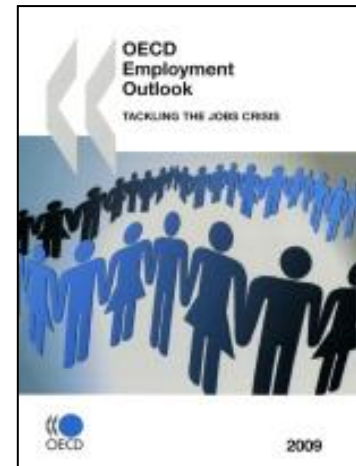


OECD Employment Outlook 2009: Tackling the Jobs Crisis

Summary in English



- OECD Employment Outlook is the OECD's annual report on the state of the labour markets and employment across the OECD area.
- The 2009 edition is largely devoted to the effects of the financial and economic crisis on the labour market.
- It reports the unemployment has increased in most OECD countries, often at an unprecedented pace, and further increases are projected in 2010.
- It reviews how labour market and social policies can best help workers and low-income households weather the storm of the crisis, while also helping the working poor and individuals with health problems keep a foothold in the labour market.

Preventing the jobs crisis from casting a long shadow

The financial and economic crisis quickly turned into a jobs crisis...

The global economy is in the midst of the worst financial and economic crisis of the past 50 years, with severe consequences for workers and their families. Since the second half of 2008, major declines in output have occurred in many OECD and non-OECD countries, leading to sharp falls in employment and steep hikes in unemployment. 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.

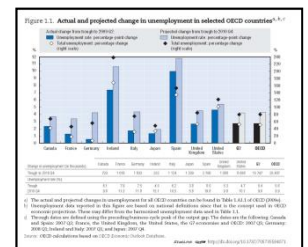
...and the short-term jobs outlook is grim

Significant uncertainties surround the short-term economic and labour market outlook. At the time of writing, there are growing signs that the worst may be over and that a recovery may be in sight. But the short-term employment outlook is grim. The latest OECD projections suggest that output growth will regain positive territory only in the first half of 2010 and that growth will be mild until late in the year. In any event, job creation will lag significantly behind any pickup in output. As a result, the OECD unemployment rate is projected to continue rising through 2010, approaching a new postwar high of 10% (57 million unemployed) in the second half of the year.

The cyclical jump in unemployment risks becoming long-lasting, with negative effects on the labour market and potential output

A major risk is that much of this large hike in unemployment becomes structural in nature as many of the unemployed drift into long-term unemployment or drop out of the labour force. This unwelcome phenomenon occurred in a number of OECD countries in past recessions, when unemployment remained at a new higher plateau compared with the pre-crisis level even after output returned to potential and it took many years, if ever, to bring it down again to the pre-crisis level. This persistence arises because the long-term unemployed become less attractive hires for employers as a result of declining human capital and diminished job-search activity.

Figure 1.1 Actual and projected change of unemployment in selected OECD countries



Governments have taken steps recently to tackle this risk of high and persistent unemployment

Labour market and social policies have a key role to play in preventing the risk that the sharp jump in unemployment becomes persistent by promoting a quick reintegration of jobseekers into employment and enhancing their skills to enable them to move into more productive jobs when the recovery gathers speed. Most of the fiscal stimulus packages introduced recently by OECD countries to support aggregate demand include *additional* labour market and social policy measures to cushion the negative effects of the crisis on workers and low-income households.

Safety nets are being reinforced...

The first line of defence is the social safety nets (unemployment benefits and social assistance) which provide an essential income support to job losers 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, some 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 lengthen the joblessness spell.

...as is spending on active labour market policies, but more should be done

At the same time, governments have also sought to scale up the resources for active labour market policies (ALMPs) aimed at helping job-seekers find work. However, when compared with the overall resources available in the fiscal stimulus packages and the magnitude and pace of the job losses in the current crisis, the increase in spending on ALMPs is rather modest in many countries. This looks like a missed opportunity. While calls for additional public spending on labour market policies have to bear in mind that public finances are facing growing constraints in many countries due to the actual and projected build-up in public debt, they can be justified on cost-effectiveness grounds. We now know a lot about what works and what does not in this area. In addition, this issue of the Outlook highlights some new OECD research showing how the composition of spending on ALMPs should vary with the cycle to maximise its effectiveness.

