OCDE ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

Tackling the jobs crisis: An OECD perspective

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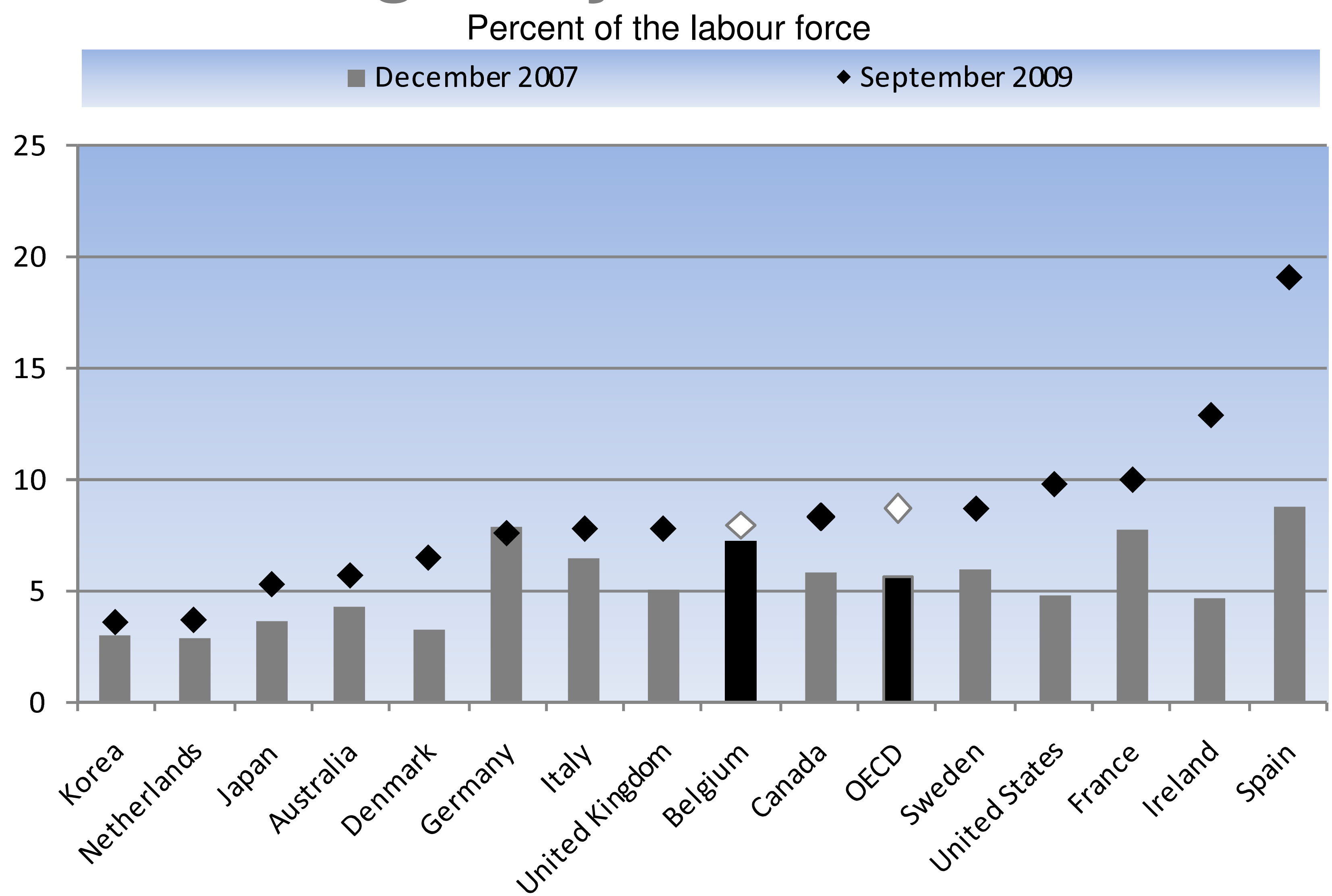
Introduction

- The financial crisis has quickly developed into a jobs crisis
  - OECD-area UR increased from 25-year low at 5.6% in 2007 to post-war high of 8.8% in October 2009 (or an increase of 16.6 mln)
- While the recession appears to be slowing, the jobs crisis is far from over
  - UR expected to rise to 9.1% by the end of 2010.
- Bold action needed to tackle high and persistent U
  - Individuals in jobless households 5x more likely to be poor on average
  - Social costs go well beyond the loss of income (e.g. health, crime etc.)
  - Risk that hike in unemployment becomes structural in nature

