

**OECD Labour and Employment
Ministerial Meeting**

Tackling the Jobs Crisis

**The Labour Market
and Social Policy Response**



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TACKLING THE JOBS CRISIS The Labour Market and Social Policy Response

Paris, 28-29 September 2009

Issues for Discussion



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ISSUES FOR DISCUSSION

The world economy has been experiencing a severe financial and economic crisis over the past year, which quickly translated into large job losses and steep increases in unemployment in many countries. Most governments have introduced wide-ranging measures aimed at restoring confidence in markets and cushioning the impact of the crisis on activity and employment. As a result, there are growing signs that a recovery may be in sight, even if it is likely to be modest for some time to come and unemployment is likely to continue rising into 2010. Moreover, the experience of previous economic downturns suggests that it could take a number of years to reabsorb a large increase in unemployment, even when the recovery gains momentum. High and potentially persistent unemployment poses daunting challenges for employment and social policies.

The first challenge is to provide adequate safety nets for a rapidly growing number of unemployed. Pressure is also mounting to provide effective employment services to a rapidly rising pool of jobseekers and ensure that the most vulnerable of them do not lose contact with the labour market and drift into inactivity. Many countries can count on good progress made over the past decade to implement successful activation/mutual-obligation strategies. The second challenge is to adapt such strategies when job vacancies are greatly reduced and many more jobseekers have to compete for them.

One group that is particularly vulnerable during downturns is the youth, and the current recession is no exception. A third challenge is to ensure that both new entrants and youth who already encountered difficulties in getting a job remain connected to the labour market to avoid long-lasting effects on them. Finally, it would be important to build on recent efforts to promote integration in the labour market of older workers and individuals with health problems by targeting active labour market programmes on these groups with the aim of helping them stay in contact with the labour market.

Ministers are invited to discuss these issues under three interrelated themes, namely: *i)* The jobs crisis: the labour market and social policy response; *ii)* Maintaining the activation stance during the crisis; and *iii)* Helping youth to get a firm foothold in the labour market. The **Working Lunch** will allow ministers to look beyond the crisis and discuss the job potentials of a shift towards a low-carbon economy. Finally, the role of labour market and social policies in the broader context of the policy response to the crisis will be debated at the **Policy Forum** which precedes the ministerial meeting and will gather ministers, social partners, academics and other representatives of the civil society. Each theme of the ministerial meeting is supported by a background document.¹ This note suggests some questions to help guide the discussion among ministers.

1. See DELSA/ELSA/MIN(2009)3, DELSA/ELSA/MIN(2009)4 and DELSA/ELSA/MIN/(2009)5. The 2009 edition of the *OECD Employment Outlook* provides further analytical background to the discussion at the ministerial meeting.

POLICY FORUM

How can labour market and social policies best help workers weather the storm of the crisis?

In response to the worst economic crisis in 50 years, most OECD and other countries around the world have introduced unprecedented policy measures to support the financial system and stimulate aggregate demand. These measures are directly and indirectly helping to protect existing jobs and promote job creation in expanding activities. But unemployment is rising rapidly and there is an urgent need to assist the many job losers who need income support as well as help to regain employment.

It is not the first time employment and social policies have faced a severe test, and in many countries previous economic downturns have provided important insights on what works and what does not. But the current crisis poses new difficult challenges to labour market and social programmes. In particular, unemployment has been increasing very rapidly in many countries and the latest OECD short-term projections indicate further increases over the next year. Historical experience also suggests that unemployment will only decline gradually once the economic recovery gets underway and that there is a real risk that, without major efforts to mobilise quickly the unemployed back to work, the temporary increase in joblessness becomes more persistent.

The recovery packages include additional resources for labour market and social policy measures to cushion the social impact of the economic downturn. The size of these additional funds varies significantly across countries, depending *inter alia* on the depth of the jobs crisis, the resources already available and the severity of fiscal constraints. But when they are compared with the pace and magnitude of the increase in unemployment, additional funds targeted to labour market programmes tend to be rather limited in many OECD countries.

While some countries have scaled up resources for the public employment services, it is often difficult to match the rise in jobseekers with effective public employment services, not least because it takes time to recruit and train good case managers. In these circumstances, effective co-operation between public and private employment agencies may help provide a more effective support to the jobseekers. In those countries where the coverage and, in some cases, the duration of unemployment benefits was judged to be inadequate, some effort has been made to reinforce the safety net for job losers. To be effective, these measures have to be accompanied by efforts to enforce job-search requirements and avoid the risk of benefit dependence. Several countries have also introduced or expanded policies that are less conventional, or that were used in the past but have recently somewhat fallen out of favour, such as sizeable measures to support labour demand (e.g. short-time working subsidies, and generalized reductions in social security contributions), or even public work schemes as a temporary backstop for the most hard-to-place jobseekers.

