International
Labour
Office

Geneva

Employment Sector
Employment Working Paper No. 35

2009

Labour market policies in times of crisis

Sandrine Cazes, Sher Verick, Caroline Heuer

Economic and
Labour Market
Analysis
Department

First published 2009

ILO Cataloguing in Publication Data

Cazes, Sandrine

Labour market policies in times of crisis / Sandrine Cazes, Sher Verick, Caroline Heuer ; International Labour Office, Economic and Labour Market Analysis Department. - Geneva: ILO, 2009
25 p. (Employment working paper ; no.35)

ISBN 978-92-2-122510-2 (print); 978-92-2-122511-9 (web pdf)
ISSN 1999-2939 (print); ISSN 1999-2947 (web pdf)

International Labour Office; Economic and Labour Market Analysis Dept.

labour policy / labour market / social dialogue / economic recession / developed countries / developing countries

13.01.1

ILO Cataloguing in Publication Data

Printed in Switzerland

document2

Preface

The primary goal of the ILO is to contribute, with member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on *Social Justice for a Fair Globalization,*[1] and which has now been widely adopted by the international community.

In order to support member States and the social partners to reach the goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Explanations of this integrated approach and related challenges are contained in a number of key documents: in those explaining and elaborating the concept of decent work[2], in the Employment Policy Convention, 1964 (No. 122), and in the Global Employment Agenda.

The Global Employment Agenda was developed by the ILO through tripartite consensus of its Governing Body's Employment and Social Policy Committee. Since its adoption in 2003 it has been further articulated and made more operational and today it constitutes the basic framework through which the ILO pursues the objective of placing employment at the centre of economic and social policies.[3]

The Employment Sector is fully engaged in the implementation of the Global Employment Agenda, and is doing so through a large range of technical support and capacity building activities, advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector's publications consist of books, monographs, working papers, employment reports and policy briefs.[4]

The *Employment Working Papers* series is designed to disseminate the main findings of research initiatives undertaken by the various departments and programmes of the Sector. The working papers are intended to encourage exchange of ideas and to stimulate debate. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.

José Manuel Salazar-Xirinachs
Executive Director
Employment Sector

[1] See http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf

[2] See the successive Reports of the Director-General to the International Labour Conference: *Decent work* (1999); *Reducing the decent work deficit: A global challenge* (2001); *Working out of poverty* (2003).

[3] See http://www.ilo.org/gea. And in particular: *Implementing the Global Employment Agenda: Employment strategies in support of decent work, "Vision" document*, ILO, 2006.

[4] See http://www.ilo.org/employment.

Foreword

The current global financial crisis has quickly spread from its origin in the United States to the global economy, resulting in collapsed aggregate demand and freezing of credit channels, and subsequently, the worst global downturn since World War II. Consequently, millions of workers around the globe have been laid off, or for those lucky enough to have held onto their jobs, many have experienced cuts in hours worked, wages and other benefits. As witnessed in previous crises, unemployment rates will continue to rise across the world and stay stubbornly high for some time to come, well after the economy has begun to recover. Therefore, though there are increasing signs that the major economies are exiting recession, the weakness of the labour market will remain a key challenge for governments in the years to come, particularly in terms of vulnerable groups such as youth.

For this reason, this paper makes an important contribution to the discussion on the crisis and how governments should respond to the downturn. Acknowledging that efforts have been made in both OECD and developing countries, this study argues in particular that policymakers should continue employing various labour market policy measures that both mitigate the impact of the crisis on workers and help reduce the lag between economic growth and improvements in the labour market.

Over the medium- and long-term, governments should also aim to develop a comprehensive and integrated policy and institutional framework that will enable them to better respond to crises, emanating from not only global shocks but also those arising from local and regional phenomena. This involves the development of labour market institutions and a broad-based social security system, which acts as an automatic stabilizer during a crisis. In developing countries, barriers to formalization need to be reduced to ensure that workers have more opportunities to find decent jobs and be protected by labour market institutions, including social protection measures. Finally, the policy response should be the outcome of constructive dialogue between the social partners.

Sandrine Cazes
Chief,
Employment Analysis and Research Unit

Duncan Campbell
Director,
Economic and Labour Market
Analysis Department

Contents

Page

Preface .... **iii**

Foreword .... **v**

1. Introduction **1**

2. Labour market policies in an economic downturn **3**

2.1 Channels of adjustment during an economic downturn 3

2.2 Goals and principles of labour market policies in times of crisis 5

3. Labour market policy response to the current global financial crisis **9**

3.1 Supporting labour demand 11

3.1.1 Keeping people in jobs *11*

3.1.2 Creating new jobs *13*

3.2 Improving the match between labour demand and supply by making the unemployed more employable 15

3.3 Providing income support 17

3.4 Targeting vulnerable groups 18

3.5 Role of social dialogue in promoting effective labour market responses 20

4. Conclusion **21**

Appendix **23**

Table 1. Advantages and disadvantages of policy tools/changes to mitigate the impact of economic crisis on the labour market 23

Table 2. Responding to the crisis through labour market policies: examples from different regions 28

References **31**

1. Introduction

Since the end of 2007, the current economic crisis has grown from a meltdown in the financial and housing sectors in the United States to a downturn with global reach and a deep impact on the real economy, particularly on the labour market. As evident from previous crises, labour markets tend to recover slowly after such an economic contraction and usually lag behind economic growth, with unemployment persisting at above pre-crisis levels. For this reason, it is crucial for policymakers to consider various labour market policy (LMP) measures that both mitigate the impact of the crisis on workers and help reduce the lag between economic growth and improvements in the labour market. In turn, these actions depend critically on appropriate monetary and fiscal measures to boost demand and encourage job creation, which have been a central part of the stimulus packages across the world.

Labour market policies comprise all kinds of regulative policies that influence the interaction between labour supply and demand. They consist of policies that provide income replacement (usually called passive LMPs) as well as labour market integration measures available to unemployed or those threatened by unemployment (usually labelled as active LMPs). Particularly in OECD countries, there has been an increasing effort to "activate" passive measures in order to enhance the integration of the unemployed and underemployed. The main ALMPs used for this purpose includes job search assistance and training. Despite the division into these two policy groups (ALMPs and PLMPs), this paper refers to LMPs in general, as the grouping is subordinated when designing policy responses. For this reason, this paper focuses rather on matching policies to specific objectives of policymakers, such as keeping people employed or supporting the unemployed, than on terminology.

At a more general level, the concept of employment policy usually encompasses all kinds of policies that influence the creation of employment, and hence, refer to a broader and more macro perspective on labour markets. The distinction between these policies is, however, not always made and it can be observed that countries sometimes use the expressions "labour market policy" and "employment policy" interchangeably. In this paper, labour market policies refer to measures that target individuals or households to ensure a minimum standard of living to avoid poverty and sustain consumption, and reduce both the risk of getting unemployed and the duration of unemployment. They are also intended to ensure a certain level of social inclusion. Regardless of how policies are labelled, it is important to realize that LMPs can only mitigate the consequences of an economic crisis, such as the current one. In other words, labour market policies can help workers, employers and communities cope with the consequences of the crisis, but they cannot cure its causes; they can ease the transition between economic cycles, but they are not able to turn a recession into an economic upturn.

While the concepts of and policy frameworks for LMPs have been developed mainly in industrialized countries, it does not mean that these policies cannot be applied to other parts of the world. But, the economic crisis has tightened the resources constraints, making the LMP response even more challenging for developing economies, especially low-income countries. Many of these governments will therefore require financial and technical assistance to expand LMPs in response to the crises, with support from the ILO and other international partners. This assistance is crucial not only in the context of the current crisis but also during other economic downturns that are generated by national or regional calamities and shocks, including the persisting global food crisis. Ultimately, to design an effective reform or rescue package for a country, LMPs have to be relevant to the overall economic and institutional framework of a country.

