

Some Stylised Facts on the Jobs Crisis and Labour Market Policy Challenges

by

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The short-term employment outlook in OECD countries is dire

□ The financial and economic crisis has led to a dramatic deterioration of labour market conditions

- OECD UNR rose to 7.8% in April 2009, 2.2 percentage points higher than one year earlier or 11mill. more unemployed;
- In May, the US UNR was 9.4%, the highest in 25 years.

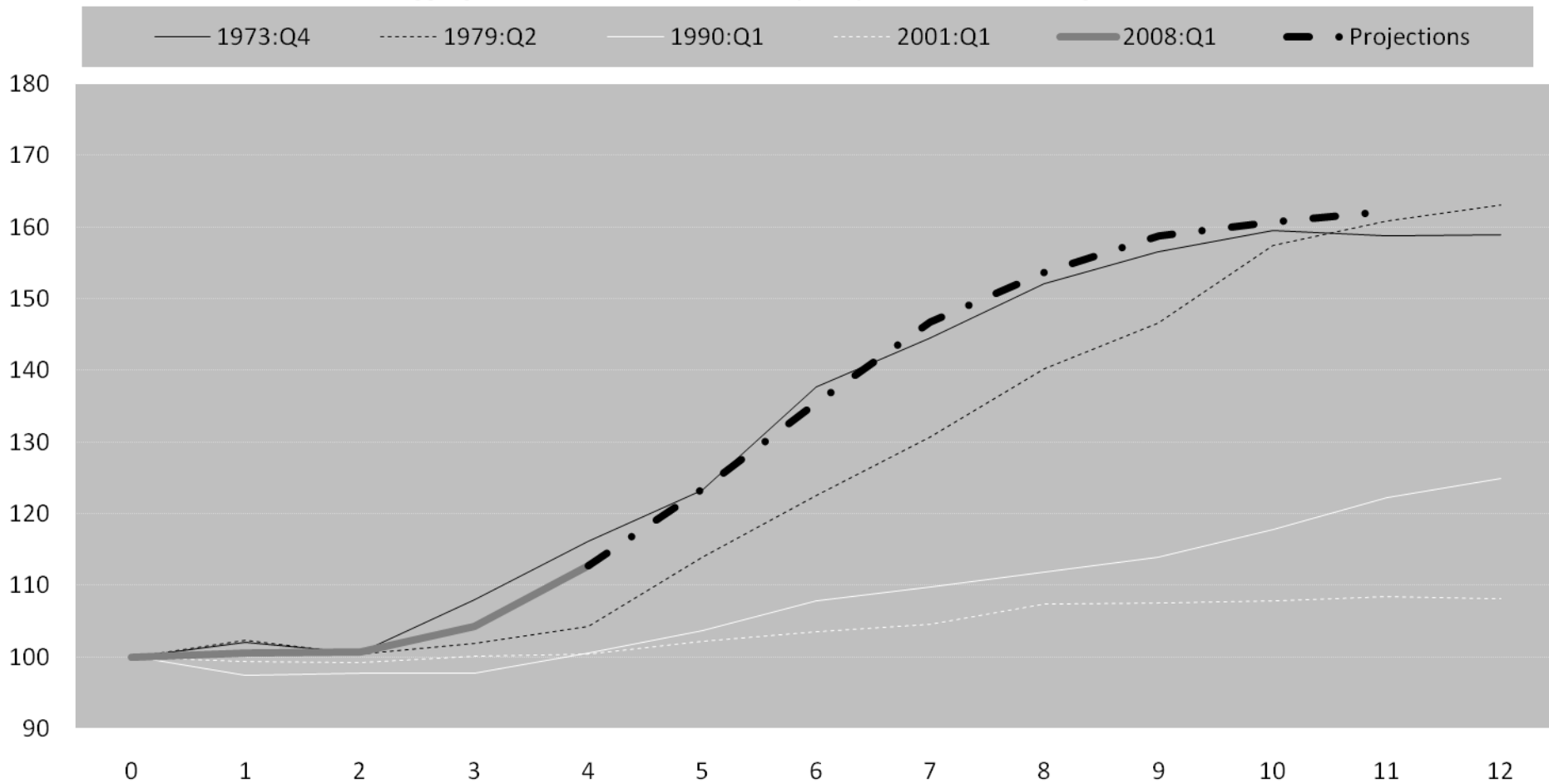
□ Despite some early signs of “green shoots”, unemployment will rise further

- OECD unemployment rate could approach 10% in late 2010...
- ...with about 25 million more jobless persons than in 2007...
- ...and potentially severe social consequences (lost income, poorer health, more crime,.....).

