Social Dialogue Sector

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Labour Administrations and National Labour Policies
Current Challenges, Practices and Policies

Labour Administration
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(LAB/ADMIN)
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1. Challenges for Labour Administrations

The current economic crisis has created multiple challenges for national systems of labour administrations.

The primary challenge has been the rapid increase in responsibilities entrusted to labour ministries and their agencies. The changed economic conditions and the resulting social disruption has led a majority of countries to adopt rescue programmes that represent a significant increase in all traditional areas of labour policy, such as employment, training and social protection.

However, labour administrations are also facing consequences of past decisions. Some countries under the false impression that recent economic growth was a solution to social problems reduced their automatic stabilizers, sometimes instituting automatic destabilizers. This policy significantly weakened the capacity of some social systems to mitigate the effects of the current crisis.

In some cases, the institutional capacity of labour administrations was also weakened through the reduction of staff and financial resources. The weakening of labour administration institutions such as public employment services or labour inspections is particularly problematic because they are the main bodies responsible for implementing employment policies and social protection schemes. Hiring new staff after the onset of the crisis is a possible, but oftentimes insufficient, measure because it only partially compensates for previous cuts.

Moreover, increases in the number of staff, even if financially feasible, is not necessarily a practical and speedy solution because new employees must be trained, new premises must be acquired and equipped, and the projects oftentimes face the scrutiny of commentators, who fail to understand their purpose in times of crisis and general austerity. As a result, these new hires fail to compensate for the previous reductions in staff numbers.

The reduction in the institutional capacity of labour administrations can at least partially be attributed to their low political profile. National labour administrations, represented by labour ministries or similar government departments with protective mandates, rarely played a crucial role in preparation of rescue packages, as these were driven mainly by financial and economic interests and therefore associated with the Ministries of Finance, Economy or Industry, who emphasized traditional macro-economic objectives over labour and social interests in most national rescue packages. Whether ministries of labour succeed in using the opportunity inherent in this crisis to increase their political profile will depend on their capacity to revert to their protective role, as that is where the expectations of the population lie.

The apparent discrepancy between growing needs and reduced resources will most likely continue to worsen in the future, as “significant fiscal consolidation on top of the

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1 Elements of fiscal policy which mitigate output fluctuations without discretionary government action; e.g. unemployment insurance
2 When the economy gets weaker, spending on social protection and unemployment schemes should automatically go up, helping to stabilize the economy. However the extent of progressivity in tax systems has been lowered and defined benefit systems have changed to defined contribution retirement systems, weakening automatic stabilizers - Stiglitz, J.
removal of fiscal stimulus packages"\(^3\) is envisaged in many countries. Moreover, many rescue measures in the social and employment fields were conceived as temporary policies that might be abandoned when, or even before, the crisis ends.

However, this situation is not unprecedented: also past crises were typically followed by long periods of fiscal austerity that limited public expenditure, including mandatory social spending, leading to the partial dismantlement of welfare legislation in an effort to reduce budgetary deficits.

Especially if this crisis is protracted, public deficits will force governments to adopt severe rationalization measures that could negatively affect labour administrations. It can be expected that measures such as restructuring, lay-offs, mergers and other forms of reorganization, decentralization, privatization, public-private partnerships, application of private sector methods of management and wage-cuts of public servants will be implemented to raise efficiency and reduce costs. Some countries have already announced steps in that direction as part of their recovery plan.\(^4\)

It is clear that the need to face current economic conditions and associated social disruptions are encouraging a re-evaluation of established policies in the areas of labour, employment and social protection. The crisis has created conditions for labour administration and labour policy reforms that are likely to outlive the current period of economic crisis. Therefore, it is important that the reforms and programs implemented at this time will continue to be useful during future times of economic prosperity, such as youth programs, training programmes, and improving the information exchange in the labour market to help it work more effectively.\(^5\)

The purpose of this paper is to outline some responses of labour administration systems to the current crisis and to discuss the extent to which elements of these responses, adopted under the pressures of economic crisis and social hardship, could possibly outlive the crisis and represent lasting changes or new trends in labour policies.