Due to ILO's mandate and wealth of experience in designing and promoting LMPs, leaders at the G20 Summit in April 2009 called "upon the ILO, working with other relevant organizations, to assess the actions taken and those required for the future" in order to "support employment by stimulating growth, investing in education and training, and through active labour market policies, focusing on the most vulnerable".[5] In this context, this paper complements other work conducted by ILO by presenting a comprehensive overview of various labour market policy instruments and sketches the range of options available given countries' institutional and financial capacities. More specifically, the purpose is to provide some insights on how to make the most of short-term LMPs in times of crisis. The paper does not intend to review all existing programmes across countries, nor answer the questions of "what works" and for "what groups of the unemployed"; its focus is more on appropriate short-term responses to the crisis and on possible adjustment and extension of existing policies and programmes. Since new measures and institutional reforms take time to become operational, the present crisis bolsters the argument that economies need to have permanent, yet adaptable, LMPs and institutions, whose levels and structure vary with the business cycle in order to enable workforce adjustment in a socially acceptable way. Though there are growing signs that economies around the globe are beginning to recover, the messages of this paper are nonetheless relevant to both tackling the increasing and persistent levels of unemployment and to prepare for future crises.

The remainder of the paper is structured as follows: section 2 presents a summary of labour market adjustment mechanisms, before providing a brief discussion on the factors that need to be taken into account when formulating a policy response to the crisis. The main part of the paper, section 3, presents the different policy instruments available to countries to mitigate the impact of the economic downturn on employment and incomes. In this section, country examples are provided in order to illustrate the policy instruments described, drawing largely on the response to the current global financial crisis. Section 4 concludes.

[5] See G20 Leaders' Final Communiqué, "The Global Plan for Recovery and Reform", April 2009, available at http://www.g20.org/Documents/final-communique.pdf.

2. Labour market policies in an economic downturn

2.1 Channels of adjustment during an economic downturn

Given the large and long lasting impact of the current economic crisis on jobs, labour market policies play a critical role in responding to the downturn. This in turn requires recognizing how the labour market adjusts as a result of the credit squeeze and collapse in aggregate demand. In this respect, the main immediate challenge facing governments is the subsequent drop in labour demand, rather than addressing frictional and structural problems in the labour market, though the latter will play a role in determining how the crisis translates into unemployment and underemployment. Indeed, the reaction of employers to the downturn will depend on the magnitude of the crisis in their country and region, and the degree of flexibility they have in adjusting labour, which is influenced by the institutional arrangements in the labour market (such as wage setting institutions, unionization, employment protection legislation, etc.). Adjustments to crises are not only evident in aggregate changes to labour demand, but also in terms of job reallocation within and across sectors. There are also changes to labour supply at the individual and household level.

At the firm-level, there are two main channels for adjustment to external shocks in labour demand: working time and/or employment (quantitative adjustment) or wages (price adjustment), which can be summarized as the following[6]:

1) *Quantity adjustment can take place in terms of i) Hours of work* – Firms adjust hours of work more rapidly than the number of workers due to cost considerations and the need to retain workers, which remains a priority for employers, particularly after their experience of skills shortages in the period leading up to the current crisis. Cuts in working hours are often unsubsidized, but are nonetheless preferable for workers to dismissal. Reducing working hours, therefore, has the advantage that it maintains the employment relationship, while avoiding the private and social costs of dismissal and unemployment; ii) *Employment* – A sharp drop in economic activity ultimately leads to dismissals, mass layoffs, plant closures, and hiring freezes, which all contribute to rising unemployment.

2) *Price adjustment via changes in real wages* – Cutting wages and other benefits of remaining workers may reduce labour costs, but has an adverse social impact. Moreover, employers even in

[6] One can also use a different categorization of adjustment mechanisms: Internal adjustment refers to changes in the hours worked or wages paid, while the contract is still maintained and therefore the number of people employed does not change. In contrast, external adjustment refers to changes in the number of people employed.

countries with flexible labour markets such as the United States are reluctant to cut nominal wages because of its impact on morale of staff and productivity levels.[7] In developing countries reducing wages is not as effective as an adjustment mechanism because of the overall low level of labour costs, besides the negative impact of cuts on workers, who are near or below the poverty line. Changes to real wages will also depend on institutional arrangements and movements in price levels. Prior to the crisis, inflation was on the increase in both industrialized and developing countries. Since the onset of the downturn, prices have tended to fall in industrialized countries, while they still remain relatively high in developing economies.

In the context of the present recession, there has been a discussion whether firms in the United States are retaining more workers than required to meet their current demand and are instead cutting work hours (Aeppel and Lahart 2009). This process, called sometimes "labour hoarding", would be optimal if employers expect that hiring workers during the recovery phase would be too difficult and costly. Aaronson et al. (2009) finds that the adjustment to the work force in the United States is in line with previous recessions, though firms are tending to hold on more to highly skilled workers.

Economic crises can also lead to changes in the sectoral composition of employment as jobs and workers reallocate within sectors and from contracting sectors (construction, financial services, manufacturing, and other export-intensive industries) to others where employment can be found, which are often in the service sector. Thus, even in an economic downturn, job turnover continues.[8] In the midst of a major recession, however, reallocation to other sectors can be constrained because most of the economy is not growing.

In developing and emerging economies, many laid-off workers are often forced to take up employment in the urban informal or rural economies (i.e. a reversal of rural-urban migration flows), which act as absorbing sectors in times of crisis.[9] International migration is also an adjustment mechanism: workers are forced to move to other countries in search of work, or are forced to return to their home country as a consequence of losing their job.

Beyond the described mechanisms, there can also be an adjustment process within households, as family members change their labour supply in response to a job loss. During the 1997 East Asian financial crisis, for example, rural households in Indonesia reacted to job losses of males by increasing the

[7] See the work, for example, of Bewley (1999).

[8] See Davis and Halitwanger (1999) for an in-depth discussion on gross jobs flows.

[9] See, for example, the case of the East Asian Crisis in Fallon and Lucas (2002).

labour supply of women. In most of the countries affected by that crisis, adjustment was in fact more evident through a fall in real wages, rather than in a commensurate drop in employment or rise in unemployment, though there was considerable churning in the labour market (across sectors and into informal employment) (Fallon and Lucas 2002; World Bank 2008). The fall in real wages nonetheless resulted in considerable increases in poverty (Dhanani and Islam 2002). Overall, poverty in households increases because: 1) adjustments to labour supply do not make up for losses in employment and wages; and 2) households do not have enough savings or access to other sources of income to smooth consumption, which is being exacerbated in the current crisis by falling remittances.

2.2 Goals and principles of labour market policies in times of crisis

In light of these various adjustment mechanisms, government policies can be implemented to achieve various goals. For example, to reduce layoffs firms need assistance to adjust to the drop in economic activity, which can be done through various subsidies. One approach is known as work sharing, which has been widely used in industrialized countries during the current crisis. Following a significant economic contraction, these policies, however, can only be partially effective in the sense that they cannot prevent all layoffs, thus leaving an important role for policy interventions that support the unemployed to develop skills and to regain employment. Other measures such as unemployment benefits compensate for the loss of income. The challenge for policymakers is to identify what labour market adjustment is optimal not only for employers but also for society at large. If firms are adjusting too rapidly, governments have a role to play to ensure that adjustment is tempered and in line with the policy goal of keeping unemployment from surging and contributing to a further dampening of economic activity.

