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Policy Packages: Active Labour Market Policies

The Job Crisis: Challenges for labour market policies

Stefano Scarpetta

Head of the Employment Analysis and Policy

OECD

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The short-term employment outlook in OECD countries is dire

□ The financial and economic crisis has led to a dramatic deterioration of labour market conditions

- OECD UNR rose to 7.6% in March 2009, two full pc points higher than one year earlier or 11m more unemployed;
 - In May, the UR reached 9.4% in the US, the highest in 25 years; 7m more people were unemployed compared with December 2007
- Unemployment on the rise also outside the OECD area...
 - ...and it is also accompanied by increases in working poverty

□ Despite some early signs that the recession is slowing down, unemployment is expected to rise further

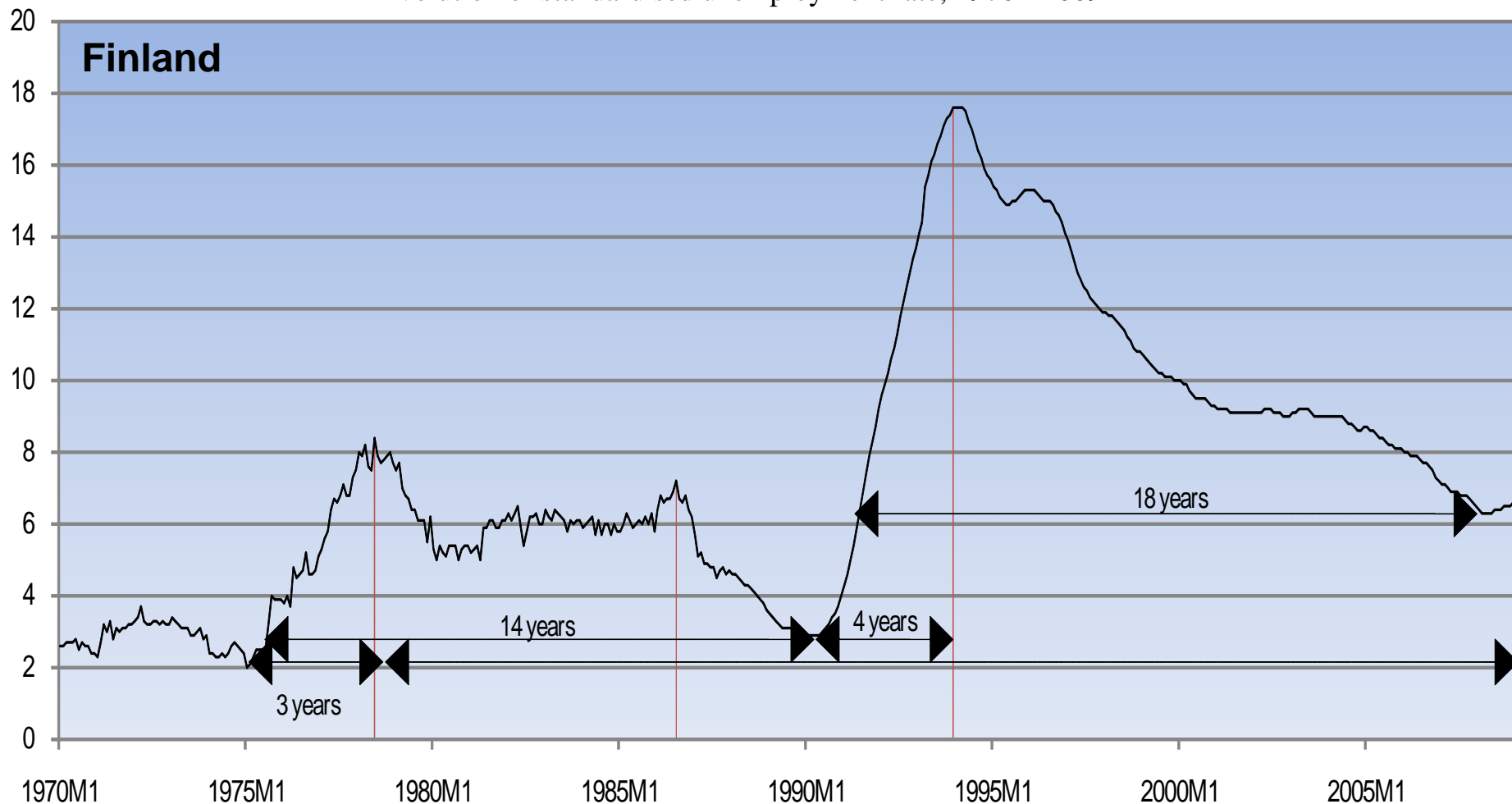
- The unemployment rate is expected to approach 10% in late 2010...
- ...with about 26 million more jobless persons than in 2007...
- ...and potentially severe social consequences (lost income, poorer health, more crime,....).