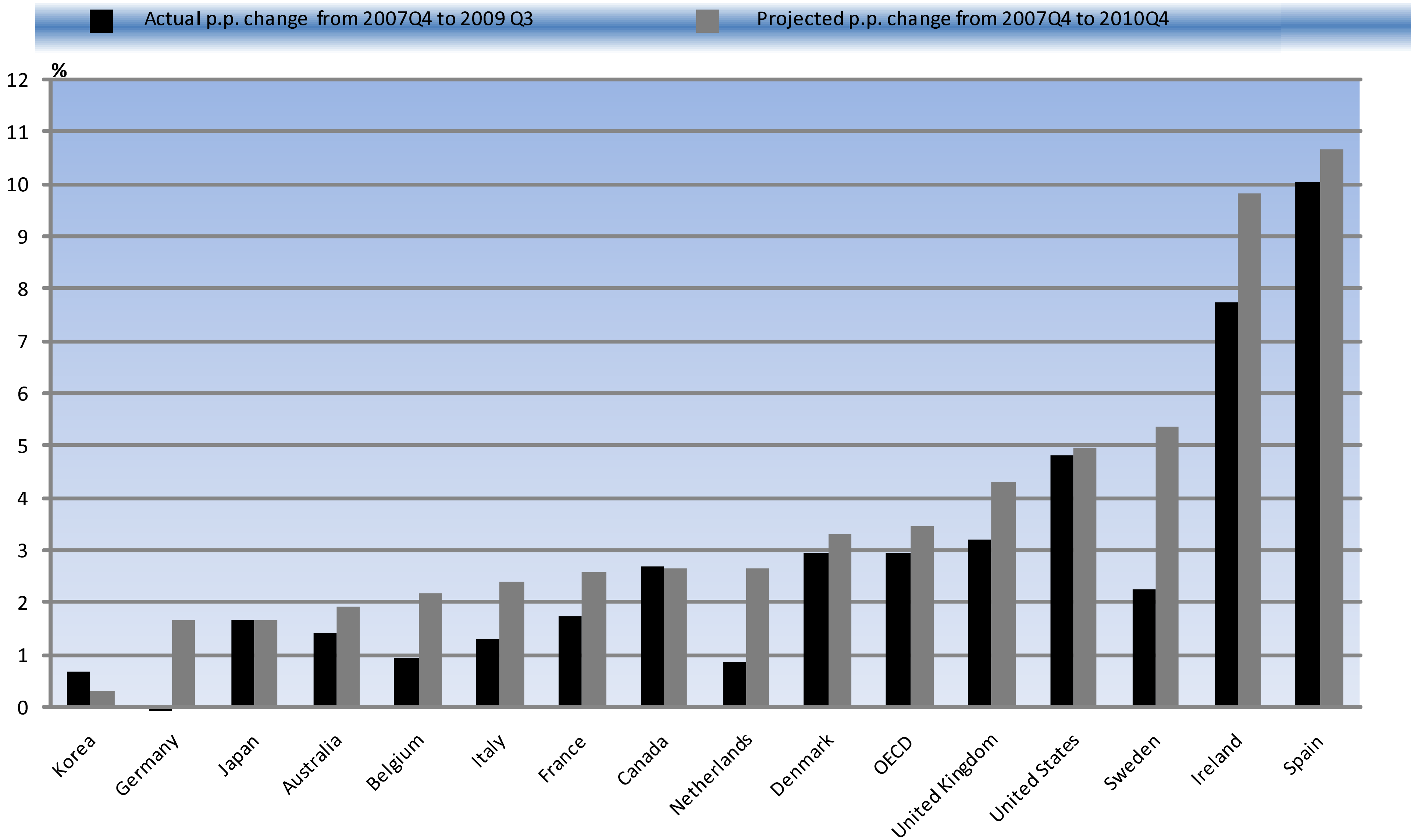
Part I

- What are the labour market impacts of the crisis?
  - Historical patterns and recent trends

The unemployment impact so far differs greatly across countries

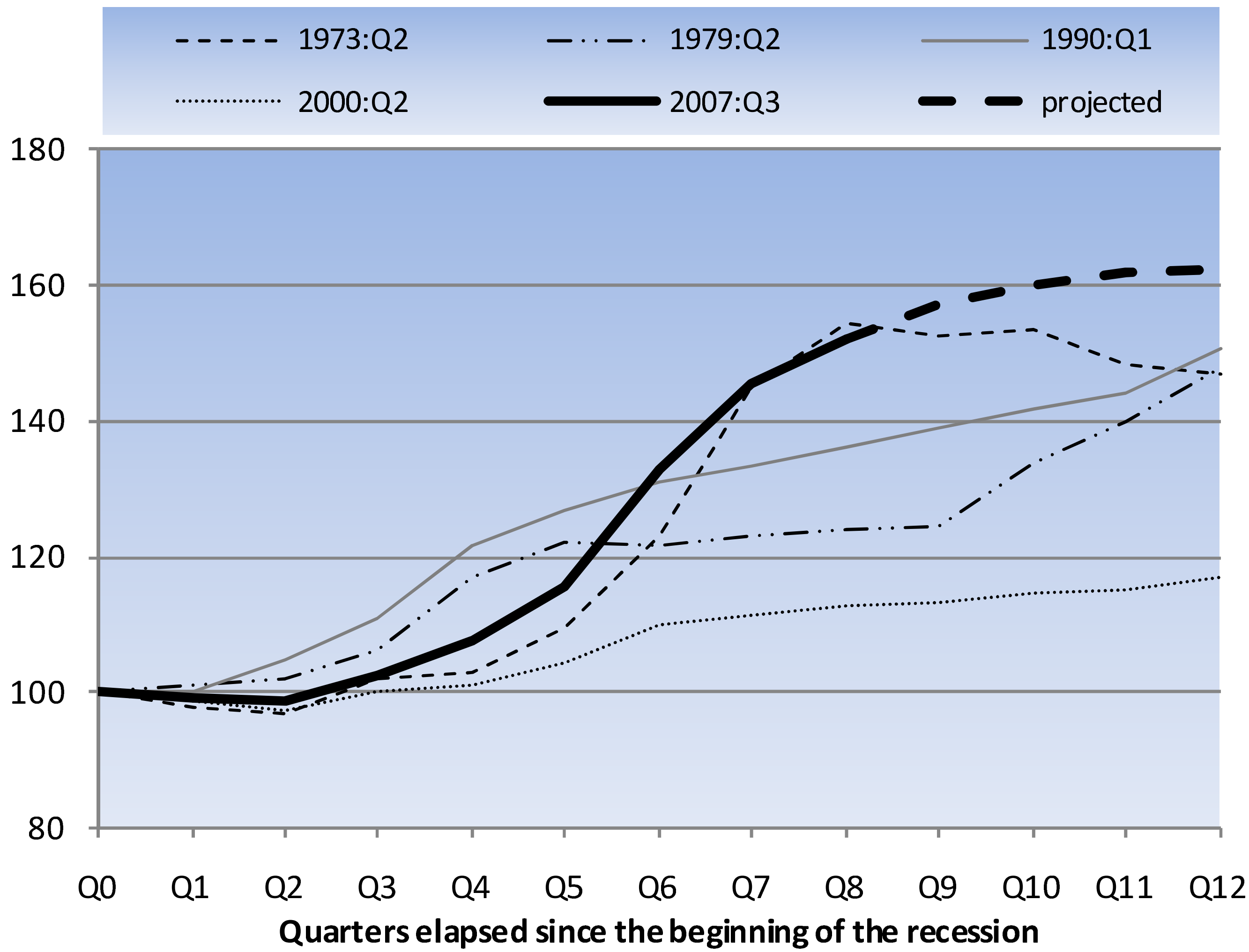


Actual and projected change of unemployment rate in selected OECD countries



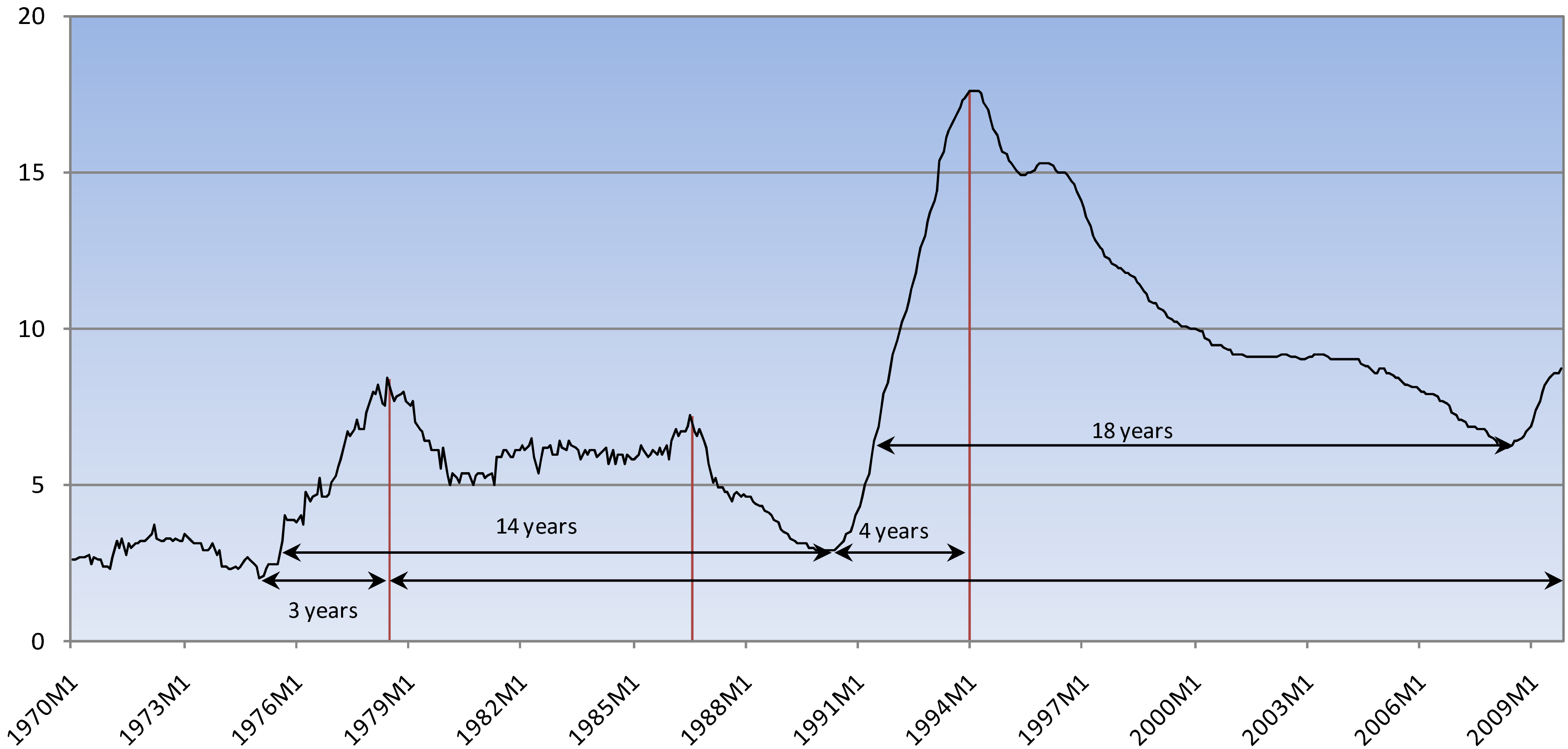
The current crisis is the worst in recent decades

