

The role of trade openness and labour market institutions during global economic downturns

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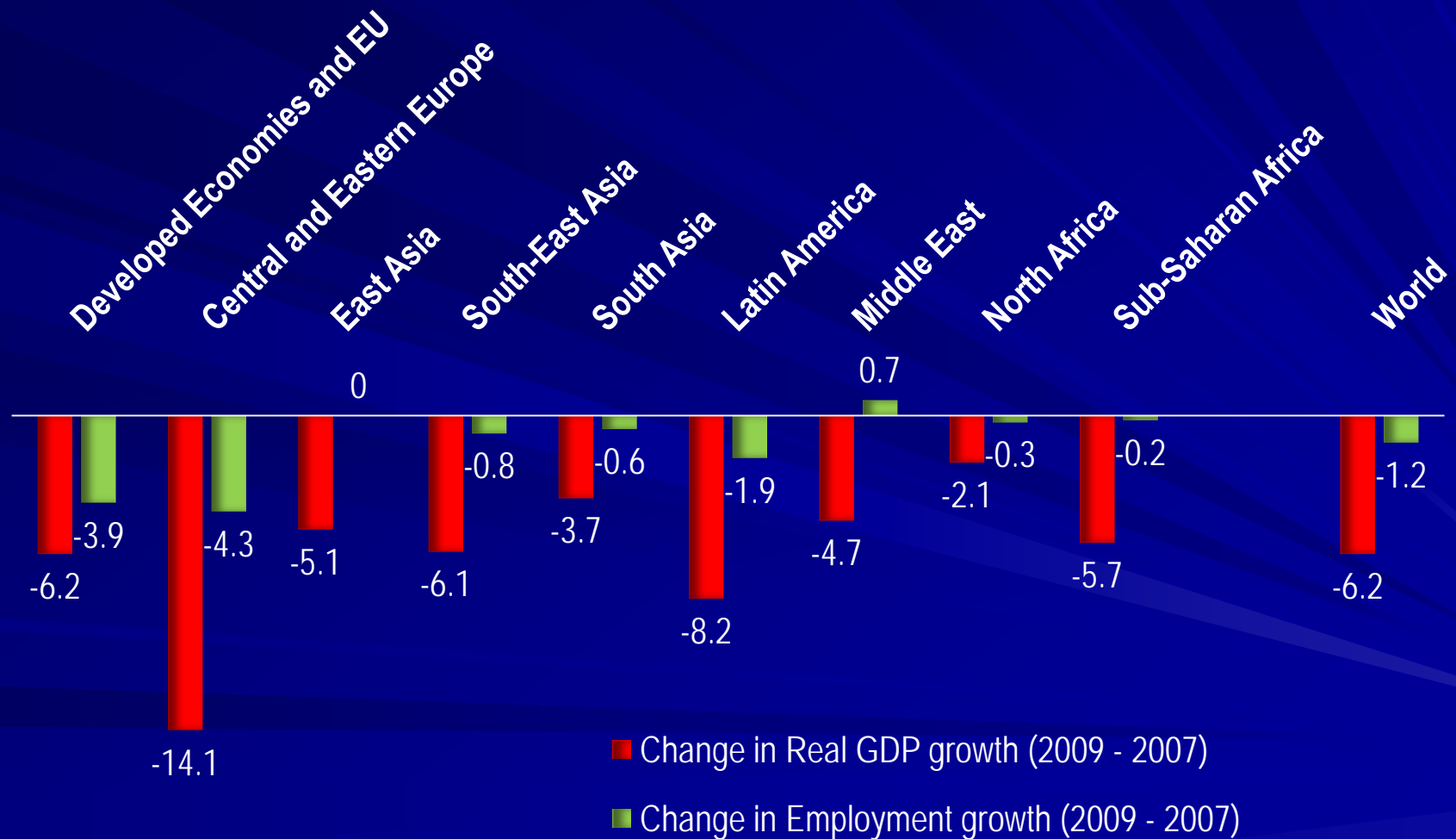
Sebastian Weber
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presentation for the joint ILO GTFA conference on
Globalization and Employment: Global Shocks, Structural Change and Policy
Response

