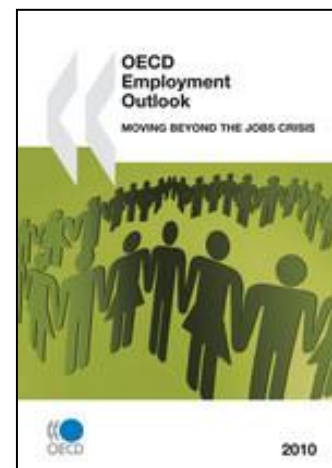


# OECD *Multilingual Summaries*

## OECD Employment Outlook 2010: Moving beyond the Jobs Crisis

*Summary in English*



- OECD *Employment Outlook* is the OECD's annual report on the state of labour markets and employment across the OECD area.
- The 2010 edition provides an update on the effects of the financial and economic crisis on the labour market. It highlights the very different adjustment patterns across the OECD countries and key emerging economies: with very sharp rise in unemployment in some countries contrasted with more muted rises in other countries, where short-time work schemes encourages hours reductions as a way to preserve jobs.
- Labour market and social policy responses to the crisis are shown to have been vigorous, but to require significant adjustments as the economic recovery proceeds and fiscal constraints become more binding.
- The 2010 edition also provides an in-depth assessment on labour mobility in the OECD labour markets. It shows that workers and jobs are continuously reallocated from declining to growing firms and sectors in all countries, but the right package of labour market policies is needed to maximise the productivity payoff from this mobility while minimising the resulting insecurity for workers.
- The Employment Outlook also presents new evidence on part-time employment. It suggests that encouraging the growth of high-quality part-time work can be an important strategy for governments concerned with promoting high employment in the context of aging population, work-family life reconciliation and orderly school-to-work transitions.

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*An economic recovery is underway in most countries...*

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The global economy is emerging from the worst financial and economic crisis of the past half century, but it will take time and strong political will to heal the wounds in the labour market. While the economic recovery is broadening and strengthening, employment growth is still lagging. In the two years to the first quarter of 2010, employment fell by 2.1% in the OECD area and the unemployment rate increased by just over 50%, to 8.5%, corresponding to 17 million additional unemployed persons. Moreover, a broader measure encompassing discouraged and under-employed workers is nearly twice the official unemployment rate.

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*...but in most cases, projected output growth will not be robust enough to quickly absorb the massive labour market slack accumulated in many countries...*

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While unemployment may have peaked and the latest OECD projections have revised upward the economic outlook for this year and next, the recovery is unlikely to be sufficiently vigorous to rapidly reabsorb current high levels of unemployment and under-employment. Indeed, the latest projections suggest that the OECD unemployment rate may still be above 8% by the end of 2011.

With many unemployed experiencing long spells of joblessness, there is a risk that the sharp increase in cyclical unemployment will become structural. This risk varies significantly across countries. In some countries, massive labour shedding led to large increases of unemployment and inactivity, while an unusually high share of the decline in labour input has been achieved through reduced working time in other countries. Vigorous employment growth is needed to prevent unemployment becoming entrenched in the former. However, the risk that job creation will be weak during the recovery (a so-called jobless recovery) is a major concern for the latter group of countries.

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*OECD economies are facing the daunting twin challenge of reducing high unemployment and under-employment while tackling unprecedented fiscal deficits*

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With rapidly rising unemployment and under-employment, most OECD countries quickly scaled up resources for labour market programmes early in the downturn. Most governments planned at the beginning of the year to hold constant, and in some cases further expand, resources devoted to labour market programmes during 2010. However, pressure to cut fiscal deficits is mounting rapidly and many countries need to make hard choices to allocate scarce resources. A strong case can be made that labour market policies should remain adequately funded. But it becomes essential to focus on *cost-effective* programmes and target the most disadvantaged groups.

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*Measures to support labour demand  
should evolve from preserving jobs to  
jumpstarting job creation...*

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During the economic downturn, important public and private initiatives were taken in most OECD economies to sustain labour demand, especially by encouraging cuts in hours worked as an alternative to dismissals. Evidence reported in this volume suggests that public short-time work (STW) schemes have played an important role in preserving jobs during the crisis, although significant hours reductions were also achieved *via* cuts in overtime, hours-averaging arrangements and, in some cases, agreements between employers and workers. Many countries have also supported labour demand by cutting non-wage labour costs.