More generally, the crisis will reopen discussions about the role of the government, its merits and the appropriate extent of intervention in the economy. Demands for economic justification of government intervention will be confronted with the fact that the government also needs to achieve social goals, which cannot be quantitatively valued by economics.

While the orientation of future labour policies will certainly be subject to future discussions and complicated political compromises, this crisis demonstrates that markets do not always perform well, their capacity of self-correction is limited, and governments play an important role in making the market economy work. The crisis has reduced the amount of resources available to all State administrations, so now more than ever, the efficiency of choices will be of utmost importance.

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\(^3\) OECD Employment Outlook, 2009

\(^4\) Irish Prime Minister Owen: a robust agreement which delivers greater flexibility in the deployment of people and resources within and where necessary across the public service boundaries so that we can restructure public service delivery to better meet citizens' needs and the urgent need for greater efficiency.

\(^5\) HD and PREM Labour Market Team (World Bank)
2. **Labour Policies in Times of Crisis**

Since the beginning of the current crisis in late summer 2008, national labour administrations have adopted a huge patchwork of policy measures, adapted to suit specific national legal and institutional frameworks, traditions and cultures\(^6\). While there have been various classifications of employment-related recession measures, in the current paper, we categorize the adopted measures into the following four groups:

1. Employment policies.
2. Social protection measures and policies in favour of some vulnerable groups.
3. Income policies.
4. Institutional capacities.

The table below categorically shows common measures taken by labour administrations during the financial crisis.

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3. Employment Policies

3.1. Employment Creation Policies

Many governments’ first response was to initiate Keynesian policies, in which the state made public investments to counter cyclical developments and prevent unemployment. These policies included components that focused on employee retention, job creation and worker employability. While the public investments were oftentimes directed to areas that would lead to multiplicative growth, such as transport infrastructure, ecological projects or the development of public services, the approach each country took varied according to domestic needs and the severity of the economic crisis. Many countries have emphasized job creation in the construction sector, which has been particularly negatively affected by the crisis. Others have implemented policies to stimulate job creation in the agricultural sector.

Several countries have used the current crisis as an opportunity to develop and enhance sustainable energy development, build green infrastructure, and to create new ‘green jobs.’ Although the specific approach that each country has taken varies, they address common themes of protecting the environment, improving energy efficiency and increasing research and development in renewable energy. China and Korea are two examples of countries that are working to directly protect the environment by cleaning and restoring major rivers, building infrastructure to minimize or prevent water pollution, accelerating greenbelt and natural forest planting programmes. Other countries focused on minimizing the pollution from transportation by instituting car-scrapping programmes, or have worked to make public transportation more efficient by subsidizing the development of new railways, as in France Korea and Japan.

Countries are also working to improve the environment by increasing opportunities for the construction sector to build more energy efficient office buildings and homes. Spain and Ireland are two countries that have increased funding and resources to train construction workers to install or build green technology in homes and businesses, and carry out compliance and energy rating assessments.

3.2. Work Sharing

Keeping workers in their current employment position was another common objective for labour administrations. Here, interests of the State and companies were closely aligned, because firing workers can be a potentially expensive solution for businesses. In the short term, firing workers involves financial compensation; in the long term, it involves a loss of past investment in workers skills, and the risk of being unprepared for future recovery. Layoffs can also reduce productivity because changes in

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7 For a full inventory table of measures taken, see Annex 3 of G-20 Report.
8 Examples of countries that have adopted labour intensive infrastructure projects are: Argentina, Australia, Bosnia and Herzegovina, Brazil, France, Indonesia, Hungary, Kazakhstan, Macedonia, Malaysia, Mali, Mauritius, Mexico, Mozambique, Nigeria, Pakistan, Philippines, Romania, Saudi Arabia, South Africa, Togo, the United Kingdom and the United States, among others.
9 Including: Canada, Finland, Germany, Japan, Spain, Sweden and the United States.
10 Germany, Sweden, United States have implemented programmes in which individuals can trade in older, less efficient cars for newer cars that have lower emissions through a government subsidy.
11 In France, Germany, the United Kingdom and the United States.
internal work organization can temporarily create stress, conflict and reduce employee motivation.

