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The jobs crisis:
how bad is it and what are the implications for labour market and social policy?

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Steel Committee
66th Session, Paris, 8-9 June 2009

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Outline

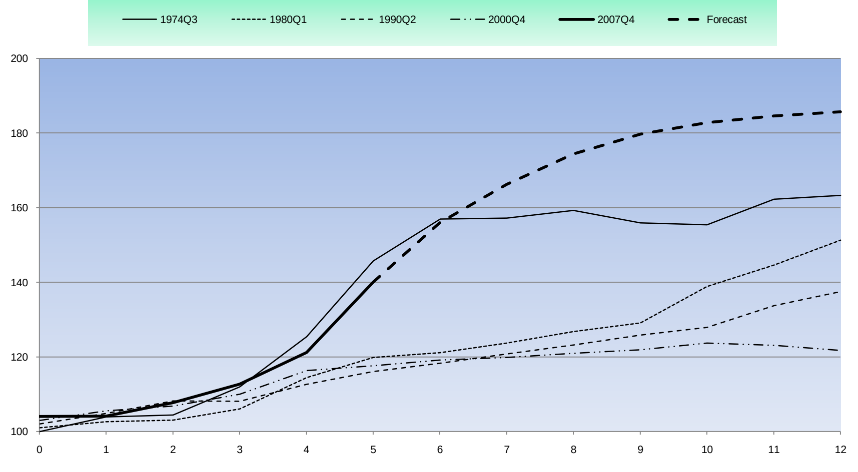
- **Aggregate dimension of the jobs crisis**
  - Labour market impact to date
  - Outlook (OECD projections through 2010)
- **Sectoral dimension of the jobs crisis**
  - Fragmentary evidence
  - Historical patterns
- **Employment and social policy respond**
  - Reinforcing income support for job losers
  - Speeding re-employment
  - Supporting a vigorous recovery

Despite some "green shoots", the jobs outlook remains bleak

- **Already a significant jobs crisis**
  - 2007 saw lowest OECD-average UR since 1980 (5.6%)
  - OECD-average UR = 7.6% in March 2009 (up 11m in past year)
- **Further increases in unemployment to come**
  - 10% by late 2010 (OECD average in latest projections)
  - 26m more unemployed than in 2007 (81% increase)
  - All-time high & fastest increase of this size
  - Individual countries have seen worse
- **History highlights 2 risks in the recovery phase**
  - Unemployment ebbs more slowly than it surges
  - The risk of hysteresis is real

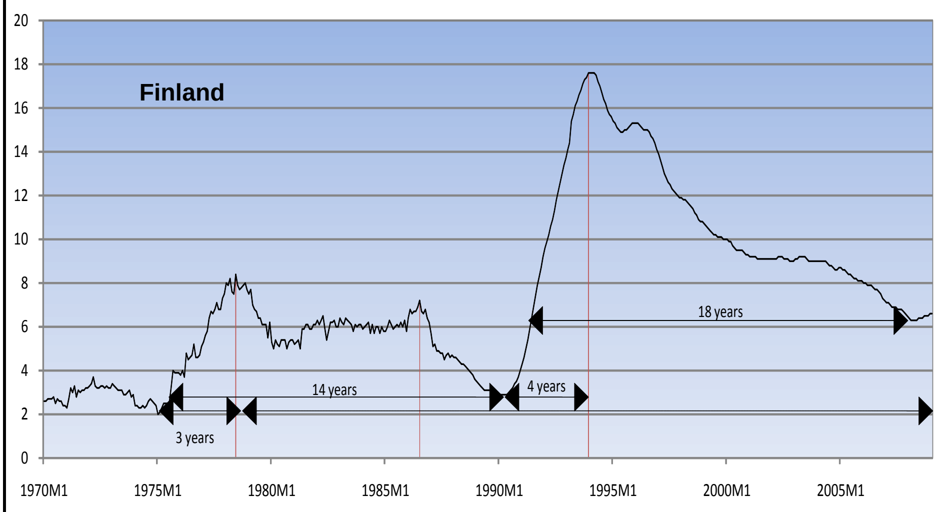
Current upsurge in unemployment is projected to surpass recent historical experience:

Index of increase in the unemployment rate in 5 most recent recessions



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

Finnish unemployment rate surrounding the 1991/3 recession



Sectoral dimension of the jobs crisis: Which industries are most affected this time?