In this overall context, the labour market response to the crisis should aim to achieve one or more of the following goals, which centre around four main areas (labour demand, match between demand and supply, income support and targeting):

1) <u>Support labour demand</u> by:

   a) Keeping people in jobs to prevent unemployment and working poverty (i.e. help employers avoid laying off workers through measures to reduce labour costs such as a reduction in working hours or subsidies)

   b) Creating new jobs to lift people out of unemployment/ underemployment and working poverty (i.e. support laid-off workers and new labour market entrants)

c) Improve the match between labour demand and supply by making the unemployed more employable

2) Provide income support to job losers and low-income earners to smooth consumption and prevent poverty

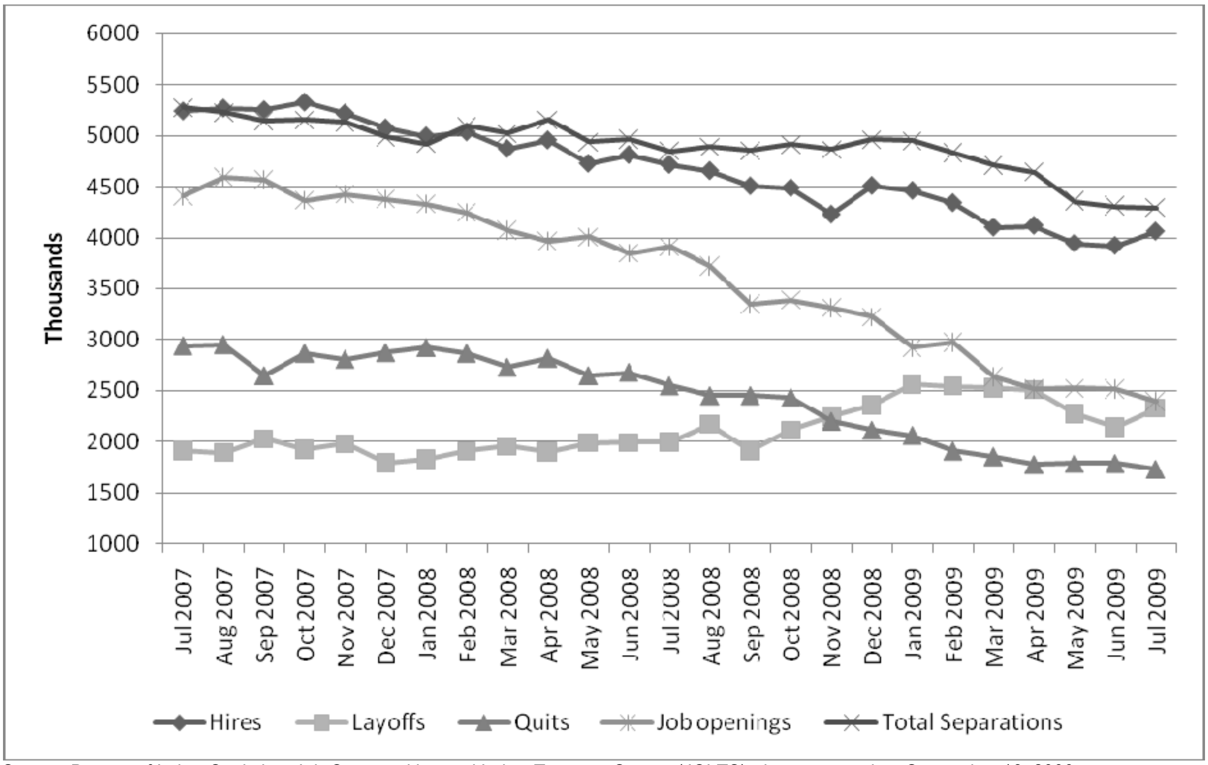
3) Target the most vulnerable segments of society such as youth, older persons, persons with disability, and refugees and migrants, which is a cross-cutting goal relevant to those listed above

For all these policy objectives, the main challenge is to develop a suitable LMP package to facilitate recovery without imposing disproportionate burdens on workers, enterprises and public funds. Overall, a number of factors should be taken into account when developing the appropriate policy response. Firstly, since the objective is to develop short-term responses to increasing unemployment and working poverty, the focus of strategies during a recession should be on utilizing and adjusting existing institutions, policies and programmes to ensure that these interventions can be implemented quickly and effectively.

Secondly, labour market policies in this time of economic crisis should react to the drop in labour demand, which will vary not only by countries but also across regions within a country. In contrast, policies that aim to improve the efficiency of the labour market are unlikely to deliver any immediate results, though can play an instrumental role during the recovery to help reduce the lag between economic growth and unemployment rates. Labour market interventions can also have a longer term goal. For instance, as argued by Bell and Blanchflower (2009), special efforts should be made to help youth to prevent the long-term impact of unemployment on their future employment and income prospects. They propose that the UK government supports young people to remain in school and continue to higher education to improve their skills and employability. Such measures will increase their employment chances once the economy has recovered.

Thirdly, it is crucial to understand the changes to job and worker flows in the labour market in order to design the most appropriate policy responses. For example, as witnessed in previous recessions, the rise in unemployment in countries like the United States is driven largely by the fall in hiring not the much publicized rise in layoffs, a point also made by Hall (2007). This phenomenon is illustrated in Figure 1 using data for the United States over the last two years. In July 2007, there were 1,913,000 layoffs in comparison with 2,327,000 in July of this year, i.e. an increase of 414,000. At the same time, quits decreased by approximately 1.2 million over the same period. As a consequence, total monthly separations (quits plus layoffs and other separations) actually fell by around 981,000. During this period, the number of monthly hires dropped by a far greater magnitude, from 5.2 million in July 2007 to 4.1 million in July 2009. Job openings have fallen even further, reaching just 2.4 million in July 2009, down from 4.4 million two years ago. Overall, though layoffs add to the pool of unemployed, it is the reduced job openings and the subsequent collapse in hiring that drives the unemployment rate once the economy has bottomed out. Based on this picture of the labour market during a crisis, policymakers in the United States should now start focusing more efforts on supporting employers to create jobs and hire new staff. This underscores the importance of looking at gross flows and not just at the net effect of labour market transitions.

Figure 1. Total nonfarm monthly hires, job openings and separations in the United States before and during the crisis



Source: Bureau of Labor Statistics, Job Opportunities and Labor Turnover Survey (JOLTS), data extracted on September 16, 2009.

Notes: Total separations equals layoffs, quits plus other separations (the last category is not displayed in Figure 1). Monthly data is seasonally adjusted. Figures are for the nonfarm sector (private plus public sectors). Data for July 2009 is preliminary.

Finally, evaluations of previous policies suggest that they are not always fully effective, despite their high cost, especially with respect to targeting unemployed youth.[10] Studies such as Bechterman et al. (2004) find that in general: employment services such as job search assistance are the most cost-effective intervention; training programmes for the unemployed can have positive impacts, particularly when conducted in the workplace; the impact of subsidies is not as favourable; public works programmes can be effective as a safety-net but usually do not lead to better employment opportunities or earnings; and entrepreneurship incentives are appropriate for a small segment of the population who tend to be better educated. The meta-evaluation presented in

[10] See, for example, Kluve (2007) and Bell and Blanchflower (2009).

Card et al. (2009) indicates that longer-term evaluations reveal more favourable impacts of policies than short-term evaluations.

