



## Latin American Experience with Crisis-Driven Labor Market Programs

UNITED NATIONS EXPERT GROUP MEETING ON THE CHALLENGE OF  
BUILDING EMPLOYMENT FOR A SUSTAINABLE RECOVERY

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# Today's Presentation

## I. Latin America and Economic Crises

## II. Recent Crisis

1. Growth and employment
2. Gender
3. Migration and Remittances

## III. Labor Market Policies/Programs in Crisis Times

## IV. Concluding Remarks

# I. Latin America and its Crisis Experience

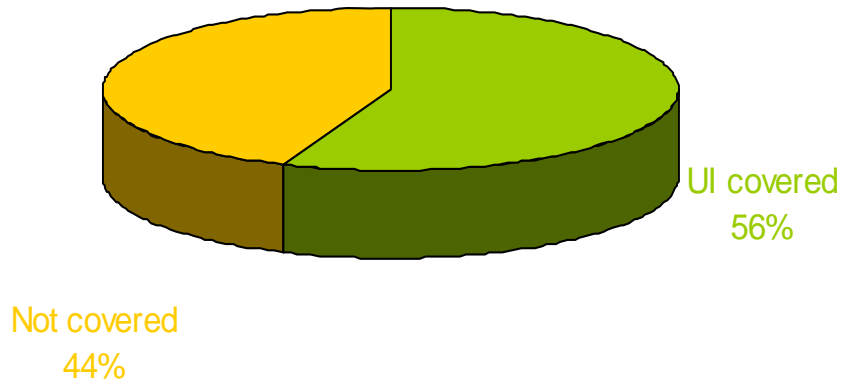
- **Latin America suffered repeated crises, but recovered relatively well**
- **Most recent crisis, regional impact less and recovery better relative to other developing regions**
- **Most recent crisis showed distinct subregional impacts, greater impacts on employment, export-oriented sectors to U.S. markets**
- **Despite its experience, Latin America still in developing stage of a set of labor market policies and programs that will allow it to react more consistently and effectively to employment impacts in ways that are productivity and welfare enhancing**

# I. Current Policy Framework

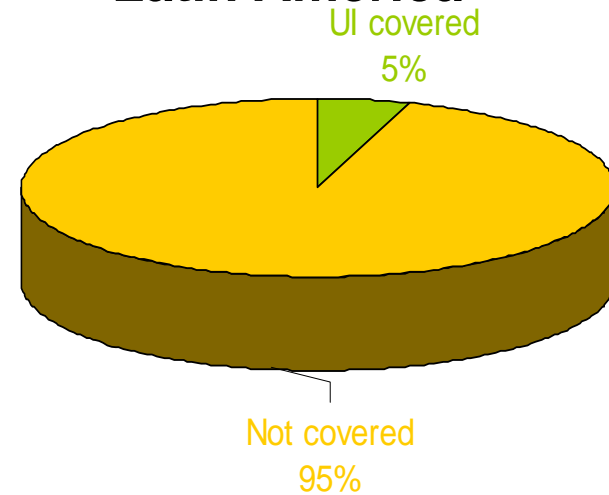
- **Few passive labor income supports**
- **Most countries now have CCT (Conditional Cash Transfers) in place**
  - Useful to reducing income shocks on existing beneficiaries, but not appropriate for newly poor
  - Countries expanded beneficiaries during crisis
- **Larger, middle income countries have a more established set of active labor market policies (employment services, training programs) that were adapted – in very varying degrees -- to fit crisis needs**
- **Key is orientation of active labor market instruments to be productivity-enhancing both in and out of crises**

## Passive Policies: Distinct from U.S., only 5% of Latin Americans covered by UI-type program, all in Southern Cone

### U.S.



### Latin America



## **II. Select trends from most recent financial crisis: 2008-2010**

- **Subregional impacts**
- **Growth – declines and recovery**
- **Employment**
- **Gender impacts**
- **Migration and remittances**

