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Jobs and the Crisis

What Has Been Done and Where to Go from Here?

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In response to the financial and economic crisis, many countries sought to stimulate labor demand, facilitate job search and preserve skills, and protect income. While little information is available about the impact of these interventions, there is some evidence that they involved a substantial number of people despite limited budgets. At the same time, there are concerns about the effectiveness of programs, particularly in low- and middle-income countries. The challenge now is to revise the policy mix to maximize the impact of the recovery on employment creation.

Global unemployment is estimated to have increased by almost 34 million between 2007 and 2009 as a result of the crisis, with the largest increases in high-income economies, Europe and Central Asia, and Latin America and the Caribbean (ILO 2010c). But the effects have varied greatly across countries, and there is evidence that earnings growth slowed far more on average than employment growth did. In several countries workers' hours were reduced and wages changed little.

What policies were used?

Countries used a range of policy mixes aimed at stimulating labor demand (protecting or creating jobs), facilitating job search and preserving skills, and protecting income, according to a policy inventory by the International Labour Organization (ILO) and World Bank.[1] The estimated increase in expenditure related to active labor market programs was generally modest, about 0.5 percent of GDP or less. While information on the number of beneficiaries is limited, coverage appears to have varied greatly by country and type of program. In Argentina, Brazil, China, South Africa, and Turkey, for example, it is estimated that unemployment insurance covered 7–13 percent of the unemployed in 2008.[2] Public works programs that were scaled up tended to involve substantial numbers—more than 500,000 people in South Africa and more than 39 million in India's national rural employment guarantee scheme. In Europe and Central Asia coverage of active labor market programs ranged from less than 1 percent of the labor force in Azerbaijan to nearly 70 percent in Lithuania.

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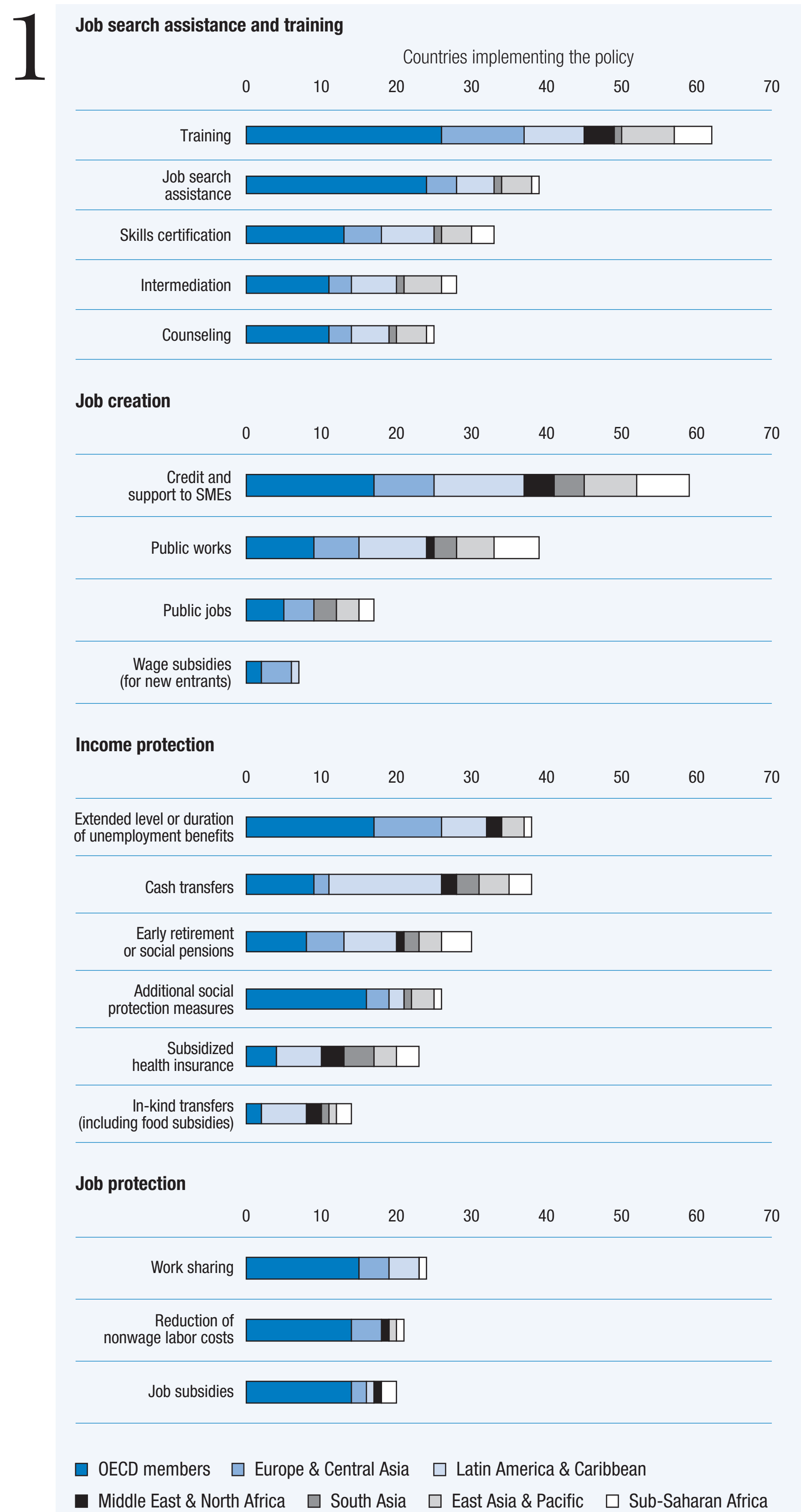
Figure 1 Labor market policy interventions implemented, 2007–09