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



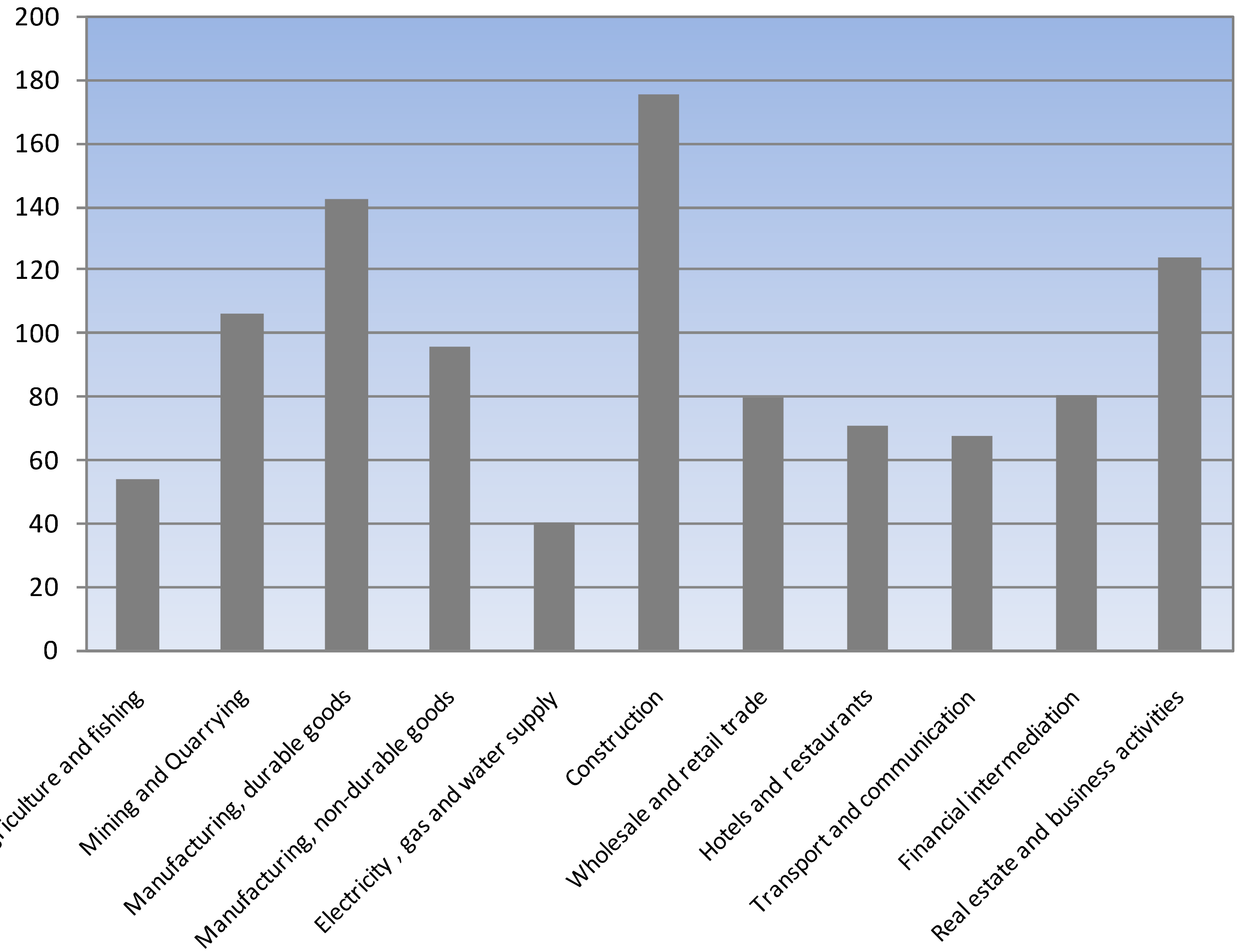
Recessions not only hurt lots of people, but also take a long time to fix