Some labour administrations have implemented or expanded subsidies for workers who are working fewer hours in an effort to save jobs. In Belgium, the government is offering a “bridging premium,” a supplementary income of €95 to €345 per month, for employees temporarily working fewer hours. Blue collar, temporary agency and fixed contract workers are also eligible to receive up to 75% of their last income for hours not worked. Bulgaria is also offering a supplemental subsidy of 120 BGN for three months to individuals who work less than half of their legally established working time. In the Czech Republic, the state considered introducing a four-day working week, with 60 per cent of salary compensated by the employer and 20 per cent by the state.

Also, other countries are indirectly subsidizing or otherwise incentivizing work sharing programs by extending benefits, implementing training programmes for hours not worked or finding creative alternative solutions. Denmark, for example, has created a scheme to enable workers to alternate through unemployment. Employees work for two weeks, then collect unemployment benefits for one or two weeks, then return to work; employees may collect 13 weeks of unemployment benefits. The European Union has allocated €19 billion for “Shared Commitment for Employment,” a programme which encourages job sharing and temporary leaves to increase employability.

Keeping workers at employment through various work sharing schemes, both subsidized and non-subsidized, was an efficient measure in the short-run, and represented an interesting example of a relatively fair sharing of crisis-induced costs. However, its long term viability may be compromised due to lack of resources and the inability of involved parties to continually invest in it.

3.3. Employability and Training

Training programmes are more forward-looking than simple work-sharing schemes because they address the structural shifts in markets and technology. Moreover, in times of crises, structural changes can lead to further bottlenecks, which would frustrate attempts at economic recovery. Thus, training programmes benefit workers, by increasing their job market prospects, and benefit employers, by giving them access to a workforce better equipped for future jobs.

Many countries have implemented training programmes to complement reduced working hours, or to help unemployed workers increase their employability. However, the focus of the training varies by countries. Some countries chose to emphasize education and have facilitated citizens’ access to higher education, by increasing the number and availability of grants and student loans. Some countries, such

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12 Belgium, Bulgaria, Canada, France, Germany, Netherlands, New Zealand, Norway, Poland, Ukraine.
13 Canada, Korea, Turkey.
14 See Chapter 3.3: Employability and Training.
15 Dee Denmark, Norway and Poland.
16 Studies show that employers bear a residual cost for adopting work sharing programmes.
18 I.e. South Africa, Czech Republic, Greece, Mauritius, Poland and Ukraine.
19 I.e. Cambodia, Canada, China, Hungary, Indonesia, Ireland, Federated States of Micronesia, Moldova, Morocco, Poland.
20 I.e. Ireland, Malaysia, Pakistan, Saudi Arabia, Spain, Sweden, Macedonia and the United States.
as Poland, Romania and Singapore, are using the opportunity to incentivize professional training programmes. Other countries are focusing on developing vocational training programmes, targeted primarily at rural and industrial zone workers. Additionally, in some countries where the youth employment has been disproportionately affected by the financial crisis, labour ministries have implemented or expanded training programmes for youths.

4. Social Protection and Vulnerable Groups

4.1. Social Protection

Improvement of social protection systems “has been identified as an essential and natural response to the crisis and as an indispensable component of the global jobs pact.” Many governments throughout the world adopted various measures improving significantly their social safety nets as a reaction to the unfolding crisis. However, it is also important that the social safety net programmes are targeted to groups that are most likely to be adversely affected by the financial crisis.

However, the contradiction between increasing demands and shrinking resources, to which labour administrations have been exposed to during the period of crisis, has had a particular negative impact in the area of social protection. The State has been forced to provide increased protection against the lost of incomes, which it has done by improving existing social safety nets and by implementing new social protection schemes, or temporary measures, while facing a declining revenue stream as tax revenue and contribution income have decreased.

Social security systems are facing increased demands for unemployment insurance, social assistance schemes and the increasing use of early retirement. All systems which are financed on a pay-as-you-go basis (PAYG) are facing immediate resource problems; while some fully funded pension schemes pension entitlements have been lost completely.

Increased demand is also a challenge to the functioning of social security institutions and their administrations, as there have been substantial increases in the number of clients and claims, especially in unemployment benefits.