Comparing unemployment rate trajectories during previous downturns and the current downturn*

Four major EU economies

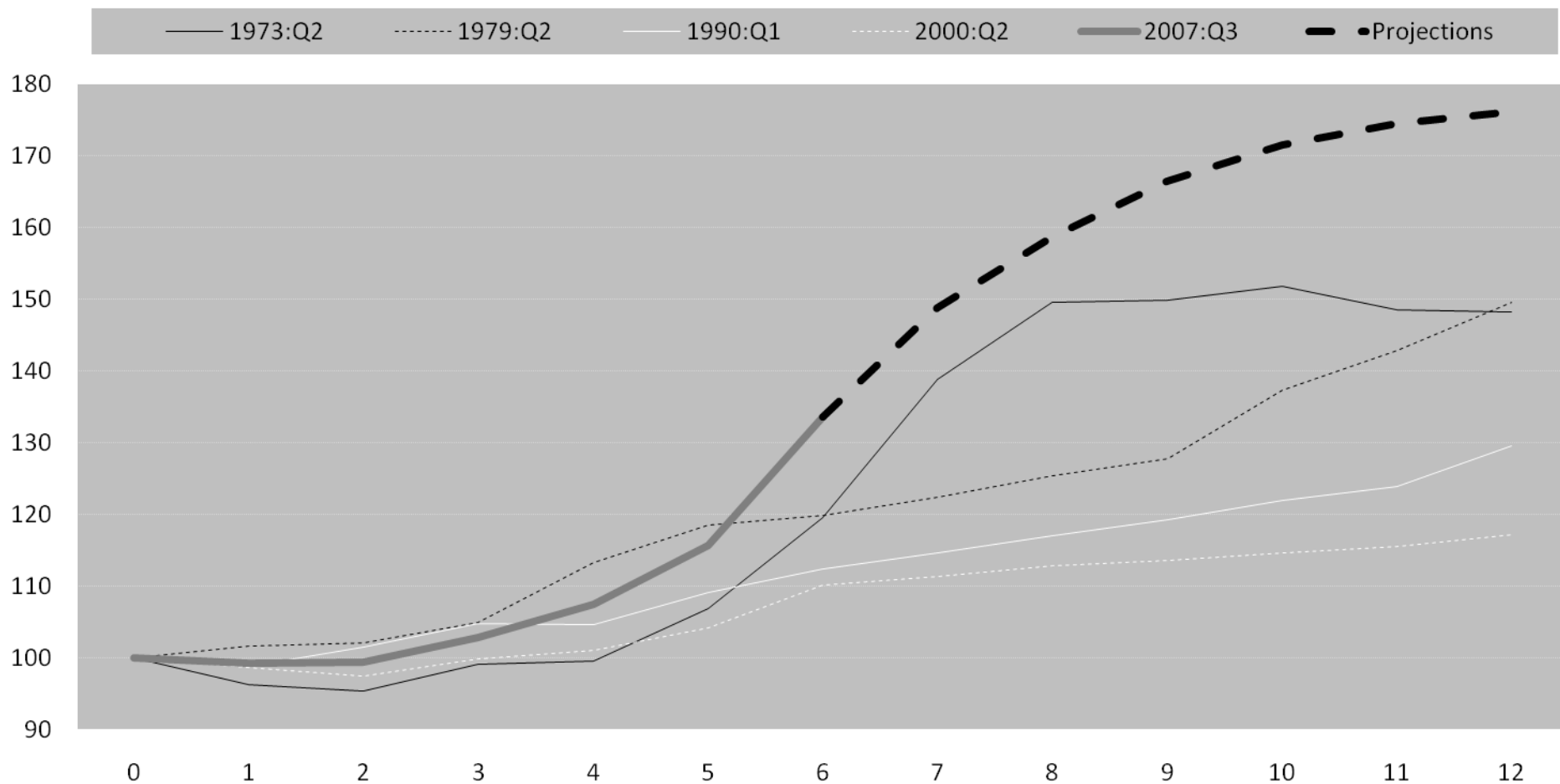
Aggregated data for France, Germany, Italy and the United Kingdom



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

Comparing unemployment rate trajectories during previous downturns and the current downturn*

