BACKGROUND DOCUMENT

OECD Labour and Employment Ministerial Meeting

Tackling the Jobs Crisis

The Labour Market and Social Policy Response

THEME 1
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The Jobs Crisis: What are the Implications for Employment and Social Policy

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Paris, 28-29 septembre 2009

OECD Labour and Employment Ministerial Meeting

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THE JOBS CRISIS: WHAT ARE THE IMPLICATIONS FOR EMPLOYMENT AND SOCIAL POLICY?

1. Introduction

The world economy is experiencing a severe economic downturn, with potentially dire economic and social consequences. Since the second half of 2008, major declines in output have been observed in a growing number of OECD and non-OECD countries, which quickly translated into sharp reductions in employment and, in some cases, unprecedented increases in unemployment. The latest economic indicators suggest that the worst may be over and a recovery may be in sight. However, OECD economies are still facing numerous headwinds and even if the recovery starts earlier than expected only a few months ago (see OECD, 2009d) it will be rather muted for some time to come. The experience of previous severe economic downturns also suggests that it will take a long time to reabsorb this large pool of unemployment and there is a risk that cyclical increases in long-term unemployment and worker discouragement can lead to a permanent increase in structural unemployment and inactivity.

Employment losses reduce welfare in different ways that go well beyond the obvious decline of output and, hence, income. Joblessness could have adverse effects on physical and mental health, crime rates and subjective happiness. And if job loss results in a long spell of unemployment, this can lead to a loss of valuable skills, thereby reducing the earnings potential of the affected workers and increasing their risk of becoming disconnected from the labour market. Low-qualified youth attempting to gain a foothold in the labour market also risk becoming disconnected (OECD, 2009c).

In addition to the role of macroeconomic policy in boosting aggregate demand and creating the conditions for a resumption of economic growth, appropriate employment and social policies play an essential role in mitigating the economic and social costs of unemployment, by providing income support and assisting job losers to find new jobs. However, the sharp increase in unemployment represents a high-stakes stress test for policies intended to help job losers. Do unemployment benefit systems provide adequate income security for job losers, while maintaining incentives to search for a new job? To what extent is the "work-first" orientation of activation regimes still appropriate in a context of severe labour market slack (OECD, 2009b)? And can active labour market programmes helping workers to reintegrate into employment be up-scaled rapidly enough to meet the sharp increase in need?

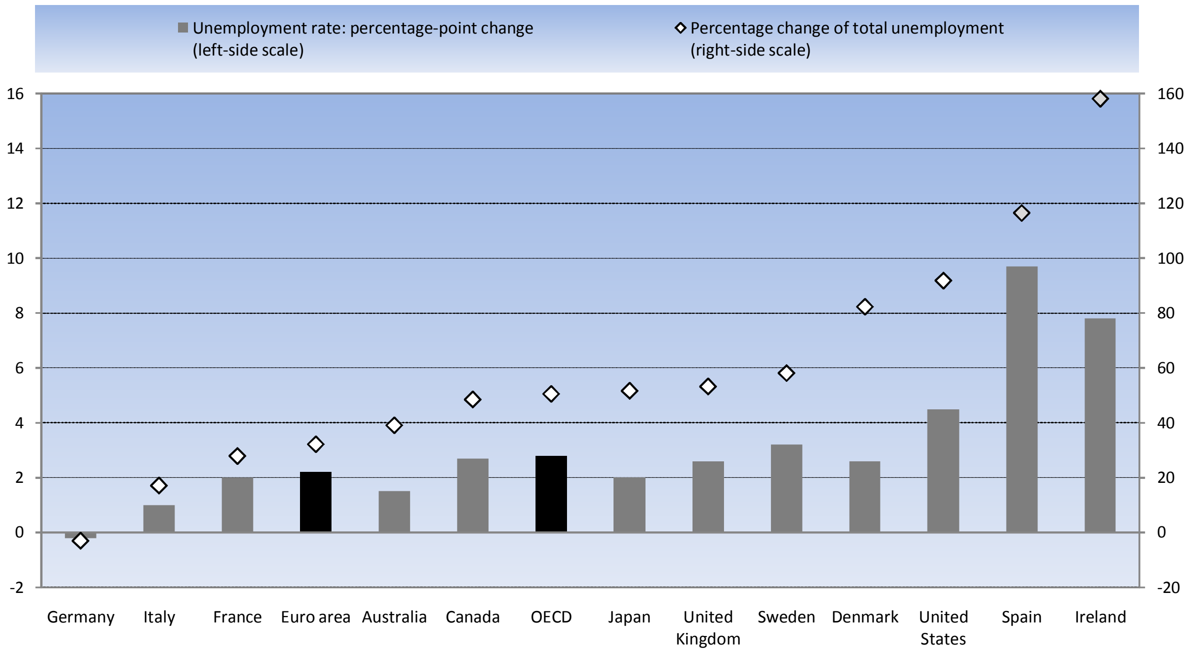
This background document addresses these key policy issues. It draws from Chapter 1 of the *OECD Employment Outlook 2009* which provides a more in-depth analysis of labour market developments during the current economic downturn and reviews the various policy options to respond to the jobs crisis (OECD, 2009a). The next section discusses how the current economic downturn is affecting labour markets in OECD countries, focussing particularly on the steep rise in unemployment, and which workforce groups are bearing the brunt of this rise. The final section then analyses how employment and social policy can minimise the social costs associated with steep economic downturns and support a strong recovery.