Harmonised unemployment rates in Finland, January 1970 - October 2009

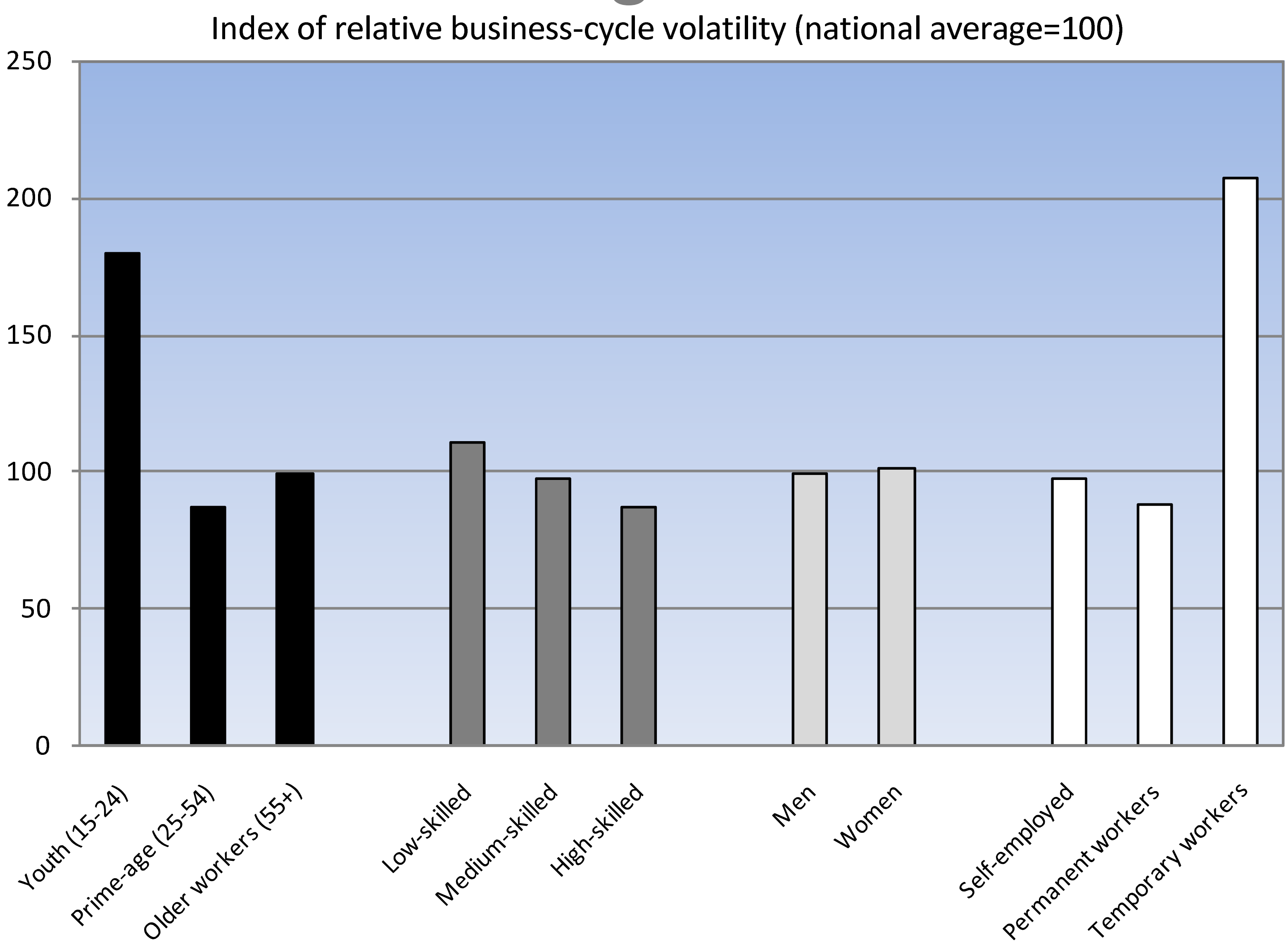


Jobs in construction and durable manufacturing are the most vulnerable

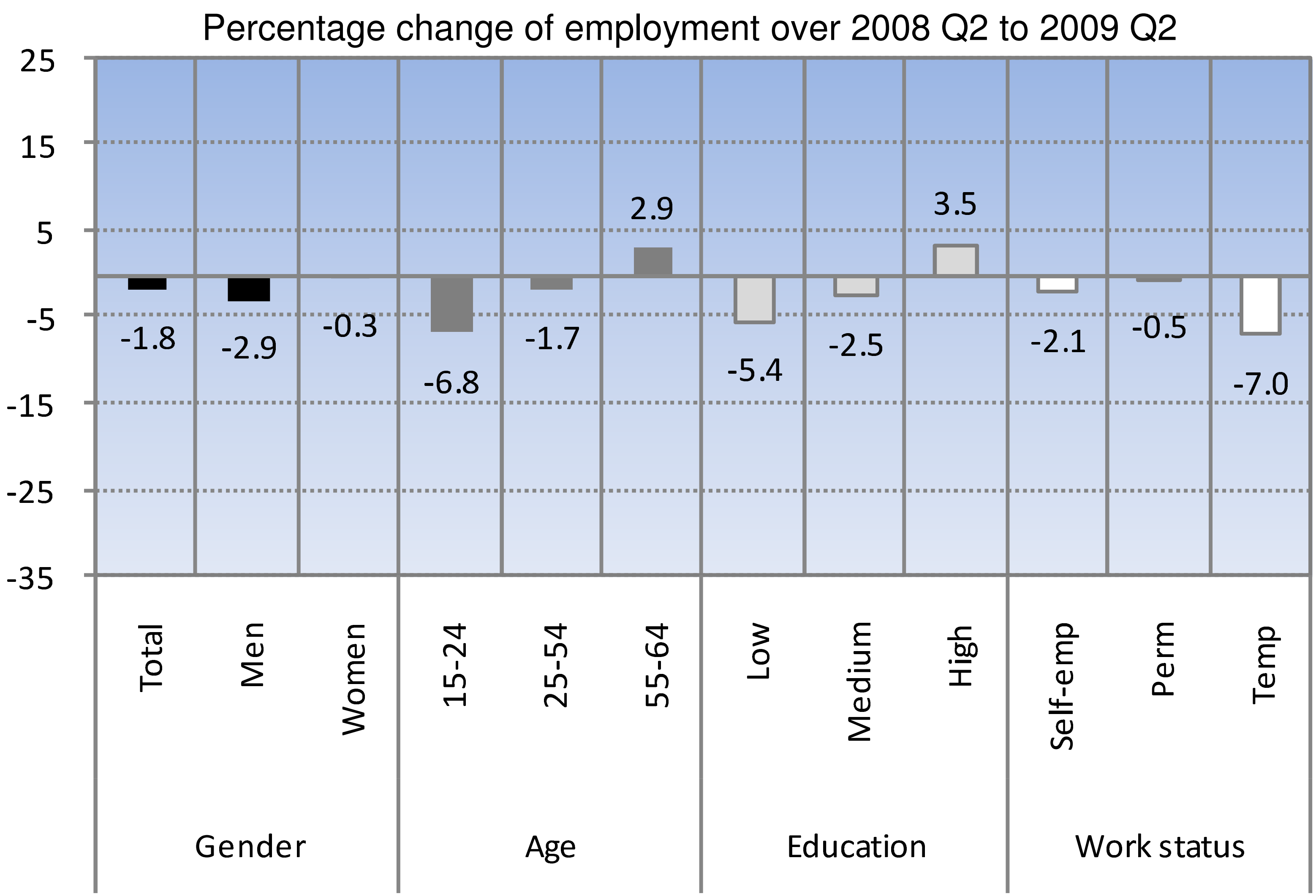
Index of relative business-cycle volatility (national average=100)