Some specific LM features of the on-going crisis:

- Labour-intensive sectors hard hit (construction), redundancies spreading to manufacturing and more generally in export-oriented industries; job losses affecting workers with a wide range of skills;
- Trend rise in use of temporary contracts since early 1990s(EU; JPN) → greater short-term employment adjustment as temporary/fixed-term contract workers being laid-off disproportionately;
- Youth LM particularly sensitive to the cycle: already apparent in the data;
- Past experience suggests that it can take several years to reabsorb a massive increase in unemployment.

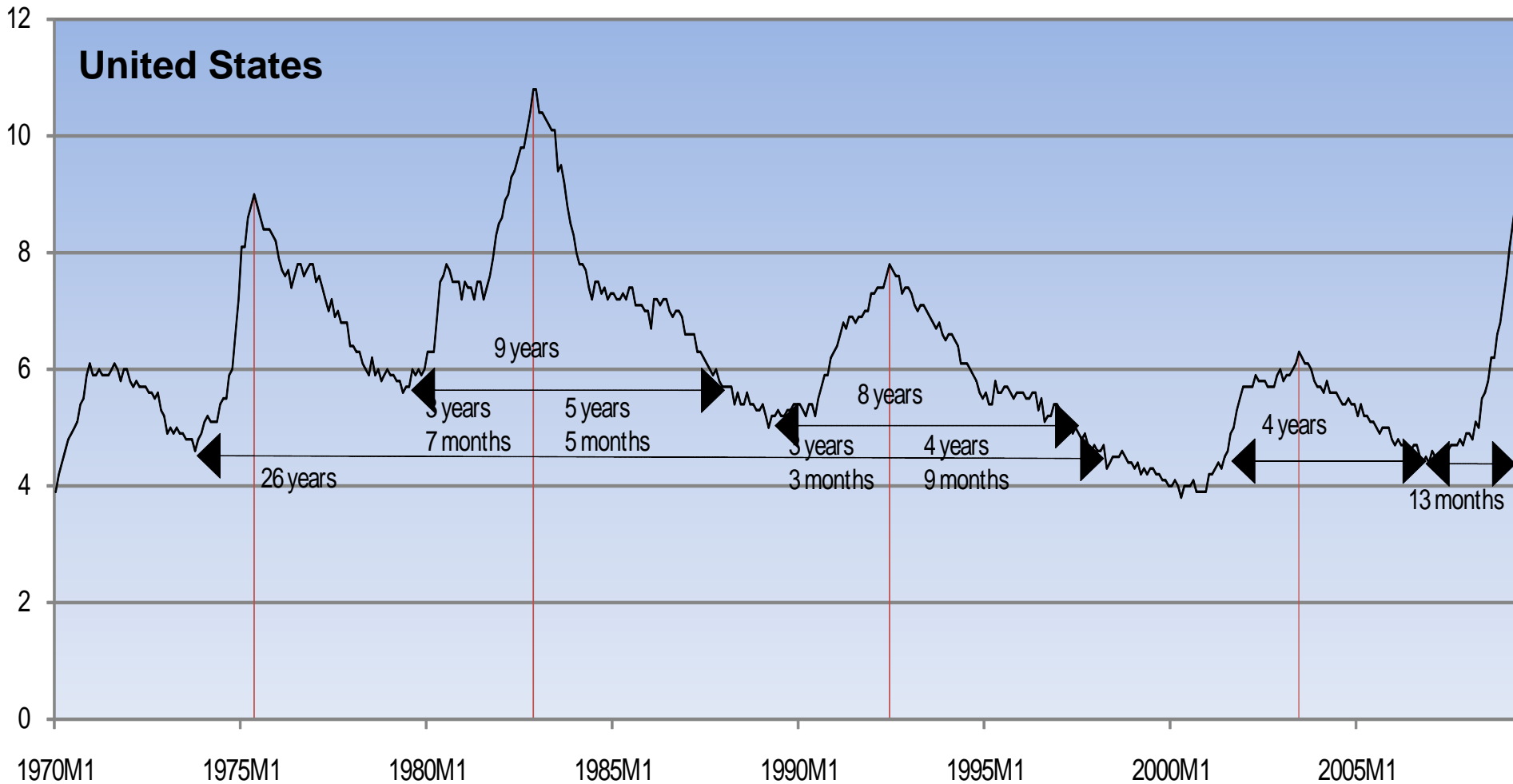
A reminder: recessions hurt lots of people and can take a long time to fix

Evolution of standardised unemployment rate, 1970 - 2009



A reminder: Recessions hurt lots of people and can take a long time to fix (continued):

Evolution of standardised unemployment rate, 1970 - 2009



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

Key short-run policy choices

- Should unemployment benefits be expanded?
- How to activate the unemployed when labour demand is weak?
- Should labour demand policies be considered?
- Is a recession a good time to invest more in training and education?