The experience of the past decades also suggests that in a number of OECD countries a constructive dialogue between the government and the social partners was instrumental to promote major labour market reforms and secure good labour market outcomes. Such a dialogue may be under some stress during the crisis: the unemployment pressure is rising rapidly and governments have to act swiftly and make hard choices. But a continued dialogue, when consistent with national practice, may help identify the most suitable policy package and ensure that key stakeholders are, to the extent possible, involved in its implementation.

Questions

- *Is the standard employment policy toolkit – with its emphasis on unemployment benefits coupled with a “jobs-first” approach to activating the unemployed – adequate to respond to the crisis? Do these measures need to be reinforced or complemented by other, potentially less conventional measures (e.g. public works schemes and/or labour demand measures)?*
- *What should be done to minimize the risk that the current steep rise in unemployment will become persistent into the recovery and beyond?*
- *How can dialogue with the social partners and other stakeholders facilitate the design and implementation of the most suitable labour market and social policy package to help workers weather the storm of the crisis?*

Theme 1: The Jobs Crisis: the Labour Market and Social Policy Response

With the unfolding financial and economic crisis, labour market conditions have deteriorated rapidly in a growing number of OECD and non-OECD countries. Since December 2007, about 15 million workers have joined the ranks of the unemployed in the OECD area (Figure 1) as companies cut production, closed factories and dismissed thousands of workers [see also DELSA/ELSA/MIN(2009)5]. As in previous severe economic downturns, already disadvantaged groups in the labour market – youth, low-skilled, immigrants, ethnic minorities and, among them, those on temporary or atypical jobs – are bearing most of the brunt of the job losses.

Recent economic indicators provide some comfort to the idea that the worst may be over and a recovery may be in sight. If this comes to pass, it would be very good news. Nonetheless, numerous headwinds imply that the pace of the recovery is likely to be modest for some time to come. Moreover, previous experience of significant economic downturns suggests that job creation is likely to lag behind the pickup in output. As a result, the OECD unemployment rate is likely to continue rising into 2010. It could even approach 10% (or 57 million unemployed) if the recovery fails to gain momentum. Previous economic downturns indicate that it could take a long time to unwind this rapid surge in unemployment (Figure 2).

Most governments have responded to the crisis with vigorous macroeconomic measures including sometimes very large stimulus packages intended to supplement automatic stabilisers.² Greater resources are also available for labour market and social policies to cushion the negative effects of the crisis on workers and low-income households.

A number of OECD countries have introduced or scaled-up subsidies that encourage firms to retain or hire workers (*e.g.* short-time working schemes, hiring subsidies, reduction in social security contributions, etc.). These subsidies are playing a positive role in the short-run in preventing job losses and encouraging new hires. However, past experience suggests that if kept in place for too long, the effectiveness of these schemes to protect jobs will diminish and they more likely become an obstacle to recovery by putting a break on the reallocation of workers from contracting to expanding firms.

Governments have also been confronted with the urgent need to provide effective income support to workers losing their job during the economic downturn. While unemployment benefits have automatically stepped in to sustain the incomes of many job losers, coverage of such benefits is weak in some OECD countries, especially in those where part-time, temporary and other “non-standard” workers account for a significant share of the workforce. Such workers have often been the first to be laid off and have weaker benefit entitlements. In a number of countries, efforts have been made to extend the coverage and, in some cases, the maximum duration of benefits to provide a more effective safety net. However, such measures should be carefully designed so as to minimize adverse effects on work incentives which could lead to higher structural unemployment as the economic recovery gets underway.

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2. The countries which have enacted the largest discretionary fiscal stimulus packages also tend to be characterised by relatively weak automatic stabilisers, suggesting that these two forms of fiscal stimulus are to a considerable extent substitutes. Automatic stabilisers tend to be strongest in northern European and other countries where public social spending, particularly on unemployment and other social protection benefits, is relatively generous and tax revenue more cyclical.

Resources for active labour market programmes (ALMP) – such as job counselling, training and employment incentives – aimed at helping jobseekers find work have also increased in many countries. This is an important departure from the experience of many countries in past downturns, when available resources for active programmes did not increase much. Nonetheless, it appears that spending in many countries is rather modest when compared with the magnitude and pace of the increase in unemployment in the current crisis, and governments are facing difficult choices concerning how best to respond to the different demands coming from the labour market.