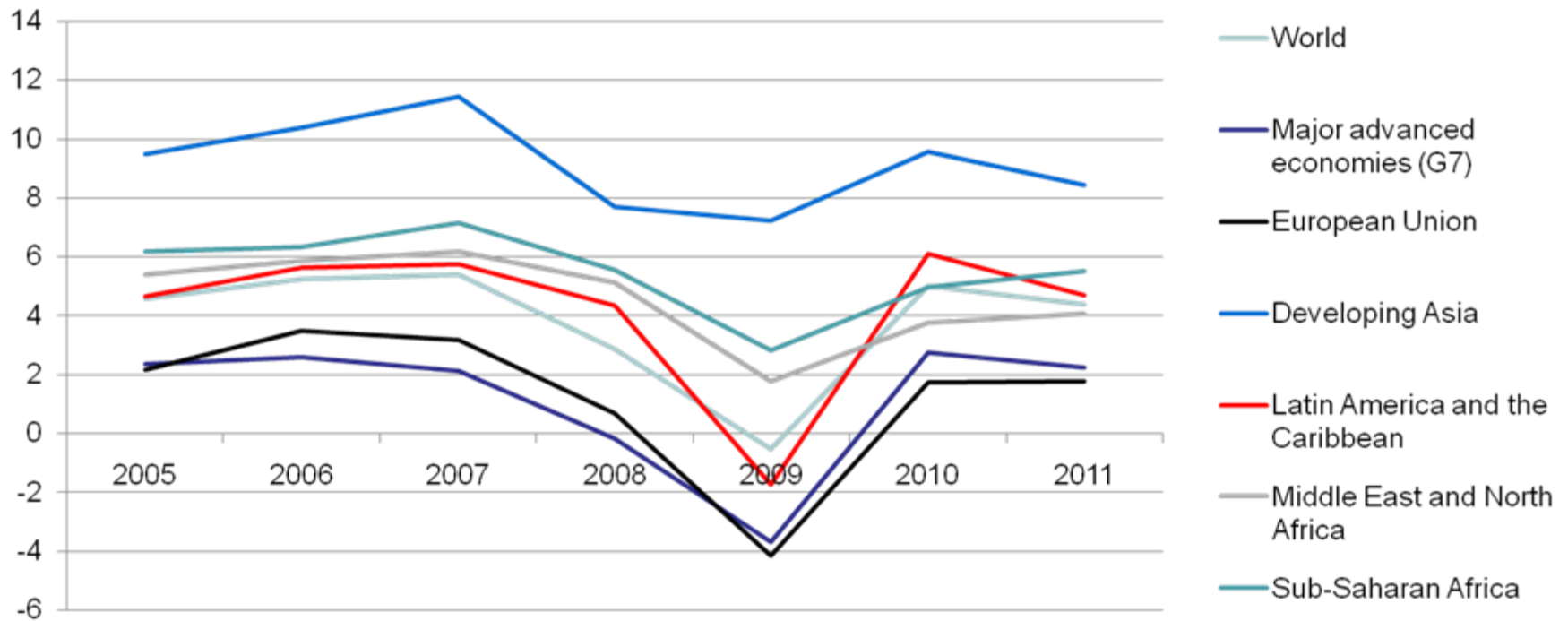
# Distinct channels of transmission -- financial, growth and commodities = different impacts and recovery rates by subregions