2. How is the crisis affecting labour market outcomes?

Current conditions and the short-turn outlook

Labour market conditions have weakened throughout the OECD area, in some cases at an unprecedented pace. Job losses became widespread, as companies around the world cut production, closed factories and dismissed thousands of workers in response to the steepest decline in post-war history. Between December 2007 and July 2009, the downturn had caused more than 15 million workers in the OECD area to join the ranks of the unemployed, a 51% increase (Figure 1 and Annex Table 1). Spain experienced the sharpest increase in

Figure 1. **Change in OECD harmonised unemployment in selected OECD countries, December 2007 to July 2009**[a,b,c]



	Australia	Canada	Denmark	France	Germany	Ireland	Italy	Japan	Spain	Sweden	United Kingdom	United States	Euro area	OECD
Change in unemployment Dec 2007 - Jul 2009 (Thousands)	187	517	79	620	-104	166	270	1 280	2 299	169	837	6 921	3 668	15 110

a) Final month available is March 2009 for Italy and May 2009 for the United Kingdom.By August 2009, the unemployment rate increased in Canada by 2.8 percentage points and in the United States by 4.8 percentage points compared with December 2007. The number of unemployed persons increased by 539 000 (50.5% increase) in Canada and by 7 387 000 (98% increase) in the United States.

c) The unemployment rate in Germany decreased until November 2008, which is why the values reported for this country are negative.

Source: OECD calculations based on the *OECD Main Economic Indicators*.

unemployment, amounting to 9.7 percentage points, followed by Ireland, with an increase of 7.8 percentage points. The 4.5 percentage-points increase in the United States was also substantially above the average level for the OECD area which was 2.8 percentage points. All three countries had experienced large housing price bubbles and unsustainable increases in residential construction in the years immediately preceding the crisis, but the crisis rapidly spread to other sectors of the economy. The impact of the economic downturn on employment was slower to emerge in other countries, but unemployment has risen in all OECD countries in 2009.[1]

Although the latest economic indicators suggest that a recovery may be in sight, it will take time before the pick up in output translates into job creation. As a result, the OECD unemployment rate is likely to continue rising into 2010: it could even approach 10% (or 57 million unemployed) if the recovery fails to gain momentum, by far the highest level recorded since 1970, the first year for which harmonised data are available. Past experience highlights a major risk that much of this large hike in unemployment becomes structural in nature as many of the unemployed drift into long-term unemployment or drop out of the labour force.

How does the current crisis compare with previous recessions?

It is still relatively early to compare the severity of the labour market impact of the current downturn with that of previous recessions, given the current uncertainty about the way the crisis will develop in the future. Nonetheless, a provisional assessment is informative. Figure 2 compares the evolution of the unemployment rate in the current and previous economic downturns. For the current downturn, it presents both the actual increase in the unemployment rate since the third quarter of 2007 and the projected increases drawing from the June OECD projections covering the whole OECD area.[2] The increase in the OECD unemployment through mid-2009 was already the steepest observed since the early 1970s, while the total increase in the OECD average unemployment rate over the course of the current downturn could approach 80% by the end of 2010 according to the June OECD projections. Corresponding increases in the previous recessions ranged between 20% and 50%. Even if the June projections should prove too pessimistic, the unemployment hike in the current downturn is very likely to be the worst in recent decades. While the largest part of the total expected increase in unemployment has already taken place in some countries, notably Spain, Ireland, Japan and the United States, much of the total potential increase may yet be to come in other countries, including France, Germany and Italy.

As compared with their counterparts in past recessions, workers confront this downturn with both advantages and disadvantages. One clear advantage is that the current economic downturn hit the OECD economy at the time when labour market conditions were favourable, on average. In 2007, the unemployment rate reached a 27-year low at 5.6% on average in the OECD area, while over two-thirds of the working-age population were employed, an all-time high. On the downside, trend increases in the shares of *temporary jobs* in a number of European countries and Japan have made some workers more vulnerable than in previous downturns, since it is particularly easy for employers not to renew such contracts when business conditions deteriorate. Greater flexibility in

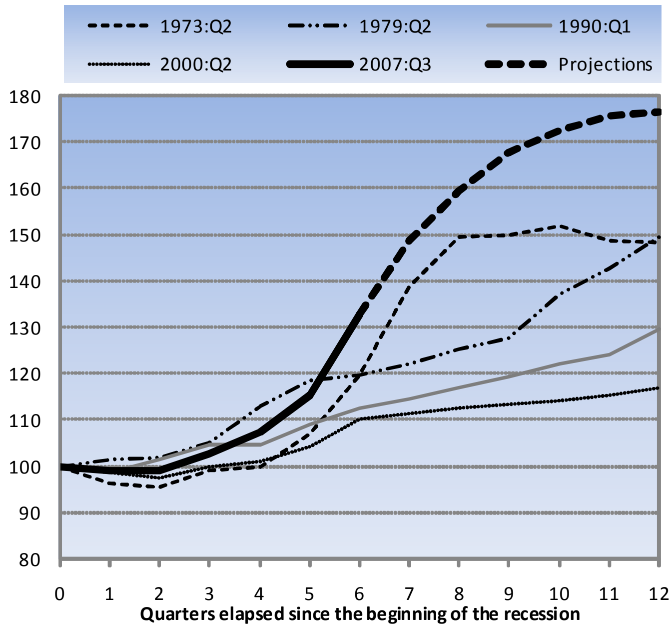
1. For example, the unemployment rate in Germany declined until November 2008 and started to increase significantly only in the first quarter of 2009. For this reason the overall change in the unemployment rate over the period December 2007-July 2009 is slightly negative in Figure 1.

2. These projections are described in detail in OECD (2009d) and are based on information available as of 11 June 2009. More recent economic indicators for the seven largest OECD countries suggest that the recovery may begin somewhat sooner than had been projected but that the pace of the recovery is likely to be muted for some time (Elmeskov, 2009).

working-time arrangements, including the rise in part-time work, have also made it easier for employers to preserve jobs by reducing working hours, but may also imply significant earnings losses for workers. Overall, the increase in "non-standard" forms of employment in many countries also raises the concern that an increasing share of job losers may not be well covered by unemployment insurance (UI) benefits.