More generally, the current economic downturn and its effects on the labour market are raising new questions as to the overall stance of labour market policies and its coordination with macroeconomic and structural policies in other markets, as identified in the OECD *Reassessed Jobs Strategy* (2006). Among the four main pillars of the *Jobs Strategy*,³ the role that counter-cyclical macroeconomic policy can play to help offset the impact of adverse demand shocks on employment should probably receive greater attention. Likewise, there may also be a need to review some of the *Jobs Strategy* guidelines for structural policies. For example, while it is undeniable that efforts to reforms in labour and product markets have contributed to the decline in unemployment and greater job opportunities for certain under-represented groups, including women, youth and older workers, these reforms have often been associated with growing earnings inequality and widening disparities in working conditions, job security and career prospects among workers. The current crisis is exacerbating these disparities, as those on more precarious and low-paid jobs are often bearing the brunt of the rapidly rising unemployment.

Questions

- *Do ministers see a need to further scale up resources for labour market and social policies to provide more effective support to the rising number of unemployed and their families?*
- *What labour market measures are likely to be most effective in the present situation?*
- *How should the mix of temporary labour market and social measures introduced during the crisis be adjusted once the recovery gains momentum but unemployment is likely to remain high?*

3. The *Reassessed OECD Jobs Strategy* (2006) included four main pillars. All countries were encouraged to ensure that each of the four pillars was solid. However, within each pillar, there is scope for individual countries to use different policy combinations to achieve successful outcomes, taking into account policy interactions and country circumstances and objectives. The four pillars are: *a)* set appropriate macroeconomic policy; *b)* remove impediments to labour market participation as well as job-search; *c)* tackle labour- and product-market obstacles to labour demand; and *d)* facilitate the development of labour force skills and competencies.

WORKING LUNCH

Beyond the crisis: what is the jobs potential of shifting towards a low-carbon economy?

In many of the fiscal stimulus packages OECD countries have introduced to spur growth, there is a considerable investment in environmentally-related projects, including renewable energy production, upgrading public building stocks, expanding public transport systems, upgrading water supply and sanitation infrastructure. These initiatives will directly and indirectly contribute to job creation and, in some cases, the employment dimension of the projects is explicitly highlighted. For example, the Korean government hopes to create nearly one million jobs over the next four years in green technology and industry as a result of the “Green New Deal” economic stimulus package. The US *Recovery and Reinvestment Act* has a strong focus on renewable energy and energy-related programmes. It also provides specific grants for energy efficiency and renewable-energy worker training programmes. Taking a longer-term perspective, in Japan, employment in environmental industries is expected to double over the next 20 years, while the United Kingdom has also implemented a low-carbon industrial strategy, with the aim of increasing environmental-related jobs permanently.

New measures included in the stimulus packages, as well as longer-term strategies towards a low-carbon economy, will no doubt affect employment and labour market conditions significantly. In some cases, additional jobs will be created – as in the manufacturing of pollution-control devices added to existing production equipment. In others, some employment will be substituted – as in shifting from fossil fuels to renewables, while in other cases certain jobs will be eliminated in the longer-run without direct replacement. But many existing jobs will also be transformed and redefined as day-to-day skill sets, work methods and profiles will adjust to the needs of greener technologies. More generally, shifts towards a low-carbon economy may well require new skills and competences, as well as enhanced labour mobility across occupations and sectors, posing new demands to the education and training institutions as well as to labour market policies. Put differently, education and employment policy can play an important enabling role in fostering an ecologically-sustainable environment.

Questions

- *Which measures to support green growth are likely to have the greatest employment impact in the short and longer-term?*
- *Are there specific labour market policies – beyond those included in the Reassessed Jobs Strategy – that can best contribute to promote shifts towards a low-carbon economy?*

Theme 2: Maintaining the Activation Stance during the Crisis

One of the main labour policy reforms in the OECD countries over the past decade has been the implementation of activation/mutual-obligation strategies, where, in return for paying benefits and offering effective re-employment services, recipients are required to participate in active job search or training or employment programmes, enforced by the threat of benefit sanctions. Evidence shows that such strategies have been successful in moving people off benefit rolls and into work [see DELSA/ELSA/MIN(2009)4].

While some of these strategies were launched precisely to combat high and persistent unemployment, some of their recent successes in mobilising the unemployed took place in a context of relatively strong economic growth and buoyant labour demand. In such a situation, with a large number of job vacancies, an appropriate balance of job-search incentives combined with the threat of benefit sanctions may well have provided an ideal environment for promoting a quick reintegration of many benefit recipients into unsubsidised jobs. But the current labour market, with a rapidly growing number of jobseekers and abnormally low labour demand, is exposing activation strategies to a hard test. While many countries are upscaling active labour market programmes to provide support to the greater number of jobseekers, there is also a need to adjust activation procedures to ensure that different jobseekers receive the appropriate support.