As the recovery gains momentum, it is important to begin phasing out STW schemes to avoid hindering productivity-enhancing labour reallocation across sectors and firms. At the same time, tight fiscal conditions suggest shifting the focus from across-the-board cuts in non-wage labour costs to subsidies that target job creation, especially among the long-term unemployed or other vulnerable groups., so as to avoid growing deadweight losses.

The widespread resort to STW schemes also provides useful insights on their optimal use over the business cycle. In particular, the take-up rate varied a lot across countries: they were much higher in countries that already had a scheme in place before the crisis than in those that introduced it *de novo* during the downturn. Timing was critical in this case, as STW schemes tend to be most effective in the early phase of a downturn and it proved difficult in some countries to set them up quickly enough to be fully effective. In light of these problems, an important question is whether it would be appropriate to keep a small, but well-run STW scheme even in good times, which can be scaled up rapidly in bad times, partly by temporarily changing the rules to encourage higher participation.

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*Income support to the unemployed  
should be maintained, but it is  
essential to condition it on effective  
job search*

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The build-up in long-term unemployment creates acute needs for income support. In those countries where benefit duration is normally short, or the coverage of workers in atypical jobs is low, there was a strong case for extending duration and coverage of benefits in the downturn. These extensions should be maintained until the pool of long-term unemployed begins to drop significantly. But it is becoming even more important to ensure these extensions are accompanied by close monitoring of job-search efforts to avoid benefit dependence. This is a difficult challenge, especially in those countries where public employment services (PES) are lacking the staff or the administrative capacity to handle a large pool of increasingly heterogeneous jobseekers. Countries where unemployment benefits were already quite generous prior to the crisis and were expanded further should phase out these crisis measures quickly in the recovery.

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*Re-employment services have a key role to play to promote a quick reintegration of jobseekers into productive jobs*

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Effective activation strategies helped many OECD countries achieve low unemployment before the crisis and they can play a major role in speeding the reintegration of jobseekers into employment during the recovery. But activation policy has to be adapted to economic conditions. Most countries have maintained or even expanded core job-search assistance and have also sought to provide more targeted re-employment services, including training opportunities, for the most hard-to-place unemployed. A shift towards greater investment in training, especially linked to local labour market needs, is warranted in the present circumstances. While putting in place an effective activation strategy takes time and, often, institutional reform, it may be useful to use scaled-up resources resulting from the crisis to develop a more effective and resilient activation strategy for the future.

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*A comprehensive strategy to promote job creation and sustained economic growth may also involve reconsidering some labour regulations*

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This is a particularly difficult time to consider structural labour market reforms, particularly those concerning labour regulations. However, as the recovery gathers pace, it is essential to create the right incentives for firms to hire. Beyond temporary hiring subsidies and efforts to foster employability, this could involve rebalancing employment protection between temporary and permanent contracts. Doing so would allow temporary jobs to function better as stepping stones into permanent jobs, rather than as traps.

However, such a strategy will result, over time, in increased labour mobility among permanent workers. Some could experience income losses during their search for another job and even at re-employment. Thus, labour regulation reform should be introduced as part of a comprehensive package providing adequate unemployment benefits, with strictly-enforced work-availability conditions and well-designed activation measures. Evidence presented in this volume suggests that protecting and accompanying workers in their transitions from job to job can actually enhance productive reallocation of labour. This message was clearly stated in the *OECD Reassessed Jobs Strategy*. But it now assumes an even greater importance, when the need to foster job creation but also promote efficient labour reallocation is paramount to tackle high and persistent unemployment and foster sustainable and shared growth.

## **Moving Beyond the Jobs Crisis**

This chapter updates the analysis in the 2009 *Employment Outlook* of the labour market impact of the 2008-2009 recession and policy responses to the resulting jobs crisis. It documents the rapid deterioration in labour market conditions during the economic downturn and stresses that even as the economic recovery gains momentum, it will take time to significantly reduce unemployment and under-employment from their current high levels. However, the rise in unemployment has been very variable across countries and

differences in how sharply real GDP fell leave much of this heterogeneity unexplained. Indeed, in some countries employers reacted to the sharp decline in demand by reducing employment very sharply, while in other countries hours reductions and work sharing were emphasised. The large contribution of hours reduction to labour input adjustment during the recession was due, in part, to public short-time work schemes which preserved significant numbers of jobs at least in the short run. Governments planned to continue scaling up income support and re-employment assistance for job losers in 2010, but they now face difficult choices concerning how quickly to phase them out with the recovery still uncertain and mounting fiscal pressures. Future priorities are to assure a job-rich recovery while limiting unemployment and inactivity becoming persistent.

