

NERO Meeting
OECD, Paris, 20 June 2011

Labour Market Adjustments to the crisis

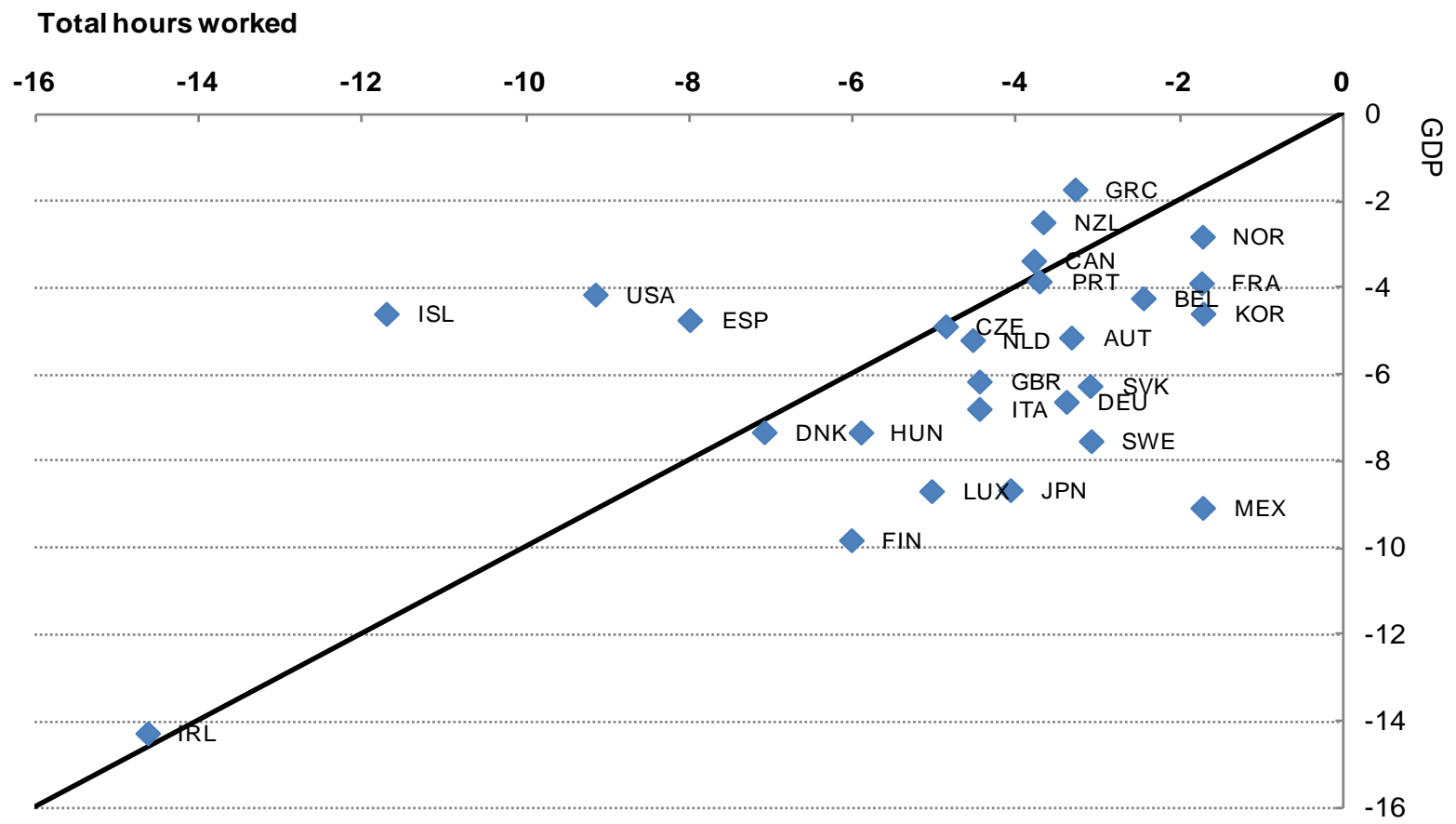
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Main highlights

- Overview of how labour markets adjusted to the decline in output
 - Adjustment in productivity, employment and average hours worked
 - Impact on unemployment and incidence of LTU
 - Adjustment in wages and labour costs
 - Impact on labour force participation
- Contribution of short-time working schemes