That said, evidence on the impact of policies, especially in low-income countries, remains scant, and thus, it is difficult to extrapolate these results to all labour markets around the globe. For this reason, all efforts should be made to consider the relative costs and benefits of measures before embarking on their implementation. A major challenge in this respect is that while costs usually can be directly quantified, benefits such as avoidance of unrest and encouragement of social cohesion, which are very important in low-income countries, are difficult to quantify. To shed some light on these issues, the main advantages and disadvantages of policy responses discussed below are highlighted in the text and in Table 1 in the Appendix, which also displays the financing sources, the role in targeting groups and highlights potential constraints for developing countries (especially low-income countries).

The key message of Table 1 is that though there are a range of different LMP tools available to governments, they all require a certain institutional and financial capacity of governments to fund and successfully implement interventions. Policies that maintain labour demand can be particularly expensive as they require compensation for workers. For example, work sharing is a scheme where employers reduce the number of hours worked to avoid laying off staff, which reduces labour costs and helps them survive a period of low demand. In most European countries, work sharing is subsidized by the State to prevent a loss in income for workers. Measures that support the unemployed such as job search assistance or training require an effective public employment service and providers of training. Despite the best institutional set-up, these policies can, however, be ineffective in a period where demand is low and firms are not hiring as illustrated in Figure 1.

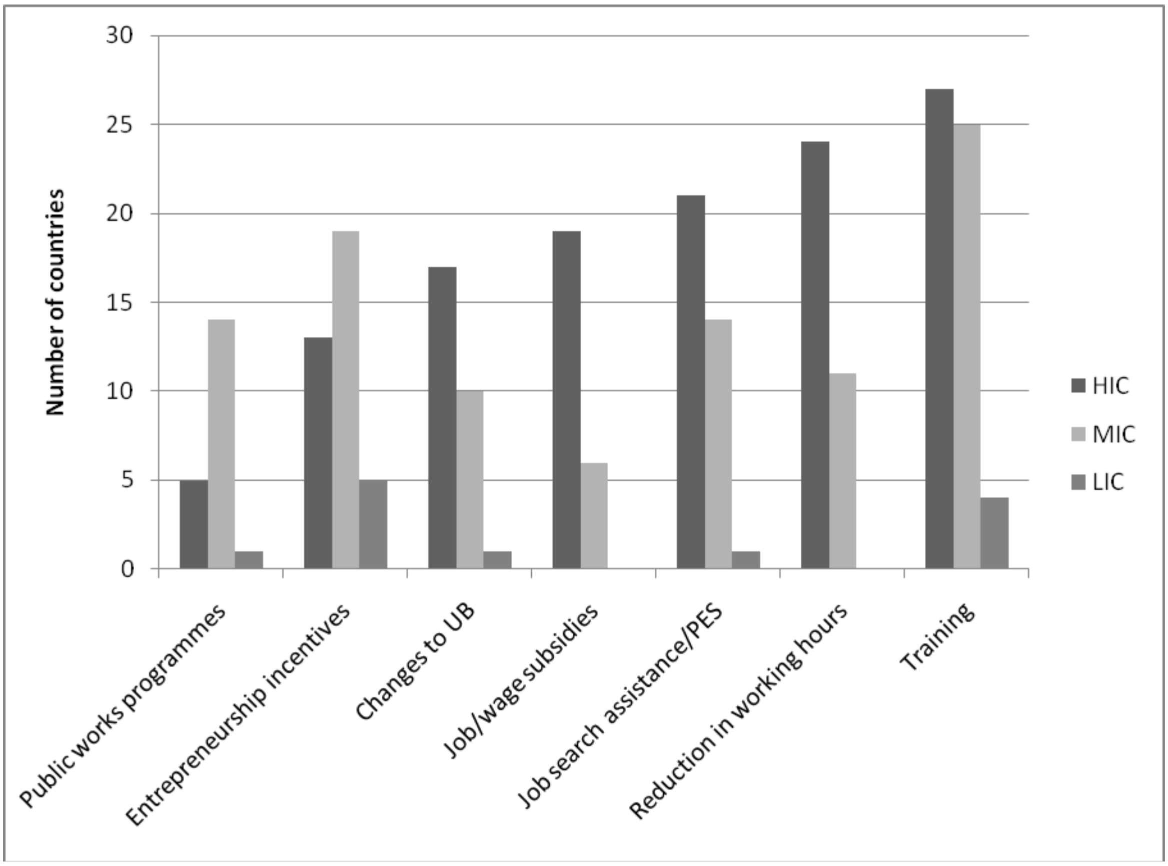
3. Labour market policy response to the current global financial crisis

Before examining the specific categories of LMPs used to tackle the labour market impact of the current financial crisis, it is useful to have an overview of the measures and programmes that have been introduced by governments since the onset of the downturn. Though it is difficult to collect full information on policies across the globe, available studies and responses reported by governments, summarized in Figure 2 and Table 2 in the Appendix, provide some important insights into the main tools adopted by governments. The responses reported here draw from various studies that assess policy decisions in 79 OECD and non-OECD countries from Europe, North America, Latin America, Asia, Oceania, Middle East and Africa.[11] It should be stressed that this information is by no means complete and that some policies are only announcements and are thus yet to be implemented.

As illustrated in Figure 2, a large number of high-income countries have considered policy measures that address all four types considered in this paper. The most commonly used intervention in high-income countries is training for both those threatened by layoffs and the unemployed (including work experience and apprenticeship initiatives) (27 countries), followed by work sharing (24 countries), increased resources for public employment services including job search assistance measures (20 countries), and subsidies (20 countries). The least-implemented intervention in this group of countries is public works programmes (5 countries), which is not surprising given the limited effectiveness of this intervention in such labour markets. In terms of security provided by passive labour market policies, 17 high-income countries have made changes to unemployment benefits schemes (usually extensions of coverage and broader eligibility criteria).

[11] See Council of the EU (2009), ECLAC (2009), ILO (2009a, 2009b), Kannan (2009), Lee (2009), OECD (2009a), and Titiheruw et al. (2009).

Figure 2. National labour market policy responses to the current global financial crisis



Source: See Table 2 in the Appendix.

Notes: HIC = high-income countries; MIC = middle-income countries; LIC = low-income countries, which are grouped according to the World Bank's classification of countries, see http://go.worldbank.org/D7SN0B8YU0. UB = unemployment benefits schemes.

Overall, the use of labour market policies in response to the current crisis is declining with the income-level of countries, which reflects the financial and technical constraints hindering the response of these governments. Nonetheless, a range of policies have been utilized in low and middle-income countries, in some cases in a similar fashion to more developed nations. As displayed in Figure 2, the most utilized policy response in the middle-income group is training (with 25 countries) followed by job search assistance, entrepreneurship incentives and public works programmes. Interestingly, 11 of these countries are using a reduction in working hours to support employers in response to the downturn, though not all these interventions are subsidized. There are far fewer low-income countries implementing such policies in response to the crisis. Those listed in Figure 2 are mostly focusing on entrepreneurship incentives (Cambodia, Kenya, Nepal, Tanzania and Viet Nam) and training (Bangladesh, Cambodia, Kenya, Viet Nam). In general, low and middle-income countries tend to rely on LMP measures that do not require complex institutional structures and social dialogue. Nonetheless, some governments are turning to be more innovative policies that have not been widely used before such as providing subsidized training for threatened workers, which is highlighted by the Mauritian case mentioned below.

3.1 Supporting labour demand

Maintaining labour demand during a severe crisis is a priority for governments because of the costs of unemployment and the impact of joblessness on further dampening aggregate demand, which can lead to a recessionary spiral as more people lose jobs and consume less. Supporting labour demand involves firstly keeping workers in jobs. However, layoffs have been unavoidable in many cases, particularly in sectors that contract sharply during a recession such as construction and export-intensive sectors. In this case, other labour market policies can help create new jobs to provide employment opportunities for laid-off workers and new entrants in the labour market, though these can be less effective during such a downturn. These schemes can also assist with the reallocation of labour to sectors with a higher growth potential (together with training measures considered in section 2.3), though this is difficult during a deep recession where few sectors are growing.