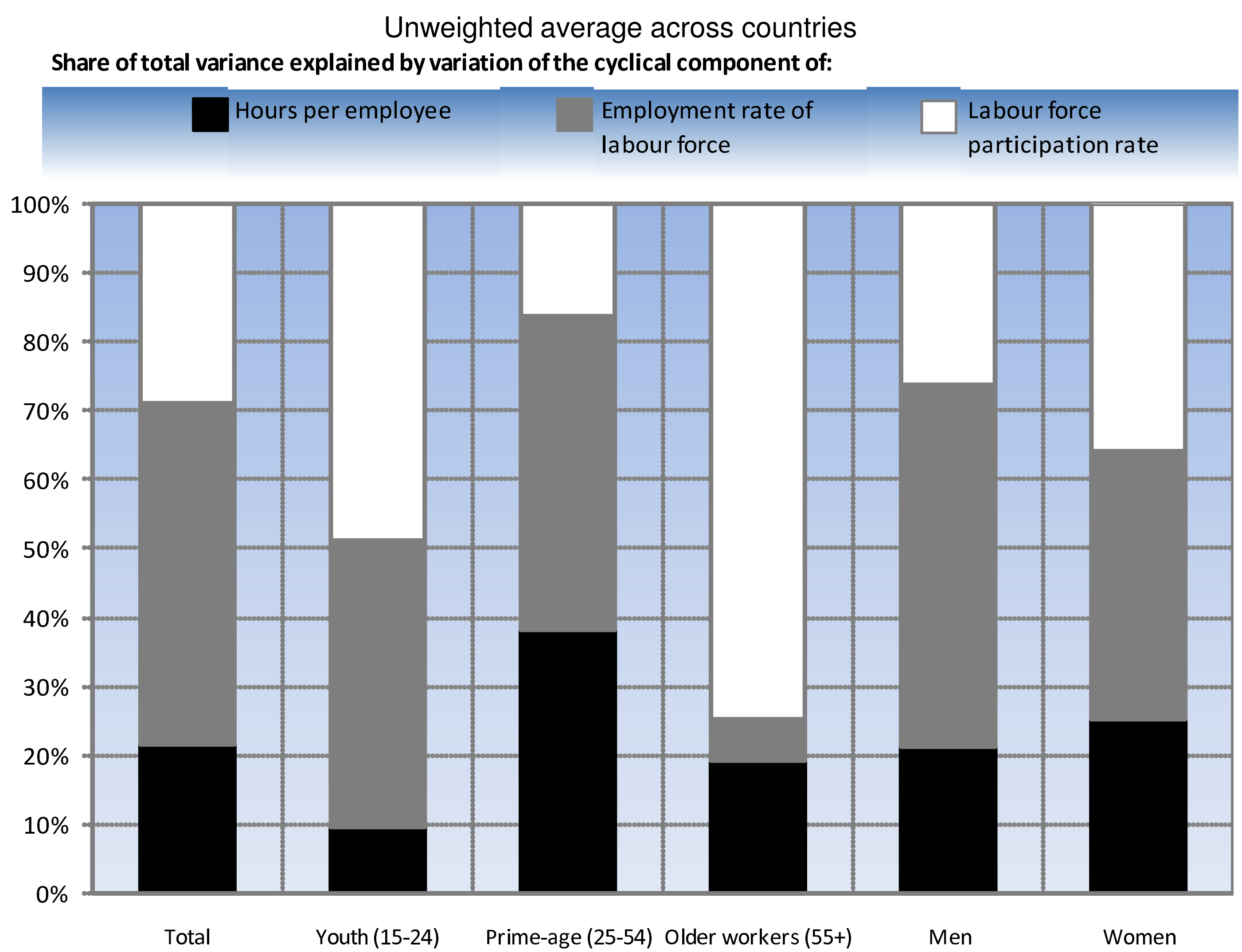
Already disadvantaged groups bear the brunt of falling labour demand



A similar pattern holds in the current downturn



In addition to job losses, hours reductions and LF withdrawals also account for falling LD



What is behind rising unemployment in recessions?

- Layoffs increase sharply particularly in the early phase of recessions
  - Some of those qualify for generous UB and have little recent experience in job-search
- Greater difficulty of finding a job, resulting in increased duration of unemployment spells
  - This may be particularly important for (disadvantaged) youth
- The policy impacts on U inflows and outflows may vary depending on the state of the labour market
  - Job-search assistance and employment subsidies may become less effective in periods of relative labour market slack, while training programmes may become more effective

Part II

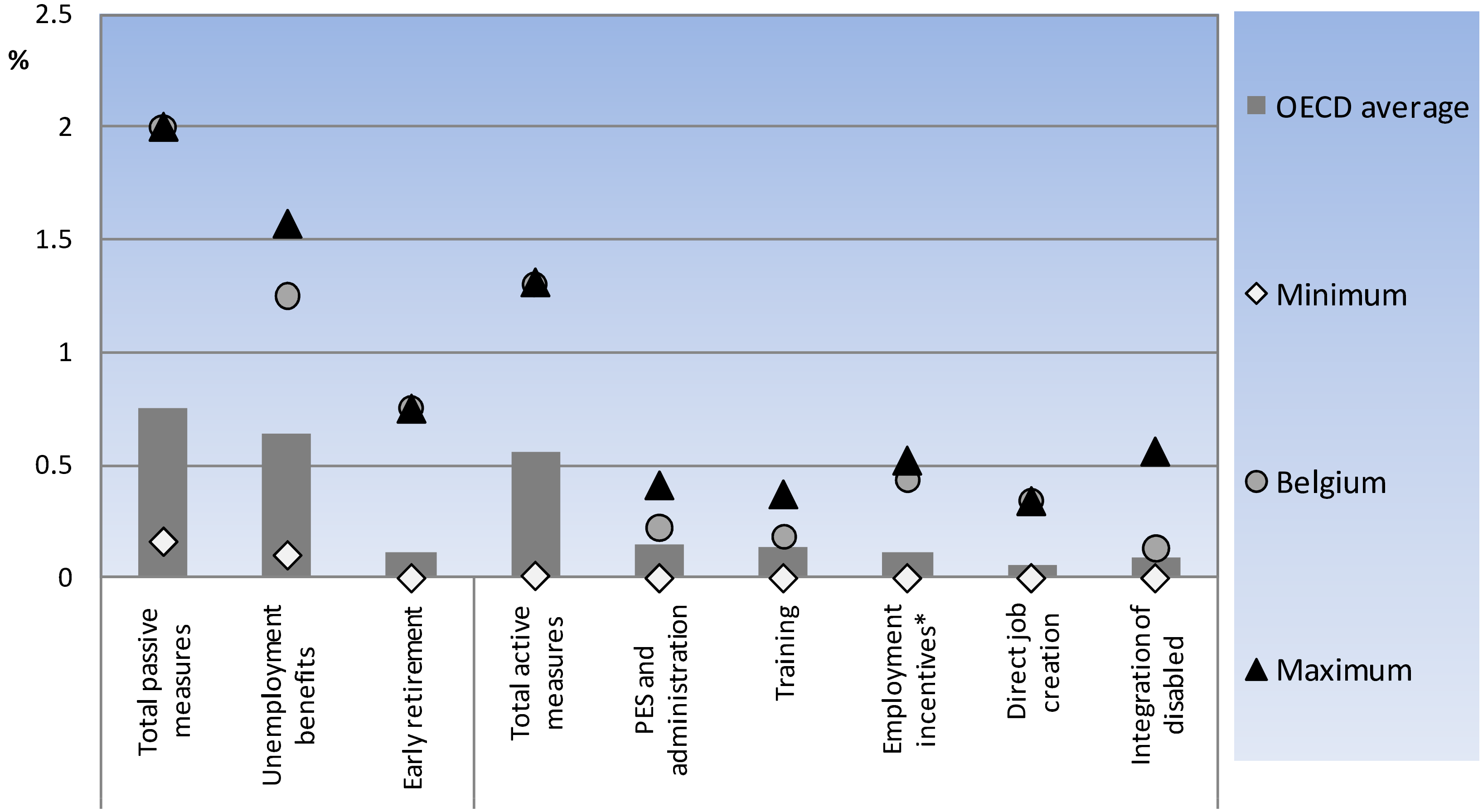
- What are the policy challenges?
  - Strategic choices and policy response

LM policy challenges

- Short-term challenges
  - Should labour demand policies play a major role?
  - Are social security systems appropriate? Should unemployment benefits (UBs) or social assistance benefits be expanded?
  - Is the work-first approach recession-proof? How to activate the unemployed when labour demand is weak?
- Long-term challenges
  - How to avoid high unemployment from persisting?
  - How to avoid undermining long-run labour supply?
  - How to avoid undermining long-term labour market efficiency?

