

Fifth Annual Conference OECD- CEPII
Developing Countries and the Global
Crisis
26-27 November 2009

Comments:
**Globalisation: What Kind of Jobs
After the Crisis**

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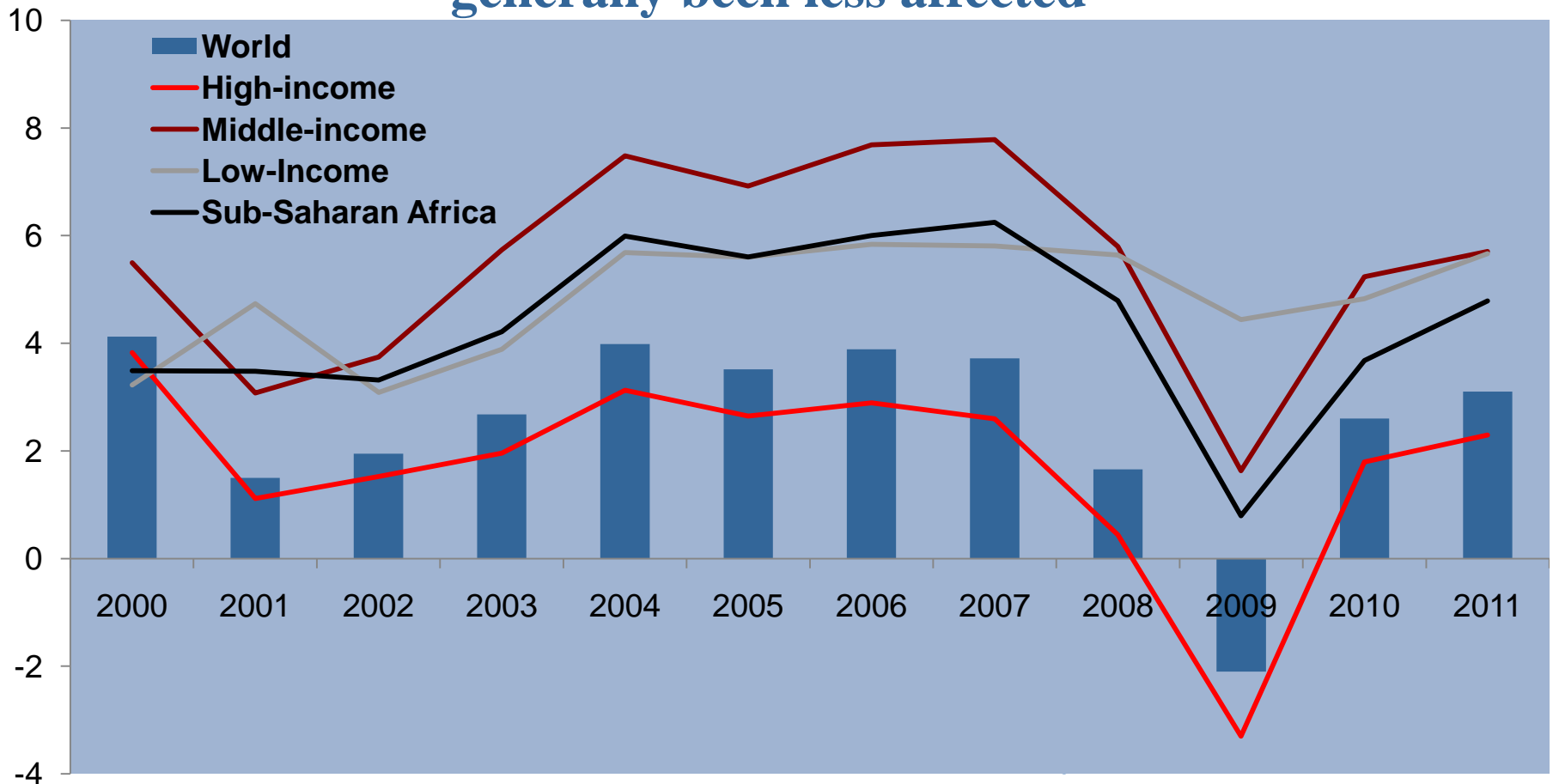
- Three rich and complementary presentations
 - Steve provides an in-depth review of LM developments and policy measures during the crisis
 - Johannes highlights the high and persistent nature of informality and the risk of further increases during the crisis
 - Christophe provides evidence on the links between vulnerability and earnings in West Africa