Key longer-run policy choices

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

Spending on labour market programmes varies a lot across countries

- OECD countries on avg. spent 1.5% of GDP in 2006:
 - 0.9% on passive measures (UI benefits);
 - 0.6% on ALMPs (training, wage subsidies, job-search, public sector job creation).
- Large differences across countries in LMP spending effort
 - Range of 0.2-2.7% of GDP for passive; 0-1.8% for active policies;
 - Spending in emerging economies tend to be small
- Spending on UBs exceeds spending on ALMPs in almost all countries.
- Expenditures for UBs very (counter)cyclical; ALMPs a-cyclical, which implies that spending per unemployed is pro-cyclical.

Making the most of income-support schemes

□ Key challenges in OECD countries:

- **Soaring numbers of benefit applications** → can public spending be scaled up to meet additional demand?
- **Longer unemployment spells** → Where max UB durations are short, extension during the crisis reduces poverty risk among the LTU. Credible commitments should be made to keep such extensions temporary.
- **Increasing numbers of ineligible jobseekers.** In countries with growing “non-standard” jobs, many workers unprotected → make sure social assistance is adequate and accessible; consider extending UB coverage if work availability can be enforced

□ In emerging countries:

- UIs maybe not feasible, UISAs ?
- Conditional cash transfers

Speeding re-employment and improving long-run employment prospect for job seekers

□ Key challenges in OECD countries:

- **Scale up resources for effective ALMPs to match rising U:**
 - Hard task for the public employment service (PES)
 - Capacity constraint for PES could be partially eased by making greater use of private-sector providers
- **How should the mix of services provided be adjusted in a recession?**
 - Possible shift in focus from “work-first” to “train-first”
 - But important to maintain activation principle, with regular interviews, referrals to job vacancies and slots on ALMPs
- **Targeting of re-employment services to different groups.**
 - Job-placement services to most employable job losers
 - Targeted hiring and work-experience subsidies, training and public-sector job creation schemes for most hard-to-place unemployed

□ A number of countries are considering different forms of employment subsidies

- Reduction in non-wage L costs (e.g. SWE, FIN, GER, PRT, HUN, SLK)
- Subsidies for short-time work (e.g. GER, FRA, ITA, SPA, SLO, AUT, DNK, HUN, SLK)
- Hiring subsidies (US, FRA, UK, HUN, MEX, SLK, PRT)

□ Key challenges:

■ Significant “deadweight/substitution” effects → targeting important, e.g.:

- Reduction in SS contributions → low-skilled workers
- Subsidies for short-time work → firms for whom demand is only temporarily depressed; how to link this to training rather than subsidising leisure
- Hiring subsidies → disadvantaged workers.

■ But essential that these subsidies are unwound in a timely fashion, as soon as the recovery begins

Policies to support labour demand (cont.)

- Is there a significant role for public sector direct job creation schemes (e.g. job guarantees for the long-term unemployed)?
 - Past evaluations of such schemes countries are not very encouraging:
 - They often did not improve the post-programme outcomes for participants
 - More effective in developing countries as a conditional transfer to maintain workers in contact with labour market

□ Key challenge:

- Can we make such schemes more effective? For example, by imposing obligations on participants to maintain job search, and/or by offering incentives to providers to get participants into paid employment.

Enhanced role for training

- In a situation of high unemployment, the cost-benefit calculus may shift in favour of more spending on training:
 - The “lock-in effect” of a training programme is a less serious issue
 - It can improve the skills base for a sustained recovery
- But the evaluation evidence suggests that such training, if it is to be effective for the individual and society, should be tied closely to the workplace/local labour market needs
- **Key challenges:**
 - How to ensure that firms keep up training when there is strong short-term pressure to cut them?
 - How to ensure a sufficient supply of apprentices, not only for youths but also for adult unemployed?
 - How to link short-time work with additional training rather than subsidised leisure ?

Bottomlines

- 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 necessary to maintain this.
 - Little effort yet to expand resources on ALMPs in many countries; a missed opportunity?
- Special attention needs to be paid to most hard-to-place unemployed;
 - Low-skilled individuals
 - disadvantaged youth/school drop-outs, to minimise long-term “scarring” effects