## II. GDP decline and recovery: comparing LAC to other regions

### Decline and Recovery of GDP growth rates during the crisis

Annual GDP growth rates; 2005-2011



Source: International Monetary Fund, World Economic Outlook Database, April 2011

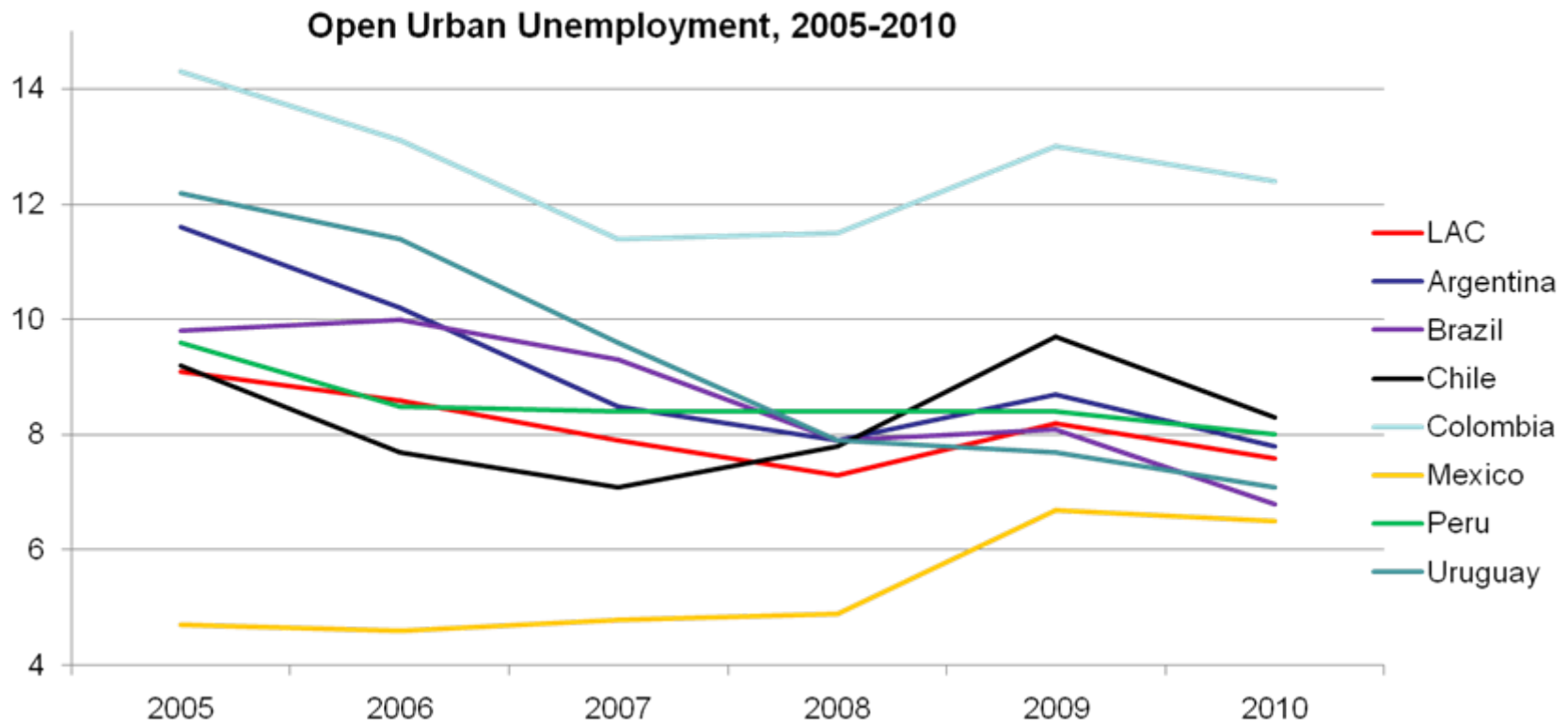


# Regional trends mask sharp national differences:

- **Mexico – largest GDP decline, 7.1% - worst performance in 70 years, due to combination of financial and H1N1 crisis. Largest losses in formal employment**
- **Caribbean stagnated to near zero growth, with largest declines in Jamaica due to tourism and remittance declines**
- **Brazil – decline for two quarters, then recovery. No marked gain in informality.**
- **Overall growth and employment losses followed sectoral trends both exports and commodities**
- **Bigger impacts in countries with largest exposure to US markets**

## II. Official Unemployment impacts within LAC: don't tell full story of national impacts

### Overall Rise in Open Unemployment:



Source: ECLAC, 2011. Preliminary Overview of the Economies of Latin America and the Caribbean, 2010

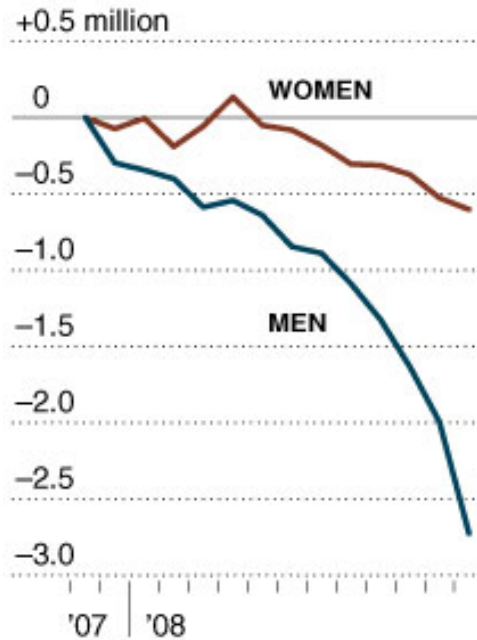
# Gender and Unemployment in the Crisis: in U.S. 82% of layoffs in crisis were male