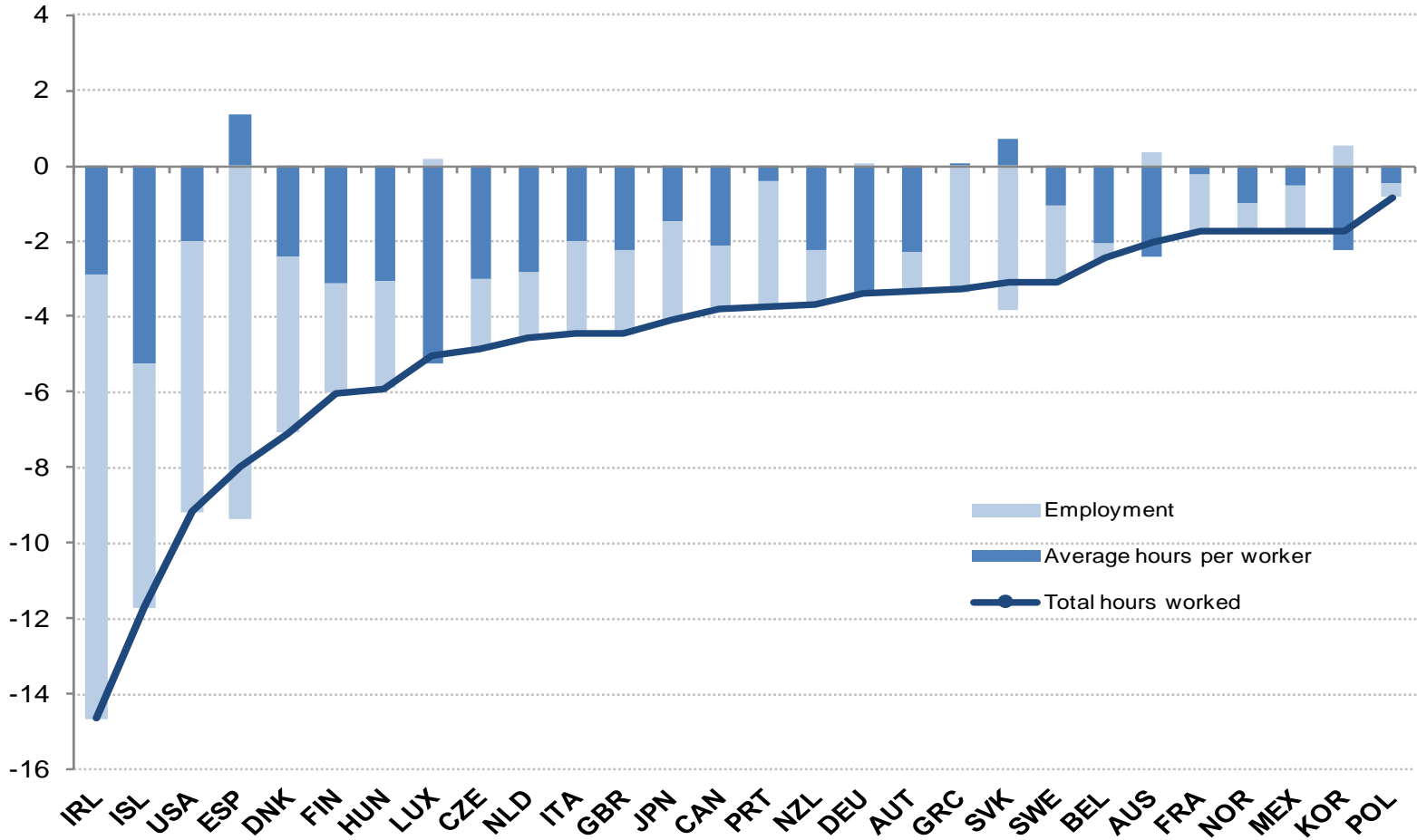
The decline in GDP was partly absorbed by falling hourly productivity in most countries



Except Iceland, Spain and United States where productivity gains were surprisingly large.