Figure 2. **The current unemployment hike is the worst in recent decades**

Unemployment rate at the business cycle peak, OECD area, quarterly data[a,b] = 100



a) Estimates based on economic projections presented in OECD Economic Outlook No. 85, Paris, June 2009.

b) Turning point dates are defined using the business-cycle peak of the output gap.

Source: *OECD Employment Outlook 2009*.

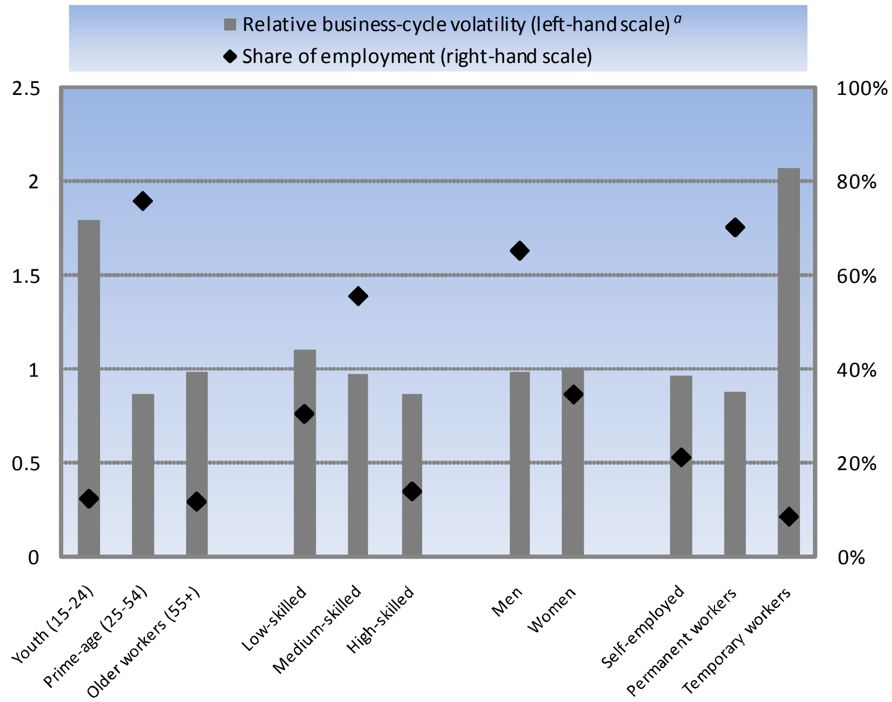
Who is affected most?

Previous economic downturns suggest that already disadvantaged groups in the labour market – youth, low-skilled, immigrants, ethnic minorities and persons with health problems, as well as workers in temporary jobs – are likely to bear most of the brunt of rapidly falling employment and reduced working hours (see Figure 3).[3] The compositional shift in unemployment towards disadvantaged groups in a recession reflects their greater vulnerability, both to being laid-off and to being pushed even further to the back of the hiring queue, when many more workers are competing for a limited number of job vacancies. To date, the current economic downturn conforms to these patterns.

3. Due to data limitations, only some of these groups could be included in the analysis of relative vulnerability to cyclical downturns presented in Figure 3.

Figure 3. **Already disadvantaged groups bear the brunt of falling labour demand**

Index of business-cycle sensitivity for the indicated groups relative to the national average[a]



a) Index based on cyclical variations in total hours worked. A value of 1 for the index indicates an average sensitivity to cyclical variation (*i.e.* the same sensitivity as for the national labour force). Unweighted average across countries.

Source: *OECD Employment Outlook 2009*.

In the majority of OECD countries, recessions translate simultaneously into increased job losses and dwindling job prospects for the unemployed. As the decline in the probability to find a job tends to dominate in a recession, the average duration of unemployment spells typically increases. However, the extent to which this occurs differs substantially across countries and workforce groups. Higher job losses disproportionately account for increases in unemployment among older workers during recessions, whereas greater job-finding difficulties disproportionately account for the rise in unemployment among youth.

Public employment services thus need to gear up to help both increased numbers of job losers – many of whom will have little recent experience in job search, but will often be highly qualified and eligible for substantial unemployment benefit payments – and more disadvantaged jobseekers, such as back-of-the-queue youth who are used to moving between jobs but now find themselves at a heightened risk of long-term unemployment and inactivity. Nonetheless, it should be stressed that considerable hiring continues even during a deep recession, although a greater number of jobseekers are competing for each available vacancy (OECD, 2009a).

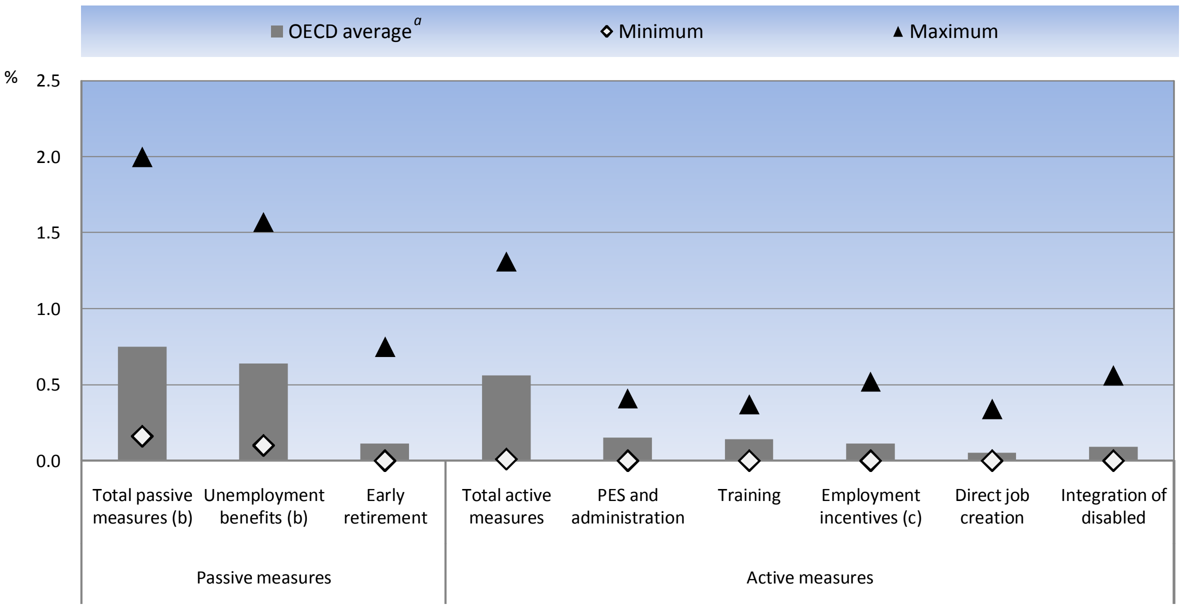
3. Employment and social policy in the economic downturn

