

## **Editorial**

### *Preventing the Jobs Crisis from Casting a Long Shadow*

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*The financial and economic crisis quickly turned into a jobs crisis...*

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The global economy is in the midst of the worst financial and economic crisis of the past 50 years, with severe consequences for workers and their families. Since the second half of 2008, major declines in output have occurred in many OECD and non-OECD countries, leading to sharp falls in employment and steep hikes in unemployment. From a 25-year low at 5.6% in 2007, the OECD unemployment rate has risen to a postwar high of 8.3% in June 2009, corresponding to an increase of nearly 15 million in the ranks of the unemployed. Thus, OECD countries are facing a jobs crisis. As in previous severe economic downturns, already disadvantaged groups in the labour market – youth, low-skilled, immigrants, ethnic minorities and, among them, those in temporary or atypical jobs – are bearing most of the brunt of the job losses.

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*... and the short-term jobs outlook is grim*

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Significant uncertainties surround the short-term economic and labour market outlook. At the time of writing, there are growing signs that the worst may be over and that a recovery may be in sight. But the short-term employment outlook is grim. The latest OECD projections suggest that output growth will regain positive territory only in the first half of 2010 and that growth will be mild until late in the year. In any event, job creation will lag significantly behind any pickup in output. As a result, the OECD unemployment rate is projected to continue rising through 2010, approaching a new postwar high of 10% (57 million unemployed) in the second half of the year.

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*The cyclical jump in unemployment risks becoming long-lasting, with negative effects on the labour market and potential output*

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A major risk is that much of this large hike in unemployment becomes structural in nature as many of the unemployed drift into long-term joblessness or drop out of the labour force. This unwelcome phenomenon occurred in a number of OECD countries in past recessions, when unemployment remained at a new higher plateau compared with the pre-crisis level even after output returned to potential and it took many years, if ever, to bring it down again to the pre-crisis level. This persistence arises because the long-term unemployed become less attractive hires for employers as a result of declining human capital and diminished job-search activity. High and persistent unemployment brings in its train major social and economic costs: poorer health, lower living standards and less life satisfaction for the unemployed and their families; increased crime and lower growth potential for society.

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*Governments have taken steps recently to tackle this risk of high and persistent unemployment*

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Labour market and social policies have a key role to play in preventing the risk that the sharp jump in unemployment becomes persistent by promoting a quick reintegration of jobseekers into employment and enhancing their skills to enable them to move into more productive jobs when the recovery gathers speed. Most of the fiscal stimulus packages introduced recently by OECD countries to support aggregate demand include *additional* labour market and social policy measures to cushion the negative effects of the crisis on workers and low-income households.

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*Safety nets are being reinforced...*

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The first line of defence is the social safety nets (unemployment benefits and social assistance) which provide an essential income support to job losers during the economic downturn. While unemployment benefits have automatically stepped in to sustain the incomes of many job losers, coverage of such benefits is weak in some OECD countries, especially in those where part-time, temporary and other “non-standard” workers account for a significant share of the workforce. Such workers have often been the first to be laid off and have weaker benefit entitlements. In a number of countries, some efforts have been made to extend the coverage and, in some cases, the maximum duration of benefits to provide a more effective safety net. However, such measures should be carefully designed so as to minimize adverse effects on work incentives which could lengthen the joblessness spell.

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*... as is spending on active labour market policies, but more should be done*

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At the same time, governments have also sought to scale up the resources for active labour market policies (ALMPs) aimed at helping jobseekers find work. However, when compared with the overall resources available in the fiscal stimulus packages and the magnitude and pace of the job losses in the current crisis, the increase in spending on ALMPs is rather modest in many countries. This looks like a missed opportunity. While calls for additional public spending on labour market policies have to bear in mind that public finances are facing growing constraints in many countries due to the actual and projected build-up in public debt, they can be justified on cost-effectiveness grounds. We now know a lot about what works and what does not work in this area. In addition, this edition of the *OECD Employment Outlook* highlights some new OECD research showing how the *composition* of spending on ALMPs should vary with the cycle to maximise its effectiveness.

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*Effective re-employment services can make a real difference in tackling high and persistent unemployment...*

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A key priority is to provide *effective* employment services to a rapidly rising pool of jobseekers and ensure that the most vulnerable of them do not lose contact with the labour

market and drift into inactivity. Many countries can count on good progress made over the past decade to implement successful activation/mutual-obligation strategies, where, in return for receiving benefits and being offered re-employment services, recipients are required to participate in job search, training or employment programmes, enforced by the threat of benefit sanctions.

It will be important to build on this past success and not throw away the activation approach just because there are fewer job vacancies to which jobseekers can be referred. Instead, the activation approach needs some modification to the circumstances of a deep recession. It is essential to maintain core job-search assistance through the downturn. Even in a deep recession, many jobs are created by firms that are able to exploit new market opportunities and employment services can play a decisive role in helping fill these vacancies quickly.

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*... but there should be some shift towards a “train-first” approach*

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At the same time, OECD research suggests that it would be advisable to shift somewhat the focus and resources behind activation from the “work-first” approach which tended to dominate prior to the crisis to a “train-first” approach for those at high risk of long-term unemployment. This is likely to be particularly important at present, since the global economic crisis is accelerating structural adjustments in OECD countries and measures to foster skill formation and training can play an important role to ensure that workers are well-equipped with the appropriate skills for emerging jobs.

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*Measures to sustain labour demand can also help if they are well-targeted and temporary*

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During the recession, firms have been battered by a collapse in demand and a major credit crunch, resulting in massive lay-offs. Many OECD countries have introduced or scaled-up subsidies that encourage firms to retain or hire workers (*e.g.* short-time working schemes, hiring subsidies, cuts in social security contributions, etc.). In the short-term, these subsidies are playing a positive role in supporting labour demand. But they have often been plagued by high deadweight costs in the past. To minimize these costs, it is important that these schemes be *temporary* and *well-targeted* to firms for whom the demand is only depressed temporarily and to workers at high risk of long-term unemployment. Without these key features, there is a significant risk that these schemes will not only be less effective in preserving jobs but also become an obstacle to the recovery, by putting a break on the required reallocation of workers from declining to expanding firms.

Likewise, increased reliance on public-sector job creation schemes targeted to the hardest-to-place jobseekers might provide a useful, temporary backstop to activation regimes during the recession. However, past experience with such measures is not very encouraging in terms of their ability to help the most at-risk jobseekers. Therefore, in designing these measures, it will be very important to build in incentives to ensure that participants exit from them into regular jobs and the schemes can be unwound quickly once the recovery gathers pace.

*Well-designed and adequately-resourced labour  
market policies can make a difference*

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There is real hope that a recovery is on the horizon. When it comes, this will make tackling the jobs crisis easier. But a recovery on its own is very unlikely to make swift inroads into high and persistent unemployment. Together with appropriate counter-cyclical macroeconomic policies and further structural reforms in labour and product markets, well-designed and adequately resourced labour market policies have a key role to play in this fight against the long shadow of persistent unemployment.



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