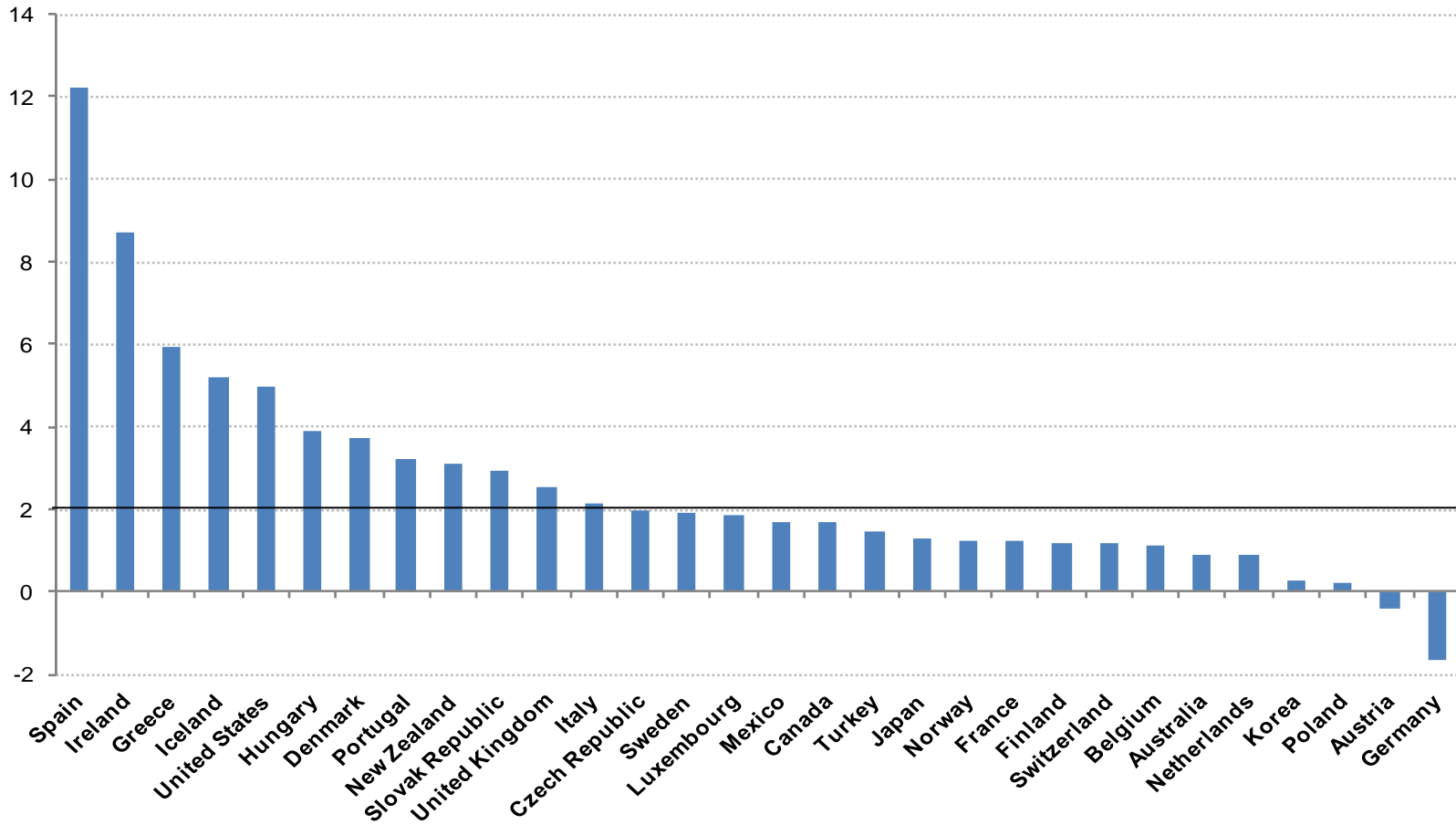


The decline in hours worked has been absorbed differently across countries



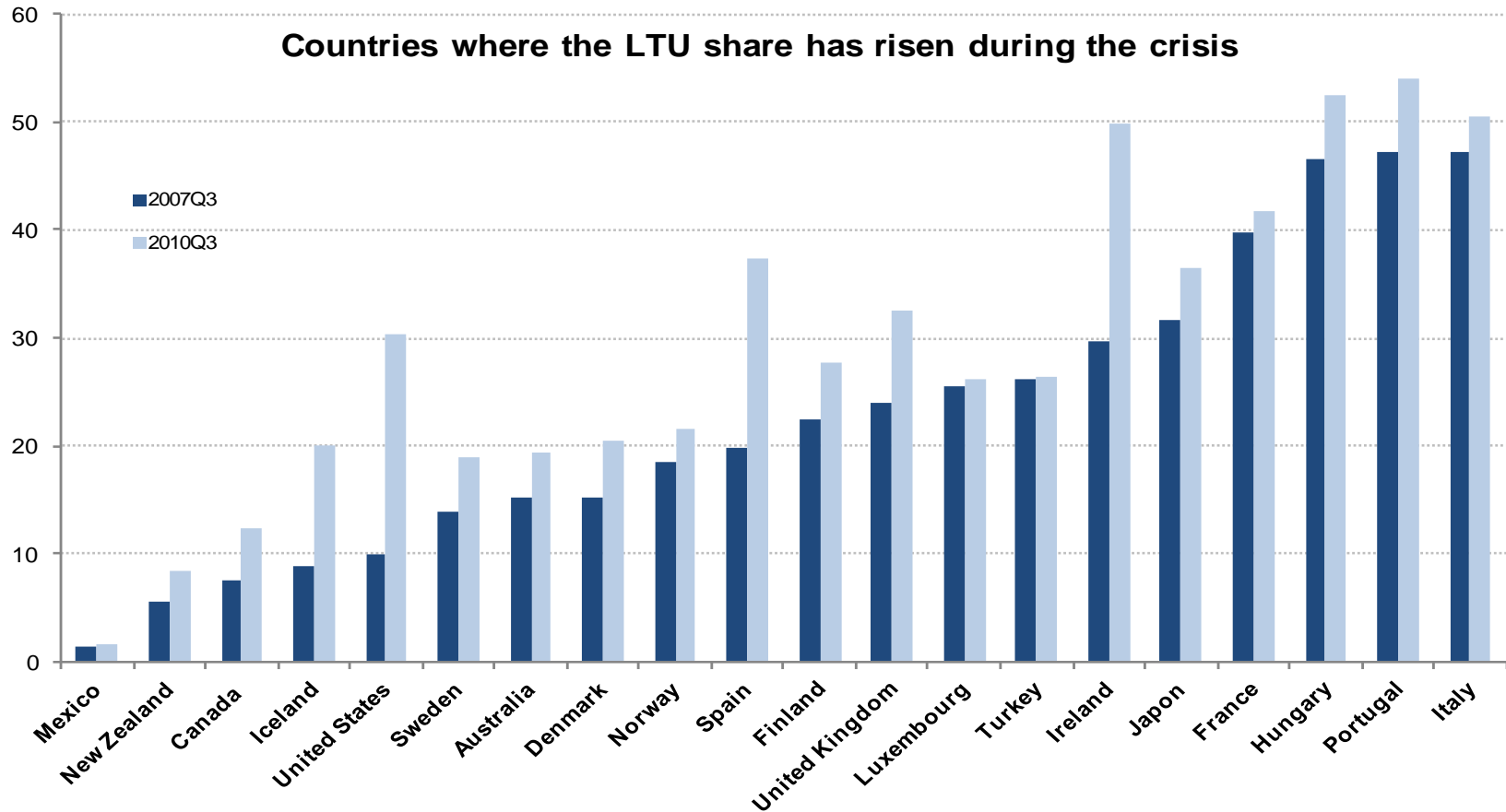
Adjustment in hours almost entirely absorbed through adjustments in average work time in Austria, Belgium, Germany, Korea and Luxembourg.