Labour administrations throughout the world have adopted and implemented a wide range of social security responses to crisis-related insecurity. Recovery measures include:

- Introduction of new social security benefits
- Increase in benefits and their duration
- Exceptional allocations
- Easing qualifying conditions
- Extensions of health coverage to unemployed
- Tax reductions

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21 Cambodia, Philippines, Romania, Thailand and Vietnam.
22 I.e. Bosnia, Burkina Faso, Grenada, Kazakhstan, Korea, Macedonia, for example.
24 Klein, L.; Shabbir, T.
In the long run, labour administrations throughout the world will have to find answers and arrive at political consensus on some recurring questions, such as the structure of pensions schemes and the guarantee of pension payment even in times of crisis; the establishment of a universal social protection floor, while balancing between parameters such as fair distribution, coverage, adequacy, gender balance; and the ability to guarantee benefits in line with the Social Security (Minimum Standards) Convention, 1952 (No.102).

Pension Funds

While the financial crisis may have exacerbated the future liquidity problem that pensions face as a result of changing demographics, many governments have decided to increase their pension payments to retirees. While some countries, such as Chile and India, are using the opportunity to make real changes in their pension systems, other countries are simply increasing pensions to adjust to inflation and the cost of living. For example, Chile has expanded coverage of its old-age pension and India has implemented a voluntary pension system for informal workers, which will serve as a massive social safety net. In addition, India has enacted other reforms to aid workers, as described on the following page.

To address the problem of future liquidity, countries such as Bulgaria, have begun discussions to raise and equalize the pension age, but are delaying its implementation given the economic circumstances.

Social Security in India

Rashtriya Swath Bhima Yojana (RSBY) is a scheme that provides medical coverage for Below Poverty Line families and includes unorganized construction workers. It provides more than 700 inpatient procedures with a cost of up to 30,000BPL per annum for a nominal registration fee of 30 RPL for 4.5 million BPL workers with 20 million beneficiaries. This scheme is cashless, and relies on the use of a biometric smart card which allows insurance companies and medical service providers to track its utilization and the government to track migration.

Rajeev Gandhi Shramik Kalyan Yojana (RGSKY) is a self-financing social security scheme which provides unemployment allowance for formal economy workers, extends coverage to the family of the insured person and supports the upgrading of skills.

The National Rural Employment Guarantee Act (NREGA) is based on self-selection and entitles rural households to 100 days of manual work per family each year at the minimum wage for agricultural labour; benefitting women in particular.

The Unorganized Workers’ Social Security Bill establishes a welfare scheme for workers in the informal economy, including agricultural and migrant workers. It provides health, life and disability insurance, old-age pension and a group accident scheme for these workers.

Unemployment Benefits

In response to the financial crisis, many labour ministries have extended and increased unemployment benefits to ease the burden of unemployment on displaced workers. Countries that have extended their benefits include: Brazil, Canada, Italy, Poland, Romania, the United States, the Slovak Republic and Kazakhstan. The length of the extension of the benefits that each country has enacted varies by the pre-existing length of benefits and by the amount of benefits, leading to a significant variation in the

25 Bangladesh, Brazil, Chile, China, France, India, Kyrgyzstan, Russia, Tanzania, among others.
increase of benefits from a five week extension in Canada\textsuperscript{26} to a six month extension in Poland.\textsuperscript{27}

Other countries, such as Chile, Finland, France, the Slovak Republic and Sweden, have relaxed their eligibility requirements for collecting unemployment benefits, allowing more workers to benefit from the scheme. Countries that have either discussed or implemented a new unemployment insurance scheme include the Bahamas, Kuwait and Vietnam.

\subsection*{4.2. Migrants}

The global crisis has created new challenges and opportunities for labour administration to regulate migrant flows and protect the living and working conditions of migrant workers. Pessimistic predictions of massive returns of migrant workers to their countries of origin were not fulfilled, and the impact of the crisis differentiated between countries and sectors. However, the shrinking labour market did have its impact on migrants, resulting in the decline of remittances, localised returns, and in some cases, abusive termination of employment, and in even rarer cases, in manifestations of hostility and xenophobia. Both sending and receiving countries have adopted a series of legislative and administrative measures in response to these situations.

