What was the LM situation prior to the GR?

- Rather favourable labour market conditions prior to the Great Recession (Q4, 2007)...
  - The OECD-average unemployment rate stood at 5.7%
  - 2/3 of the WAP was employed, the highest level reached in the post-war period
  - The youth unemployment rate was 12.6%

- ...but a number of structural issues were also clearly present
  - Despite low or declining URs, the share of LTU remained high in some (EU) countries
  - Female participation was on the rise, but still low in a number of countries
  - Significant dualism in the labour market, with growing shares of those in atypical labour contracts
  - Share of youth neither in employment nor in education or training was sizeable (10.8% on average)
  - ¾ of the OECD countries recorded increases in income inequality, largely driven by widening wage dispersion
…and then the crisis hit

- **Rapid rise in unemployment in many OECD countries**
  - Wide cross-country differences in labour market adjustment during the recession and early phase of the recovery
  - Adjustment on the extensive margin (employment) but also on the intensive (hours) in a number of countries

- **Limited impact of the (weak) recovery on job creation**
  - The OECD unemployment rate is still close to the historical peak (8.2% in August)

- **Serious risk of unemployment becoming entrenched**
  - The share of long-term (LT) unemployment is increasing rapidly, and some of the LT unemployed are at risk of dropping out of the labour market

- **With a faltering recovery, policy choices become very difficult**
  - How to tackle budget deficits while, at the same time, sustain the recovery and provide adequate support to the many unemployed?

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**Different patterns of LM adjustment in the downturn and early phase of the recovery**

<table>
<thead>
<tr>
<th>Country</th>
<th>2008-09 recession</th>
<th>Early recovery</th>
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<tbody>
<tr>
<td>Inland</td>
<td>Real GDP</td>
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<td>Japan</td>
<td>Real GDP</td>
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<td>Italy</td>
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</tbody>
</table>

Countries ordered from left to right in terms of drops in GDP during the “Great recession”
Different patterns of LM adjustment in the downturn and early phase of the recovery

2008-09 recession

Early recovery

Countries ordered from left to right in terms of drops in GDP during the “Great recession”

Unemployment impact differed across countries

Unemployment rates from 2007 Q4 to 2011 Q2

* The results for Japan excludes three prefectures (Iwate, Miyagi and Fukushima) struck by the Great East Japan Earthquake, where the survey operation is suspended since March 2011.

Countries ordered from left to right in terms of lowest to highest UNR at its peak.
Unemployment and under-employment

Alternative measures of labour market slack, 2007 Q4-2010 Q4

- UR1: ILO unemployment rate
- UR2: UR1 + persons marginally attached to the labour force
- UR3: UR2 + underemployed workers

Job losses among different groups in selected countries
Percentage change in employment, 2008 Q2 to 2011 Q2

Europe Union

United States

Germany

France
Youth have been hit especially hard

Youth (age group 15/16-24) unemployment rates

Percentage of the youth labour force, 2007 Q4 - 2011 Q2

Countries ordered from left to right in terms of lowest to highest YUR in 2011 Q2

Growing incidence of long-term unemployment

Persons unemployed 12 months and over as percentage of total unemployment, 2008 Q2-2011 Q2

Countries ordered from left to right in terms of lowest to highest incidence of LTU in 2011 Q2.

Footnotes:

1) 2011 Q3 for Canada and the United States.