The optimal configuration of activation policy during the economic downturn will depend on the specific labour market conditions in each country, as well as the underlying activation stance and administrative capacity to scale up activities (see Figure 3 for public spending on labour market programmes), but several common policy issues can be identified. Greater resources for publicly-provided or financed employment services are generally needed to provide adequate re-employment services to the rapidly growing number of jobseekers. And indeed, a number of countries have increased the staffing levels of Public Employment Services (PES), while in others increased reliance on private-sector employment agencies to provide re-employment services is helping to enhance the scalability and effectiveness of activation services.

The *mix* of services provided may also need adjustment to reflect changes in the relative effectiveness of different types of measures in the downturn. While it is essential to maintain core job-search assistance through the downturn, greater efforts may be needed to provide training opportunities for the most hard-to-place unemployed. Investing in human capital is likely to be particularly important at present, since the global economic crisis is accelerating structural changes and measures to foster skill formation and training can play an important role to ensure that workers are well-equipped with the appropriate skills for emerging jobs.

However, there are good reasons to be cautious about how rapidly the number of training slots can be increased without compromising quality. Effective training programmes require a curriculum that is responsive to local labour market needs and results in a certificate or qualification that employers value. Greater involvement of private-sector training providers is a possible way around possible capacity constraints. Likewise, increased reliance on public-sector job creation schemes targeted to the hardest-to-place jobseekers might also provide a useful, temporary backstop to activation regimes in a recession, particularly if it is deep and long. However, it would also be important to unwind these schemes quickly as the recovery sets in.

The current economic downturn and the associated efforts to help the many jobseekers could also be taken as an opportunity to invest in the development of a more

comprehensive and effective activation strategy that strengthens the links between benefit reciprocity, job search and participation in active programmes. Putting in place an effective activation strategy generally takes time, as it involves institutional changes associated with the operation of the PES, their relationships with national and local governments and the coordination with benefit providers or private employment services. But there is a strong case to sustain efforts towards an activation strategy now, so as to provide effective support to the many jobseekers during the recession. This would also minimise the risk that, as observed in previous severe downturns, the large increase in cyclical unemployment currently underway becomes structural due to the accumulation of a large pool of long-term unemployed and inactive, who remain disconnected from the labour market even after the economy enters a recovery path. In this context, a key policy challenge is to maintain recent efforts to activate some of the groups at high risk of moving into inactivity, including low-skilled older workers and individuals with health problems who can and want to work.

Questions

- *How can the core elements of the activation regime be maintained during the downturn?*
- *Should public-sector job creation schemes be used to provide a backstop to activation regimes for the most hard-to-place unemployed? If so, how can they be made more efficient?*
- *To what extent can private-sector agencies offer a useful complement to the work of the public employment services in providing effective training and re-employment services?*

Theme 3: Helping Youth to Get a Firm Foothold in the Labour Market

Even in good times, the youth unemployment rate is two to three times that of adults in most OECD countries (Figure 4). And the current severe economic downturn is exacerbating the problems of labour market integration of a growing number of youth. The transition from school to work is becoming particularly difficult for the new generation of entrants in the labour market, as they have to compete with a growing number of jobseekers for fewer job vacancies, at least in the short-run. But even for those youth already in the labour market but holding temporary jobs, the short-term outlook is grim: they tend to be the first to lose their job and may find it particularly difficult to get another one. Even more importantly, low-skilled youth who, even before the crisis erupted, already experienced multiple barriers in fully integrating the labour market, are now at high risk of inactivity and potentially of exclusion [see DELSA/ELSA/MIN(2009)5].

A key policy challenge in the short-term is to ensure that youth remain connected to the labour market. In this context, it would be important to ensure that out-of-school youth who are encountering difficulty in the labour market can access appropriate active labour market policies (ALMPs). In many OECD countries, where access to ALMPs is limited to recipients of unemployment benefits, this is difficult for many unemployed youth who often do not qualify for these benefits. While several countries have extended the coverage of unemployment benefits to youth with limited contribution histories, providing access to appropriate job-search assistance, training and similar measures even to those who are not eligible would reduce the risk that they become isolated from the labour market. In this context, it would also be important to ensure that apprentices made redundant can complete their training.