Evidence suggests that migrants have suffered disproportionately in terms of employment, working hours and availability of overtime during the financial crisis. Labour ministries in different countries have taken radically different approaches to dealing with this issue. Some countries, such as Singapore, Kazakhstan and Malaysia are encouraging the retrenchment of migrant workers in favour of employment for nationals. Other countries, particularly Spain and the Czech Republic are working to encourage unemployed non-European Union workers to return to their home country.

However, others countries, such as Finland, Jordan and Kuwait, for example, are adopting policies to help migrants adjust to the local labour market or extending their rights. In Finland, the government has established training programs to help professionals with foreign degrees gain their credentials in Finland.

In response the decreased demand for labour, some countries\textsuperscript{28} are adopting stricter quotas or offering fewer work permits to limit the domestic supply of labour. Others are focusing on limiting the supply of skilled workers.\textsuperscript{29} In response to undocumented migrants, Brazil recently legalized all undocumented alien workers, whereas the United States is increasing it enforcement upon illegal immigrants by auditing businesses and expanding the 287(g) program, which allows for cooperation between federal and local law enforcement agencies.

On the other end of the migration spectrum are countries that are facing a large influx of repatriates, expatriates who lost their jobs and are returning to their home country. Many countries\textsuperscript{30} have implemented a wide array of reintegration and training programmes to help these workers adjust to the local labour market. Forms of assistance

\ \textsuperscript{26} From 45 to 50 weeks
\textsuperscript{27} From 12 to 18 months
\textsuperscript{28} I.e. Kazakhstan, Korea, Malaysia, Russia, Thailand and Ukraine.
\textsuperscript{29} Australia, Russia and the United Kingdom
\textsuperscript{30} I.e. Angola, Bangladesh, Bosnia and Herzegovina, Bulgaria, Croatia, Moldova, Pakistan, Philippines, Romania, Serbia, Sri Lanka
include subsidizing airfare or placement fees from recruitment agencies, as in the Philippines, holding work auctions to facilitate the contact between expatriates and domestic employers in foreign countries, as in Romania, and instituting training programmes to help returnees adjust to the society and understand the local culture, as in Serbia.

4.3. Temporary Agency Workers

Temporary agency workers were among the first victims of layoffs because they allowed firms to swiftly reduce their payrolls while shielding their core workforces. Many national administrations have reviewed their policies on temporary workers and have either tightened regulation of atypical work and increased temporary works’ protection; or on the contrary, have relaxed regulation to create more flexibility in the use of temporary work and other forms of atypical contracts.

Temporary workers agencies’ compliance with existing legislation is a major problem and can be attributed to: ambiguous legal provisions, such as the definition of equal treatment, lack of reliable information and statistical data on agencies and agency workers, insufficient work of licensing authorities, lack of controlling powers, division of control among various institutions, lack of coordination between inspection and other authorities, and weak staffing. Another problem is the lack of protection provided by trade unions - agency workers are most often non-unionised and often excluded from coverage by collective agreements.

Many labour ministries have enacted measures to protect the rights of temporary workers, granting them access to social safety programmes. For example, in Bolivia, subcontract workers will have the same rights as a company’s employees. In Bulgaria, a draft bill specifies equal treatment rights for temporary agency workers, including the right to take collective action.

Other governments, such as Azerbaijan and Austria, are taking actions to improve working terms for temporary agency workers. Azerbaijan has enacted a measure in which workers who have been under contract for five continuous years with an employer, they will automatically become a permanent employee. In Austria, the Social Affairs Minister is preparing legislation to extend the maximum duration of a temporary contract from 18 months to 24 months. Additionally, in Austria, the Federal Ministry of Labour is funding training and retraining courses for temporary agency workers who have been made redundant.

The shift in the role of temporary work will certainly be one of long-term consequences of the crisis on employment relations, as it is widely believed that an upturn in demand for temporary workers will be among the first signs of economic recovery.