Overview of national labour market programmes

Before evaluating different policy choices, it is essential to have an overview of the types of labour market programmes that constitute the policy tool-kit available to help minimise the social costs of recession, while fostering a quicker reintegration of the unemployed into the labour market. There are two main types of measures, namely, income-support schemes ("passive" measures) and services intended to assist reintegration into employment ("active" measures). On average in 2007, OECD countries devoted 0.8% of GDP to passive measures and 0.6% to active measures.[4] Expenditures on labour market programmes vary widely across OECD countries, as is indicated by the minimum and maximum values presented in Figure 4. For example, passive spending varies from 0.2% to 2% of GDP, while active spending varies from under 0.1% to 1.3%. There are also marked cross-country differences in the relative priorities assigned to spending on the different passive and active measures. In sum, OECD countries are confronting the current jobs crisis with very different labour market programme structures in place to help workers weather the storm.

Figure 4. **Passive and active labour market programmes in OECD countries**

Annual spending as a percentage of GDP, 2007



a) Unweighted average for 28 OECD countries.
b) Minimum value calculated excluding Mexico which does not have an unemployment benefits system.
c) Sum of expenditures for employment incentives, job rotation and job sharing, and start-up incentives.

Source: *OECD Employment Outlook 2009*.

4. It should be noted, however, that public programmes not accounted for here, such as social assistance benefits and adult education more generally, can also play an important role in reducing the social costs of downturns. Indeed, the discussion of income support below devotes substantial attention to social assistance benefits since they are an important source of income for job losers who either do not qualify for unemployment insurance benefits or remain unemployed sufficiently long to exhaust their entitlement to these benefits.

Historical analysis of variations in spending on labour market programmes indicates that passive spending expands strongly when unemployment rises in a recession. This is as would be expected, because many of the rising number of job losers qualify for unemployment insurance (UI) benefits. Nonetheless, spending tends to rise somewhat less than proportionately with the number of persons unemployed, suggesting that an increasing share of unemployed fail to qualify for UI benefits or exhaust those benefits before finding a new job. By contrast, spending on active labour market programmes (ALMPs) does not vary significantly over the business cycle, implying that spending levels per unemployed person decline sharply in a deep recession (OECD, 2009a,b).

Early responses to the jobs crisis

Many governments have responded to the crisis with vigorous macroeconomic measures including sometimes large fiscal stimulus packages intended to supplement automatic stabilisers.[5] By supporting aggregate demand, these measures have prevented employment losses from being even larger than they have been. Most of these fiscal stimulus packages include labour market and social policy measures to cushion the negative effects of the downturn on workers and low-income households. In many cases, the *additional* funds for labour market programmes are rather limited and this may represent a lost opportunity.

In order to obtain a comprehensive overview of the *discretionary* employment and social measures taken in response to the current economic slowdown, the OECD Secretariat sent a questionnaire to all Member countries.[6] The information collected for 29 OECD countries reveals that all of these countries have taken multiple additional measures to reinforce the assistance available to job losers or other workers whose well-being is threatened by the current downturn.[7] Many countries have taken discretionary steps to reinforce both passive and active measures, but the emphasis has most often been on providing additional assistance to reintegrate jobseekers into employment or enhance their job skills. Twenty-three of the 29 countries have increased the provision of training available to jobseekers, while a majority has increased training support for incumbent workers or reinforced apprenticeship schemes (Figure 5). The next most common measures have been to support labour demand for jobseekers and vulnerable workers (*e.g.* short-time working schemes) or to expand job-search assistance.

It must be emphasized that the questionnaire responses only refer to *discretionary* policy initiatives taken at the *national* level. In countries where the operation of labour market policies is highly decentralised and national funding automatically rises along with unemployment rates in a recession, such as Denmark and Switzerland, there tends to be a smaller role for discretionary national responses and the questionnaire does not cover

5. The countries which have enacted the largest discretionary fiscal stimulus packages also tend to be characterised by relatively weak automatic stabilisers, suggesting that these two forms of fiscal stimulus are to a considerable extent substitutes (OECD, 2009a). Automatic stabilisers tend to be strongest in northern European and other countries where public social spending, particularly on unemployment and other social protection benefits, is relatively generous and tax revenue more cyclical.