Unemployment persistence is a concern for a majority of countries



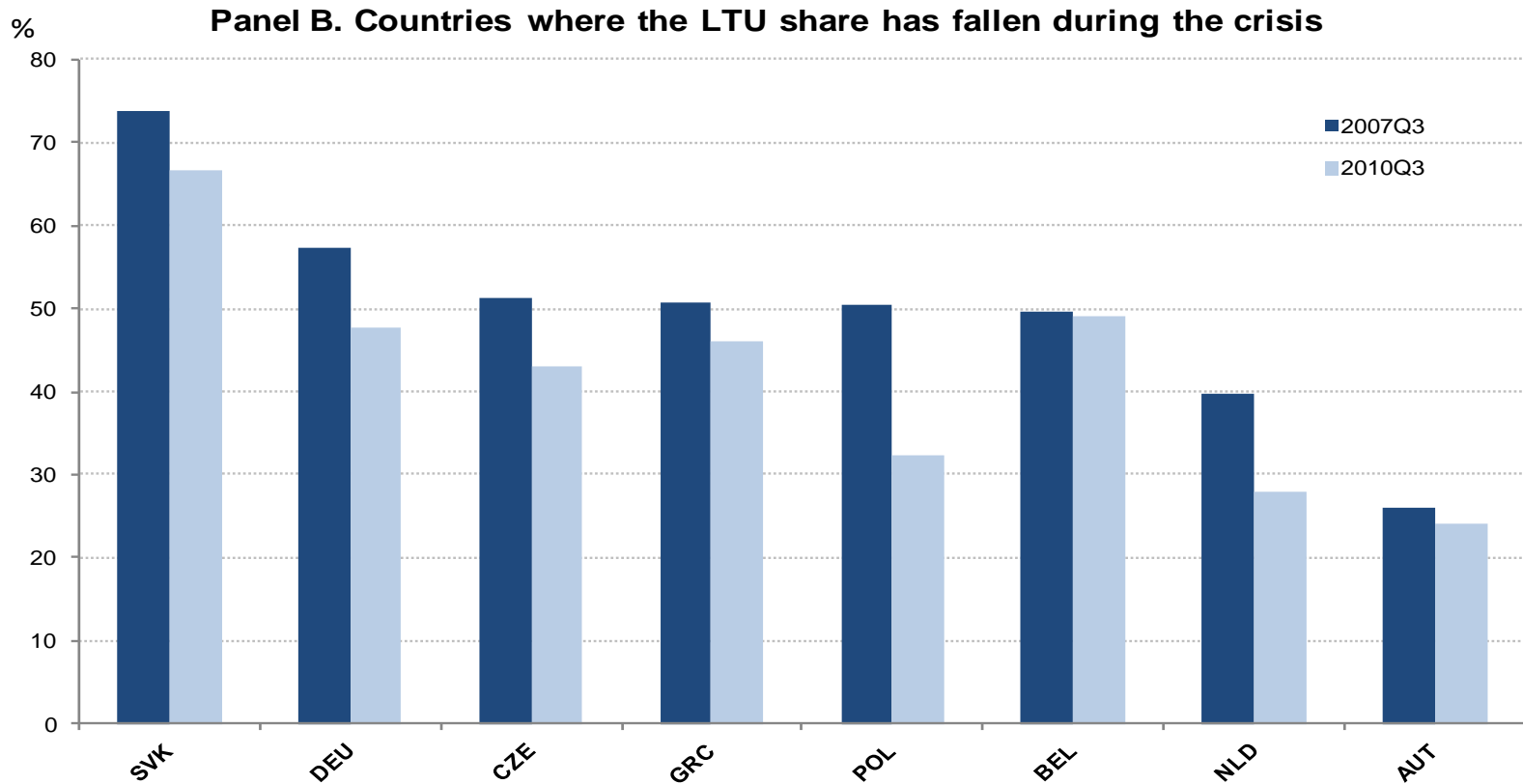
Unemployment rate remains above pre-crisis level by at least 2 percentage points in 12 countries

The share of long-term unemployment has risen sharply in some countries...



...albeit from a relatively low level in some cases (e.g. Iceland, United States), while in other countries (e.g. France, Italy) the share of LTU was already high before the crisis.

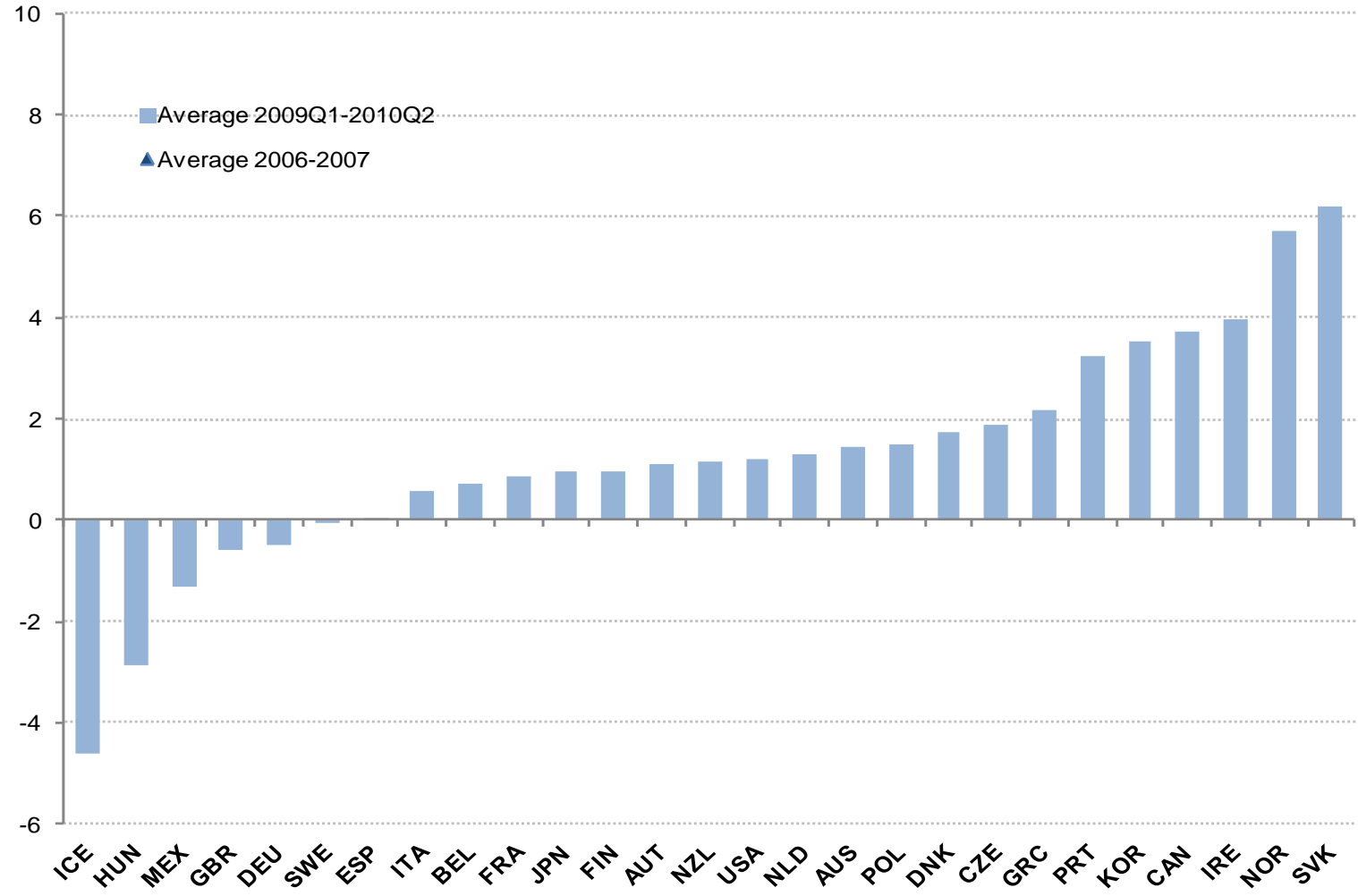
While it has fallen in a few other countries