The crisis can also be an opportunity to implement policies with short-term as well longer-term positive effects on the youth labour market. Most importantly, further efforts should be made in many countries to ensure that no youth enters the labour market without a recognised and valued qualification. Drop-outs also need special attention from the education authorities to ensure they remain engaged in, or re-connect with, education through the completion of an upper secondary diploma or its equivalent, preferably with an on-the-job training component. Combining work and study can facilitate labour-market entry and policies can play an important role in encouraging on-the-job internships in initial education and flexible working-time arrangements.

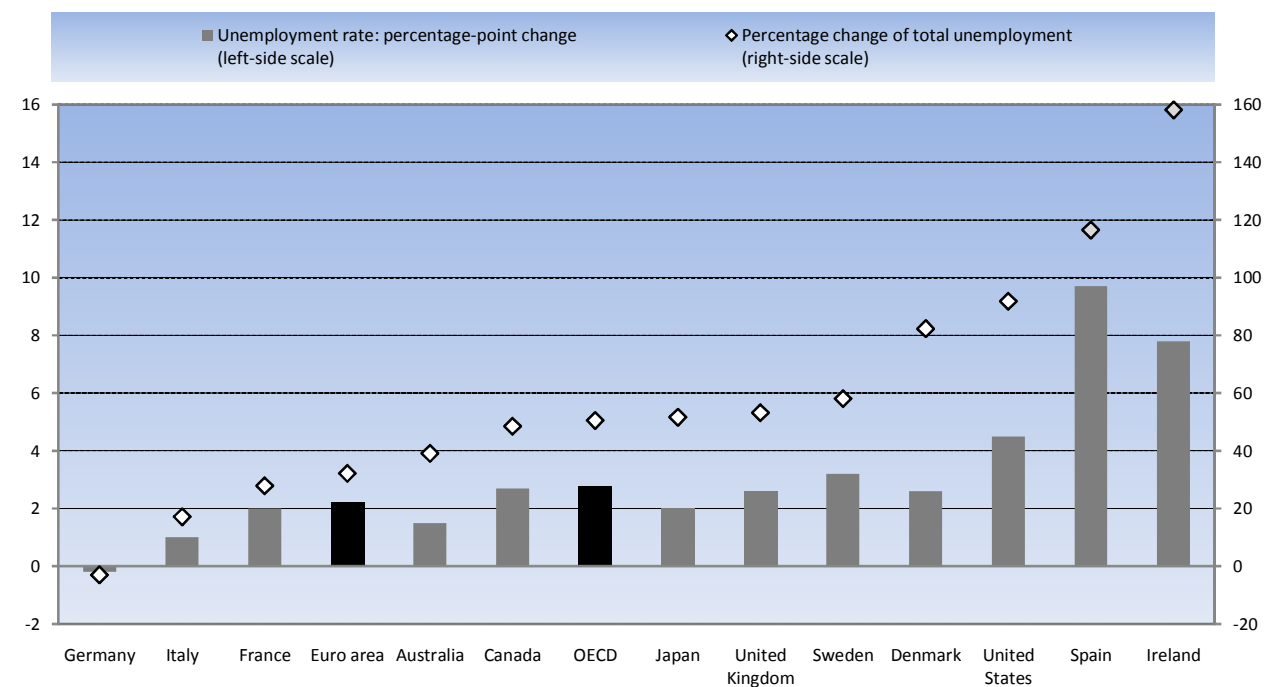
The economic downturn may also be an opportune time to reconsider some of the policy and institutional settings that, by reinforcing dualism in the labour market, tend to penalise youth. One challenge is that of reducing the cost of hiring low-skilled youth. Half the countries with a minimum wage have an age-related sub-minimum to facilitate access of low-skilled youth to employment. Others have reduced significantly the social security contributions paid by employers for low-paid workers, including youth. Another option adopted in several countries is to promote apprenticeship contracts for low-skilled youth, where a wage below the minimum wage is accompanied by a requirement on the employer to provide the worker with on-the-job training. Another challenge is to promote a smooth transition of youth from entry jobs with short duration to more stable and rewarding ones. This may imply tackling labour market duality perpetuated through strict regulations on regular contracts accompanied by less regulated temporary contracts that do not provide a stepping stone to more stable jobs to many youth.

