# EMPLOYMENT POLICIES: FROM CRISIS TO RECOVERY

Andrés Marinakis and Mario Velásquez[1]

In a context where recovery might be slower than expected, it does not appear advisable for governments to abandon prematurely the fiscal and monetary policies adopted to face the crisis. In turn, employment policies can assist recovery, whether with investment in infrastructure as part of a strategy to dynamize local labour markets and small enterprises, or with indirect employment policies at an early phase of reactivation. In addition, increased investment in labour training and in the development of employment services will favour more expeditious and productive rehiring for the unemployed workforce.

## 1. Introduction

During the recent crisis, the Latin American countries adopted special fiscal and monetary measures, together with a set of employment policies that reduced the number of job losses, thereby avoiding further expansion of the number of the unemployed. This experience has provided interesting lessons on the effectiveness of the instruments used. At present, however, in a context of incipient economic recovery, it becomes especially important to identify their potential to consolidate a pathway to recovery and economic growth with job creation.

## 2. Recovery with job creation

The information available suggests that the main direct effects of the crisis on activity and employment have already been overcome to a considerable extent in Latin America. Notwithstanding, it is not yet possible to know what will be the strength of the expected economic recovery as, inter alia, it will depend on both the impact of adjustment programmes in European economies -which will affect the demand for exports and create uncertainty in the credit markets- and the economic policy decisions adopted at local levels.

Recovery of economic activity in the Region, in both intensity and composition, is a determinant of labour market reactivation, together with the incentives enacted by governments to maximize job creation. This time, the countries have recognized employment as a priority: the resolution "Recovering from the Crisis: A Global Jobs Pact" was adopted at the 98th ILO International Labour Conference last June, asking governments, employer organizations, and worker organizations to coordinate in order to face the crisis through policies in line with the decent jobs programme, which was also adopted by both the G-8 and the G-20.

Such a Pact poses the need to construct a regulatory framework for the financial sector, in order to drive the real economy and to protect savings and pensions; in terms of employment, it points to the advisability of considering various policy options to make sure that economic recovery creates jobs with the least possible lag. They are also options to endow economies with growth stabilizers in the medium term.



1 Andrés Marinakis is Expert in Labour Market Policy and Labour Institutions at the ILO Subregional Office in Santiago; Mario Velásquez is an economist, consultant at the same Office. The opinions expressed are exclusively the authors' and do not necessarily represent the views of the ILO.

# 3. Employment policies for recovery

Examining the implementation of a set of policies aiming to prioritize employment vis-à-vis the crisis serves as a basis to identify the potential of such policies to support recovery with job creation. Thus, policies on public investment, direct and indirect employment, labour training, and employment services, and policies to keep workers in their jobs are discussed below.

## Public investment

Significant efforts have been made in the Region to raise public investment, funded from the fiscal budget or by loans from international financial cooperation agencies. This has been accompanied by a significant rise in the levels of investment execution, which has contributed to heighten the effect on job creation.

From the standpoint of contribution to the recovery process, highly dynamic public investment has positive effects on economic activity and job creation, particularly if the criterion is maintained of prioritizing the most labour-intensive projects. This area is where the effect may be improved, especially if intensive use of labour can be fully included as a variable to be estimated, registered, and used as a criterion for allocating investment projects.

Furthermore, greater efficacy of job creation can be achieved if investment is located in areas where there is high concentration of unemployed individuals; this in turn involves developing systems for measurement and follow-up of the labour market at the lowest possible degree.

## Employment programmes

These programmes create temporary jobs, generally in maintenance or construction of infrastructure of social utility or in support of social services, which gives them some similarity to programmes based on "pure" public investment. However, they are usually characterized by allocating a somewhat higher percentage of expenditure to hiring labour, and by offering shorter working days and very low incomes. Their greatest effectiveness is revealed in emergency situations.

Moderate use of such programmes was made during the crisis, given that unemployment rates generally increased less than initially forecast. One regular observation was the extension of ongoing programmes addressed to groups in poverty situations, extending both resources and geographic coverage, as in the case of the Extended Temporary Employment Programme (Programa de Empleo Temporal Ampliado) in Mexico.