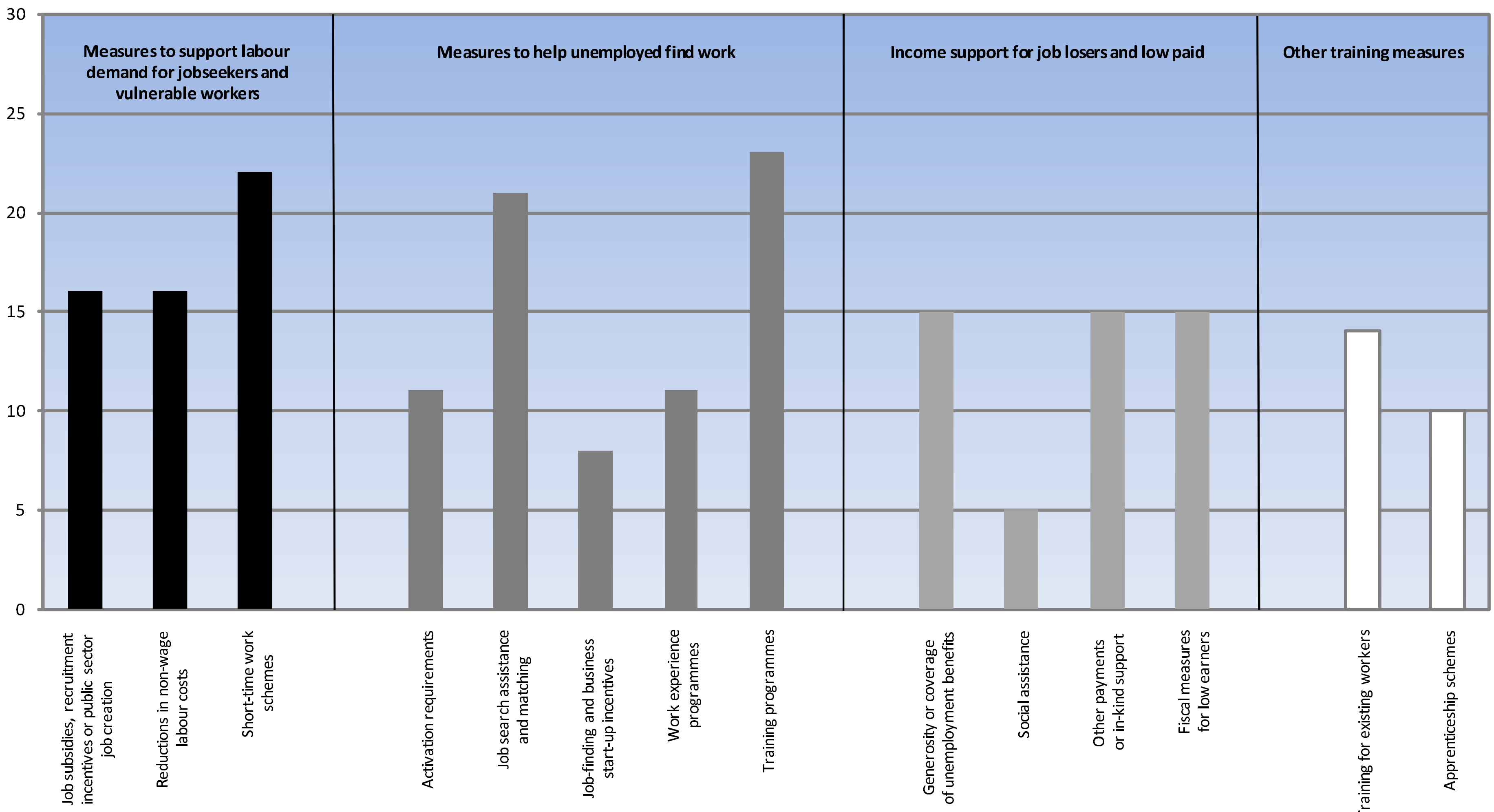
Resources available for LM policies differ across OECD countries

- On average, 1.3% of GDP of which: 0.8% passive and 0.6% active
- But large differences across countries: e.g. from 0.4% in US to 2.8% in DEN
- Spending on UBs exceeds spending on ALMPs in almost all countries



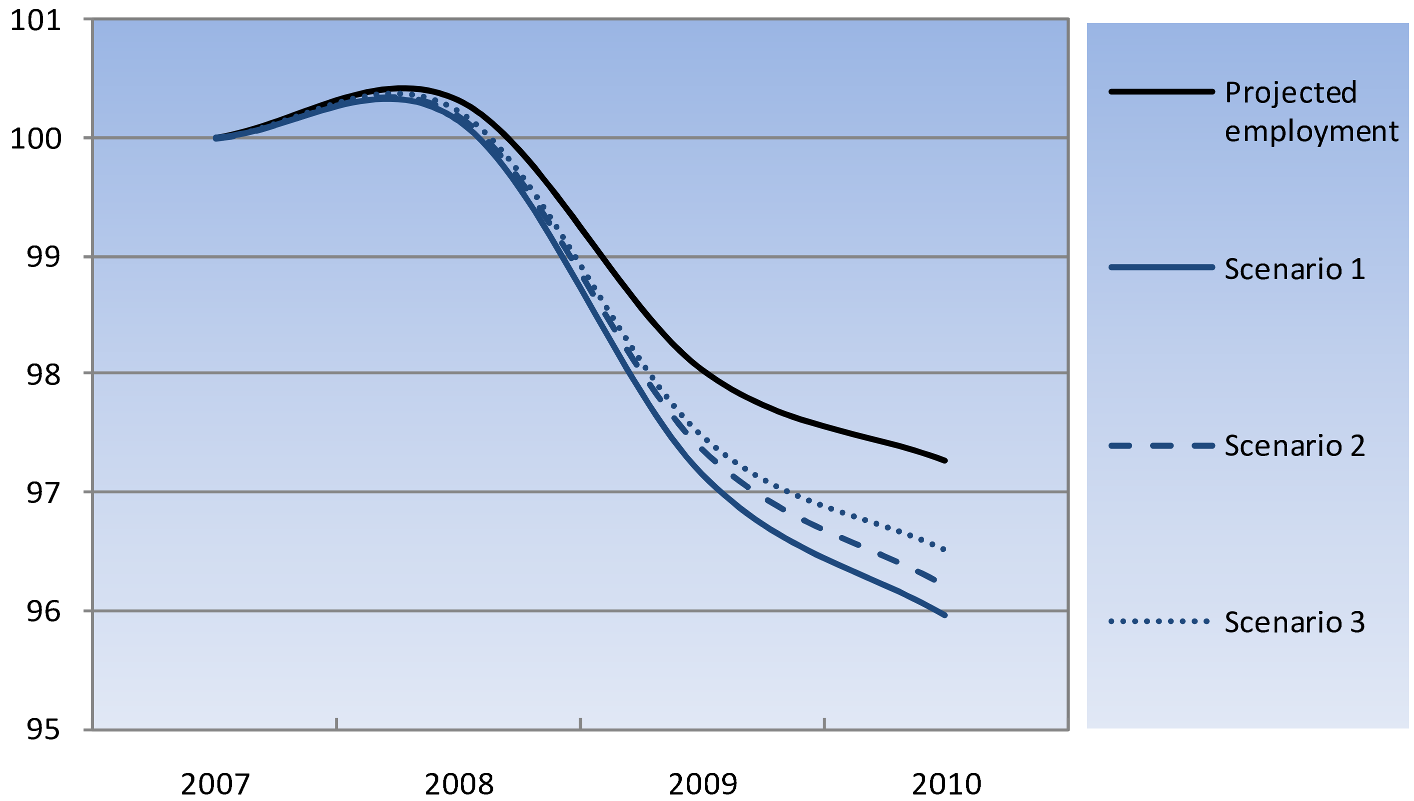
Governments have taken many types of measures in response to the jobs crisis