Generally the case in countries where crisis has had relatively small effect on employment (e.g. Germany, Poland, Austria) or where the unemployment inflow remains high (e.g. Greece).

Real wages have adjusted to some extent

Annualised average percentage changes before and after the crisis

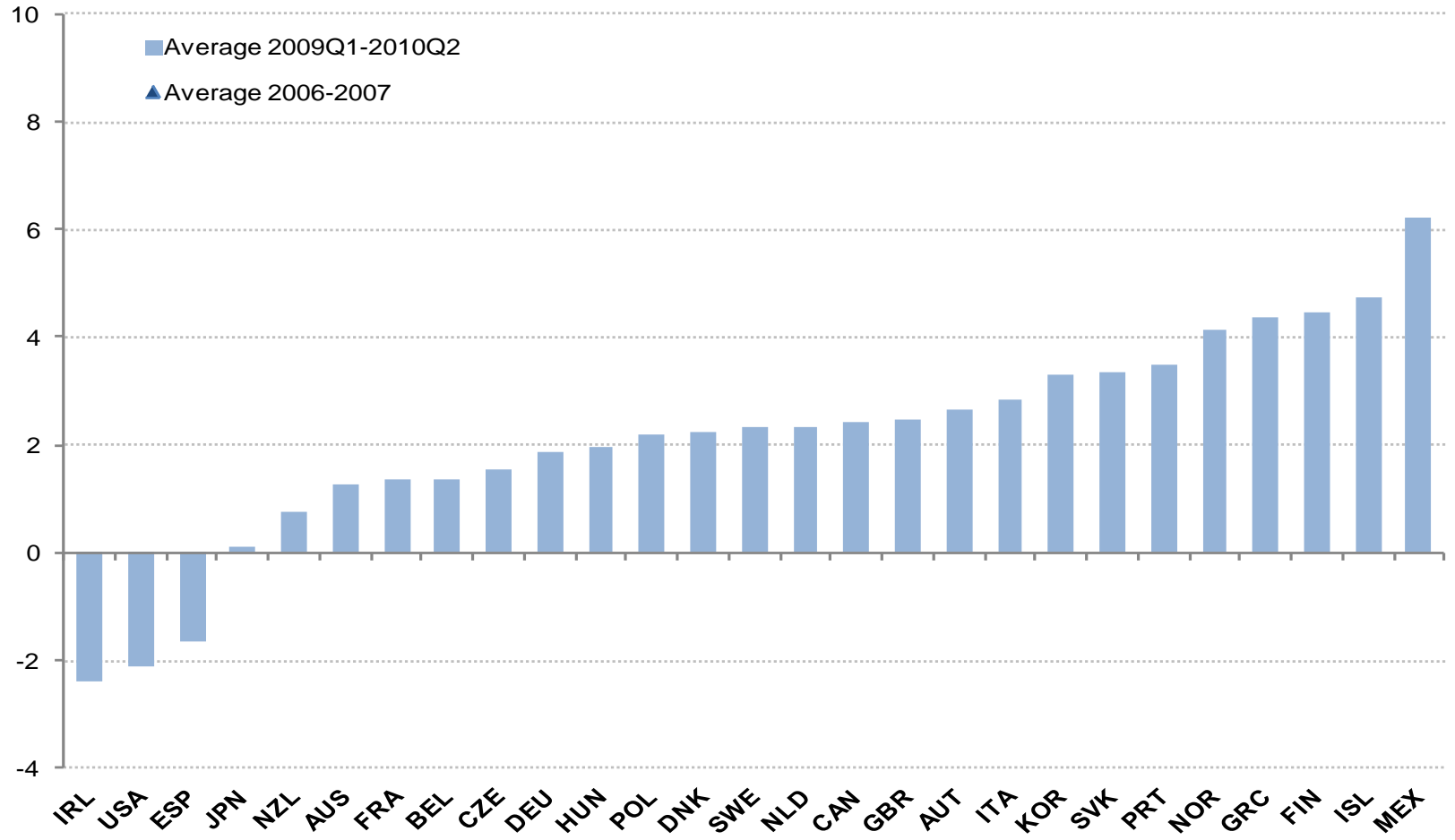


Does not capture measures taken to reduce non-wage costs in a number of countries