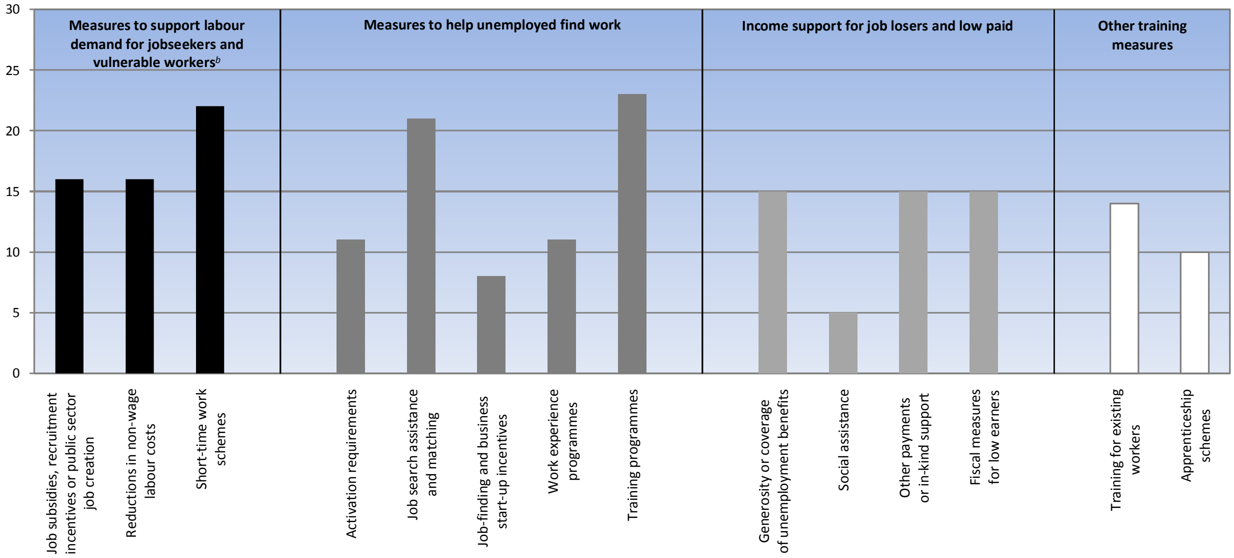
6. This questionnaire was developed jointly by the OECD Secretariat and the European Commission.

7. OECD (2009g) analyses the questionnaire responses in greater detail, whereas the discussion here is limited to evoking broad tendencies.

the total increase in assistance that is being made available to the unemployed.[8] Since the questionnaire only covers *public* policy initiatives in response to the economic downturn, it does not encompass initiatives taken either via collective bargaining or individual bargaining between workers and employers (*e.g.* to trade-off wage restraint or reduced hours against jobs).

Figure 5. **Government have taken many types of measures in response to the jobs crisis**

Number of OECD countries[a] that have taken discretionary measures by policy type



a) Statistics based on 29 countries (Iceland not included).

b) Does not include measures to increase aggregate labour demand, such as fiscal stimulus packages.

Source: *OECD Employment Outlook 2009*.

Do existing social security systems provide adequate safety nets?

The adequacy of unemployment benefits as safety nets for the unemployed and their families and as macro-economic stabilisers is being severely tested by the current economic downturn. There are three main challenges. First, it is important to make sure that the administrative and financial capacity is available to meet the increased demand for benefits. Second, as job losses mount, any problems of non-coverage in UI are likely to become evident in countries with substantial proportions of non-standard workers (*e.g.* temporary, part-time). Finally, as the average durations of unemployment spells lengthen and jobseekers are increasingly confronted with declining benefit payments and expiring entitlements in most countries, the adequacy of income support for the growing group of long-term unemployed becomes a more pressing concern.

8. ALMP spending also rises automatically with the number of jobseekers in contractual systems, such as the Job Services Australia, where the provision of reemployment assistance is sub-contracted to private service providers.

Do existing systems of unemployment compensation provide adequate safety nets during a severe economic downturn? Two essential functions of unemployment benefits are the provision of a degree of income maintenance during joblessness and facilitating effective job-search. While countries share these objectives, their balance – and the approaches used to achieve them – varies. A simple way of summarising many of the relevant institutional details is by using the *net benefit replacement rates*, which express net income of a beneficiary as a percentage of net income in the previous job. Figure 6 shows the fraction of net income in the previous job that unemployment benefits replace on average over the first five years of an unemployment spell for prime-age individuals, as well as the additional income provided by two forms of social assistance.[9] Although initial replacement rates for unemployment benefits vary significantly across OECD countries, the main source of the variation in generosity is the extent to which the benefit amount decreases as an unemployment spell continues.

Where unemployment benefit protection is patchy, governments should make necessary adjustments to ease the negative impact of weakening labour markets on income security, while ensuring that such policy measures do not stifle recovery once economic activity regains momentum. For example, a temporary increase in coverage to non-standard work could be envisaged. Where UI benefit durations are short, temporary extensions in the maximum duration of benefits could help to reduce the number of benefit stops for jobseekers. But to avoid delaying employment growth after the recession, such extensions need to be temporary, well targeted on the most vulnerable and not undermine job-search requirements. Responses to the OECD questionnaire reveal that more than half of OECD countries have adjusted UI benefit protection in response to the crisis in ways that appear to reflect these types of considerations (*e.g.* by expanding eligibility for temporary or part-time workers or increasing benefit durations).

Figure 6 also illustrates how social assistance and similar minimum-income benefits provide an essential backstop to unemployment benefits in a recession, since an increased number of job losers will either fail to qualify for unemployment benefits or exhaust their UI entitlements. Nonetheless, social assistance and other “last-resort benefits” are not sufficient to lift people out of poverty in most OECD countries. Governments should, therefore, carefully monitor whether cases of extreme hardship are arising which require an immediate response. One issue requiring particular attention is that these benefits be available and accessible to job losers and other persons who need them, since take-up rates are often quite low.