In the US, 82% of those laid off have been male

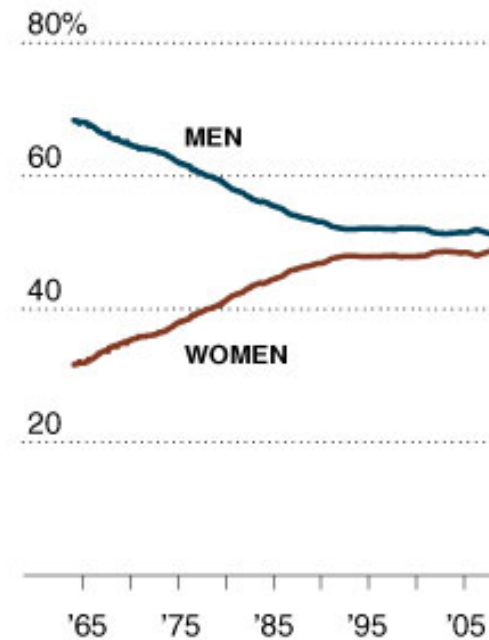
## Closing the Gap in Employment

Since the start of the recession, men have lost more than 2.7 million jobs, representing 82 percent of all job losses. Given this loss, women are poised to take a greater share of the nation's jobs.

**Job gains and losses**



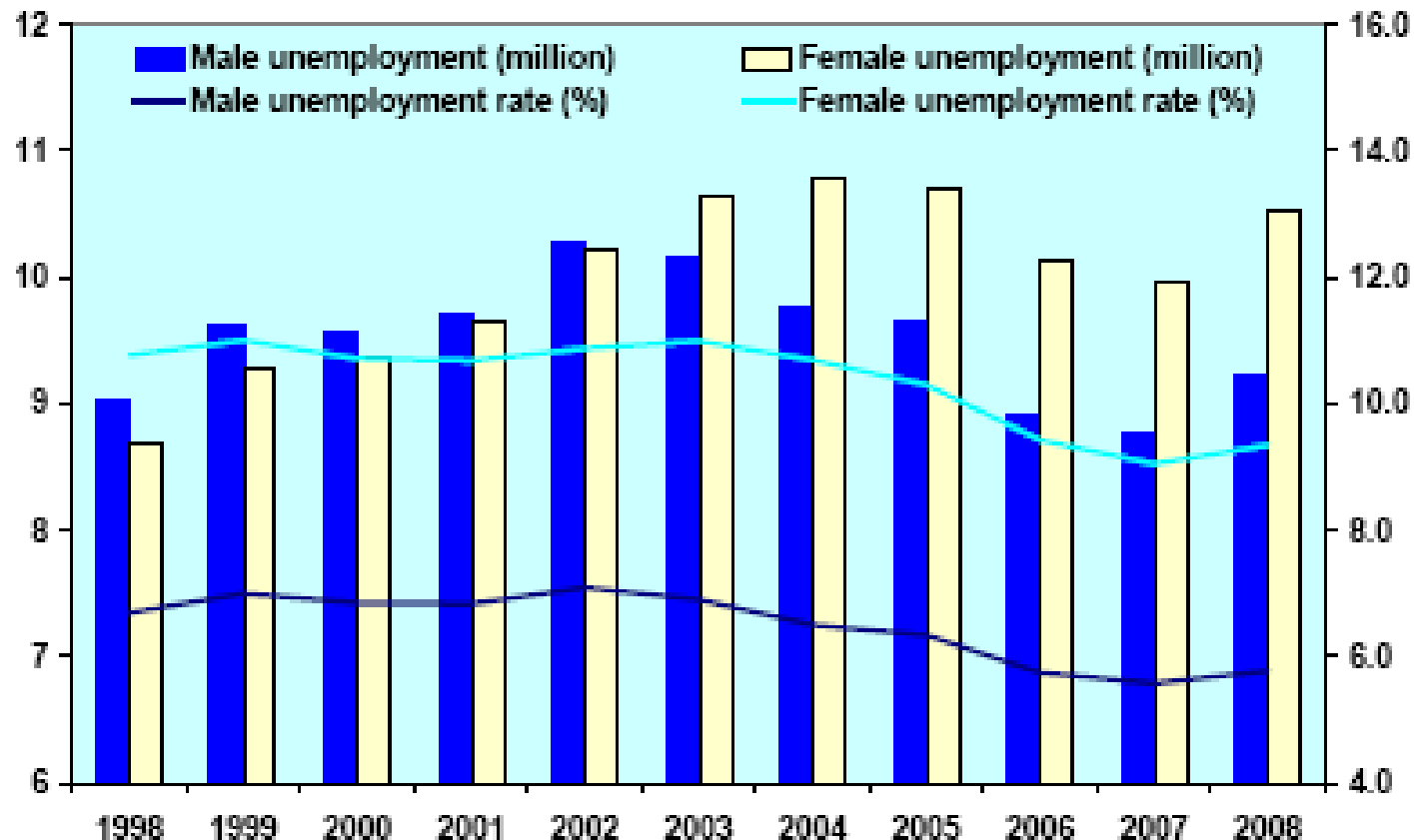
**Share of jobs**



Sources: Current Population Survey and Current Employment Statistics, Bureau of Labor Statistics