Based on the forthcoming paper “Trade openness and labour market
institutions during global economic downturns”

Geneva, June 21, 2010

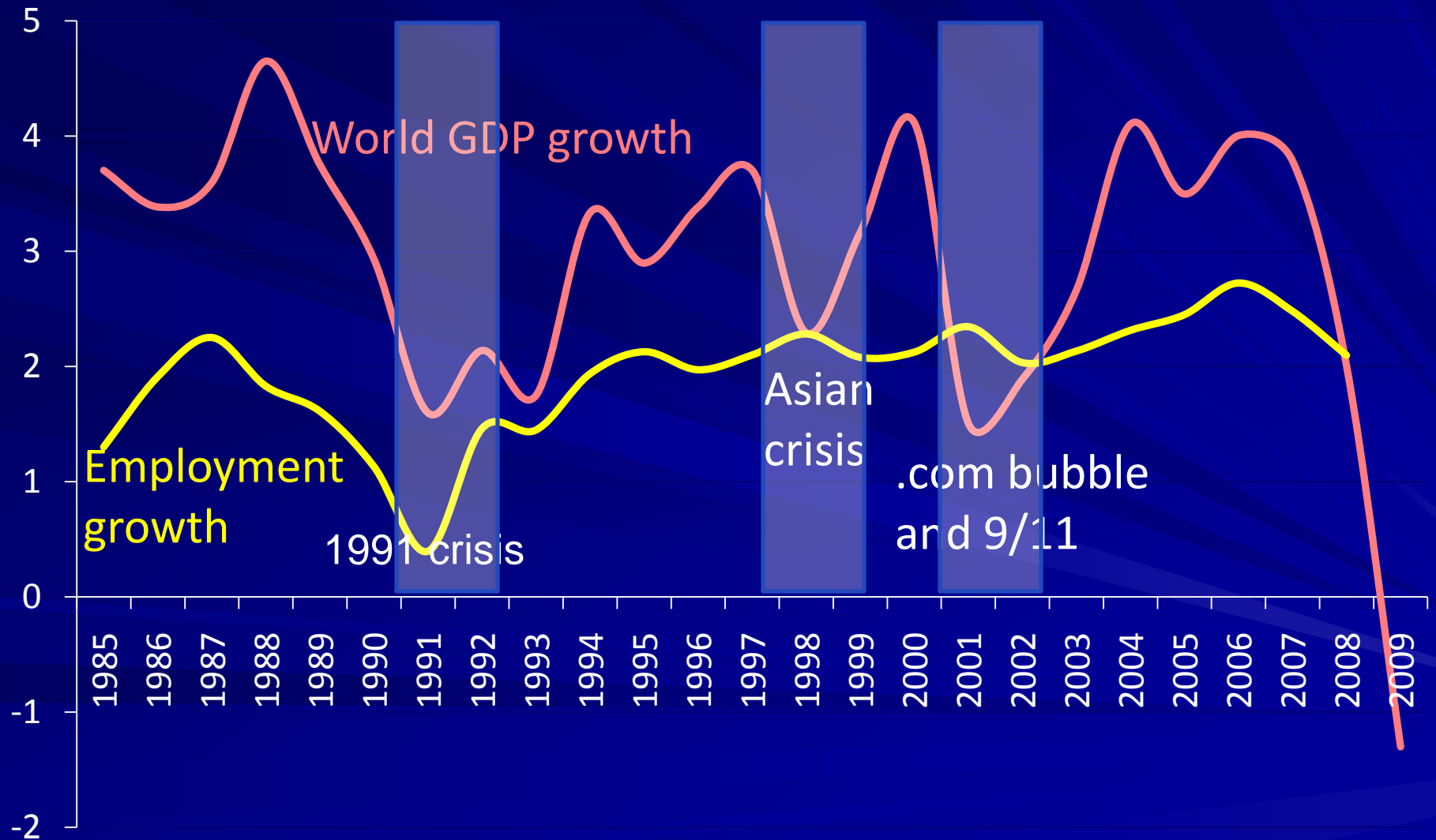
The crisis has led to declines in GDP and employment growth around the world:



This raises some obvious questions...