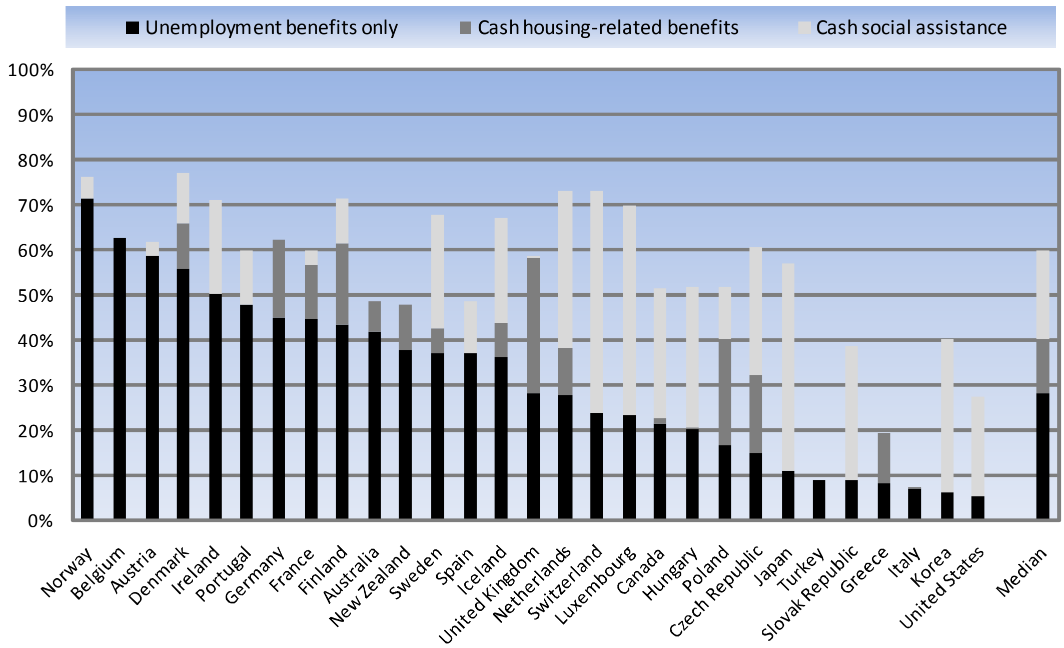
While rising joblessness is the main concern during a severe downturn, there is also likely to be an increased need for assistance for low-earnings workers. In addition to alleviating hardship suffered from involuntary reductions in wages or working hours, income support for low earners can also strengthen labour-market attachment during a recession. Fifteen countries report having taken fiscal measures to raise net incomes of low earners, with targeted tax reductions being about as common as enhancements to

9. Data shown are averages over different earnings levels and family situations and account for taxes and for family-related benefits that are typically available. They refer to 2007 and, thus, to a period before any adjustments were made in response to the current downturn. OECD (2007) provides a detailed account of institutional parameters, including eligibility and qualifying conditions, as well as benefit amounts and durations. Updates of this information, as well as a benefit calculator, are also available on the Internet at *www.oecd.org/els/social/workincentives*.

in-work benefits. Another, albeit more narrowly targeted, form that assistance to low earners can take is partial unemployment benefits, which compensate workers facing involuntary working-hours reductions.[10]

Figure 6. **Unemployment benefits are only one element of safety nets for job losers**

Average net replacement rates over a five-year unemployment spell[a]



a) See notes to Table 1.7 in *OECD* (2009a) for details on how these averages are calculated. Housing-related benefits are those available to families living in rented accommodation with rent *plus* other housing costs (*e.g.* utility bills) assumed to equal 20% of the average wage. In some countries, housing-related support is covered by social assistance payments instead. Social assistance in the United States also includes the value of a near-cash benefit (Food Stamps).

Source: OECD tax-benefit models, *www.oecd.org/els/social/workincentives*.

How to activate the unemployed when labour demand is weak?[11]

One of the main labour policy reforms in the OECD over the past decade has been the implementation of activation/mutual-obligation strategies, where, in return for paying benefits and offering effective re-employment services, recipients are required to participate in active job search or training or employment programmes, enforced by the threat of benefit sanctions. Evidence reported in OECD (2006) shows that such strategies have had success in moving people off benefit rolls and into work. However, the effectiveness of activation risks declining in a recession, unless appropriate adjustments are made.

10. The main attraction of partial unemployment benefits in a recession is that they can support short-time working schemes which minimise the number of layoffs resulting from temporarily depressed business conditions. Short-time working schemes are discussed below.

11. See OECD (2009b) for a more detailed analysis.

In order to preserve the mutual-obligations ethos of activation regimes, it is essential that core job-search assistance be maintained through the downturn, such as the drawing up of a personal re-employment plan and regular meetings with case managers. However, the reduced availability of vacancies reduces the job prospects for jobseekers, particularly for traditionally disadvantaged groups. In order to avoid demoralisation among jobseekers, a greater emphasis on alternative labour market programmes such as training, public-sector job creation and labour-demand policies (*e.g.* short-time work schemes, hiring subsidies) may also be necessary to keep activation credible.

Maintaining the effectiveness of activation in a recession thus requires that substantial additional resources have to be made available for ALMPs. Early indications in the current downturn suggest that spending on ALMPs in many countries has responded more strongly than was the case in past recessions. Nonetheless, it is likely that the increase in spending in many countries still falls short of the amount that would be required to maintain the available resources per unemployed person constant, and, consequently, that the public employment service faces difficult choices in deciding how to ration increasingly scarce resources across the growing stock of unemployed persons who potentially could benefit from them.

An increased role for measures to support labour demand for job losers and vulnerable workers?

In the context of a recession, it is natural to consider whether there is an expanded role for policies that promote labour demand by encouraging employers to hire the unemployed or to limit the number of workers they lay-off. Prominent among the latter are *short-time working schemes* which are designed to prevent unnecessary layoffs due to temporary reductions in product demand or access to credit, by inducing employers to reduce working time instead. Typically, these schemes provide government-financed income support to help compensate workers for the loss of earnings associated with lower hours (*e.g.* partial unemployment benefits). Short-term working schemes can be a valuable tool to prevent job losses during a moderate recession. However, in long and deep recessions such schemes are likely to be less effective in preserving jobs and more likely to become an obstacle to recovery, by putting a break on the reallocation of workers from declining to expanding firms. In the current downturn, short-time work schemes have received an unusual degree of interest, with two-thirds of the OECD countries reporting either setting up new measures or reinforcing existing measures. To avoid protecting the “wrong” jobs and harming employment growth during a subsequent recovery, it is important to attach clear and credible time limits to these measures.