3.1.1 Keeping people in jobs

In order to keep workers in their jobs, employers need support to make adjustments to their labour demand and costs without resorting to layoffs. As witnessed during the current crisis, governments around the world have bailed out companies, especially financial institutions and automobile manufacturers. Beyond such financial measures, the main LMP tools available for this kind of internal adjustment include reducing working hours, also called work sharing, and providing on-the-job training during slack periods when output has been reduced. These measures help sustain labour demand and reduce labour costs for employers without having to resort to dismissing workers.

Work sharing involves the reduction of working hours together with a reduction in wages, which may be subsidized by governments to ease the burden on workers. This scheme is typically limited to a specific period and is often combined with training measures: once economic conditions have improved, workers are meant to go back to the original contracted working time. When the reduction in working hours is subsidized through government revenue, workers' incomes are not reduced; however, in some cases, compensation is not fully proportional to the reduction of hours worked, resulting in a loss of earnings. By reducing labour costs in the short-term, this approach supports employers adjust working hours rather than resorting to adjustment of employment levels. This helps retain skilled workers, which are costly and difficult to hire during better economic times, as witnessed in the boom years leading up to the crisis. For workers, the work sharing schemes provides workers with job and income security, and if combined with training, skills development.

Prior to the onset of the current global crisis, work sharing schemes existed in a number of industrialized countries such as Austria, Belgium, France, Germany, Japan, Korea, the Netherlands, Switzerland, and United States (in certain States). In the context of present downturn, a number countries among them France and Germany have extended their work sharing schemes, known respectively as “chômage partiel” or “Kurzarbeit”, in terms of duration and level of subsidy for the employee or the employer. The maximum duration of the German scheme was increased progressively as the crisis developed and now stands at 24 months (as of May 2009). The German work sharing scheme “Kurzarbeit” has played an important role in preventing unemployment in Europe’s largest economy. Official figures show that as of March 2009, 1.26 million workers were covered by this scheme, up from only 155,000 a year earlier (Bundesagentur für Arbeit 2009). Canada also extended its Work-Sharing Program to 52 weeks from a previous level of 38 weeks (Messenger 2009).

The objective of on-the-job training is longer term as it seeks to enhance the human capital of workers to improve productivity, which is possible because of a reduction in capacity utilization within the company. The challenge for employers is that such measures represent long-term human capital investment and actually require additional resources to cover the costs of training (unless subsidized by the government). Very often, these two policies ─ reduction of working hours and on-the-job training ─ are combined to provide a package that benefits both employers and workers, particularly when the government subsidizes such schemes.

For instance, employers and unions in the Swedish manufacturing sector reached an agreement on temporary reduction in work hours and training in March of this year. This agreement allows employers to reduce hours worked by employees by 20 per cent (unsubsidized), which can be replaced by participation in training programmes. Volvo has already taken advantage of this agreement, helping the company keep 1000 workers who otherwise would have been dismissed (Lovén 2009).

If the quantity of hours worked cannot be reduced, other measures to reduce labour costs can support employers maintain employment, such as wage subsidies and lowering of social contributions. These measures can also be used to hire the unemployed and hence be seen as part of the set of policy measures listed in section 3.1.2. The advantage of these schemes is that they can maintain the same wage levels for workers (in case of the reduction of non-wage labour costs), while reducing the cost for employers. At the same time, these measures are very costly for governments, particularly because such policies can be difficult to phase out and entail potentially significant deadweight losses. Moreover, unless governments can finance the reduction in social security payments, cuts in social contributions will have long-term ramifications for the viability of social security funds.

In developing countries, measures such as reducing working hours are difficult to implement because of their costs, although depending on whether a social security system is in place, a subsidized reduction of working hours can be less expensive than the payment of unemployment benefits and the further consequences of increased unemployment. Alternatively, unsubsidized measures would result in reduced wages for workers, who are often living near or below the poverty line, and thus the measure would subsequently have long-lasting negative consequences for the welfare of these workers and their families. Overall, these policy options lose some relevance in countries where the formal economy may only represent ten percent of workers and where labour costs are not a major constraint for employers. In addition, such interventions require constructive social dialogue, which is often absent.

Despite these challenges, middle income countries such as Mauritius have looked for ways to keep people in jobs. In May of this year, the Government of Mauritius announced that its National Employment Foundation will run a "Work cum Training" scheme to enable companies in the manufacturing and tourism sectors, facing a reduction in their turnover, to send their employees on training instead of laying them off.[12] The government is providing Rs 300 million for the scheme and expects to save some 6,000 employees from retrenchment while at the same time improving their skills.[13] Training will be provided for up to two days a week and will run for a maximum period of 18 months until Dec 2010.

3.1.2 Creating new jobs

During the current crisis, many firms have had no choice but to dismiss workers or close down entirely. Since the recession began in December 2007, 7.4 million jobs have been lost in the United States (BLS 2009). The response of governments to such a situation involves a comprehensive set of macroeconomic, sectoral and employment policies to boost demand and economic growth, in which labour market policies play a relatively minor role. Nonetheless, specific labour market policies can be utilized by governments to create jobs such as wage subsidies, cuts to employer social contributions and public works programmes. These measures can potentially support employers to abandon hiring freezes and start employing new workers. As highlighted in section 2, the failure for firms to hire workers is the main reason why unemployment rates have surged in countries such as the United States.

As already mentioned in section 2.2.1, measures to reduce labour costs such as wage/hiring subsidies or lowering of social security contributions, make it more attractive to hire new workers thus creating new jobs. As reported by the OECD, a number of countries have responded to the crisis by establishing or expanding programmes to subsidize wages or reduce social contributions for new hires, often targeting vulnerable populations such as youth (OECD 2009a). For example, Australia has announced the introduction of a new wage subsidy for employers who hire laid-off apprentices and trainees. The $AU145.6 million *Securing Apprenticeships* scheme, which aims to keep out-of-trade apprentices

[12] See Budget Speech from 22 May 2009, www.gov.mu/portal/goc/mof/files/budspeech09.pdf.

[13] Rs 300 million = US$9,255,831 at the exchange rate on 23 June 2009.

and trainees connected to the workforce after becoming laid-off prior to the end of their training period.[14]

In contrast to providing incentives through wages, public works programmes directly create paid employment through labour-intensive projects such as road construction, maintenance, irrigation infrastructure, reforestation, and soil conservation. These programmes provide some sort of safety net for the poor, rather than offering a long-term solution to the lack of employment opportunities. Public works are considered self-targeting, because non-eligible beneficiaries are reluctant to take up such menial work, which are typically remunerated at below market wages (Kanyene et al. 2000). In general, these programmes are more relevant for developing countries, particularly in terms of supporting vulnerable groups such as youth and those living in rural areas (Auer et al. 2008). The advantage of these schemes is that besides providing some sort of income for poor people, they can help improve the local infrastructure and the environment, which in turn has longer-term economic and social benefits (a "double-dividend"). The challenge for such programmes is the cost and difficulties in creating sustainable livelihoods for participants once the programme has finished. Moreover, these interventions require an institutional set-up that ensures an effective use of resources in terms of maximizing the programme's impact and reducing leakage of funds.

