

# The jobs crisis: what are the implications for employment policy?

**Routes Out of the Crisis:  
New Strategies for Skills and Employment  
Trento, 10-12 June 2009**

# Outline

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**□ Local and national perspectives on employment policy are complementary**

**□ National Perspective:**

**□ How bad is the jobs crisis?**

**□ How should employment policy respond?**

# The local and national perspectives on employment policy are complementary

- **National Perspective: OECD Jobs Strategy (1994, 2006)**
  - 1994 policy guidelines focussed on tackling high unemployment
  - 2006 reassessment increased the emphasis on:
    - High participation and employment rates (ageing)
    - High job quality
  
- **Local Perspective: An essential complement**
  - ALMP implementation (flexibility in management)
  - Links to comprehensive economic development strategies
  - An integrated approach to supply and demand
  
- **Common challenge: How should policy react in a steep recession?**

# Despite some “green shoots”, the jobs outlook remains dire

## □ **Already a significant jobs crisis**

- 2007 saw lowest OECD-average UR since 1980 (5.6%)
- OECD-average UR = 7.6% in March/Euro zone = 8.9%

## □ **Further increases in unemployment to come**

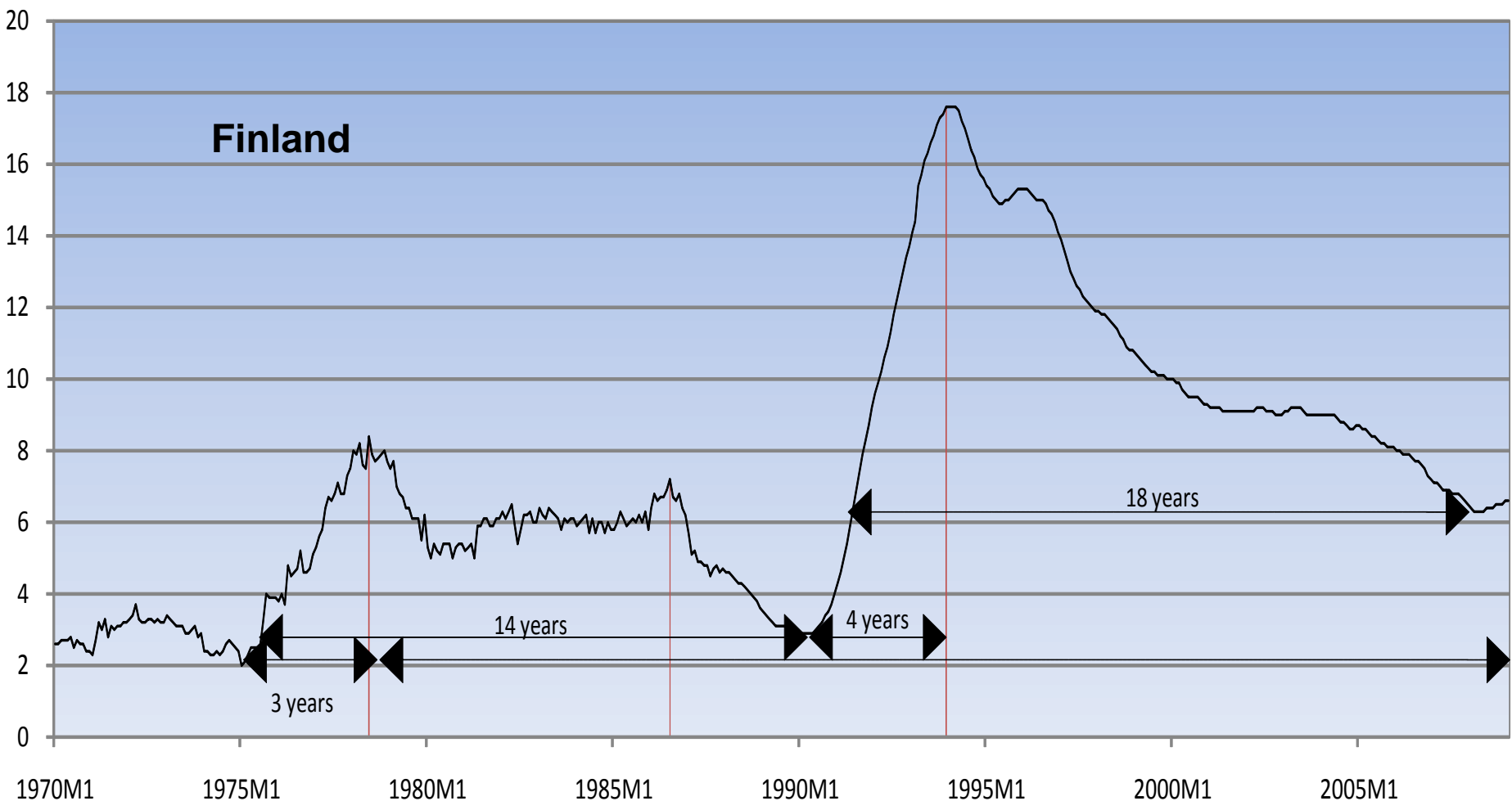
- 10% by late 2010 (OECD average in latest projections)
- Nearly doubling since 2007 (30 million more unemployed persons)
- Fastest increase of this size for the OECD area since WWII

## □ **History highlights 2 risks in the recovery phase**

- Unemployment ebbs more slowly than it surges
- The risk of hysteresis is real

# Severe recessions generate sharp increases in unemployment which are long-lasting and often not completely reversed:

## Finnish unemployment rate surrounding the 1991/3 recession



# Policy challenge: How to mitigate social costs without undermining LM efficiency?

## □ Key short-run policy choices

- Should unemployment benefits be expanded?
  - Ease eligibility rules for temporary and other non-standard workers?
  - Expand maximum benefit durations?
- How to activate the unemployed when labour demand is weak?
  - Should labour demand policies be considered (e.g. short-time schemes)?
  - Is a recession a good time to invest more in training and education?
  - What is the right balance between national and local initiative in adapting ALMPs to a steep recession?

## □ Key longer-run policy choices

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

# Some tentative bottomlines from the national perspective

- 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 is necessary
  - This has not been the case historically, will it be different this time?
- Special attention needs to be paid to youth, particularly disadvantaged youth/school drop-outs, to minimise long-term « scarring »
- Must not repeat the past error of opening pathways to early retirement for older workers/those with health problems