There may also be an expanded role for subsidies that reward the creation of new jobs, such as *hiring subsidies*. Such subsidies have proved quite effective compared with other active labour-market programmes such as training programmes and public sector job-creation measures, although it is not clear how effective such policies are in a steep recession. In the face of the current downturn, the large majority of OECD countries has expanded existing hiring programmes or established new ones, typically targeted at specific vulnerable groups. While the number of additional subsidised jobs which will result from these new initiatives cannot be accurately gauged in most cases, it is likely to be small by comparison with the large increases in unemployment and long-term unemployment, as was the case in previous recessions. Moreover, given the increased competition for new jobs as a result of new inflows into unemployment, simply expanding the potential number of subsidised jobs is unlikely to be enough to help all the target groups get back into work. The amount of the subsidy may also need to be increased for hiring subsidies to be effective in a steep downturn and a number of countries have taken steps to increase the size of the subsidies available in existing programmes.

Direct job creation in the public sector is another tool for expanding employment opportunities for hard-to-place jobseekers which has a long history. Evaluation studies of direct job-creation programmes have generally been rather disappointing concluding, in particular, that these schemes do not much help unemployed people to find permanent employment in the private sector after leaving the scheme. The main reason for this is that participation in such programmes greatly reduces job-search incentives and the managers of these schemes typically have no incentive to help participants to find regular employment. However, in the context of a severe recession public-sector job-creation programmes may need to be expanded *temporarily* to prevent hard-to-place job losers from becoming too disconnected from the labour market (both psychologically and more objectively). As such, such programmes could act as a backstop to activation, helping to maintain the credibility of this policy orientation in the context of severe labour market slack. It may also be possible to improve upon the past performance of these schemes by emphasising productive activities and building in strong incentives to providers to place participants into regular jobs. Although usually not classified as an active labour market programme, temporary public works programmes – such as the 8 billion EUR State Fund for Local Investment in Spain – can also create additional employment opportunities for the unemployed.

How to sustain effective labour supply?

Historical experience indicates that inappropriate government responses to high cyclical unemployment can undermine labour supply in the long run. In light of demographic ageing and the pressures it will place on fiscal and welfare systems in OECD countries, it is critical that these types of policy mistakes be avoided. A number of OECD countries introduced early retirement options in the wake of the crisis in the 1970s. The intention was to reduce unemployment by freeing up jobs for young people, but subsequent experience showed that they had no such effect: firms availed of public subsidies to lay off older workers, but hired very few young workers to replace them (OECD, 2006). Even though this policy proved to be an abject failure, it took these countries a very long time to unwind the schemes. Similarly, some OECD governments have also eased access to disability benefits in recessions, in effect allowing labour market difficulties to become one of the criteria for entry, rather than exclusively medical criteria. Both early retirement and easier access to disability benefits proved to be one-way streets, with virtually no workers offered these benefits returning to the labour force when the economy recovered. These types of measures also create precedents that are difficult to reverse, increasing their long-run impacts in raising benefit dependency and undermining labour supply. Governments should resist the strong political pressure to take similar measures, which is likely to develop if labour markets fail to recover quickly. Rather than opening pathways to long-term dependency on social benefits and labour-market exclusion, governments should direct their efforts toward reinforcing assistance for the unemployed to remain active in the labour market.

Even in good times, the youth unemployment rate is two to three times that of adults in many countries.[12] Many youth have short spells of unemployment during their transition from school to work but some – often those with low skills and from ethnic minorities – get trapped in unemployment or become disconnected from the labour market. An economic downturn sharply diminishes the labour market prospects of less qualified youth and greatly increases their vulnerability to long-term unemployment. The key priority in the short-term should be to minimise the increase in the number of this hardcore group of youth, who are at risk of losing effective contact with the labour market and permanently compromising their employment prospects and earnings capacity. To achieve this, decisive actions are needed. First, targeted measures on at-risk youth to minimise the chance that they will enter the labour market without any qualifications (*e.g.* subsidies for apprenticeship contracts for unskilled youth; promotion of second-chance schools, etc.) are even more critical in a downturn than when the economy is growing. Second, it is important to ensure that out-of-school youth who are encountering difficulty in the labour market can access appropriate ALMPs in countries where this is not already the case.

Past experiences have shown that immigrants are among those hardest hit in the labour market during a downturn. They are also at a higher risk, compared with native-born jobseekers, of experiencing worse employment outcomes when the recovery finally gets underway. Governments need to be vigilant to ensure that deteriorating immigrant labour market outcomes do not mortgage the possibility of further migration when growth resumes. Integration programmes need to be maintained, anti-discrimination measures reinforced and immigrants profit equally from ALMPs for the unemployed. If such steps are not taken, it will create barriers to migration playing the role expected of it in the context of ageing populations and in helping to fill labour shortages (see OECD, 2009e, Chapter 1).[13]

4. Concluding remarks

The world economy is facing the worst recession of the past 50 years and unemployment is rising to unprecedented heights in many countries. Governments are intervening to avoid the financial and economic crisis becoming a fully-blown social crisis with scarring effects on vulnerable workers and low-income households.

Unemployment benefits are automatically stepping in to sustain the incomes of many job losers, at least for some period of time, but coverage of such benefits is weak in some OECD countries, not least because many of the newly unemployed come from the ranks of atypical jobs and fail to satisfy eligibility criteria. 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 implemented so as to minimise the adverse effects on work incentives.

Many governments have also moved promptly to scale up resources for ALMPs so as to preserve activation and the mutual-obligations principle and ensure that disadvantaged jobseekers do not lose contact with the labour market and drift into inactivity. This represents an encouraging contrast to past deep recessions in many OECD countries when

12. OECD (2009c) provides a detailed discussion of policies to improve labour market outcomes for youth.

13. These issues were discussed in detail at the OECD High-Level Policy Forum on Migration in Paris on 29-30 June 2009 (OECD, 2009f).

spending of active programmes did not increase significantly during downturns. However, in some cases, the *additional* funds for labour market programmes are rather limited given the massive increases in unemployment.