31 Such as Public Employment Services, Labour Inspections, tax offices, trades register authorities and police.
32 I.e. Bolivia, Bulgaria, Canada, Japan, South Africa
New EU Temporary Agency Work Directive

The European Parliament approved the Temporary Agency Work Directive (2008/104/EC) as part of a wider strategy to promote ‘flexicurity’ in the European labour market. The Directive is designed so that ‘agency work meets not only the needs of employers for flexibility but also the need of workers to reconcile their working and private lives’ (Preamble (11)). The purpose of the Directive is to establish a Community-level framework for protecting temporary agency workers (Preamble (23)). Its key protective device is found in Article 5(1), which provides that “the basic working and employment conditions of temporary agency workers shall be…at least those that would apply if they had been recruited directly by that undertaking to occupy the same job.” In fact, the instrument secures only minimal rights and protections for agency workers in an effort to accommodate the ‘considerable differences […] in the legal situation, status and working conditions of temporary agency workers within the European Union’ (Preamble (10)).

Some commentators argue that the Directive represents a departure from the concept of job and labour market security in favour of deregulation, precarious work arrangements, and further labour market segmentation. While saying that contracts of an indefinite duration are the general form of employment relationship (Preamble (15)), the Directive makes no commitment to stabilizing temporary work relationships that continue through a series of successive short term contracts. It further allows Member States to derogate from the principles of equal treatment (Article 5(2)) in cases where temporary agency workers continue to be paid between assignments. Moreover, the instrument does not secure certain entitlements for temporary agency workers such as family leave rights when these are commonly available to employees under EC law and national legislation. Ultimately, Member States and national social partners retain considerable discretion when implementing the Directive to determine whether their national regulatory regimes maintain, or increase existing levels of agency worker protection.

5. Income Policies

Compared to the public policies during the recession of the 1970s and 1980s, where generalised wage moderation was the main target, income policies of governments during the current crisis concentrated on the pay of public servants, adopting (increases or freezes) of the minimum wage and the regulation of executive pay.

In the initial stages of the crisis, maintaining purchasing power and aggregate demand were considered key prerequisites for economic recovery. However, as the crisis has progressed, wage moderation, wage cuts resulting mainly from concession bargaining, and in the case of non-unionized sectors, by unilateral decisions of employers, has led to the erosion of wages. In many cases, wage targets agreed in collective agreements for 2009 were not respected. Wage deflation thus became a major threat to the living standards of workers and to economic recovery as wage competition can lead to a wage-price deflationary spiral.

In many countries, especially those heavily concerned with huge public finance deficits, measures have been already taken to freeze or even cut public servants’ pay and other rewards and benefits, including pensions.

To prevent incomes from free-falling, increased attention has been paid to minimum wage as a credible wage floor. Governments have taken actions to improve unemployment benefits, subsidize shorter working hours and provide other forms of public support to protect consumer purchasing power.

33 E.g. Hungary, some Balkan and Baltic states, but also Ireland
On the opposite side of the wage scale, the rewards received by top earners, the means by which they are determined, their compatibility with good corporate governance and their consequences for firms’ behaviour (e.g. risk-taking) have become hotly debated issues.

5.1. Public Servants' Pay

As many governments make efforts to rebalance their public finances, they increasingly adopt austerity measures, which often impacts public servants’ income, especially in Central and Eastern Europe. Many governments have frozen wages for 2009,\(^{34}\) while other countries are actually reducing officials’ salaries.\(^{35}\) For example, in Latvia, the government has reduced teachers’ salaries by 50 per cent, civil servants’ salaries by 15 to 20 per cent, and healthcare workers’ salaries by 20 per cent. The Czech Republic envisages a 4 per cent reduction in public servants’ salaries. In Ukraine, the government has cut benefits for public sector employees, leading to a 50 per cent reduction in monthly income.

5.2. Minimum Wage

During the financial crisis of 2008-2009, there has been renewed interest in minimum wages. Labour administrations can use wage policies to correct market failures because minimum wages can serve as automatic stabilizers by guarding against wage deflation and excessive declines in aggregate demand. The role of the government in setting a national minimum wage has become increasingly important during the financial crisis in protecting workers because unions have less bargaining power during periods of high unemployment. Some countries have increased existing minimum wages, on average, 5 to 15 per cent, resulting in an upward trend of low wages. However, in some countries, this nominal increase represents in fact a decline in real terms.\(^{36}\)

In a few countries, notably Algeria, Brazil and the Netherlands, the national minimum wage is linked to the payment of state benefits, such as pensions, maternity benefits, unemployment benefits, disability benefits and other payments, which reduces the flexibility of countries to change their minimum wage because it negatively impacts their state budget. The Brazilian government, which had resisted increasing minimum wage in the 1980s and 1990s because of the adverse impact upon their public deficit through the increased payment of benefits and pensions, has chosen to increase its minimum wage, illustrating the government’s recognition of the importance of a national minimum wage policy as one mechanism\(^{37}\) to combat low-pay, poverty and inequality associated with the financial crisis.