Figure 1.18 Discretionary spending on active labour market programmes

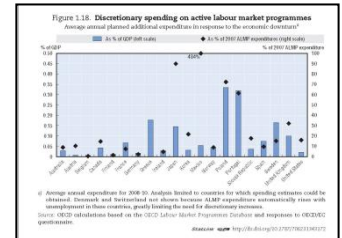
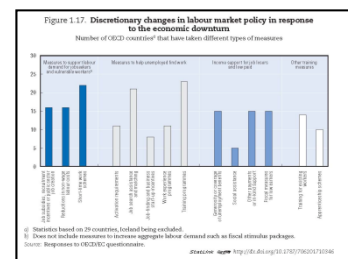


Table 1.6. Generosity of unemployment benefits

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Net replacement rates at different points in unemployment spell, 2007⁽¹⁾

Country	First	Second	Third	Fourth	Fifth	Sixth	Seventh	Eighth	Ninth	Tenth
Austria	80	75	70	65	60	55	50	45	40	35
Belgium	75	70	65	60	55	50	45	40	35	30
Canada	70	65	60	55	50	45	40	35	30	25
Denmark	85	80	75	70	65	60	55	50	45	40
France	70	65	60	55	50	45	40	35	30	25
Germany	75	70	65	60	55	50	45	40	35	30
Greece	70	65	60	55	50	45	40	35	30	25
Ireland	70	65	60	55	50	45	40	35	30	25
Italy	70	65	60	55	50	45	40	35	30	25
Japan	70	65	60	55	50	45	40	35	30	25
Latvia	70	65	60	55	50	45	40	35	30	25
Lithuania	70	65	60	55	50	45	40	35	30	25
Netherlands	75	70	65	60	55	50	45	40	35	30
New Zealand	70	65	60	55	50	45	40	35	30	25
Norway	85	80	75	70	65	60	55	50	45	40
Poland	70	65	60	55	50	45	40	35	30	25
Portugal	70	65	60	55	50	45	40	35	30	25
Spain	70	65	60	55	50	45	40	35	30	25
Sweden	75	70	65	60	55	50	45	40	35	30
Switzerland	75	70	65	60	55	50	45	40	35	30
Taiwan	70	65	60	55	50	45	40	35	30	25
United Kingdom	70	65	60	55	50	45	40	35	30	25
United States	70	65	60	55	50	45	40	35	30	25
OECD average	70	65	60	55	50	45	40	35	30	25

Figure 1.17 Discretionary changes in labour market policy in response to the economic downturn



Effective re-employment services can make a real difference in tackling high and persistent unemployment...

A key priority is 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, where, in return for receiving benefits and being offered re-employment services, recipients are required to participate in job search, training or employment programmes, enforced by the threat of benefit sanctions.

It will be important to build on this past success and not throw away the activation approach just because there are fewer job vacancies to which job-seekers can be referred. Instead, the activation approach needs some modification to the circumstances of a deep recession. It is essential to maintain core job-search assistance through the downturn. Even in a deep recession, many jobs are created by firms that are able to exploit new market opportunities and employment services can play a decisive role in helping fill these vacancies quickly.

...but there should be some shift towards a “train-first” approach

At the same time, OECD research suggests that it would be advisable to shift somewhat the focus and resources behind activation from the “work-first” approach which tended to dominate prior to the crisis to a “train-first” approach for those at high risk of long-term unemployment. This is likely to be particularly important at present, since the global economic crisis is accelerating structural adjustments in OECD countries 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.

Measures to sustain labour demand can also help if they are well-targeted and temporary

During the recession, firms have been battered by a collapse in demand and a major credit crunch, resulting in massive lay-offs. Many OECD countries have introduced or scaled-up subsidies that encourage firms to retain or hire workers (*e.g.* short-time working schemes, hiring subsidies, cuts in social security contributions, etc.). In the short-term, these subsidies are playing a positive role in supporting labour demand. But they have often been plagued by high deadweight costs in the past. To minimize these costs, it is important that these schemes be *temporary* and *well-targeted* to firms for whom the demand

is only depressed temporarily and to workers at high risk of long-term unemployment. Without these key features, there is a significant risk that these schemes will not only be less effective in preserving jobs but also become an obstacle to the recovery, by putting a brake on the required reallocation of workers from declining to expanding firms.

This year's Employment Outlook also looks at the process of job creation and destruction as well as worker mobility and assesses their impact on productivity growth. Moreover, the Employment Outlook provides an in-depth analysis of working poverty and how policies can promote work incentives of individuals with low earnings potentials while also supporting the living standards of their families. It also reviews trends in sickness and disability recipiency and analyses policies that can promote participation in the labour market of individuals with health problems.

The jobs crisis: what are the implications for employment and social policy?