Recognizing the potential benefits of such schemes, South Africa established in 2004 the Extended Public Works Programme (EPWP) with the aim of "creating at least 1 million work opportunities, of which at least 40% of beneficiaries will be women, 30% youth and 2% people with disabilities."[15] A second phase launched this year seeks to increase the number of beneficiaries to 2 million full-time equivalent jobs. EPWP beneficiaries participate in a range of infrastructure, economic, environmental and social projects.

The National Rural Employment Guarantee scheme in India has received considerable attention, particularly because it enshrines a right to employment and provides a wage floor for the rural poor.[16] The NREG Act was enacted in 2005 building on a previous initiative in the state of Maharashtra (the Maharashtra Rural Employment Guarantee Programme). Taking a rights-based approach, the NREG scheme confers the right of employment of up to 100 days per year in public works programmes per rural household. Thus, the government is acting as the employer of last resort, providing work to those who are unable to gain employment elsewhere. The NREG scheme should help India in mitigating the impact of the crisis on the rural poor, which underscores the importance of having safety nets in place supported by existing institutions

[14] See http://www.aph.gov.au/budget/2009-10/content/ministerial_statements/deewr/html/ms_deewr-03.htm.

[15] See www.epwp.gov.za/index.asp?c=Home.

[16] See http://nrega.nic.in/ and Sjoblom and Farrington (2008).

and policies to be able to respond to an economic shock. Recognizing the role of these programmes during the current crisis, the Government of India announced as part of its stimulus package additional resources for such schemes as the NREG (ILO 2009a, Kannan 2009).[17]

Also from the perspective of the present crisis, a number of countries have announced public works programmes. For example, South Korea announced that it will offer 250,000 temporary jobs to the vulnerable ones and unemployed over the coming six months. These beneficiaries will be involved in repairing and maintaining public facilities and other manual labour, and will earn 830,000 won a month for a 40 hour week over a period of six months (around US$664 at the current exchange rate).[18]

3.2 Improving the match between labour demand and supply by making the unemployed more employable

If lay-offs cannot be prevented, it is important for countries to also orient their labour market policies on increasing the employability of the laid-off and improving the match between demand and supply. Such matching policies are important over mid and long-term horizons with job reallocation taking place: even in times of crisis jobs are being created, so it is crucial to help the unemployed find jobs and keep vulnerable individuals such as youth out of long-term unemployment. The main labour market policies used for this purpose are job search assistance, training, work experience and apprenticeship programmes, and entrepreneurship support.

The objective of job search assistance (JSA) is to improve the chances of an unemployed person finding a job through such activities as assessment of skills, counselling, training on presentation and job search strategies, and identifying vacancies. These activities are typically provided by public employment services (PES), though there are increasingly a large number of private providers that assist the unemployed with job search. JSA interventions are particularly relevant to youth who lack the necessary skills to find a job. Meta-evaluations of JSA programmes in industrialized countries reveal that besides being relatively cheap, they have positive short-term effects with regards to employment outcomes (Kluve 2007). However, during the present economic downturn, expanding JSA would require increases in human and financial resources for public employment services, which can be challenging

[17] The NREG scheme was extended in 2008 to cover 615 districts (previously 330) and provide work for 32 million people (cost of US$4 billion in the 2008/2009 budget). There is also a plan to extend this scheme to urban areas; at least one-third of the beneficiaries shall be women (they made half of the beneficiaries in 2008) (ILO 2009a).

[18] See the Korea Development Bank, http://www.kdb.co.kr/weblogic/Board?BID=25&NID=35932&ACTION=VIEW.

even for OECD countries. Moreover, JSA is likely to be less effective in the short-run during periods where labour demand is low, as witnessed during the present crisis.

Despite these challenges, many industrialized countries have increased resources for public employment services to facilitate the increased demand for job search assistance schemes during the current economic downturn. For example, Finland has responded by temporarily increasing funding of PES staff and job search assistance and counselling measures for laid-off workers (OECD 2009a).

Broader than JSA, training measures aim to improve the employability of the unemployed through skills enhancement. These programmes typically focus on vocational skills training, either taking place in training institutions or on the job. They are funded either through government revenue, levies, public-private partnerships or official development assistance (in the case of developing countries). These programmes in developing countries are constrained by the lack of resources and appropriate training institutions. For both OECD and developing countries, a major challenge is being able to identify areas for training that will help the unemployed find jobs when the economy picks up again. This involves linking the programme with the current and future skills requirements of employers, which is something that public providers of training courses haven't always done correctly or cost-effectively. Indeed, evaluations of training programmes indicate that they work best when conducted on the job and with active employer involvement (Bechterman et al. 2004).

In the context of the present crisis, China announced in November 2008 a four trillion Yuan (586 billion USD) economic stimulus package for two years, which amounts to 14% of estimated gross domestic product (2008 level). As part of this package, there is an announced nation-wide vocational training scheme, which would especially assist laid-off and migrant workers with the view of easing pressure on the Chinese job market (Lee 2009).

Related to training measures, work experience and apprenticeship programmes usually target young people who lack skills and experience. Generally, work experience programmes are shorter-term, while apprenticeships offer longer formalized training linked to a particular employer. A challenge for these measures is the poor lock-in effect: after completing a work experience or apprenticeship programme, workers are not kept on by the firm. In developing countries, an additional challenge is to improve the effectiveness of apprenticeship schemes in the informal economy, particularly in terms of quality of training.

In addition to these interventions, a common form of support to the unemployed/underemployed, particularly in developing countries, is entrepreneurship incentives, which usually consists of training, credit or a combination of both. Entrepreneurship training focuses on developing skills in business planning, marketing, and product development, often coupled with mentoring. Entrepreneurship credit schemes, usually micro-credit, seek to overcome barriers the unemployed face in accessing funds from a formal lending institution, which are especially severe because these individuals lack a credit history and collateral. A major constraint is that these schemes can only assist a small proportion of the unemployed since not all individuals are suited to becoming entrepreneurs (though it can be argued that entrepreneurship skills can be beneficial for a broader range of roles). Prior to the crisis, a number of developing countries have already established entrepreneurship funds that provide both training and access to credit, mostly targeting youth. Alone in Africa, Algeria, Botswana, Kenya, Malawi, Mali, Nigeria, Senegal, South Africa, Tanzania, Uganda, and Zambia have existing youth entrepreneurship funds that were established in recent years. These programmes could be used as vehicles to accelerate any labour market response to the impact of the current global economic downturn, which would nonetheless require increased resources.

3.3 Providing income support

Within the labour market package, passive LMPs, particularly unemployment benefit schemes (contributory and non-contributory), aim at maintaining income levels after a losing a job, providing insurance to maintain consumption levels and keep individuals and their families out of poverty. The flipside of these interventions is the much discussed disincentive effects of high unemployment benefits, which may discourage workers from taking job offers. Classical theory suggests that "generous" income support discourages the unemployed from seeking work (by increasing their reservation wage); and reduces the "fear" of unemployment, hence increasing the upward pressure on wages from employees (via trade unions, for example). Empirical evidence on OECD countries does suggest that high and long-term unemployment benefits may generate long-term unemployment and potentially affect unemployment rates, though this has been more recently disputed (Boeri et al. 2008). It is important to stress that the disincentive effects of unemployment benefits schemes is less of a concern during a crisis, because it is not the driver of rising and persistent levels of unemployment.