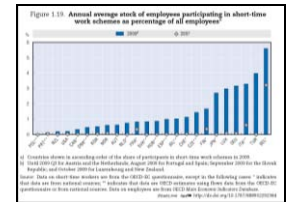
### The Global Crisis in Emerging Economies: The Jobs Impact and Policy Response

The recent global financial and economic crisis has important social implications in emerging economies, where workers tend to be more vulnerable to shocks than their counterparts in advanced economies. Countries that had social protection programmes in place prior to the crisis are in a better position to respond effectively to the sudden increase in social needs. However, they face a major challenge: how to use limited administrative capacity and resources to address increased demands while maintaining the effectiveness of safety nets. Measures that extend unemployment insurance coverage, raise benefit levels or ease eligibility conditions are important to improve income support to formal-sector job losers. Extending existing cash transfer programmes or making exceptional payments can help provide support to households who are newly at risk of poverty as well as already-poor households that have experienced further deterioration. Extending existing public works programmes (PWP) can provide quick support to the newly-unemployed, as it avoids start-up costs and reduces implementation challenges. In times of crisis, PWP should favour labour-intensive projects and limit non-labour costs to maximise the number of jobs created and provide an effective safety net.

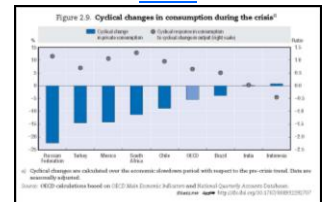
### Institutional and Policy Determinants of Labour Market Flows

Many new firms are created every year, while existing firms expand and others contract or even shut down. In the process, jobs are created and workers are hired; even as many positions are suppressed and workers leave their employers. Labour reallocation is an important driver of productivity growth: less productive firms tend to destroy more jobs and more productive ones create more jobs. Evidence from internationally-harmonised data suggests that institutions and policies such as employment protection, unemployment benefits and product market regulations are key determinants of labour reallocation across industries. In particular, differences in the stringency of employment protection legislation explain between 20% and 30% of the cross-country difference in hiring and separation rates. In normal economic conditions, employment protection affects mainly job-to-job transitions, while transitions from jobs to non-employment remain unaffected. However, enhancing labour reallocation can have distributional effects. Job losers usually suffer from substantial declines in earnings and working conditions, notably during periods of economic downturn. For this reason, countries should accompany flexibility-enhancing reforms with adequate unemployment benefits, with strictly-enforced work-availability conditions and a well-designed activation package.

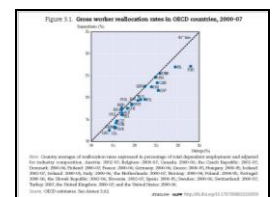
**Figure 1.19 : Annual average stock of employees participating in short-time work schemes as percentage of all employees**



**Figure 2.9: The cyclical change in consumption during the crisis**



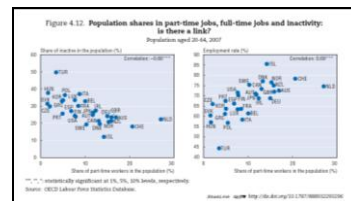
**Figure 3.1. Gross worker reallocation rates in OECD countries, 2000-07**



## How Good is Part-time Work?

Encouraging the growth of high quality part-time work can be an important strategy for governments concerned with an ageing population, since more part-time jobs are associated with higher labour force participation. While the spread of part-time work has been associated with improving job quality for part-timers, they still earn less, have poorer job security and fewer opportunities for advancement than their full-time counterparts. However, in terms of overall job satisfaction, these disadvantages are often offset by better work-life balance, which allows those with caring or study responsibilities, ill-health or nearing retirement to stay connected to the labour market. Governments should remove barriers to part-time work for those that want it. But once in part-time work, workers should also be able to move easily into full-time jobs when their situation change. Financial disincentives generated by tax and benefit systems and inadequate child care arrangements can make working more hours unattractive and lead to long periods of involuntary part-time work, with negative long-run consequences for individuals and society.

**Figure 4.12:** *Population shares in part-time jobs, full-time jobs and inactivity: is there a link?*



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