In Bulgaria, Estonia and Ireland, planned wage increases have been postponed in response to the decline in economic activity as governments took into account the deteriorating profitability of companies.

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\(^{34}\) China, Greece (for higher-paid civil servants), Serbia and Tanzania

\(^{35}\) i.e. Bosnia and Herzegovina, Croatia, Latvia, Lithuania, Serbia and Ukraine

\(^{36}\) For example in Hungary, the minimum wage increase of 2.3 per cent represents a 1.4 per cent decline in real terms.

\(^{37}\) Complimentary mechanisms include targeted income policies.
5.3. Executive Pay

Executive pay has been blamed, in part, for the current economic crisis. Multi-year bonuses, ‘golden parachutes,’ and high rates of executive compensation were suggested to incentivize short-term risks that provided high returns rather than achieve long-term growth, leading to risky behavior. As companies began receiving public funds to keep their companies afloat, the public demanded that policymakers take action to limit executive compensation.

Many efforts have been made to identify suitable methods of executive pay regulation, whether through ‘hard measures,’ including direct intervention, legislative frameworks, or tax measures that statutorily limit compensation, as in China and Russia, or through ‘soft’ measures, such as “say-on-pay” policies, through voluntary codes of conduct, or through “naming and shaming” techniques, which encourage and incentivize good corporate governance. Countries, such as the United Kingdom, and the United States prefer adopting soft measures to regulate compensation policies. However, even in the US, the government has decided to statutorily reduce the pay of executives at seven companies receiving substantial government assistance.

Executive pay has also become an international topic of discussion and was discussed at the G-20 Summit Meeting in London and in Pittsburgh. The International Finance Stability Forum (FSF) was transformed into the Financial Stability Board (FSB), obtaining more competencies, including the regulation of executive pay. The G-20 also recommended that companies align their compensation practices to incentivize prudent risk-taking and with long-term goals.

6. Impact on Labour Institutions

6.1. Public Employment Services

In most countries, public employment services (PES) are the main administrative agencies that implement active and passive employment policies. PESs are privileged observers and analysers of the labour market and have the ability to influence policy-making by impacting the social dialogue in a country, thereby representing the interface between the government, workers and employers.

The current crisis puts the institutional capacity of PES under severe scrutiny. As the ratio between the number of officials and unemployed has increased dramatically, it has become increasingly difficult, and even impossible, to provide individualized services to claimants. Some countries have responded to this challenge by increasing the number of PES staff. However, the implementation of increased staff will lag increases in unemployment, as new staff must be trained, equipped with the necessary tools and placed in appropriate offices. The immediate solution has been to extend opening hours, provide greater mobility of services in places like public libraries, supermarkets or prisons, and increase the frequency of consultancy. In some cases, the crisis provides PES an opportunity to reorganize their internal office structure to work more efficiently. For example, PES can increase the number of the front office staff to provide more direct

38 See: Thomas Prosser, “Executive compensation and the economic crisis,” for specific country approaches and a more detailed analysis of the topic.
39 Germany, Norway, Slovakia, Spain, UK
40 Netherlands, UK
41 Finland
assistance to clients, or merge unemployment benefit functions with job mediation functions into one institution, to lower overhead costs. In many cases, public employment services have been trying to build stronger public-private partnership, both at the national and local levels.

Some countries emphasize individualized service programs that are tailored to the needs of jobseekers. Other countries developed specific programmes or services to target vulnerable groups, such as young or older workers, handicapped workers, migrants or long-term unemployed, for example.