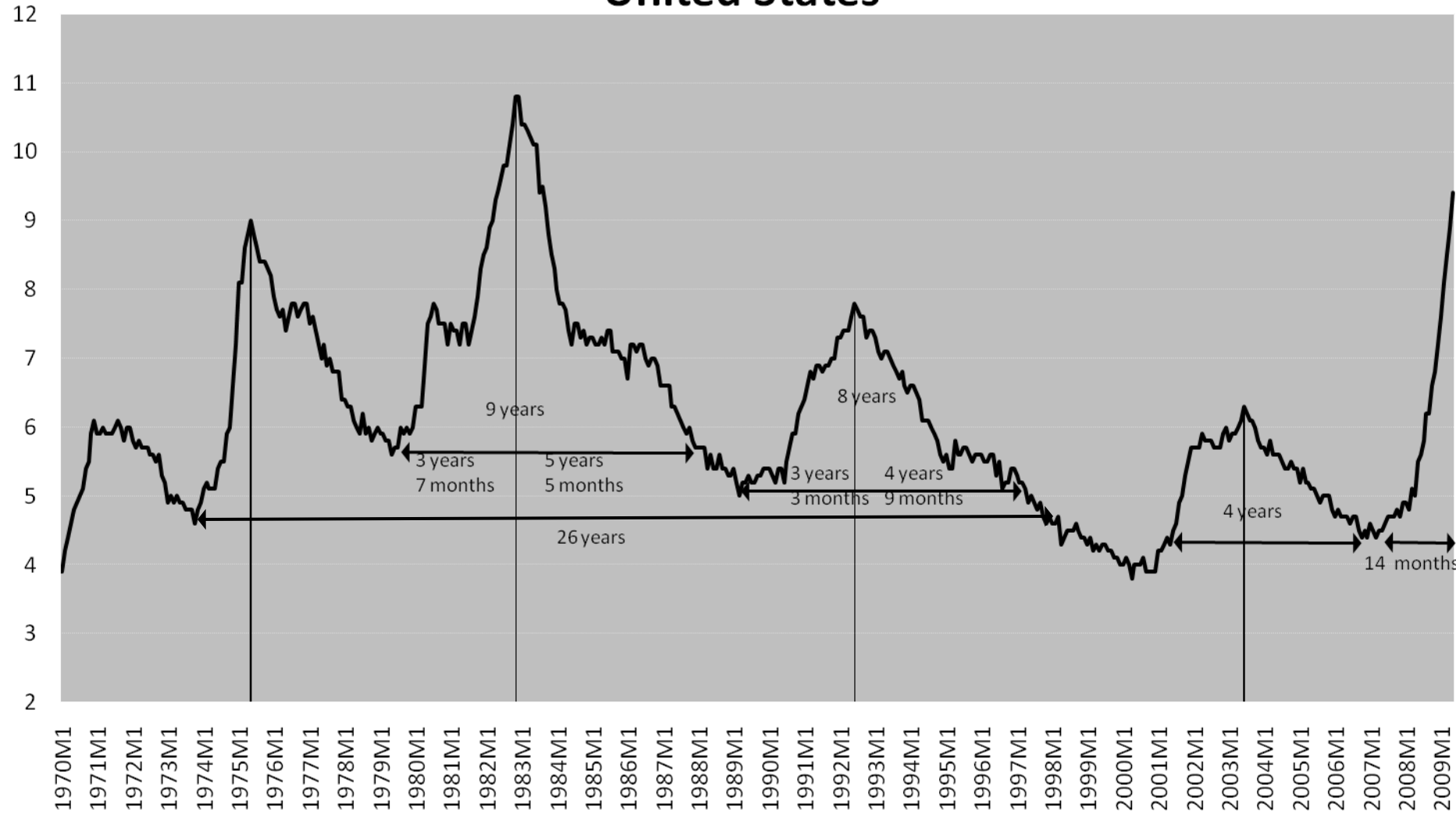
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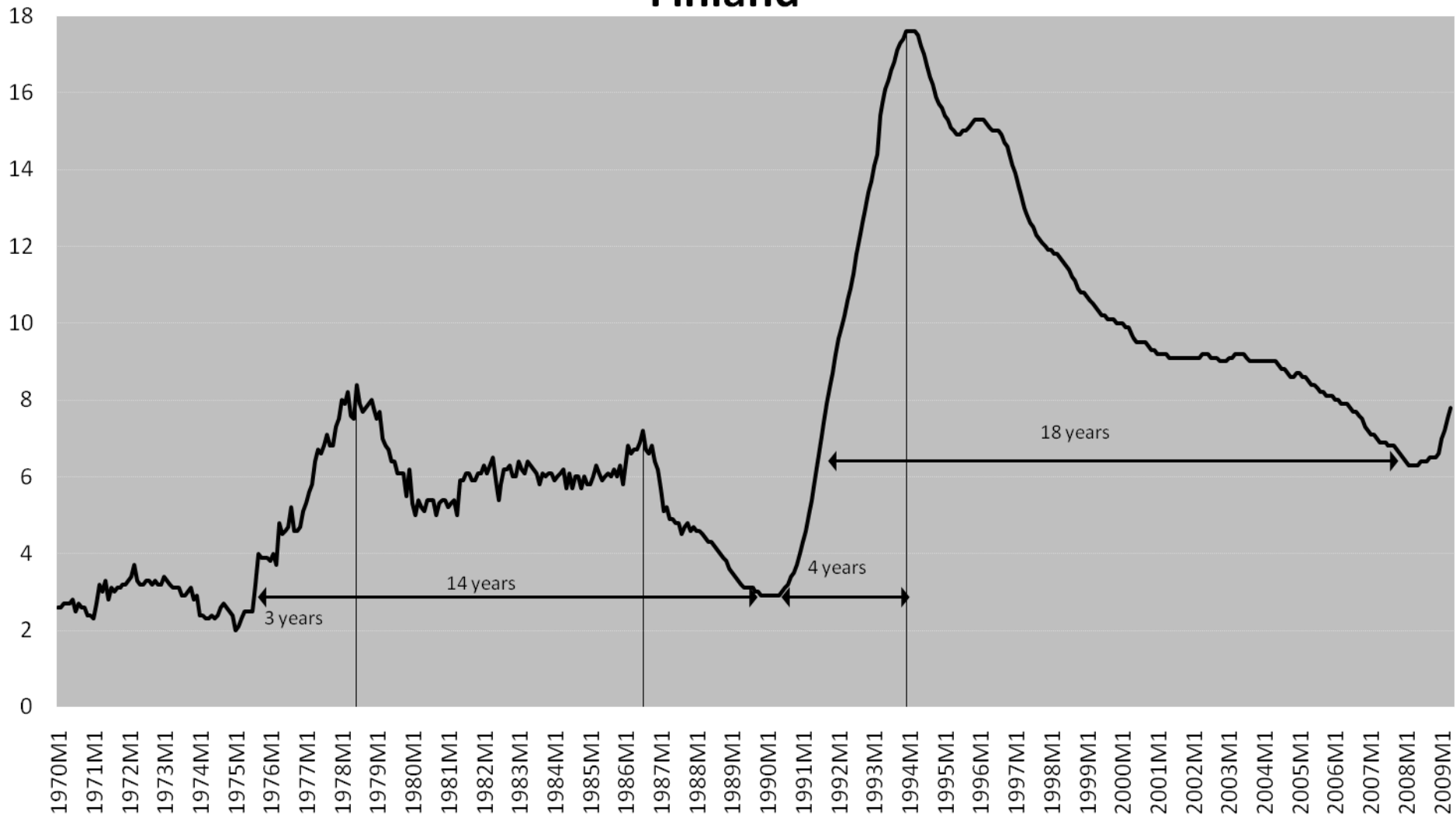
A reminder: Recessions hurt lots of people and can take a long time to fix:

United States



A reminder: recessions hurt lots of people and can take a long time to fix (cont.)

Finland



Policy challenge: How to mitigate the economic and social costs of high and persistent UNR without undermining LM efficiency?



□ Key short-run policy choices

- Should unemployment benefits be expanded?
- How to activate the unemployed when labour demand is weak?
- Should policies to support labour demand be considered?
- Shift from a “work-first” approach to a “train-first” approach?

□ Key longer-run policy choices

- How to ensure effective labour supply?
- How to ensure strong job creation in the recovery?

Key policy recommendations

- Critical to stabilise financial markets and raise aggregate demand, but job losers also need support.
- Need to preserve activation/mutual obligations principle during a steep downturn:
 - Increasing resources significantly on effective ALMPs necessary to maintain this.
 - Little effort yet to expand resources on ALMPs in many countries; a missed opportunity?
- Special attention needs to be paid to youth, particularly disadvantaged youth/school drop-outs, to minimise long-term “scarring” effects
- Must not repeat the past error of opening pathways to early retirement for older workers/those with health problems.