Fragmentary evidence on the currently downturn

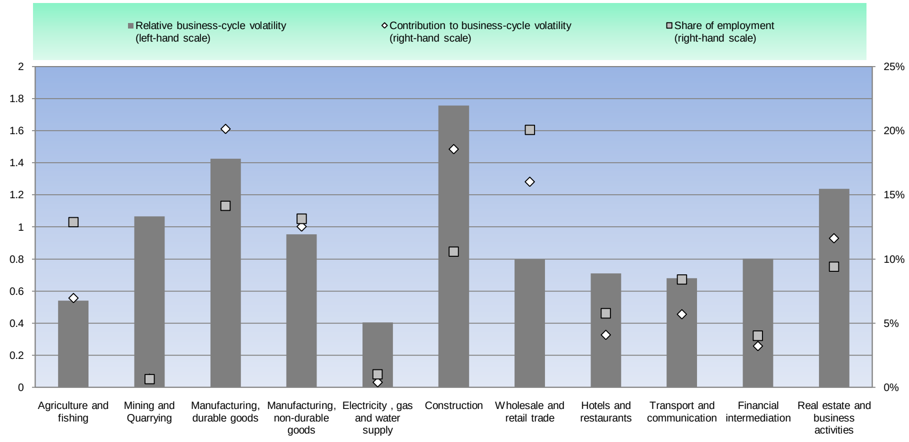
- Finance and construction have shed many jobs in a few countries
  - UK: Finance & Business Services = 78% of 1-year job losses to Dec. 2008
  - Spain/Ireland/US: Construction = 26%/17%/11% of 1-year job losses
- But, job losses quickly diffused to other sectors (ERM, 2009q1)
  - 5 biggest job reduction announcements: GM (47K); Caterpillar (20K); Nissan (20K); Anglo American (19K); United Technologies (18K)
  - 7 Industries announcing the most job reductions: Auto (Nissan, BMW, DAF Trucks); Retail (Marks&Spencer, Woolworths, Metro Group); Finance; Machinery; Land transport; Public administration; Basic metals

Historical perspective

- A familiar story overall?
- How much of the job loss is reversible and how much structural?

Cyclicality of labour demand varies by industry:

Index of relative cyclicality of total hours worked, 1970-2005 (unweighted country averages)



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

Key short-run policy challenges

- How to assuring adequate income-support for job losers?
  - Should UB eligibility rules be eased for temporary and other non-standard workers?
  - Should maximum UB durations be raised?
  - Other gaps in the safety net to mend?
- How to activate the unemployed when labour demand is weak?
  - How can recent progress in activating social protection ("jobs first") be maintained?
  - Is a recession a good time to invest more in training and education?
  - Should labour demand policies be considered (e.g. subsidies for short-time working)?

Key longer-run policy challenges

- How to ensure effective labour supply/keep the long-term unemployed connected to the labour market?
- How to ensure strong job creation in the recovery?

Bottomlines

- Critical to stabilise financial markets and raise aggregate demand, but job losers also need direct 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

Short-time working subsidies: some open questions

- Why the upsurge in interest (7 new schemes & 13 upgrades)?
  - Poor historical record
  - Are job losses more cyclical/financial this time, rather than structural?
- If the rationale is to preserve viable jobs:
  - Can we identify viable jobs?
  - Does it make sense to combine ST with training?
- Does Sweden have a better idea (i.e. deferral of employer social contributions)?
- Does ST have any role to play in fostering orderly restructuring or is it largely a barrier to adjustment?

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Thank you

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