Governments need to respond vigorously to limit the social and economic costs of the current economic and jobs crisis. A first priority is to assure that income support for job losers and other workers who need it is adequate and accessible. Temporary extensions of unemployment benefit duration or the coverage of non-standard workers may be desirable in some countries, provided incentives to find a new job are not undercut. A second priority is to scale up effective active labour market policies so as to provide increased numbers of jobseekers with the re-employment assistance they require and minimise the build-up of long-term joblessness. Core job-search assistance should be maintained through the downturn, but an increased emphasis on training, hiring subsidies and subsidised work experience may be required to ensure that more disadvantaged jobseekers do not disconnect from the labour market. It is also important to maintain effective labour supply for the recovery and thus to resist the temptation to open pathways to early retirement and disability benefits.

How do industry, firm and worker characteristics shape job and worker flows?

New firms are continuously created, even in downturns, while existing firms expand, contract or shut down. In the process, many jobs are created and workers are hired; at the same time, many positions are suppressed and workers separate from their employer. Evidence from internationally harmonised data on gross job flows (i.e. job creation and destruction by firms) and gross worker flows (i.e. hirings and separations) suggest that, each year, more than 20% of jobs are created and/or destroyed on average in the OECD countries, and around one third of all workers are hired and/or separate from their employer. However, job and worker flows are remarkably different across

Figure 1.2 Comparing unemployment rate trajectories during previous downturns and the current downturn.

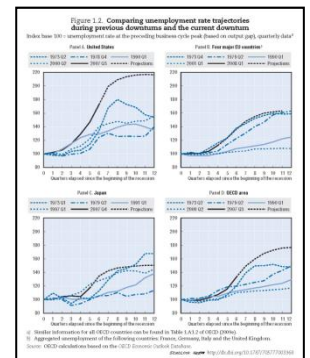
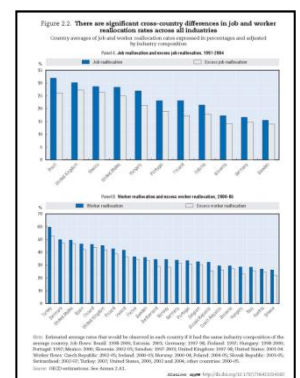


Figure 2.2 There are significant cross-country differences in job and worker reallocation rates across all industries



countries, industries and worker types. In countries such as the United States and the United Kingdom gross job and worker flows are almost twice as large than in most continental European countries. The process of reallocation appears to be productivity-enhancing: job destruction is greater in older, less efficient firms and job creation is greater in young, more efficient firms in most countries.

Is work the best antidote to poverty?

Employment reduces considerably the poverty risk, but does not solve all problems. On average in the OECD area, 7% of individuals living in households with at least one worker are poor. And while in-work poverty is often related to insufficient work participation, resulting from very short part-time work or very short employment spells over the year, there are other important factors at work. In particular, poverty rates are higher for families with children. In this respect, social transfers play a key role, precisely because they can be targeted towards the most vulnerable households: on average in the OECD area, they reduce by almost half the rate of in-work poverty. Among these transfers, in-work benefit schemes can be particularly effective, if they are well conceived and combined with a binding minimum wage set –by law or collective agreements– to a moderate level. Conversely, since the risk of in-work poverty is much less related to hourly wage rates than it is with working time, employment duration or household composition, the minimum wage per se is not as effective in alleviating in-work poverty.

Pathways onto (and off) disability benefits: assessing the role of policy and individual circumstances

Disability benefit recipiency rates have increased in a majority of OECD countries, particularly among women, young adults and individuals with mental health problems. While health problems appear to be important drivers of the inflow into disability benefits, other individual and work-related factors matter for both retention of workers and entry into disability benefits. Disability recipiency rates are also found to vary across countries, partly because of different economic and labour market conditions but mainly because of wide differences in disability policy. Indeed, new OECD indicators of disability policy reveal a diversity in both the generosity aspect and the employment integration component of disability policy. At the same time, most countries have tightened access to benefits in the last decade while improving employment integration. This is a promising development because there is evidence that more generous disability policy is associated with higher numbers of beneficiaries while more comprehensive employment and rehabilitation programmes are associated with lower recipiency rates.

Figure 3.5
In-work poverty in OECD countries

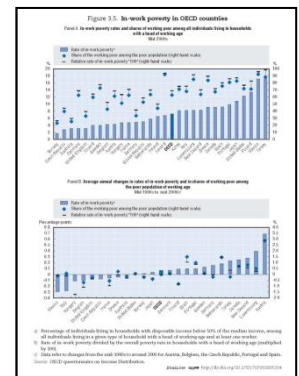
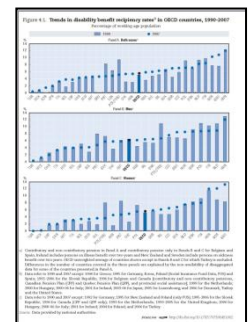


Figure 4.1
Trends in disability benefit recipiency rates in OECD countries, 1990-2007



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