Questions

- *Which labour market policies are most effective at reaching disadvantaged youth and helping them remain in contact with the labour market, particularly during the crisis?*
- *How to ensure that no youth enter the labour market without a recognised qualification?*
- *Should the crisis be an opportunity to reconsider specific labour market policies and institutional settings (e.g. high minimum wages, different treatment for permanent and temporary contracts) that can affect access to jobs and career progression for unskilled youth?*

Figure 1. **Many OECD countries have experienced a rapid surge in unemployment during the downturn**

Changes in monthly unemployment rates in some OECD countries, December 2007 - July 2009^{a,b,c}



	Australia	Canada	Denmark	France	Germany	Ireland	Italy	Japan	Spain	Sweden	United Kingdom	United States	Euro area	OECD
Change in unemployment Dec 2007 - Jul 2009 (in thousands)	187	517	79	620	-104	166	270	1 280	2 299	169	837	6 921	3 668	15 110

- a) Final month available is March 2009 for Italy and May 2009 for the United Kingdom.
- b) By August 2009, the unemployment rate increased in Canada by 2.8 percentage points and in the United States by 4.8 percentage points compared with December 2007. The number of unemployed persons increased by 539 000 (50.5% increase) in Canada and by 7 387 000 (98% increase) in the United States.
- c) The unemployment rate in Germany decreased until November 2008, which is why the values reported for this country are negative.

Source: OECD calculations based on the *OECD Main Economic Indicators*.

Figure 2. **Severe recessions generate sharp increases in unemployment which are long-lasting and often not reversed completely in recoveries**

Evolutions of monthly standardised unemployment rates^a in selected countries, January 1970-July 2009