Number of OECD countries that have taken different types of measures



Supporting labour demand

- Vigorous macro-economic policy response, including large fiscal packages, to boost AD
  - Estimated to save 3.2 to 5.5 jobs in 2010 in the 19 OECD included in the analysis



Supporting labour demand

- Most OECD countries have introduced targeted measures to support labour demand
  - Reduction in social security contributions (estimated cost per additional job: 1.7 times average job costs in SR; 7 times in LR)
  - Short-time work schemes (*e.g. Kurzarbeit* in Germany counts more than 1.4 mln participants corresponding to about 1% of LF)

- LD measures play a positive role, but have to be **temporary** and **well-targeted**

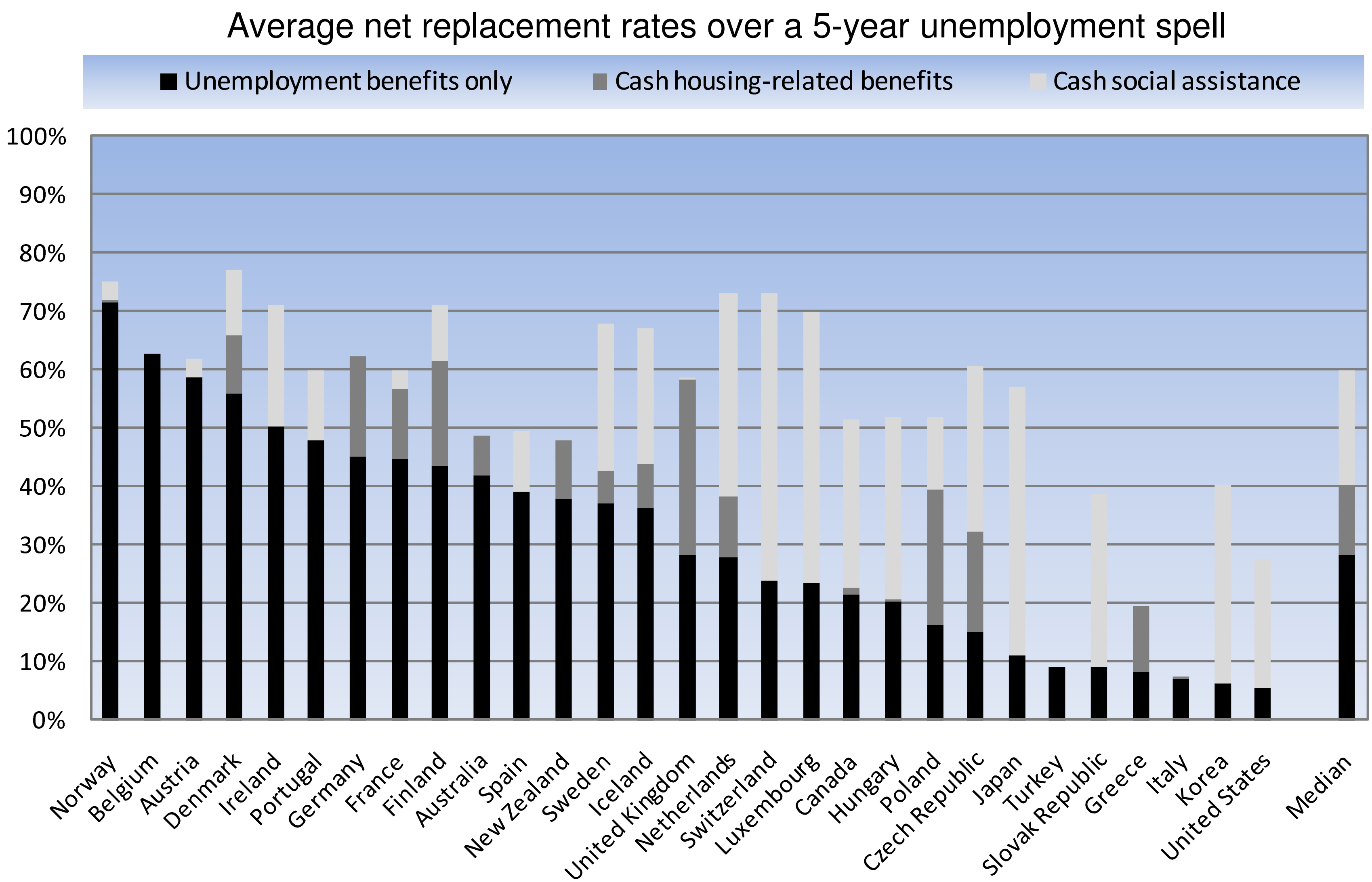
Reinforcing social safety nets

- Crisis leads to longer average unemployment spells
  - Where UB durations are short, temporary extension during the crisis helps reducing the poverty risk among the LTU
  - Countries that have temporarily extended benefits durations are: Canada, Finland, Japan, Portugal and United States

- Increasing numbers of ineligible jobseekers due to the increase in non-standard work in some countries
  - Consider extending coverage if adequate enforcement can be provided
  - Countries that have extended coverage are: Finland, France, Japan and United States

- Any extensions should be temporary and targeted to the most vulnerable and not undermine job-search requirements