Source: ILO–World Bank policy inventory.

Facilitating job search and preserving skills

The most common policies were related to job search assistance and training. Among the countries surveyed by the ILO–World Bank policy inventory, 40 percent implemented or expanded training programs and employment services. These were particularly important in OECD countries (figure 1).[3]

Training programs played a prominent role, focusing on the unemployed (often youth) and workers who would have been laid off. In Latin America, Colombia doubled the training slots through employment offices and training institutes, targeting youth. Chile, Costa Rica, and Mexico introduced training programs for workers in enterprises affected by the crisis while providing incentives to preserve jobs. Armenia, Croatia, Estonia, the Russian Federation, and Turkey almost doubled their budgets for employment services offices, training programs, or both. Still, the coverage of these programs remains small outside the OECD.

Stimulating labor demand

Most countries also adopted policies to support the creation of new jobs. These policies focused largely on supporting small and medium-size enterprises (SMEs) and entrepreneurs by facilitating access to credit, giving preferential treatment in public tenders, or reducing taxes. For example, Estonia, Latvia, and Poland allocated funds for entrepreneurship assistance, and Romania exempted firms from tax on reinvested profits.

Public works were most common in Latin America and Africa. Argentina, Ecuador, and Mexico expanded existing public works programs, and El Salvador started a new one. Kazakhstan implemented the largest such program in Europe and Central Asia.

Less common was the use of wage subsidies to stimulate the creation of new jobs. Several countries in Europe and Central Asia—including Bulgaria, Estonia, Hungary, the former Yugoslav Republic of Macedonia, Serbia, and Turkey—introduced wage subsidies, predominantly for youth. In Latin America subsidies targeted to new entrants have so far been used only in Chile, which introduced an employment subsidy for hiring of young workers.

Protecting income and jobs

Countries also intervened to protect the incomes of workers affected by the crisis. Cash transfers were most common in Latin America, where 15 countries had implemented conditional cash transfer programs before the crisis hit. All of them expanded these programs, protecting the incomes of the poorest. In OECD countries unemployment benefits were the preferred policy instrument for protecting income. These were extended or increased in most countries. Outside the OECD few countries have implemented unemployment benefit systems, and those that have cover only a minority of workers in the formal sector.

In OECD countries and, to a certain extent, Europe and Central Asia and Latin America, wage subsidies and work-sharing arrangements were used to protect jobs. Between 2008 and 2009 most OECD countries adopted wage subsidies to protect employed workers—mainly through reductions in social security contributions. In Europe and Central Asia, Bulgaria, FYR Macedonia, Poland, and Turkey also reduced nonwage labor costs.