# Women in LAC more disadvantaged position in labor market, more typically more affected by unemployment



Source: Global Employment Trends for Women 2009. ILO



# Gender perspectives from LAC

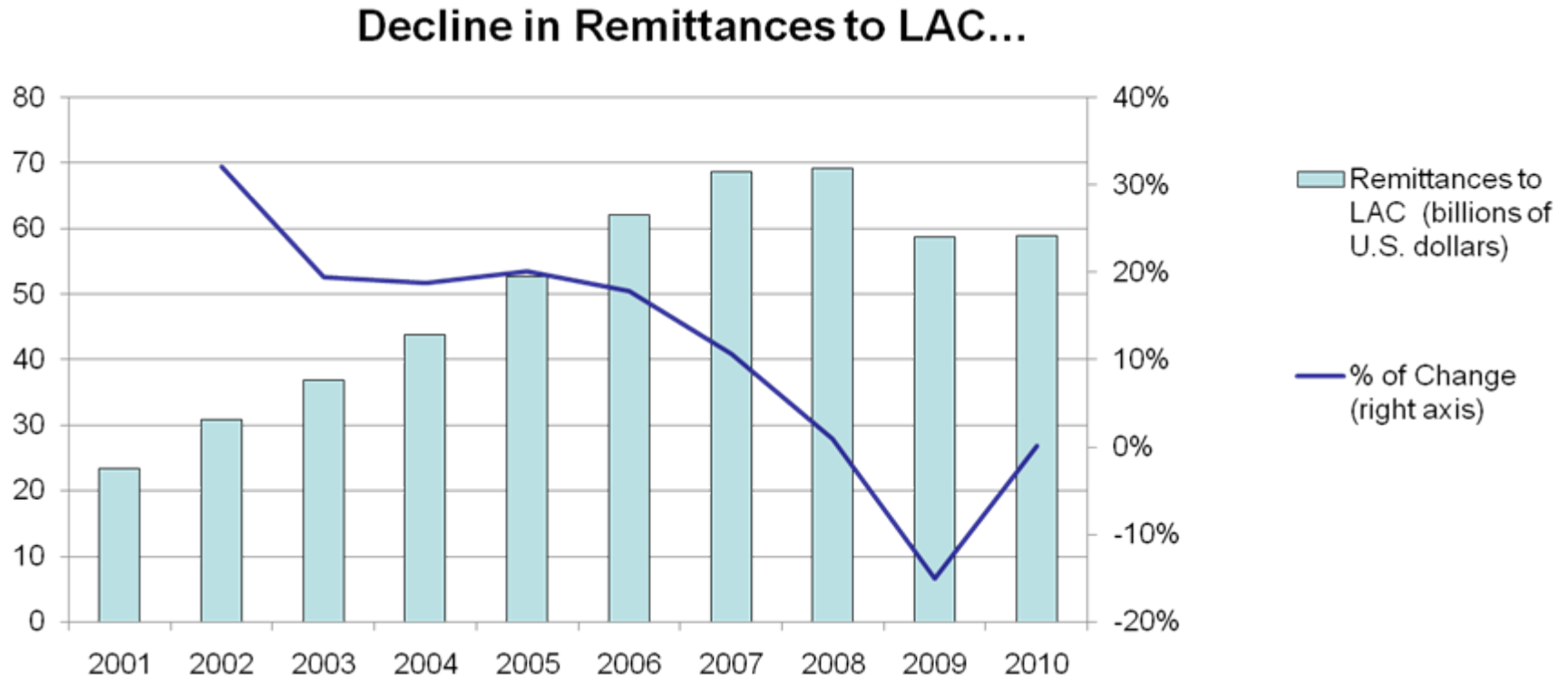
- è **With a few exceptions, crisis was more concentrated in LAC in sectors with disproportionate female workforces: maquila, (textiles and apparel), tourism**
- è **Mexico: 71% of all 2008 layoffs were women (1.3 million jobs, INEGI)**
- è **Honduras: female employment highly concentrated in the maquila, financial services sectors. In maquila sector, 29,000 jobs were lost by mid-2009, 70% of which were female.**