Slowdown in ULC has been less widespread

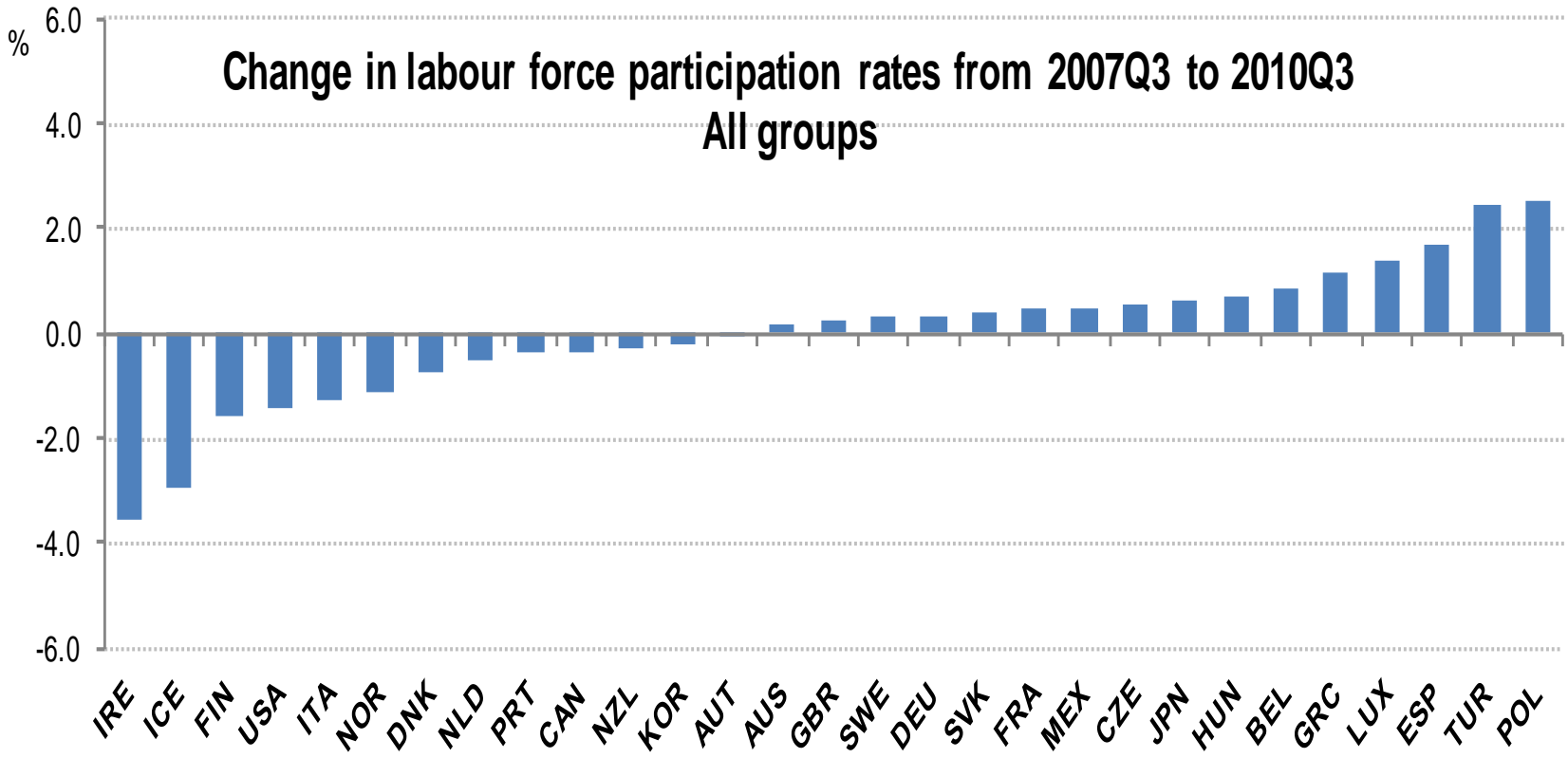
Annualised average percentage changes before and after the crisis

Panel B. Unit labour cost



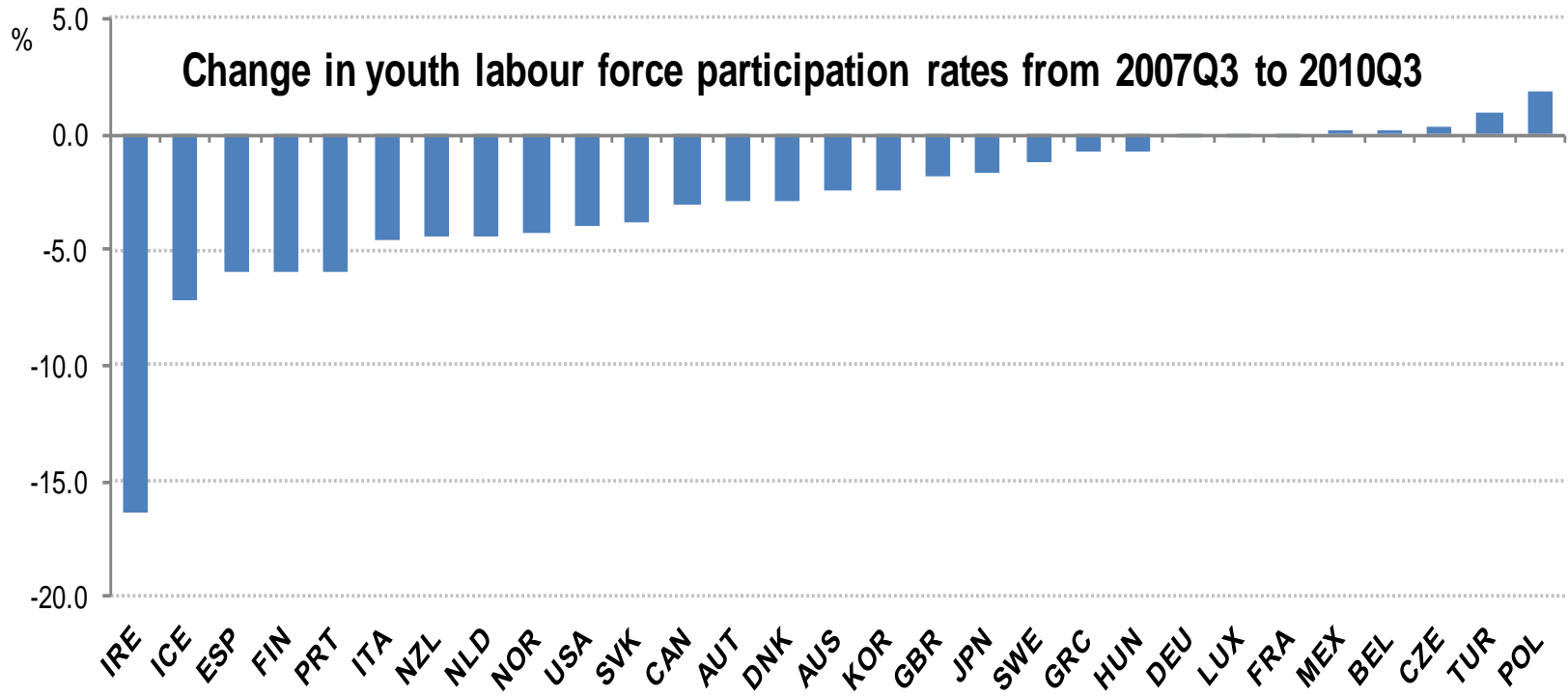
Reflects mostly the adjustment in productivity