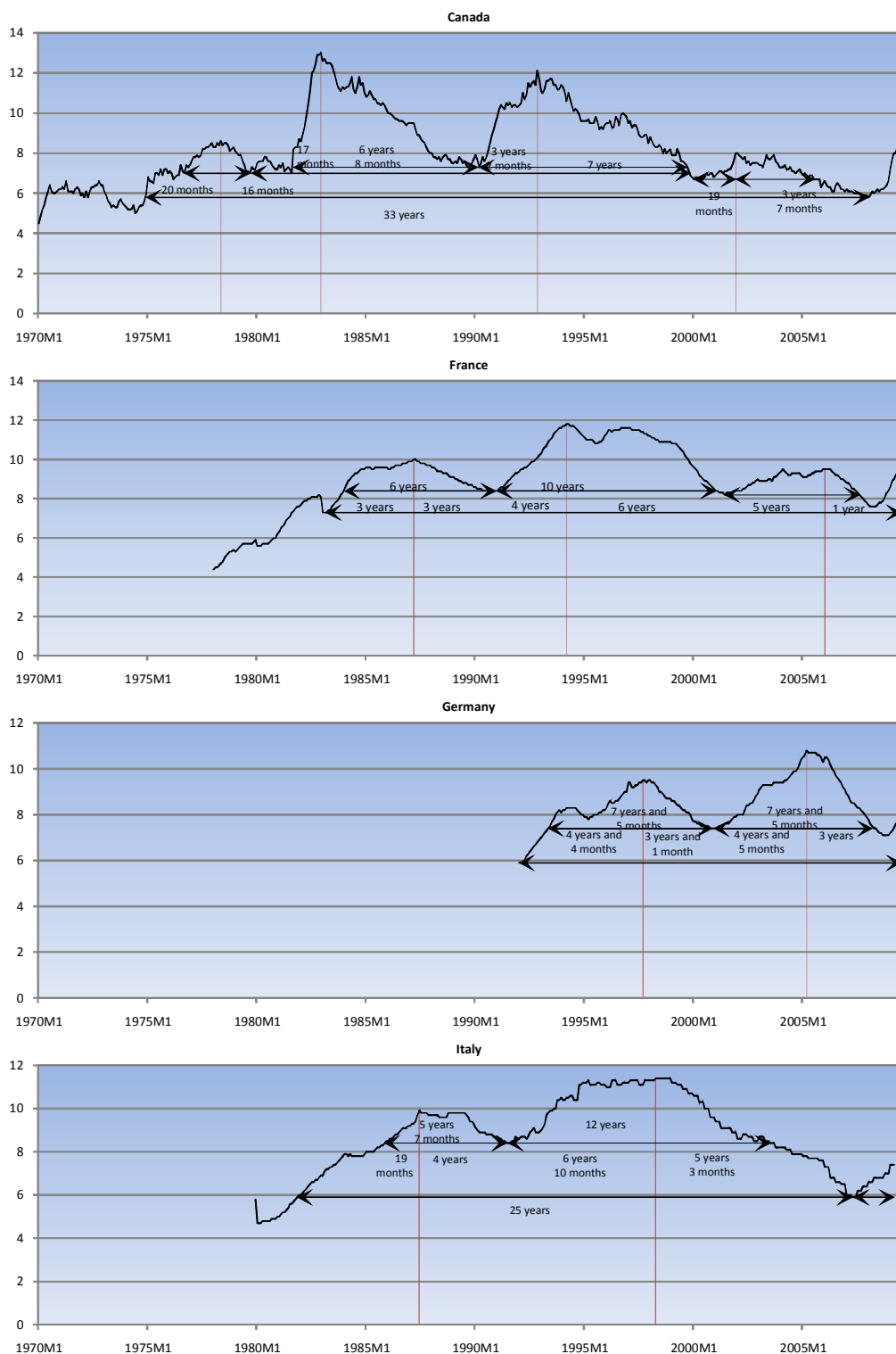
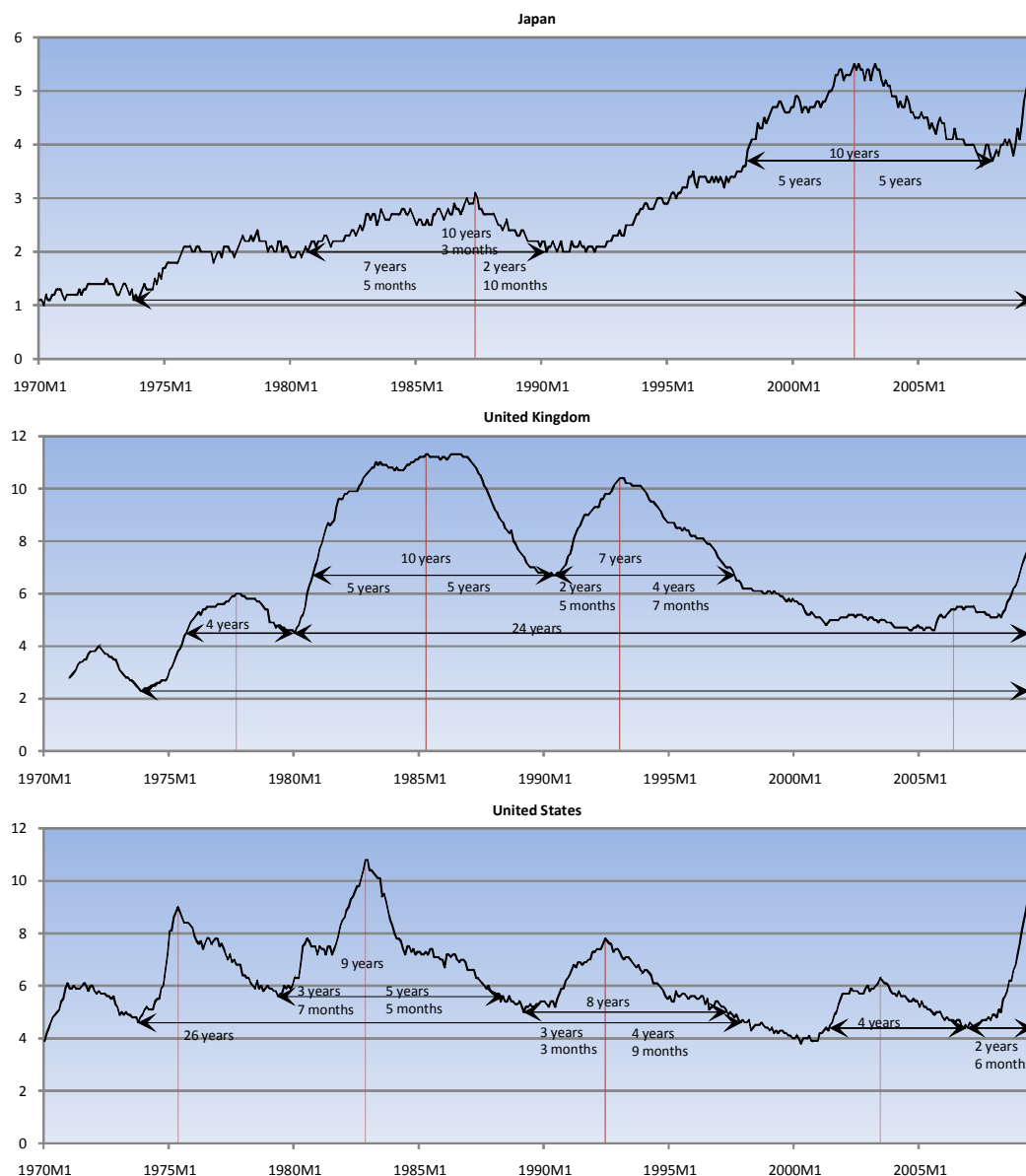