- How long will it take for employment growth to recover?
- Will there be “catch-up” growth in employment, or will employment remain below its pre-crisis trend?
- What role can policy play to mitigate the employment effect and promote recovery?

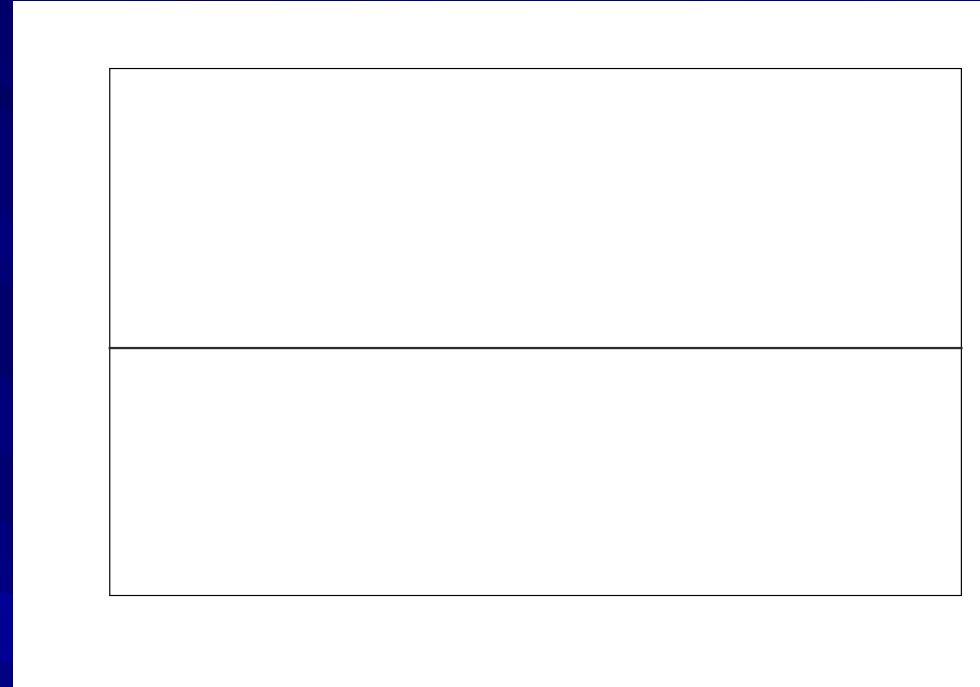
Past global downturns



The impact of crises on employment

- Alternatively: Laeven and Valencia (2008) dataset on domestic debt and banking crisis (country specific)
- Employment growth from 1985 to 2008 from ILO Laborsta and KILM (excluding TREND estimations)
- Sample of 42 countries with at least 10 years of data: 20 industrialized and 22 developing countries
- Data on severance pay in monthly salaries after 9 months, 4 years, 20 years of employment from IMF / Fondazione Debenedetti
- Data on share of previous wage replaced by unemployment benefits 1 year after job loss from IMF / Fondazione Debenedetti
- Trade openness from WDI