A collapse in aggregate demand results in job losses and reductions in working hours and wages, which in turn leads to lower demand as incomes and hence consumption fall. In such situations, unemployment benefits act as automatic stabilizers because the overall coverage of assistance to the unemployed increases by design during a recession as more jobless submit claims for benefits, without any specific government intervention.[19] However, during the current crisis, large numbers of laid-off workers have not been eligible for unemployment benefits. In response to this aspect, many governments have made changes during the current crisis to the unemployment

[19] In contrast, most active labour market policies have to be increased through actions of policymakers, except for such countries as Denmark and Switzerland where funding for such policies rises automatically with the unemployment rate (OECD 2009a).

benefits schemes, including extending the coverage and increasing the generosity of payments. For example, some countries have extended unemployment benefits to those who have not previously been eligible (e.g. reduction of minimum of months worked to be eligible). Others like Brazil and South Korea have extended the duration of unemployment benefits.

In OECD countries, job losers who are not eligible for unemployment benefits are often able to access social assistance and housing support payments. For example, in the United States, federal funding has been provided for social assistance payments to the unemployed who have exhausted their unemployment benefits. The Government of Japan is offering a subsidy to employers to continue providing housing to dismissed workers so they do not become homeless (OECD 2009a).

The main challenge to expanding coverage and increasing unemployment benefits is the cost implication for governments, though these measures are mostly meant to be temporary. Most developing countries do not have unemployment benefit schemes due to their cost, and capacity and institutional requirements such as a functioning public employment service. In Africa, only Algeria, Egypt, Mauritius, South Africa and Tunisia provide any form of unemployment insurance programme (SSA/ISSA 2009). Viet Nam is the only low-income country to establish an unemployment insurance scheme, which commenced in January 2009, though Vietnamese employees can only benefit from this scheme from the beginning of 2010 (Pham 2009). In other countries, new social security systems can only be envisaged over a longer term horizon, which limits the applicability of this policy option as an immediate response to the current crisis in developing economies. Nonetheless, it remains an important goal as a means to protect the welfare of the poor (Townsend 2009). Since most of the poor in developing countries are beyond the reach of formal income protection schemes, countries in Latin America such as Brazil support those in poverty through targeted cash transfers (usually conditional on the participation of children in schools or health related requirements).[20]

3.4 Targeting vulnerable groups

Given the unequal impact of the crisis on the population, governments recognize the need to target certain groups such as youth in their labour market response. Indeed, during the current global downturn, youth have suffered more in the labour market as reflected by larger increases in unemployment rates than

[20] The Brazilian Minister of Social Development and Fight Against Hunger, Patrus Ananias, announced during his presentation of the programme at ILO's Governing Body meeting in March 2009, that the Bolsa Familia scheme will be expanded, www.ilo.org/global/about_the_ILO/Media_and_public_information/Feature_stories/lang--en/WCMS_103947/index.htm. Paraguay also plans to expand its conditional cash transfer programme to benefit 120,000 extremely poor families (ECLAC 2009).

witnessed for the prime-age population (Verick 2009). This has been driven by their higher likelihood of being laid off and lack of work experience and job search skills. Young people with low levels of education are particularly at risk. The unemployment rate for youth has increased in the European Union (27 member States) by 4.3 percentage points compared to a rise of 1.6 points for the prime-age population. In the United States, the surge in youth unemployment has been greater (an increase of 7 percentage points), while the rate for the prime-age population rose by 4.6 points.[21] With many adults seeking employment, young people across the world are facing stiff competition for the few jobs available in the labour market.

A majority of OECD countries are indeed targeting labour market measures at youth to mitigate the impact of the current economic downturn (OECD 2009a). This is essential to ensure that youth will not become long-term unemployed, which would reduce their future career and earnings potential, and increase their exclusion from society. The challenge for policymakers is to implement policies that will effectively assist young people threatened by lay-offs, those who have already lost their jobs in such sectors as construction and manufacturing, and new labour market entrants.

In addition to the situation in OECD countries, many developing nations already have national youth and gender employment policies and programmes, which are vehicles for implementing policies mentioned above and listed in Table 2. For example, if a government has identified that young men and women are the most impacted by the crisis, they could respond by expanding the national youth employment programme's training or entrepreneurship support schemes. Alternatively, if a country recognizes that those in a particular region are being hit the hardest, they could implement a public works programme that would hire residents in that region who have lost jobs or are underemployed.

Migrants, both legal and illegal, are particularly vulnerable during crises because they are typically not provided the same level of employment protection as native workers and hence are the first to lose their jobs during an economic downturn. Some countries have reacted to the current crisis by reducing migrant intake to reduce pressures on the labour market. In this regard, (temporary) migrant workers in countries such as Japan and Spain have received incentives to return to their home countries (OECD 2009b). To reduce pressures on the labour market, Australia has decreased its intake of skilled migrants by 18,500 places, representing 14 per cent of the total intake.[22]

[21] See the EUROSTAT Employment and Unemployment (Labour Force Survey) database, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database.

[22] See http://www.theaustralian.news.com.au/story/0,25197,25191631-601,00.html.

The main objective of targeted programmes is to reach those most in need. In any scheme, however, there is the potential to exclude needy beneficiaries and include un-needy beneficiaries due to imperfect information about their characteristics. Since administrators cannot accurately determine the eligibility of all beneficiaries, they design schemes that eliminate the risk of including a non-eligible individual or household in the scheme. This is in itself is a challenge in developed countries. Evaluations of programmes targeting youth in OECD countries reveal that they are less likely to have positive effects on beneficiaries than non-targeted programmes (Bechterman et al. 2004, Card et al. 2009, Kluve 2007). Nonetheless, as argued by Bell and Blanchflower (2009), it is still appropriate for countries like the UK to undertake a "temporary, limited and targeted[23]" expansion of active labour market policies addressing the employment challenges of youth, but this in turn require piloting of interventions and proper evaluation to identify what programmes work.

3.5 Role of social dialogue in promoting effective labour market responses

Constructive and effective social dialogue is an instrumental part of the process to achieve a negotiated outcome between governments, employers and workers on economic and social policy issues. In the midst of a crisis, social dialogue is crucial to negotiating outcomes that protect both the interests of employers and workers. This involves governments identifying ways of helping firms adjust to the rapid economic contraction, which entails providing financial support to employers to avoid mass layoffs. For example, as already indicated, the use of subsidized work sharing schemes in a number of countries, most notably Germany, has avoided layoffs as a result of the global recession and the subsequent increases in unemployment. This outcome involved social dialogue and the financial involvement of the government to subsidize the reduction in income accompanied by a lower number of work hours.

As analyzed by Rychly (2009), the involvement of social partners in the design and implementation of national responses to the current crisis has generally, however, been limited, especially in the earlier stages of the downturn. Evidence cited in this study show that many governments have been reluctant to undertake nationwide debates on the crisis, and mostly did not involve social partners from the onset to help shape the formulation of the crisis policy response. Notable exceptions were Belgium, Ireland and Spain, which already had tripartite systems in place that then focused on the crisis as part of their institutionalized negotiations. As already stressed above, this highlights

[23] By "limited" the authors mean that there can only be a modest increase in ALMPs, drawing on pilot studies conducted at the regional level (p 61).

the importance of having existing institutions in place in order to effectively respond to an economic crisis.

The position taken by social partners in response to the crisis has also varied depending on the level of negotiation (Rychly 2009). The focus of negotiations at the enterprise-level has been on wage and benefit moderation or freezes along with layoffs, voluntary retirements and other measures. As highlighted in section 2, most employers are in general reluctant to cut nominal wages, and evidence cited in Rychly (2009) suggests that this remains the case in the current downturn. In fact, with falling prices, real wages in many countries have increased since the start of the crisis in 2007. However, firms in the badly affected sectors such as the airline, automobile and mining industries have had to resort to more drastic measures to reduce costs. For example, the Toyota Motor Corporation (United Kingdom) agreed with employee representatives to cut base pay and production by 10 per cent at its British plants for a period of one year starting on 1 April 2009, which would nonetheless avoid layoffs that have been unavoidable in most car manufacturers.[24]

4. Conclusion

As a consequence of the current global financial and economic crisis, both industrialized and developing countries are experiencing massive adjustments to their labour markets as evident by the surging numbers of unemployed and rising levels of poverty. For this reason, labour market policies should play a complementary role in responding to the crisis, along with macroeconomic and other policies, in order to maintain labour demand through both job retention and job creation, improve the employability of the unemployed through improving the match between labour demand and supply, and help smooth incomes of job losers. As discussed in this paper, governments have a range of policies to choose from, though not all will be effective in the short-term, particularly during a period of low aggregate demand.