The types of assistance being offered to older workers also offers a welcome contrast with past recessions, when large numbers of older workers moved into early retirement and/or disability programmes. This policy choice proved to be very costly. It has not been widespread so far but it will be important that governments stay the course in not repeating it.

A more general lesson which can be drawn is that the measures taken to assist job losers in a recession should respect the basic principles often advocated in the broader context of the debate about the fiscal stimulus packages: that is, they should be *timely*, *targeted* and *temporary*. For example, it is doubly important that income and re-employment support be *timely,* and indeed a number of countries have acted decisively on this front. A rapid expansion of these measures is not only contributing to stabilising aggregate demand, but it also assures that job losers receive help when they most need it. However, for distributional reasons, it is important that income support and re-employment support be *targeted* to the workers in greatest need. It is also important that ALMPs target the jobseekers who can most benefit from each type of service for efficiency reasons. Finally, initiatives to provide additional income support in a recession – or to relax certain behavioural requirements associated with activation regimes – should generally be *temporary* since they would otherwise undermine efficient labour-market functioning once the recovery begins. Nonetheless, the stress test provided by a recession will sometimes reveal the need for permanent structural reforms or create the political opportunity to enact a reform, which had previously been identified but for which sufficient political support had been lacking.

A severe recession, such as that currently underway, also requires sufficiently *strong* policy responses. In general, OECD governments have responded vigorously to the current downturn, pursuing very expansionary monetary and fiscal policies, while also taking sometimes unprecedented measures to stabilise financial markets. Similarly vigorous responses are required to scale-up direct assistance to job losers and other workers caught up by the economic storm. It is encouraging that many governments have moved to strengthen safety nets for the unemployed and workers with low earnings, while also reinforcing activation regimes intended to assist workers to reintegrate into employment or increase their employability. It will be important to monitor these initiatives closely and to rigorously evaluate how successfully they have contained the social costs of the downturn while helping to prepare the labour market for a strong recovery.

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ANNEX

Table 1. **Changes in OECD harmonised unemployment, December 2007 to July 2009**[a,b,c]

	Harmonised unemployment rate Percentage of the labour force				**Harmonised unemployment level** Thousands			
	Dec 2007	Jul 2009	%-point change	% change	Dec 2007	Jul 2009	Absolute change	% change
OECD	**5.7**	**8.5**	**2.8**	**49.1**	**29 935**	**45 045**	**15 110**	**50.5**
G7	**5.4**	**8.2**	**2.8**	**51.9**	**19 885**	**30 226**	**10 341**	**52.0**
European Union	**6.9**	**9.0**	**2.1**	**30.4**	**16 379**	**21 794**	**5 415**	**33.1**
Euro area	**7.3**	**9.5**	**2.2**	**30.1**	**11 422**	**15 090**	**3 668**	**32.1**
Australia	4.3	5.8	1.5	34.9	478	664	187	39.1
Austria	4.0	4.4	0.4	10.0	167	187	20	12.0
Belgium	7.2	8.0	0.8	11.1	342	384	42	12.3
Canada	5.9	8.6	2.7	45.8	1 066	1 583	517	48.5
Czech Republic	4.8	6.4	1.6	33.3	251	339	88	35.1
Denmark	3.3	5.9	2.6	78.8	96	175	79	82.3
Finland	6.5	8.7	2.2	33.8	175	233	58	33.1
France	7.8	9.8	2.0	25.6	2 225	2 845	620	27.9
Germany	7.9	7.7	-0.2	-2.5	3 419	3 315	-104	-3.0
Greece	8.0	8.7	0.7	8.7	392	432	40	10.2
Hungary	7.9	10.3	2.4	30.4	334	437	103	30.8
Ireland	4.7	12.5	7.8	166.0	105	271	166	158.1
Italy	6.4	7.4	1.0	15.6	1 580	1 850	270	17.1
Japan	3.7	5.7	2.0	54.1	2 480	3 760	1 280	51.6
Korea	3.1	3.8	0.7	22.6	753	938	185	24.6
Luxembourg	4.2	6.4	2.2	52.4	9	15	6	66.7
Mexico[d]	3.8	5.7	1.9	50.0	. .	. .	. .	. .
Netherlands	2.9	3.4	0.5	17.2	252	303	51	20.2
Norway	2.4	3.1	0.7	29.2	62	82	20	32.3
Poland	8.3	8.2	-0.1	-1.2	1 410	1 409	-1	-0.1
Portugal	7.7	9.2	1.5	19.5	425	514	89	20.9
Slovak Republic	10.6	12.0	1.4	13.2	283	332	49	17.3
Spain	8.8	18.5	9.7	110.2	1 973	4 272	2 299	116.5
Sweden	6.0	9.2	3.2	53.3	291	460	169	58.1
Turkey	8.8	12.5	3.7	42.0	2 014	3 002	988	49.1
United Kingdom	5.1	7.7	2.6	51.0	1 574	2 411	837	53.2
United States	4.9	9.4	4.5	91.8	7 541	14 462	6 921	91.8

..: Data not available.

a) Final month available is: March 2009 for Greece, Italy and Turkey, May 2009 for Norway and the United Kingdom.

b) By August 2009, the unemployment rate increased in Canada by 2.8 percentage points and in the United States by 4.8 percentage points compared with December 2007. The number of unemployed persons increased by 539 000 (50.5% increase) in Canada and by 7 387 000 (98% increase) in the United States.

c) Iceland, New Zealand and Switzerland do not appear in the table because OECD harmonised unemployment rate data are not available on a monthly basis for these countries.

d) OECD harmonised unemployment level data are not available on a monthly basis for Mexico.

Source: OECD calculations based on the *OECD Main Economic Indicators database*.

BACKGROUND DOCUMENT

OECD Labour and Employment Ministerial Meeting

Tackling the Jobs Crisis

The Labour Market and Social Policy Response