The Great Recession: Employment in times of crisis

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   2. Easing the Pain
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I. Overview of employment impact of the recession
Overview

- Recessions leave scars on Labour Markets, the Great Recession has left gaping wounds!
- Over 210 million people unemployed, more than a 30 million increase since 2007
- 75% in Advanced Economies, 25% in Developing

- Indicators:
  1. Unemployment
  2. Youth Unemployment
  3. Long Term unemployed
  4. Working poor
  5. Vulnerable Employment
  6. Informal Employment
The response of the unemployment rate has varied a lot across countries.
2. Youth Unemployment

Youth unemployment has increased in many countries and more so than in past recessions.

Youth are defined as those 15-24 years old. Source: OECD.
3. Long-term unemployment

Figure 8. Long-Term Unemployed as Share of all Unemployed

Long-term unemployment is at alarming levels in many countries.

Long-term unemployed are those unemployed six months or more.
Source: OECD.
Impact of unemployment duration on odds of finding a job

Figure 10. Impact of Duration of Unemployment on Odds of Finding a Job

The chances of finding a job decline sharply the longer a person has been out of work.

Probability of employment next month by labor force status this month (percent, seasonally adjusted). Includes civilians over age 20 present in successive months of data. Includes data from the last quarter of each year.
Source: Department of Commerce (Census Bureau), Current Population Survey.
Diversity across developing countries: unemployment

Source: ILO Department of Statistics
II. The human cost of recessions
The human cost

• Lower Lifetime earnings:
  – 20% on average, as far as 15-20 years after job loss

• Cost to health – reduced life expectancy:
  – In short term: higher risks of heart attacks and other illnesses
  – In longer term: higher mortality rate

• Cost to children and youth:
  – Reduced schooling achievement and earning prospects
  – Increased probability of repeating grade by 15%
  – Strong adverse effects in lifetime earnings for youth U-spells

• Cost to society:
  – Reduced human capital: some industry-specific skills become obsolete
  – Reduced social cohesion: young who experience a recession tend to believe less in personal effort, perceive stronger inequalities, have less confidence in public institutions, more negative opinions about democracy

• Costs of long-term unemployment:
  – LTU is at alarming levels
  – Longer U-spells risk entrenching a cyclical phenomenon into a structural one
III. Overview of policy responses during the crisis

To their credit, most countries mounted a strong policy response in three parts:

1. Boosting Aggregate Demand
2. Easing the Pain: employment retention and social protection
3. Accelerating Recovery in Jobs
1. Boosting aggregate demand

• Fiscal Stimulus:
  – G20 fiscal stimulus policies are estimated to have created or saved some 21 million jobs in 2009, 2010.
  – Equivalent to 1.0 per cent of total employment for the G20 countries,
  – Plus other 5 m jobs in Developing Countries

• Monetary policy:
  – Reduced interest rates
  – Quantitative easing

• Repair and support to the Financial Sector
  – Rescue plus improvement of bank balance sheets
  – But credit has not increased sufficiently, deleveraging

• Conclusion: strong counter-cyclical policies turned the Great Recession around and eased significantly the labour market consequences
2. Easing the pain: 
Active Labour Market Policies

- Policies to facilitate firms to retain workers:
  - Short time work, eg Germany Kurzarbeit system, Italy, Japan –
  - Key role in dampening increase in unemployment

- Extension of Unemployment Benefits:
  - Coverage: more beneficiaries
  - Duration: In the US from 26 to 99 weeks

- New or expanded targeted employment programmes:
  - Public works, infrastructure
  - Expansion of Employment Guarantee Schemes
  - Expansion of conditional cash transfer schemes
  - Investment in training
  - Strengthening public employment services
3. Accelerating Jobs Recovery

- Subsidies:
  - Direct job subsidies
  - Wage subsidies
  - Reductions in payroll taxes
  - Examples: Austria, Finland, Portugal, Sweden

- Credit expansion to SMEs

- Targeted job creation in hard hit regions or Sectors
  - Mexico, Korea
  - Services in Japan
Some results: Frequency of measures taken across sample countries

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<th>1. Stimulating labour demand</th>
<th>2. Supporting job seekers, jobs and unemployed</th>
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<td>Additional fiscal spending on infrastructure</td>
<td>Additional training measures</td>
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<td>Subsidies and tax reductions for SMEs</td>
<td>Increased capacity of public employment services</td>
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<td>Access to credit for SMEs</td>
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<td>New or expanded targeted employment programmes</td>
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<td>3. Expanding social security and food security</td>
<td>4. Social dialogue and rights at work</td>
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<td>Additional cash transfers</td>
<td>Consultations on crisis responses</td>
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<td>Changes in old-age pensions</td>
<td>Agreements at national level</td>
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IV. The challenges of policy responses during recovery