42 France
43 Public employment services in France delegated hundreds of thousand files of jobseekers to private agencies. In Luxembourg the National Employment Administration also cooperates with private agencies in the field of placement.
44 E.g. Bulgaria, Sweden or UK
Mobility centres in the Netherlands

The Mobility Centres in the Netherlands are intended to provide advice, counselling and information to job-seekers. Under the programme, employers register both their surplus staff and vacancies with mobility centres, which are then responsible for the employment contracts, paying employees’ salary and receiving their unemployment benefits in return. The strength of mobility centres lie in the level of cooperation between the social partners. In tight labour markets, the mobility centre can develop strategies for the existing workforce in traditional and slow growing parts of the organization to acquire skills that allow them to seek jobs in faster growing units to relieve bottle-necks within the organization. The main focus of this initiative is to make the labour market work more efficiently by creating jobs with high future potential, rather than protecting obsolete jobs.

6.2. Labour Inspection

The activities and challenges confronting labour inspection bodies have been affected in a number of ways by the crisis. Reduced economic activity appears to have led to a reduction in the number of occupational accidents. Yet, the crisis has exacerbated other challenges, which national inspection systems have faced for some time already:

- growing diversity and fragmentation of the employment relationship as seen in the rise of temporary work, contract work, part-time work and self-employment;
- problems related to undeclared or illegal work and migrant employment;
- large scale restructuring and redundancies;
- stress-related psychosocial and physical disorders associated with work reorganization and layoffs, additional workload, extra hours and irregular working time;
- weakened management of traditional hazards and risks as a result of cost cutting.

With some rare exceptions, governments have not increased the financial and human resources available to labour inspectorates as a response to the crisis, despite the increased the demands on inspectors to deal with collective redundancies, protecting migrants and combat undeclared and illegal work, resulting from the economic situation. Therefore, fewer resources have been available for traditional inspection areas, including occupational health and safety.

7. Conclusion

Recent developments confirmed the key role national labour administration systems play in addressing the human dimensions of the crisis, such as job insecurity or poverty. At the same time, the crisis revealed many structural weaknesses of labour administrations and has taught governments the importance of maintaining automatic stabilizers during periods of relative economic stability and growth. However, the crisis has also provided an opportunity to strengthen labour administrations and modernize labour policies so they are better prepared to prevent future crisis or at least mitigate their social impacts.

45 Examples: Norway. See also Maria Luz Vega “The global economic and social crisis and its impact on labour inspection systems”.
46 Spain reports 300% increase in this activities
While governments have implemented many emergency measures to increase employment, strengthen social protection and protect aggregate demand, these policies might seem to have limited sustainability because of the strain it puts on public deficits.

For example, work sharing programmes introduced in many European countries, have been highly praised for keeping workers at work, preventing sharp increases in unemployment, saving costs for enterprises, and of unemployment insurance programmes and protecting workers from loss of income. However, these programmes can be considered only as a temporary measure and will be progressively replaced by other, more forward-looking measures in favour of creation of sustainable jobs. In this respect, development of training programmes, especially those linked to future “green jobs,” is highly desirable.

On the other hand, abandoning the rescue measures when economy and its capacity to create jobs are not still recovered, would be dangerous. In fact, some countries have already begun cancelling or withdrawing stimulus measures, in some cases, before even being implemented in an effort to rebalance public finances and reduce budgetary deficits.

Thus, the costs and benefits of discretionary measures as well as of automatic stabilizers will need to be evaluated based on their performance in this crisis and lessons should be learned for the future labour policies. Social dialogue at various levels is a highly recommended method to define social policies because it takes into account, in a balanced and equitable way, the interests of the State, enterprises and workers.

Labour administrations should also continue to improve legislative framework of part of particularly vulnerable workers, such as migrants and temporary agency workers. Although many governments addressed these categories during the crisis, some reforms, such as repatriation programmes for migrants or more equitable treatment with agency workers, have the potential to become lasting changes that facilitate the mobility of labour to allow the labour market to function more effectively.

For labour policies to be implemented in practice, well staffed and efficiently managed labour institutions, such as public employment services, training bodies or arbitration mechanisms are necessary. The crisis also revealed many deficiencies in compliance with laws, and also created new risks. Well equipped and independent labour inspections, therefore, are still very important.

Finally, labour ministries, while administrating a considerable proportion of public finances, should be given a higher political profile within Government cabinets so they can effectively play their key protective and preventive roles aimed at improvement of working conditions and living standards.
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