Labour force withdrawal has generally been limited so far



...but protracted slack in employment still raise the risk that unemployed workers drift out of the labour market. It is important to maintain control over entry into disability benefit schemes.

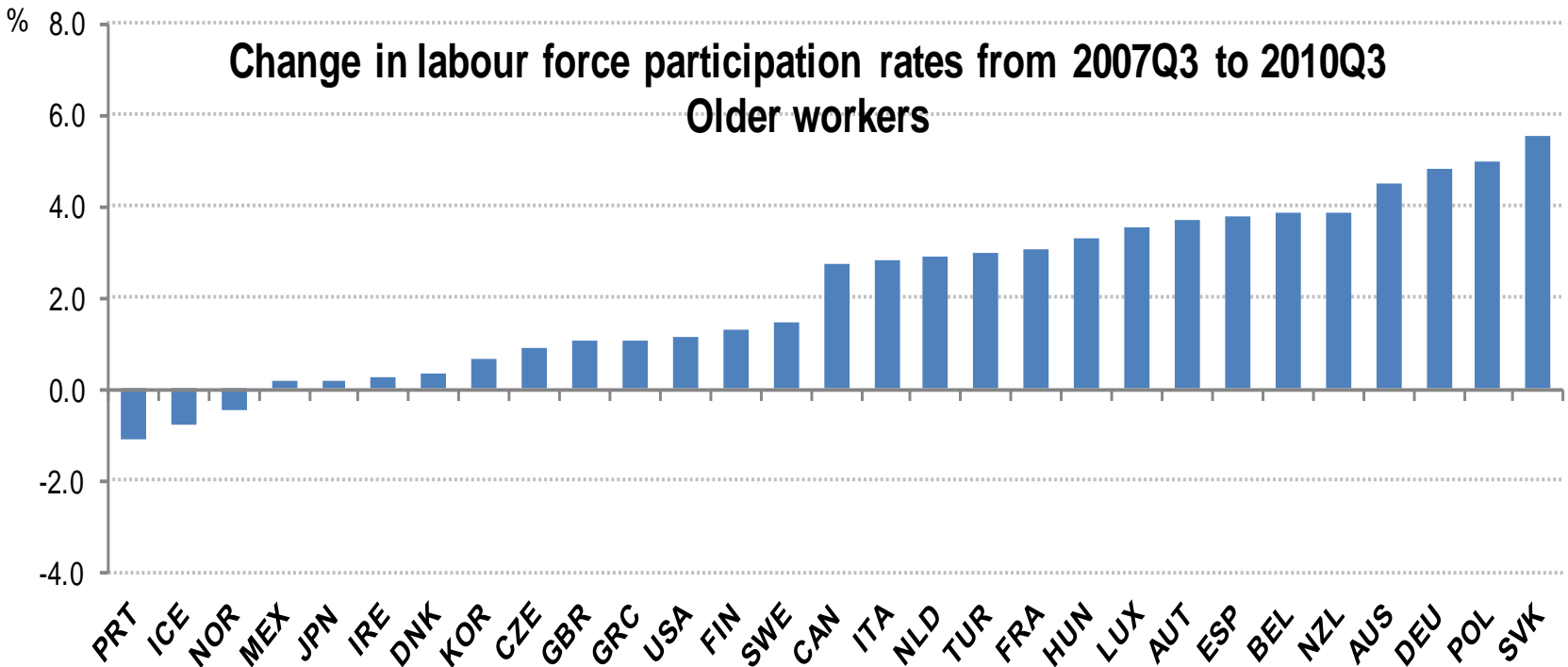
Labour force withdrawal has been substantial among youth...



...Which may reflect longer time spent in education. For those not in education, there is a risk of failure to get firm foothold on labour market and potential scarring effects.