# Migration and Remittances

- ❑ Typically outmigration is “safety valve” for LAC in times of crisis
- ❑ Outmigration from Mexico and Central America to U.S., and Andean countries to Spain, slowed during crisis (Pew Hispanic Center)
- ❑ Within U.S., Latin American migrants lost proportionally more employment than the native population, but now recovering quicker ....but at lower wages. (Migration Policy Institute, 2011)
- ❑ Return migration appears to be highly limited, most migrants moved to other U.S. locations or accepted lower wages

## II. Decline in Remittances to Region

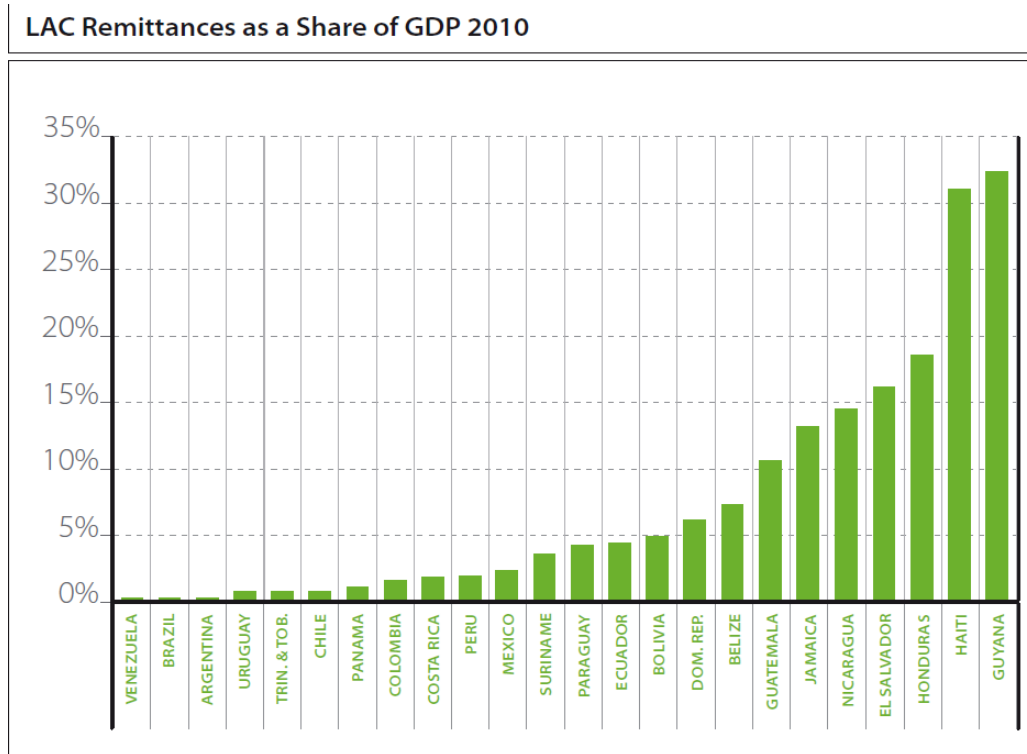
(in billions of US\$)



Source: MIF, 2011. "Remittances to Latin America and the Caribbean in 2010. Stabilization after the crisis"

## II. Importance of remittance impacts varied within Latin America

... larger GDP impacts in Central Am./Caribbean



Source: MIF, 2011. "Remittances to Latin America and the Caribbean in 2010. Stabilization after the crisis"



# III. Labor Market Policies in Crisis Times

- **Three fundamental approaches:**
  1. Expansion or refocused eligibility of existing labor and social programs;
  2. Temporary cutbacks or expansions of labor benefits;
  3. Crisis-specific programs

# III. Labor Market Policies in Crisis Times

- **Factors at Play at National Level:**

1. Great fiscal constraints – more expenditure switching than stimulus options;
  - Brazil – exceptional - fiscal stimulus infrastructure program (Growth Acceleration Program)
2. Middle income countries had a stronger (relatively) institutional base to launch modifications of existing labor market programs;
3. Very different subregional impacts motivated different scale of responses