2) The results for Japan exclude three prefectures (Iwate, Miyagi and Fukushima) struck by the Great East Japan Earthquake, where the survey operation is suspended since March 2011.
Key policy challenges

- Short-term labour market challenges vary a lot across countries:
  - Promote job creation when pressure to cut large budget deficits is high and growing
  - Provide an adequate safety net to the unemployed, including the many LTU
  - Adapt active labour market programmes
  - Maintain an effective labour supply

Spending on labour market programmes varies a lot across countries

Harmonised unemployment rates and labour market programme spending as a percentage of GDP, 2007-2009

Countries are shown in ascending order of the unemployment rate in 2009.
Source: OECD calculations based on the OECD Main Economic Indicators and OECD Labour Market Programmes Databases.
Greater resources for labour market policy, 2009 to 2011

Percentage of responses

Anticipated change in 2010 relative to 2009

Anticipated change in 2011 relative to 2010

Providing adequate safety nets while minimising benefit dependency

- Due to the decline in vacancies the average duration unemployment spells increases

- May provide rationale for **temporarily extending the maximum duration** of UBs in countries where this is short
  - To respond to the change in needs and strengthen automatic stabilisers
  - However, this could also encourage recipients to lengthen their job search if not accompanied with investments in activation

- Should the maximum benefit duration respond **automatically** to changing labour market conditions?
  - This is the case in Canada (EI responds to changes in local LMs), the US (under extended benefits, some states can automatically UI duration)
  - Automatic adjustments provide more timely response and are less vulnerable to political capture, but also involve element of rigidity
Change in UB recipients compared with the change in unemployment

Increased receipt of all types of unemployment benefits* as a percentage of the increase in the number of unemployed persons

*Unemployment benefit recipients is the sum of recipients of unemployment insurance, extended unemployment benefits and unemployment assistance (UA), but excludes social assistance or workers in receipt of partial unemployment benefits for reduced working time.

Incentives to re-enter employment: the transition from unemployment benefits to work, 2009

Average effective tax rate (AETR) and replacement rate for an average-wage (AW) worker*

* Replacement rate
△ AETR when re-employed at two-thirds of previous earnings

● AETR when re-employed at the same as previous earnings
How to adjust activation during the jobs crisis?

- The **persistent jobs crisis** presents important threats to activation strategy
  - Risk for reduced intensity of interventions in the unemployment spell
  - Vacancy flows decline, resulting in a lower number of direct referrals

- To prevent job losers from becoming disconnected from the labour market **more resources** are needed
  - Important to maintain core elements of activation regimes (e.g. JSA) and mutual obligation principle
  - For the LTU, re-employment services need to be adapted to specific conditions of slack LM

- How can **activation** be **scaled up** quickly and effectively?
  - Raises similar issues as UB extensions on the use of automatic rules (DNK, CHE, AUS)
  - But also question about administrative capacity to scale up LM programmes much more (private providers).

Ensuring that S-T measures to support labour demand are well targeted and temporary

- Many countries have introduced **measures to support labour demand**:
  - Subsidies for the reduction in working time (e.g., 22 OECD countries);
  - Reductions in non-wage labour costs (e.g., 16 OECD countries);
  - Hiring subsidies and work experience, generally targeted at disadvantaged groups (e.g. 15 OECD countries).

- **Time to switch from job preservation to job creation measures**
  - By protecting job matches, STWs have reduced socially and economically inefficient job losses ...
  - ...but risk increasing dualism (U highly concentrated on already disadvantaged groups and new entrants)...
  - ....and slow-down efficiency-enhancing labour reallocation
  - Hiring subsidies may help promoting employment for disadvantaged groups, but have to be well targeted and with strict conditions for employers.
Concluding remarks

- OECD countries are facing a **deep jobs crisis**, but the nature of the crisis and policy challenges vary significantly across the board.

- **Unemployment and under-employment remain high in the recovery** and the short-term outlook is rather grim.
  - This poses severe challenges for labour market and social policies at the time when the fiscal space is limited.

- The implementation of **activation strategies** prior to the crisis has helped handling the rapid rise in unemployment...

- ...but addressing the challenges of the jobs crisis raises a number of issues:
  - **Administrative capacity** to scale up LM programmes and possible role of private providers
  - **How to reach out those who are not (no longer) eligible for first-tier income support schemes**
  - The severe economic downturn could be an opportunity to invest on labour market institutions.
Thank you

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