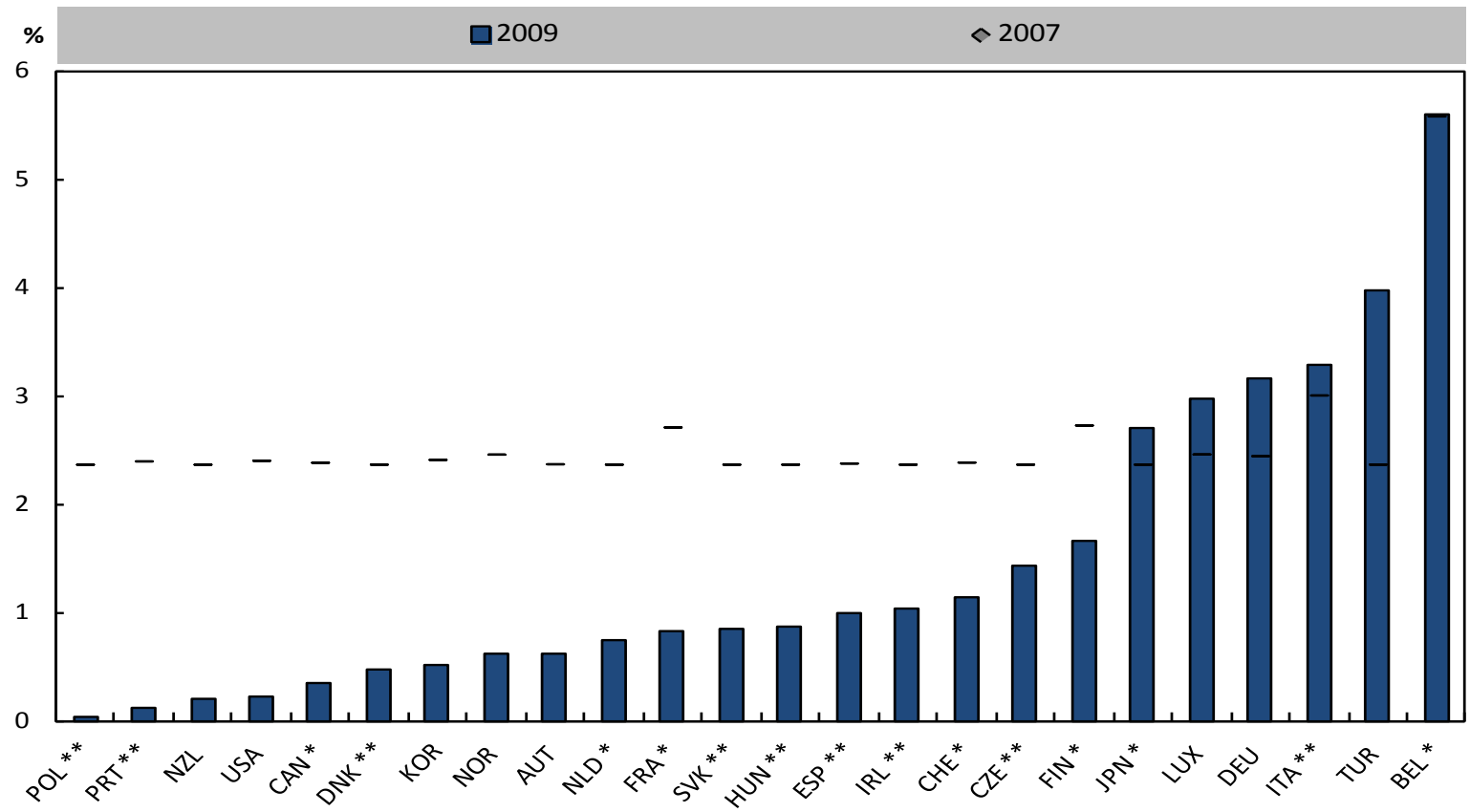


Older workers have maintained surprisingly strong attachment to labour market in the recent crisis



Policies that in the past led to premature exit of older workers have been reformed extensively. The loss of wealth associated with the crisis may also play a role.

Short-term working schemes have helped cushion the impact of the recession on employment in a few countries



Average annual stock of employees participating in STW schemes as a percentage of all employees.

Other factors have had significant contribution to reduction in average hours worked, notably in Germany and Japan.

Average hours reductions in Germany, 2008-09

Proportion of average hours reduction due to:

Increased participation in STWS (Kurzarbeit)	25%
Employer-initiated reductions in working time	40%
Reduced over-time	20%
Debiting working-time accounts	20%
Total reduction in average hours worked (2007Q3 to 2009Q3)	3.5%

Average hours reductions in Japan, 2009

Proportion of average hours reduction due to:

reduction in working time among part-time workers	17%
Reduction in overtime among full-time workers	33%
Reduction in standard hours for full time workers	50%
Of which:	
- Increased participation in STWS (Koyo-chosei-jyosei-kin)	17-33%
- employer-initiated reductions in working time	17-33%
Total reduction in average hours worked (2008 to 2009)	3.3%

Countries can be grouped according to nature and size of labour market adjustment

Adjustment in total hours predominantly absorbed by:

Increase in unemployment since mid-2007	Employment	Average hours worked
More than 2 percentage points	<div style="border: 2px solid red; border-radius: 15px; padding: 5px;"> Spain Ireland United States Greece Iceland Denmark Portugal </div>	<div style="border: 1px solid red; border-radius: 10px; padding: 2px;">Hungary</div> <div style="border: 1px solid red; border-radius: 10px; padding: 2px;">New Zealand</div> <div style="border: 1px solid red; border-radius: 10px; padding: 2px;">United Kingdom</div>
	Slovak Republic <div style="border: 1px solid blue; border-radius: 10px; padding: 2px;">Italy</div>	<div style="border: 1px solid blue; border-radius: 10px; padding: 2px;">Czech Republic</div> <div style="border: 1px solid blue; border-radius: 10px; padding: 2px;">Luxembourg</div> Canada <div style="border: 1px solid blue; border-radius: 10px; padding: 2px;">Belgium</div> <div style="border: 1px solid blue; border-radius: 10px; padding: 2px;">Finland</div> Netherlands Norway Korea Austria <div style="border: 1px solid blue; border-radius: 10px; padding: 2px;">Germany</div>
Less than 2 percentage points	Sweden Mexico France <div style="border: 1px solid blue; border-radius: 10px; padding: 2px;">Japan</div>	

Countries where construction was severely hit circled in red

Countries where STWS played a significant role circled in blue

Wrap-up

- Labour markets have done comparatively well in view of the magnitude of the shock...
 - Pre-crisis reform in benefit and activation systems (broadening coverage, tightening eligibility, increasing conditionality and MWKP) has paid off
 - Reforms of pensions system and early retirement schemes partly explains good employment performance of older workers
 - Benign labour market outcome in some countries has underscored the potential role of work sharing arrangements

- ...But major concerns as regards unemployment persistence and labour force participation, especially for youth and low-skilled