# III. Labor Market Policies in Crisis Times: Policy Types

- **Immediate actions** affecting employment, wages, and labor costs
  - On the job training
  - Temporary employment
  - Wage and training subsidies
  - Short-term benefit changes
  
- **Systematic actions** affecting benefit programs and medium-term policies
  - Unemployment insurance
  - Comprehensive in-firm training/TA
  - Pensions/social security

### III. Labor Market Policy Types: OJT

- **On-the-Job Training** -- both for employment retention and for unemployed
  - Strongest record for work retention and post-crisis employment for the unemployed
  - Examples: Puebla, Mexico – Volkswagon – 1994 crisis,
  - Out of crisis, Mexico's *Becate* – *Mixta*

*Note: classroom-based models generally poorer labor insertion results; youth training models (mix of classroom + in-firm practicum) labor insertion rates poorer high unemployment times*

# III Labor Market Policies Types: Temporary Employment

- **Short-term employment (1-3 months), typically minimum wage, applicable to mass layoffs**
- **Regional examples: *Plane*, Bolivia; *PET*, Chile; *Jefes y Jefas*, Argentina**
- **Key lessons from past research**
  - Set wage below minimum to insure only the poorest apply
  - Dismantle after crisis, apply at height of crisis
  - Target efforts to regions where largest pool of unemployed
  - Seek to keep admin. costs low (10% or less)
- **LAC – yet to apply lessons for temporary employment**
  - Temporary employment programs slow to implement, often miss height of crisis
  - Proven difficult to dismantle in LAC
  - Poor post-crisis record, poor labor market impacts

### III. Wage Subsidies + S-T Training, Benefit Changes – Worker Retention or Income Protection

- **Countries with larger employment impacts experimented with adapted programs of wage subsidies some with training, UI extensions or reduced soc. security contributions targeted to retaining workers in place:**
  - Mexico: Support to Employment Preservation (47,500 workers)
  - Chile: Contingency Fund for Direct/Indirect Employment when unemployment exceeds 10%
  - Argentina, Uruguay: reducing workday with partial compensation
  - Uruguay: could temporarily suspend workers, use UI, rehire after up to 6 months
  - Mexico: Support to Services Sector Workers (58,681 workers), for tourism workers affected by H1N1 – 1-2 months of minimum salaries, evolved into a more flexible program for states to react to contingency situations

# III. Labor Market Policy Types: Systematic Actions

- Crises have motivated some systematic interventions, enacting, reforming or building up LM or pension systems:
  - **Restructuring or Reform Benefit Systems**
    - Bahamas – creation of UI system in reform of severance pay
    - Uruguay, Chile, Brazil – implemented previously debated UI benefit changes once crisis upon them
  - **Building Employment Service Capacity**
    - Mexico – major expansion of National Employment Service (SNE) to deliver crisis-level of ALMPs vs.
    - Brazil – did not expand, build such services

*Potential application for productivity-focus:*

- **Firm-based HR/Training Programs**
- **Technical and Vocational Education (e.g. youth)**

## IV: Looking Forward

- **Knowledge base for effectiveness and utility of crisis-driven interventions in LAC limited**
- Even when we have evidence-based recommendations, the crisis moment often drives quick design with poor administrative controls
- Need for more systematic evaluations to improve the timing and nature of the instruments, establish more systematic “menu” of options with tradeoffs
- **Institutions: LAC crises have demonstrated both:**
  - **Ability** of crises to aid labor market policy institution building
  - Importance of institutional capacity in responding flexibly and **quickly** to employment crises
  - Disadvantage and inequalities created among region’s unemployed as lower-income, lower capacity countries have less capacity to respond to crises and fewer national instruments development



## IV: Looking Forward

- **Labor Market Policy**: recent experience has called attention to the importance of advancing in:
  - **Automatic stabilizers** – be it UI, UI insurance, off-the-shelf targeted temporary employment, or wage subsidies – that enable Latin America and the Caribbean to more efficiently and effectively protect against sudden shocks.
  - **Productivity-enhancing active labor market policies (e.g. training, employment services)**
  - **Improved frequency of labor force surveys/information systems** – only 4 countries currently have quarterly labor market surveys which dramatically limited knowledge of LM developments, ability to target interventions. More periodic surveys would be key input to better labor market observatories in the region and ability to **target to disadvantaged workers**.



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