The case of Chile stands out among good practices in this regard, where utilization of a Contingency Fund for applying these programmes is activated whenever the unemployment rate rises above 10%, thereby incorporating a counter-cyclical element in fiscal policy. Similarly, to the extent that the level of unemployment drops, the resources allocated for this purpose are reduced, in line with the temporary nature of these programmes. In addition, this provision recognizes the territorial diversity of the labour market and allows support for such programmes to continue in areas where unemployment is high, even though the national unemployment rate may fall below 10% of the labour force.

In an initial recovery phase, the above programmes will lose their importance vis-à-vis indirect employment programmes, for the latter will enable organizations to expedite decisions to hire workers.

## Labour training

Recent experience in this regard shows that during the adverse phase of the cycle investments were made in job training. Among the countries least affected by the crisis certain economic sectors continued with net job creation, whereas others reduced jobs; efforts were made displayed to retrain the resulting unemployed workers in order to assist their rehiring in expanding sectors. This has been the strategy followed by the job retraining programme Revalora Perú, and also by the Bahamas National Training Programme.

From the standpoint of dynamizing recovery, such actions constitute investment, for they seek to correct structural deficits in labour supply and improve labour employability, which is essential in a stage of economic reactivation with increased productivity. This has also been the approach of  Plan 250 Mil, in Colombia, which aims to keep young people in training and later to foster their hiring as apprentices by enterprises where personnel was not reduced in the three months prior to hiring.

### Public employment services

In crisis situations these services face heavier demand pressure from the unemployed while having fewer vacancies to fill, and as a result their traditional functions are weakened. In such cases, these institutions usually take up a role organizing public policies in a particular geographical area.

The experience of Argentina in this context illustrates the point. Following the steep recession that affected the country in 2002, it gradually developed and strengthened a network of employment services across the country, responsible for execution of public policies at local level and promoting labour market intermediation. As a result, the crisis found Argentina better prepared to care for the unemployed and apply employment programmes at local level.

In a context of recovery and increasing economic activity together with creation of new jobs, the same services are redirected towards providing information and labour market intermediation services, in addition to guidance and referral to a training programme as appropriate. Strengthening public employment services will help to promote speedy rehiring of the unemployed as the economy recovers, which will have positive effects to enable disadvantaged workers to return to a job.

### Job retention

In Latin America and the Caribbean there was no previous experience in this area; however, with the advent of the recent crisis several countries developed these programmes. Such was the case in Argentina and Mexico, where these programmes were applied on a highly intensive scale, but not in Chile, where enterprises chose to resort to other public programmes of a unilateral nature, especially subsidies for hiring.

Application of such policies aims to keep workers in their jobs, by means of shorter working hours, partial compensation for loss of income, and training available in the time not worked. Owing to their characteristics, programmes of this type are therefore justified, especially when the fall in demand for work is felt to be temporary and restricted to specific sectors; for the same reason, as recovery becomes consolidated, these initiatives will be discontinued.

## 4. Main conclusions

Considering the lag between recovery of economies and recovery of job markets, it seems advisable for governments to refrain from prematurely giving up the fiscal and monetary policies that enabled them to put the crisis behind them.

Though it is important for economic recovery to be non-inflationary, wage stability and the extent of idle capacity in productive facilities would indicate that pressures to raise prices should not appear immediately. Regarding employment policies, it would seem reasonable for public investment efforts to continue during the first half of 2010, while the possibility is examined of gradually reducing emergency employment programmes and strengthening incentives for further hiring in the private sector.

In short, having well-structured employment and labour market policies helps to increase growth potential. Investments in infrastructure create more jobs per unit of investment when they are included in a strategy for the recovery of local labour markets, focusing on support for smaller enterprises. In turn, policies for developing competencies can help to create a labour force capable of responding to the demands of recovery and of future growth driven by innovation and new technologies. In addition, extended social protection systems constitute an essential platform for returning to the labour market and preventing poverty.