Figure 2. Severe recessions generate sharp increases in unemployment which are long-lasting and often not reversed completely in recoveries (*cont.*)

Evolutions of monthly standardised unemployment rates^a in selected countries, January 1970-July 2009

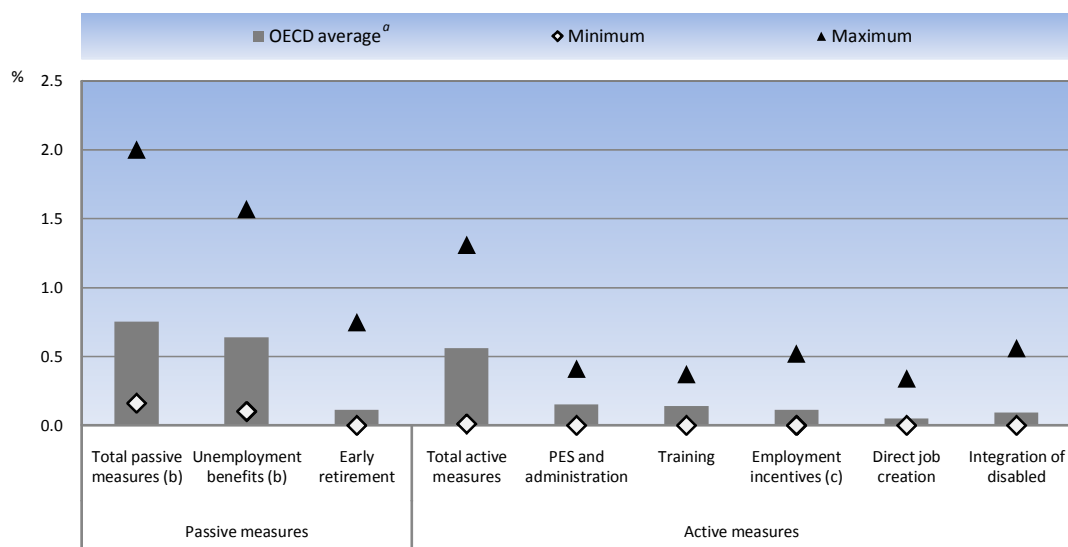


- a) Harmonised monthly unemployment rates as a percentage of the labour force. Peaks and troughs are identified as local minimum and maximum unemployment rates and the estimated periods of surge and decline in unemployment are derived from them.

Source: OECD Main Economic Indicators.

Figure 3. **Spending for passive and active labour market programmes varies significantly across OECD countries**

Annual spending as a percentage of GDP, 2007

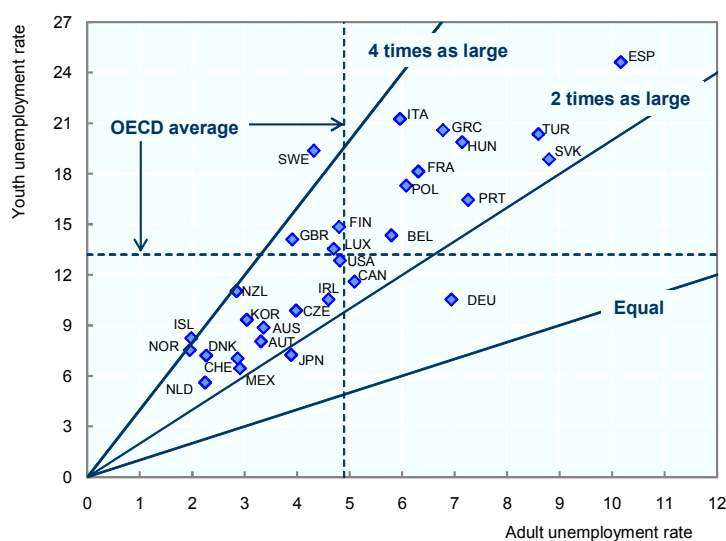


- a) Unweighted average for 28 OECD countries.
 b) Minimum value calculated excluding Mexico which does not have an unemployment benefits system.
 c) Sum of expenditures for employment incentives, job rotation and job sharing, and start-up incentives.

Source: OECD calculations based on OECD Labour Market Programme.

Figure 4. **Youth face a much higher risk of unemployment rates than adults, 2008**

As a percentage of the labour force



How to read the figure? All countries above the “equal” line have a higher youth unemployment rate than that of adults. For example in Sweden, youth have an unemployment rate that is more than four times that of adults, and most of the other OECD countries have a youth unemployment rate that is two to four times that of adults.

Source: National labour force surveys.

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