- My remarks:
 - Huge heterogeneity in labour market adjustment during the crisis
 - The design of optimal policy responses during the crisis
 - Is the crisis an opportunity to invest in better LM policy and institutions?

Heterogeneity (1)

Large differences in the size of the downturn

Sharp decline in global growth, but developing countries have generally been less affected



World Bank data.

Heterogeneity (2)

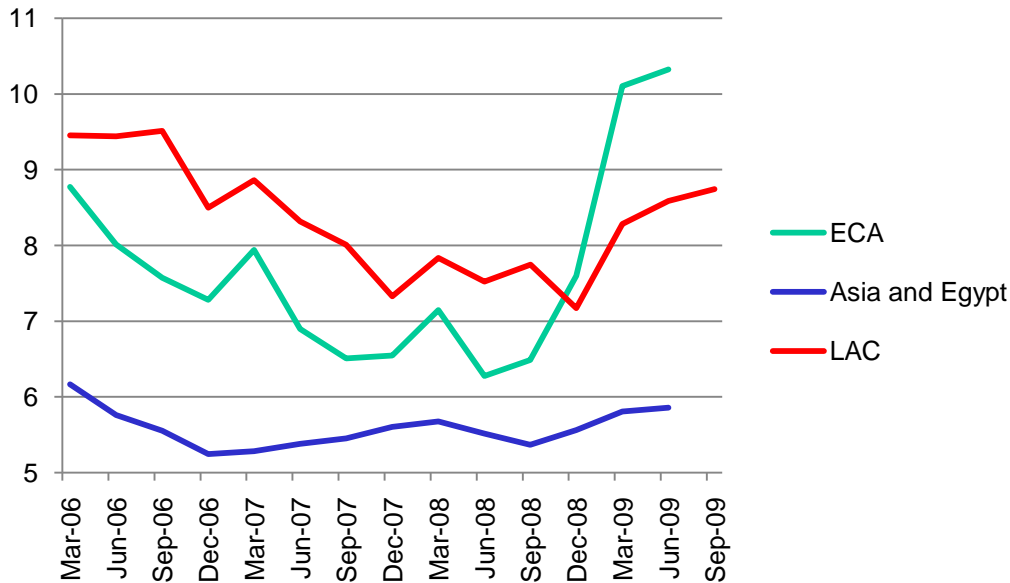
Different transmission mechanisms

- The transmission mechanisms from decline in output growth to household income very different:
 - Credit crunch for all, but especially for micro enterprises and SMEs
 - Decline in export demand and commodity prices led to job losses and falling labour earnings
 - Return migration and lower remittances
 - Fiscal squeeze due to falling revenues leading to weakening public services and limited resources for scaling up safety nets

