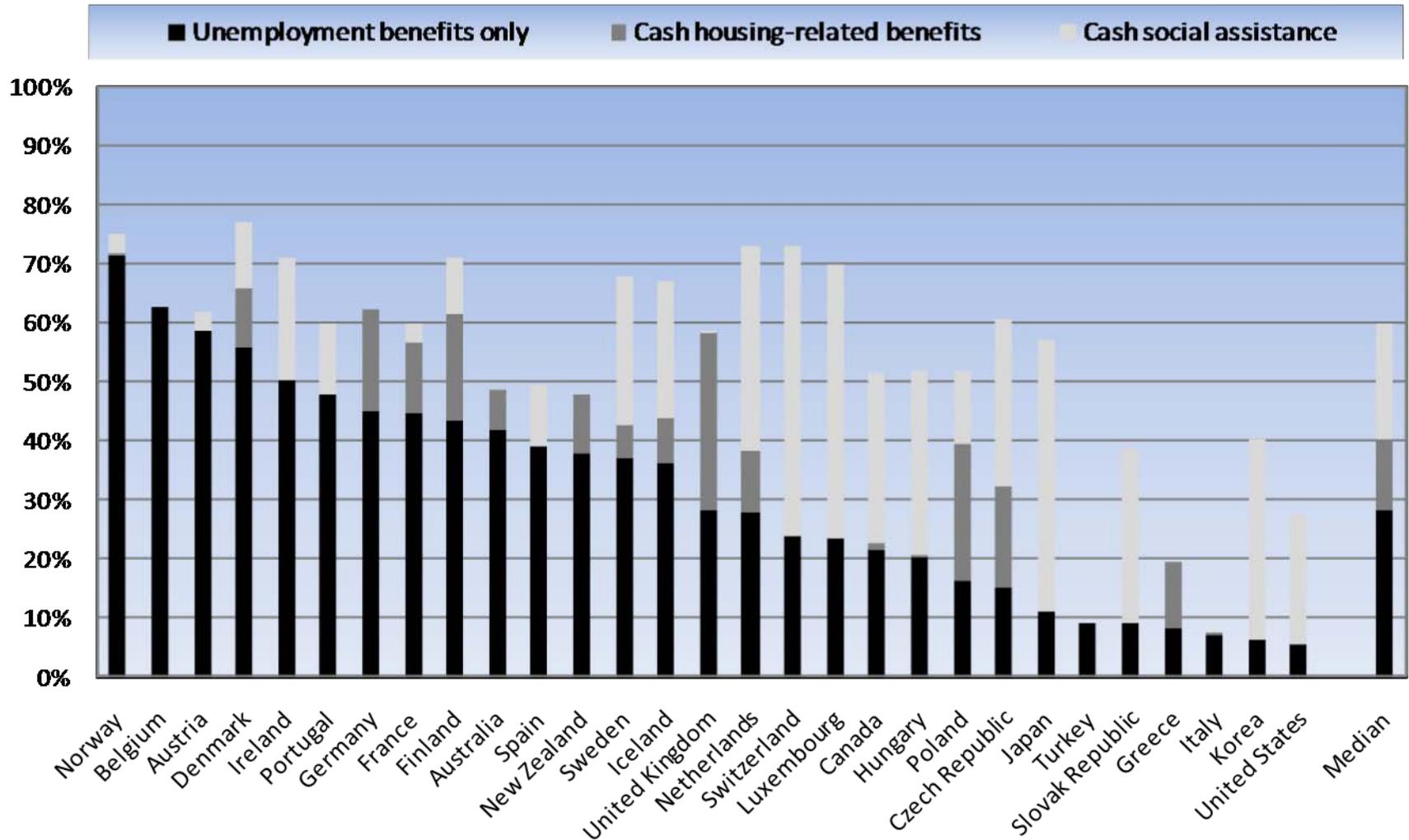
- Most OECD countries have introduced **measures to support labour demand**:
 - Subsidies for the reduction in working time (22 countries), (at peak 1.4 mln in GER, equivalent to almost 500K “jobs saved”)
 - Reductions in non-wage labour costs, in some cases targeted at SMEs, disadvantaged groups (16 countries)
 - Hiring subsidies and work experience, generally targeted at disadvantaged groups (16 countries)
- **Short-term 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 net while minimising benefit dependency

- The jobs crisis leads to **longer average unemployment spells**
 - Where unemployment benefit durations are short, temporary extension of benefits during the crisis helps cut the poverty risk among LTU (CAN, FIN, JPN, PRT, US)
- **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
 - For temporary and other non-standard workers, benefit eligibility has been loosened (FIN, FRA, JPN)