UB are only one element of safety nets for job losers



Helping job-seekers find a job

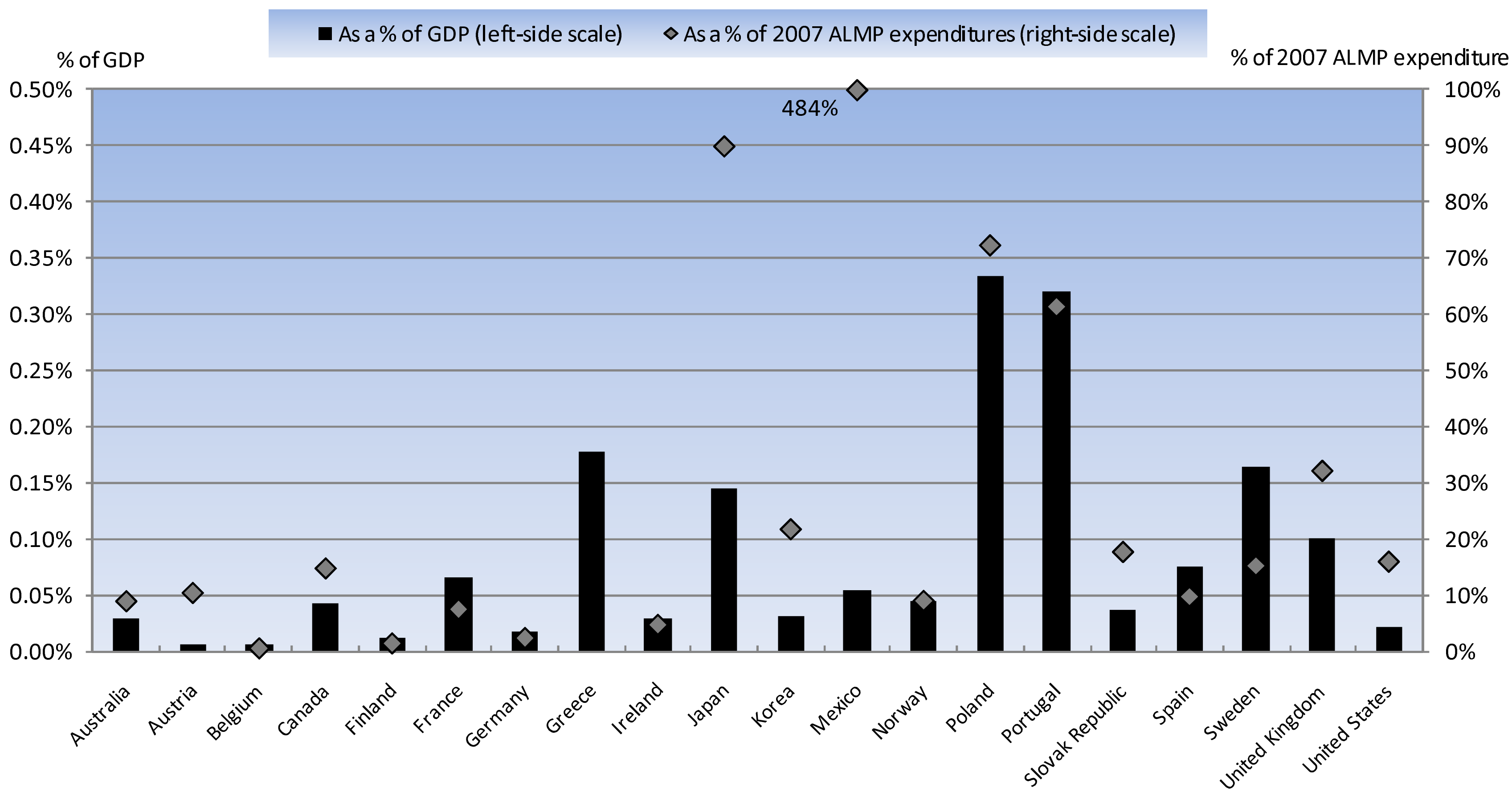
- Maintain core jobs-search assistance to help jobseekers
  - Even in recessions firms continue to create many new jobs
  - Cost of job loss increases due to longer expected unemployment duration and loss of human capital
  - Many countries have made good progress in recent years in implementing back-to-work policies

- For those at risk of LTU, re-employment services need to be adapted to specific conditions of slack LM
  - Shift in emphasis from "work-first" approach to "train-first approach" through training and work-experience programmes
  - Negative effects of programme participation on job-search less of an issue in recessions
  - Helps provide jobseekers with "the new skills for the new jobs" in the recovery

-> **Requires more resources for ALMPs**

Discretionary funds for ALMPs limited with some notable exceptions

Average annual planned additional expenditure in response to the economic downturn



Inappropriate government responses can undermine LS in LR

- Allowing the unemployed to drift into LTU and inactivity
  - Essential to maintain mutual-obligations approach ("bend but not break")
- Early retirement schemes and exemptions from job search of older UB recipients
  - Did not free up jobs for youth and took a long time to unwind
  - So far so good?
- More recently, large inflows of WA persons into sickness and disability programmes
  - Some countries have made reforms aimed at promoting employment and employability of people with remaining work capacity
  - Will they stay the course?

Helping youth "ride out the storm"

- Youth U has increased disproportionately in many countries
  - Youth E twice as sensitive to cycle as that of prime-age workers
  - Youth UR much higher than other groups (*e.g*. 1/3 Spain; 1/4 Ireland)

- Need for decisive actions targeted on at-risk youth
  - Efforts to prevent youth entering the LM without qualifications should be redoubled (*e.g*. second-chance school, subsidies for apprenticeships for un-skilled youth)
  - Out-of-school youth should have access to appropriate ALMPs even if they do not qualify for UB

Concluding remarks

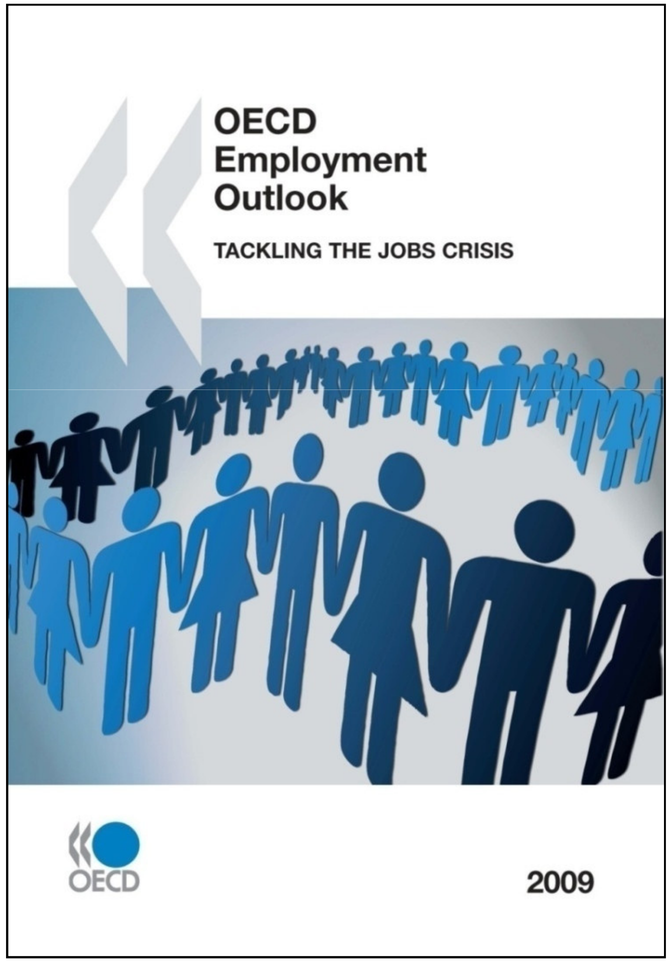
- Governments are intervening to prevent the jobs crisis from turning into a fully-blown social crisis

- With the recovery in sight, governments must not reduce their efforts to tackle high and persistent U and some countries may have to do more

- Governments must tackle the jobs crisis without undermining LM inclusion in the long-run
  - Discretionary LM policy measures should be *timely*, *temporary* and *targeted*
  - A severe recession such as currently underway also a requires a sufficiently *strong* response

- Complement to the *Reassessed OECD Jobs Strategy* of 2006 which emphasises the structural pre-conditions for strong employment performance

Thank you!



www.oecd.org/els/employment/outlook