Work sharing, a more novel initiative, has received considerable attention. The largest program was Germany's Kurzarbeit, expected to cost €6 billion in 2010 alone. This program has been credited with enabling German firms to quickly accelerate production during the first phases of a recovery.[4] Middle-income countries implementing such programs include Argentina, Colombia, Costa Rica, Mexico, Poland, and Turkey.

What has been the impact?

It is still too early to be able to say much, with accuracy and rigor, about the effectiveness of these policies during the current crisis. Even less can be said about potential dynamic trade-offs between saving jobs today and increasing productivity growth and employment in the longer term through needed reallocation. Moreover, it is difficult to separate the impact of particular jobs policies from the effect of general stimulus packages.

Nevertheless, there is some sense that the policies have helped. The simplest estimates of impact count the participants in programs, treating each as a job saved or generated. The government of Indonesia estimates that its stimulus package led to the creation of 750,000 jobs, mostly through public works (ILO 2010b). The ILO (2010a) estimates that in G-20 countries government actions created or saved 21 million jobs in 2009 and 2010. There are fewer estimates aimed at taking account of what would have happened without the policies. In Europe, where countries introduced a number of measures to prevent job losses, unemployment increased less than could have been expected from the fall in GDP (European Commission 2009). More generally, one can argue that the biggest impact of policies on saving jobs has been indirect, through stimulus actions to stop global panic and lessen the fall in GDP. More rigorous, formal impact evaluations of particular country programs are now being undertaken by World Bank researchers.

Where do we go from here?

Prolonged use of crisis mitigation policies in the labor market runs the risk of causing longer-term harm to productivity, government fiscal positions, and growth. Protecting jobs in the short term can lessen the impact of the crisis and allow workers to retain skills. But in the longer term such actions may prevent needed reallocation. This raises the risk of a jobless recovery. This was the case, for example, in Indonesia during the 1997 crisis, when the government tightened regulations to protect jobs (see Manning 2000).

Over the short term countries need to start reviewing their policy portfolio, moving away from mitigation toward policies that maximize the impact of growth on employment creation (Banerji, Newhouse, and Robalino forthcoming). This approach would continue support to small and medium-size enterprises and the self-employed while reinforcing job search assistance, counseling, and retraining programs. Wage subsidy programs would move away from policies to protect existing jobs and toward incentives for new hiring. As the recovery proceeds, governments will need to start signaling a contraction in cash transfers or unemployment benefits to provide incentives to look for jobs. To stimulate employment creation, countries may also want to consider reforms in labor regulations (see, for example, Ribe, Robalino, and Walker forthcoming, ch. 5).

Looking forward, countries need to devise more flexible systems to manage labor market risks. Four challenges would need to be addressed: developing (or increasing the frequency of) current labor force surveys and improving macroeconomic statistics; institutionalizing and integrating targeted cash transfer programs and public works that can expand and contract in response to the cycle; expanding the coverage of social insurance programs; and optimizing the design of active labor market programs that deal with failures in the labor market related to limited information and skills mismatches (see Banerji, Newhouse, and Robalino forthcoming).

Ultimately, long-term sustained job creation requires sustained economic growth. A key to creating such growth is fostering a competitive, productive, and innovative private sector. Governments have traditionally been advised to do this through a supportive role—by reducing the regulatory burden, pursuing financial and macroeconomic stability, and building the necessary infrastructure. But the challenges of job creation after the crisis have led to increasing demands for governments to actively and more directly work with the private sector through industrial policy. The challenge for policy makers, researchers, and the World Bank is not only to build on analysis about conditions that make the success of such policy more likely, but to learn whether and how such conditions can be created.

Notes

1. The inventory of policy interventions, managed jointly by the ILO and the World Bank's Human Development Network, Social Protection Unit, today covers 103 countries, including all countries in Europe and Central Asia, Latin America and the Caribbean, and the OECD. In the other regions, for which information is still incomplete, at least one policy has been implemented by eight countries in Sub-Saharan Africa, six in East Asia, four in South Asia, and four in the Middle East.
2. Examples come from ILO (2010b).
3. The Czech Republic, Hungary, Poland, the Slovak Republic, and Turkey, though geographically part of Europe and Central Asia, are classified as OECD members in figure 1 so as to avoid double counting.
4. Daniel Schäfer, "Germany: On a Roll," *Financial Times*, August 15, 2010.

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