But UBs are only one element of safety nets for job losers

Average net replacement rates over a 5-year unemployment spell



Helping job-seekers find a job

■ **Maintain core jobs-search assistance to help jobseekers**

- Even in recessions firms continue to create many new jobs (see EmO 2009, Ch. 2)
- Cost of job loss increases due to longer expected unemployment duration and loss of human capital
- Many countries made good progress prior to the crisis in implementing effective back-to-work policies
- Don't relax activation strategies; adapt them

■ **For those at risk of LTU, re-employment services need to be adapted to specific conditions of slack labour market**

- Some shift in emphasis from “work-first” approach to “train-first approach” through training and work-experience programmes: Negative effects of programme participation on job-search less of an issue in recessions
- Helps provide jobseekers with “the new skills for the new jobs” in the recovery

➔ **Requires more resources for ALMPs**

Inappropriate government responses can undermine labour supply

- **Allowing the unemployed to drift into LTU and inactivity**
 - Essential to maintain mutual-obligations approach (“bend but not break”)

- **Early retirement schemes and exemptions from job search of older UB recipients**
 - Did not free up jobs for youth and took a long time to unwind
 - So far so good?

- **More recently, large inflows of WA persons into sickness and disability programmes**
 - Some countries have made reforms aimed at promoting employment and employability of people with remaining work capacity
 - Will they stay the course?

Helping youth “ride out the storm”

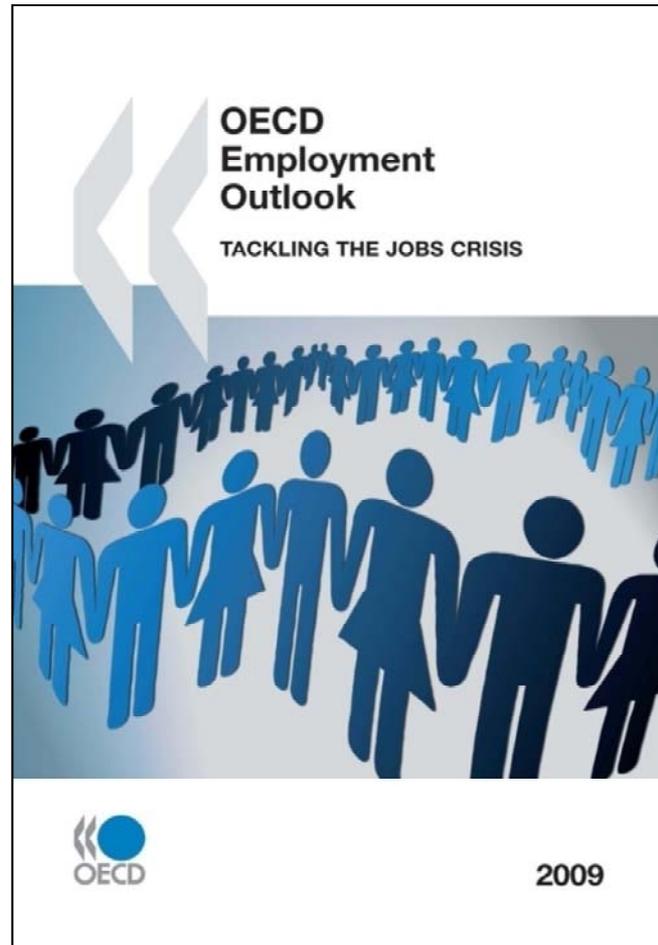
- **Youth unemployment has increased disproportionately in many countries**
 - Youth E twice as sensitive to cycle as that of prime-age workers
 - Youth UR much higher than other groups (e.g. above 40% in Spain; around 25% in France, Ireland, Italy)

- **Need for decisive actions targeted on at-risk youth**
 - Efforts to prevent youth entering the LM without qualifications should be redoubled (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

- Governments are intervening actively to minimise the scale of the jobs crisis
- Some have been more successful to date than others
- With the recovery in sight, governments must not reduce their efforts to tackle high and persistent U and some countries may have to do more
- Governments must tackle the jobs crisis without undermining LM inclusion in the long-run
 - Discretionary LM policy measures should be *timely, temporary and targeted*
 - A severe recession such as currently underway also requires a sufficiently *strong* response
- Need to pursue reforms in labour and product markets.
 - Spain is a classic example (reform/rebalancing of employment protection)
 - But is there sufficient political will?

Thank you!



www.oecd.org/els/employment/outlook