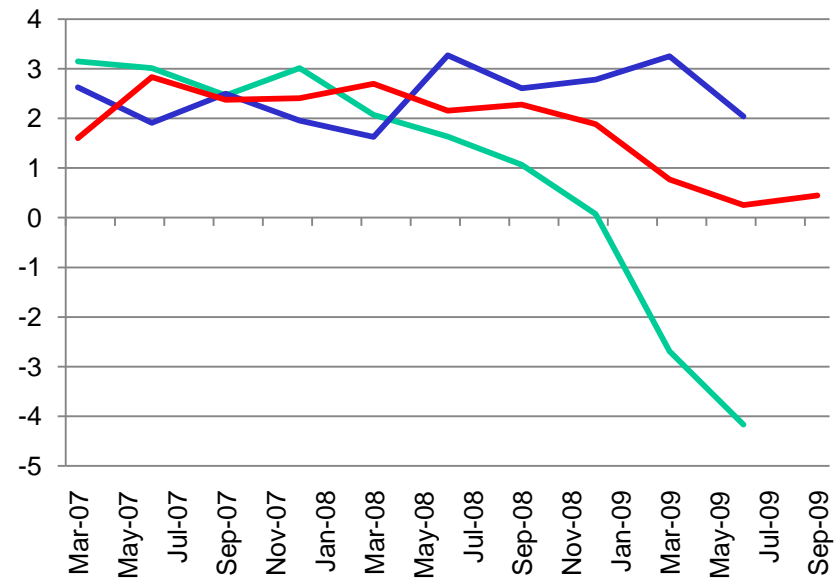
Heterogeneity (3)

The extensive margin of adjustment is very different

Unemployment Rate (%)



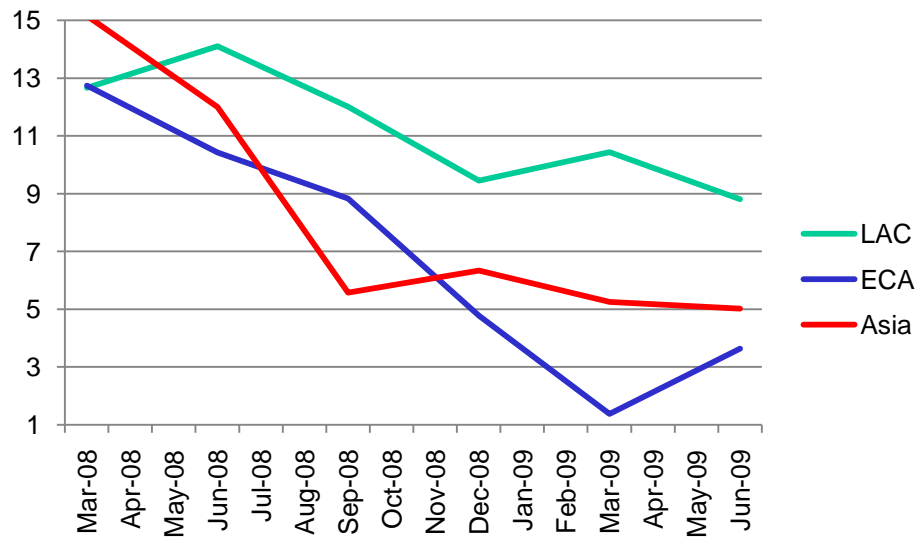
Changes in employment (%)



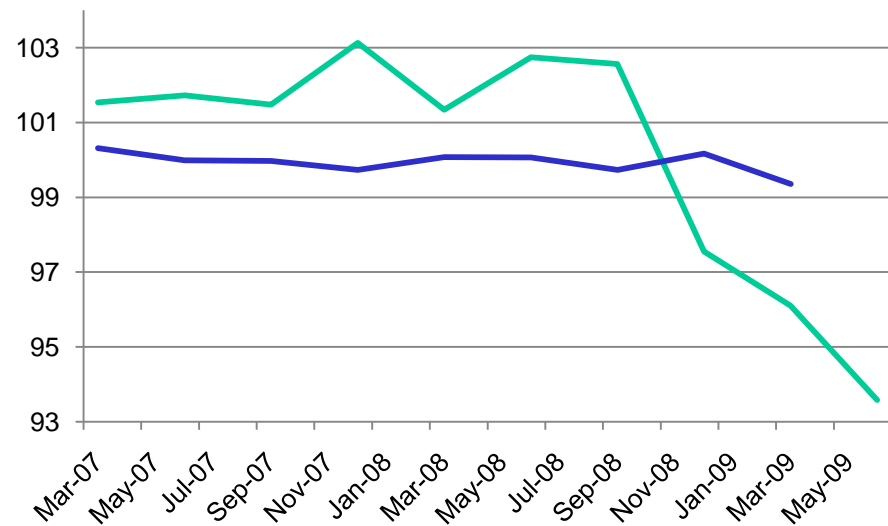
Heterogeneity (4)

The intensive margin of adjustment is very different

Rate of Growth of Earnings (%)



Index of Hours Worked



World Bank data.