Some Stylized Facts



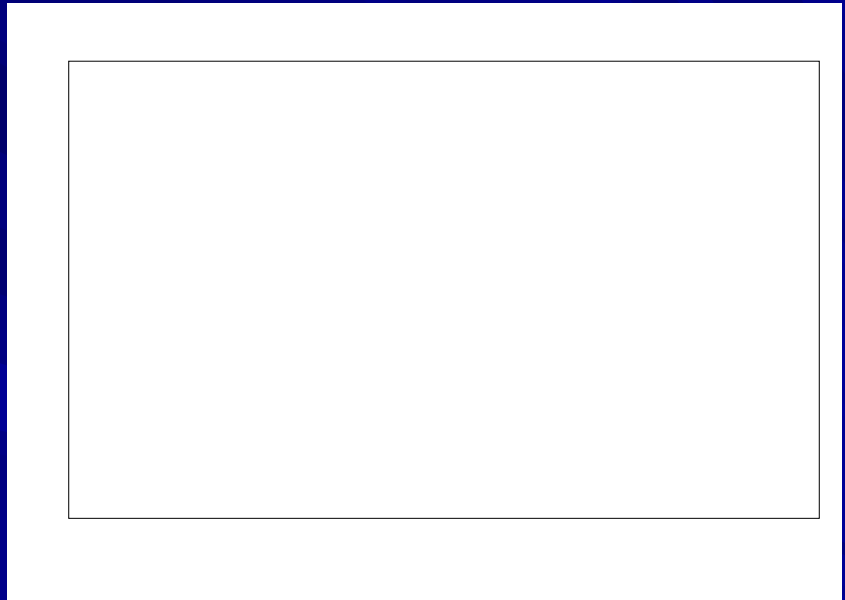
1. No recovery before 2 years
2. Little evidence of catch up
3. Stronger decline under domestic crisis ($\sim -2\%$) than imported crises ($\sim -1\%$)

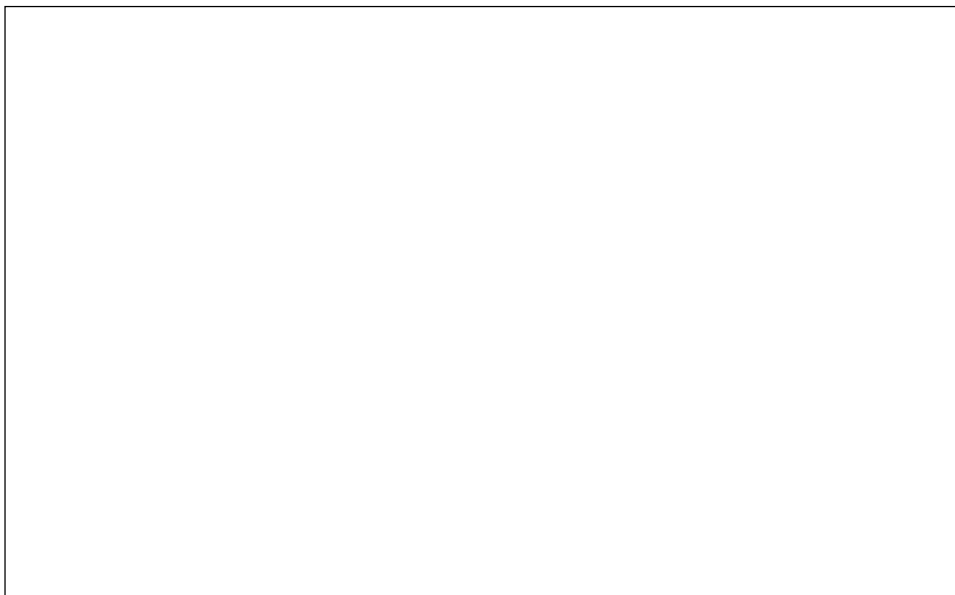
The Model and the limitations

- Model captures the impact of crisis and policy variables in the first 3 years after the crisis start Not an analysis on the LR employment growth but a short run view
- It is an asymmetric analysis: we only look at a negative shock
- It does not say how long it would take for recovery to happen (either it takes place in the first 3 years or we can see it)
- We cannot investigate all dimensions of the employment legislation protection nor the impact on wages and working hours
- Why? DATA restriction



....And very generous unemployment benefits are associated with stronger reductions in employment growth...





Conclusions

1. Domestic crises cost more in employment growth terms than imported crisis
2. Higher firing costs dampened the effects of the crises on employment growth. Countries with extremely generous unemployment benefits experienced a deeper negative impact on employment growth
3. Deeper integration in the economy lead to a deeper and faster slowdown of employment growth, particularly during domestic crises, but also to a faster and sharper recovery
4. Data limitation prevent more accurate analysis: What was the effect of other labor market policies? What happened to informal employment? How did wages react?

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