In 2010 – 2011 this 3 part strategy should remain in place, with some shift over time as recovery takes hold and depending on specific country circumstances.
2010 OUTLOOK:
A differentiated, multi-speed recovery, mostly driven by policy but threatened by sovereign debt and other risks…

<table>
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<tr>
<th>Region</th>
<th>2009</th>
<th>2010*</th>
<th>2010**</th>
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<tr>
<td>L = Europe</td>
<td>-4.1</td>
<td>+1.0</td>
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<tr>
<td>U = US</td>
<td>-2.4</td>
<td>+3.1</td>
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<td>V = Asia</td>
<td>6.6</td>
<td>8.7</td>
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* As estimated by IMF, World Economic Outlook, April, 2010
** Revised estimates
The aggregate demand conundrum and the fiscal sustainability challenge

- Stimulus or austerity? It is not so simple.
- Fiscal sustainability is an important objective.
- The question is how to ensure it without jeopardizing recovery and growth? What is the path to get there and how fast?
  - Front loaders:
    - give confidence to financial markets now,
    - a gradual strategy is not credible.
  - Backloaders, postponers:
    - The priority is growth and recovery, until private sector dynamism (consumption, investment) is strong enough, stimulus should not be withdrawn.
    - Credibility is there if there is strong national consensus.
    - The main reason for high fiscal deficits and high debt-to-GDP ratios is not stimulus, but the drop of fiscal revenues due to the growth collapse. So premature austerity can be self-defeating.
Advanced economies: sources of increase in public debt put the fiscal consolidation debate in perspective

Figure 11. Advanced Economies: Sources of Increase in Public Debt, 2008-15

The majority of the projected 39 percentage points of GDP increase in public debt is due to cyclical weakness in economies.

V. What has the ILO been doing to support Member States and social partners?
A Decent Work response to the crisis

The Global Job Pact

A Decent Work response to the crisis
Eleven principles for promoting recovery and development
A portfolio of around 25 policy options
Shaping a fair and sustainable globalization
ILO action

Accelerating employment creation, jobs recovery and sustaining enterprises
Building social protection systems and protecting people
Social dialogue: bargaining collectively, identifying priorities, stimulating action
Strengthening respect for international labour standards
Key elements of the Office’s crisis response

• Support to national policy responses and national implementation of Global Jobs Pact

• Research, analysis and knowledge sharing

• Capacity-building

• International policy dialogue

• Support to G20
Support to national implementation in countries committed to an integrated application of the GJP

- Office is developing a flexible methodology based on:
  - An integrated application of the GJP that could lead to a “National Jobs Pact” Strategy or similar
  - Tripartite engagement and capacity building
  - Country “scan” and analysis of policy responses using complete GJP framework (based on GJP guide or questionnaire)
  - Mobilizing technical capacities from across technical sectors and departments to complement field expertise

- Process ongoing in Bulgaria, El Salvador, Indonesia, Jordan, South Africa.

- About to start in: Argentina, Ukraine, Mongolia, Mauritius, Nigeria.
Since its adoption in June 2009, the Pact has received worldwide support from:

- United Nations,
- UN Economic and Social Council,
- G8 Summit (L’Aquila),
- G20 Summit (Pittsburgh),
- European Union,
- Ministers of Labour meetings of the OECD,
- African Union,
- Organization of American States
- Arab Labour Organization,
- Asian Development Bank …
G20 support actions

• Inputs to Pittsburgh, Sept 2009:
  – Report: Protecting People, Promoting Jobs
  – Initial inventory of policy responses in 54 countries
  – Early lessons

• Inputs to US Labour Ministerial – April, 2010:
  – Country Briefs
  – Country Statistical Updates
  – Accelerating a job-rich recovery in G20 countries: Building on Experience
  – Equipping the Workforce with the Skills Required for Strong, Sustainable and Balanced Growth (Progress report on the training strategy).
G20 Support actions: The agenda in the upcoming Seoul meeting

• Implementation of the homework inherited:
  1. Ensuring Strong, Sustainable and Balanced Growth including maintaining economic support (stimulus) measures until recovery is fully assured – Mutual Assessment Process
  2. New financial regulations: liquidity standards, guidelines
  3. Reforming International Financial Institutions
  4. Trade: avoid protectionism, standstill mechanism, transparency.

• New issues:
  1. Financial safety nets – cushions, the collective security provided by IFIs is not enough
  2. Development issues: Infrastructure, MDGs, growth.

• Outreach activities:
  – Further inclusiveness with non G20 members
  – Close collaboration with the UN.