- **A limited information set**
 - High frequency indicators of LM developments are limited in many countries
 - Given wide heterogeneity it is difficult to generalise across countries
 - Past crisis may offer only limited insights on the effects of this downturn across groups

- **Limited fiscal space**
 - Falling revenues, tight access to international and domestic financing and fall in commodity revenues → pressure on fiscal balances
 - Prudent macro policies in recent years gave many countries some fiscal space, in some countries this has been largely taken by stimulus packages

- **Challenges in the labour market and social policies**
 - How to mitigate the impact while also facilitating the required adjustment
 - How to provide protection to the most vulnerable (the chronically poor) but also support those most directly affected by the crisis (job losers in export oriented industries other workers facing large earnings losses)

The optimal policy response during the crisis (2)

How to mitigate the impact while also facilitating the required adjustment

- Many countries have introduced **measures to support labour demand**:
 - Very popular among OECD countries:
 - Subsidies for the reduction in working time (22 OECD countries, including MEX, POL)
 - Reductions in non-wage labour costs, in some cases targeted at SMEs, disadvantaged groups (16 countries, including MEX, SLK, TUR) but also ROM
 - Hiring subsidies and work experience, generally targeted at disadvantaged groups (16 countries, including in MEX, HUN, POL, SLK, TUR) but also CHI
 - Direct financial support to enterprises
- The **three Ts are essential** (timely, targeted and... temporary)
 - By protecting job matches these measures have reduced socially and economically inefficient job losses ...
 - ...but risk increasing dualism (U and under employment highly concentrated on already disadvantaged groups and new entrants)...
 -and slow-down efficiency-enhancing labour reallocation

The optimal policy response during the crisis (3)

Providing support to most vulnerable but also supporting those most affected by the crisis

■ Limited coverage of traditional **UB systems**

- ECA: reduction in duration to finance increase in benefits (CZE, POL)
- Some attempts to extend coverage (e.g. KOR, CHI) or give access to (retirement) savings accounts (MEX) or lump sums

■ Tools to **smooth consumption** of the poor

- CCT and food-for-work
- Public work schemes to combine income transfers with local infrastructure developments

■ The crisis can also be an opportunity to **reform social security and social protection** to encourage job creation in productive activities

- Introducing (extending) UBs or UISAs in emerging economies
- Unbundling SS contributions to different programmes (e.g. S. Levy)
- Make key SS programmes universal

The optimal policy response during the crisis (4)

labour market programmes

- **Limited administrative capacity** in many developing and emerging economies
 - Most OECD countries have scaled up resources for PES and to re-employment services (including KOR, MEX, POL)
 - A number of emerging economies have scaled up resources for training programmes

- **Invest in youth** and avoid “scarring effects” on them
 - Extensive evidence that youth unemployment and under-employment can have long-lasting effects
 - Invest in education to raise youth human capital and enhance their chances to access productive jobs

Given heterogeneity, no “optimal” response but some lessons emerge

- **Invest in basic LM and SP institutions** is key to allow workers and families to weather major storms
 - policies in place tend to be more effective in dealing with shocks than ad-hoc measures put in place on the run

- A **package** rather than isolated measures
 - During a crisis there risk is that different disparate measures will be taken without necessarily a strong coordination and assessed interactions
 - Building on existing institutions/programmes is important

- Crises can also provide an **window of opportunity** to introduce automatic stabilizers and strengthen safety nets