In general, policymakers should keep in mind the following principles: the policy response should build on existing measures; the interventions should match the objectives, for example, react to the drop in labour demand or set longer term goals; and weigh up the relative costs and benefits of different policies. The response is also development dependent: due to financial and technical constraints, the set of options available to OECD countries is far larger than that suitable for emerging and developing economies, particularly low-income countries. At the same time, this does not imply that labour market policies do not have a role to play in the latter group; rather, it suggests that

[24] See http://news.bbc.co.uk/2/hi/business/7936397.stm

these countries may require financial and technical assistance to expand policies in response to the crisis.

Moreover, over the medium- and long-term, governments should aim to develop a comprehensive and integrated policy and institutional framework that will enable them to better respond to crises, emanating from not only global shocks but also those arising from local and regional phenomena. This involves the development of labour market institutions and a broad-based social security system, which acts as an automatic stabilizer during a crisis. In developing countries, barriers to formalization need to be reduced to ensure that workers have more opportunities to find decent jobs and be protected by labour market institutions, including social protection measures.

Overall, the lack of monitoring and evaluation of labour market policies renders it difficult to make precise recommendations on the suitability of programmes. For this reason, more efforts need to be made to monitor and evaluate the impact of specific policies. With better information, governments can compare the relative costs and benefits of measures before implementing them, as well as build on the introduced policies when designing subsequent responses. Ultimately, the policy package will not only be country-specific but should also match different requirements at the sub-national level and the needs of the vulnerable such as youth. Finally, the policy response should be the outcome of constructive dialogue between the social partners, the government, employers and workers, where possible.

In this context, the ILO has a central role to play in terms of both providing technical assistance to countries to help them develop appropriate labour market policy responses and coordinating intra-regional sharing of lessons learnt and best practices. In addition, the ILO can support countries in ensuring that social dialogue is utilized to ensure the relevance and sustainability of the responses during and after this period of economic crisis.

Appendix

Table 1. Advantages and disadvantages of policy tools/changes to mitigate the impact of economic crisis on the labour market

Policy tool	Advantage	Disadvantage	Financing source	Institutional requirements	Potential challenges for developing countries
Maintaining labour demand - Keeping people in jobs					
Subsidized reduction in working hours (work sharing)	Allows employers to reduce hours worked to avoid layoffs; Helps retain skilled workers; Reduce labour costs for the employers; Enhances job security for workers; Protects incomes of workers; Promotes skills development of workers (if combined with training); No direct financial cost for employer	Requires financial support from government; Imposes administrative costs and changes to company's management practices; Income replacement may not be perfect leading to loss of earnings for workers	Government revenue through unemployment insurance schemes, unemployment funds, or subsidies paid directly to the employers	Social dialogue; legislation	Costly for developing countries

Policy tool	Advantage	Disadvantage	Financing source	Institutional requirements	Potential challenges for developing countries
Non-subsidized reduction in working hours	Allows employers to reduce hours worked to avoid layoffs; Helps retain skilled workers; Reduce labour costs for the employers; Enhances job security for workers; Promotes skills development of workers (if combined with training); No direct financial cost for employer	Involves income reduction for employees; Imposes administrative costs and changes to company's management practices	If income is strongly reduced though cut in working hours employees might depend on a social security net and cause thereby further costs		Wages in developing countries are often too low to cut (the lower labour costs would also have a negligible effect for employers); Tool is only relevant for the formal economy, which is usually very small in such countries
On-the-job training	Workers remain employed and retain/improve their human capital, which will contribute to improved productivity and growth in the future	Costly; Training is only a temporary measure and does not reduce labour costs for employers; New skills can be of limited use when there are few job vacancies	Government revenue, enterprises, levies	Training institutions (or within-firm training capacity)	There is a low level of training capacity in some developing countries (training institutions and in firms)

Policy tool	Advantage	Disadvantage	Financing source	Institutional requirements	Potential challenges for developing countries
Maintaining labour demand - Creating jobs					
Wage subsidies and cuts to employer social contributions (a policy that will not only help to create new jobs but also to maintain existing ones)	Reduces labour costs of existing and new workers, while workers receive the same wage	Costly and difficult to phase out; Can entail deadweight losses in terms of supporting worker who would have otherwise been hired/kept in the job in the absence of subsidies; Such policies can also encourage employers to replace non-subsidized workers with subsidized ones (substitution effect); Maybe ineffective during a crisis when aggregate demand has collapsed; Cuts in social contributions have long-term cost implications for social security funds	Government revenue	Legislation regulating subsidies	The high cost and problems with leakage of resources are major barriers for many developing countries; This tool is only relevant for the formal economy, which is usually very small in such countries
Public works programmes (and cash-for-work, food-for-work and other conditional cash transfer schemes)	Can help reduce poverty, particularly in rural areas, and has other longer-term benefits such as the building of infrastructure	Costly and not effective in creating long-term jobs; Difficult to phase out; Proven to be not so effective in developed countries	Government revenue, official development assistance (ODA)	None	Widely used in developing countries to mixed success, which is due to poor design and implementation of programmes

Policy tool	Advantage	Disadvantage	Financing source	Institutional requirements	Potential challenges for developing countries
Improving the match between labour demand and supply by making the unemployed more employable					
Job search assistance	Improves the job search abilities of unemployed at a relatively low cost	Ineffective in times of low labour demand; Can entail deadweight costs because beneficiaries who find work through JSA are often more qualified and perhaps could have found jobs in the absence of assistance	Government revenue	Public employment service or private labour exchanges/ employment agencies	Many developing countries do not have an effective public employment agency or private brokerage services, or lack skilled staff in these organizations
Work experience and apprenticeship programmes	Helps vulnerable persons, particularly youth, build experience and skills	Poor work conditions, including low wages; Lock-in effect is often low	Government revenue, enterprises, ODA	Existing programmes	Programmes in developing countries are often underfunded, and thus, could be difficult to expand. A major challenge for these countries is improving the effectiveness of apprenticeship schemes in the informal economy. In these schemes, the quality of training can be low.
Training programmes	Builds the skills of those out of employment to increase their chances of finding a job	Costly and training is often not linked to the demands of employers (skills mismatch)	Government revenue, ODA, enterprises, levies, public-private partnerships	Training institutions	There is a lack of effective training institutions in developing countries

Policy tool	Advantage	Disadvantage	Financing source	Institutional requirements	Potential challenges for developing countries
Entrepreneurship incentives (training and microcredit) (a policy not only used to improve employability but also to create SMEs)	Provides capital and skills training to potential entrepreneurs	Costly and not always effective because training does not focus on the correct skills and because the financing is too restrictive; Poorest/women and other vulnerable groups are unable to access programmes; Many recipients do not succeed over the long-term	Government revenue, ODA, private sources including levies, public-private partnerships	Training and microcredit institutions, entrepreneur associations	Existing programmes in developing countries are only available for a small proportion of the population and are not always effective
Providing income support					
Extending unemployment benefits in terms of duration and coverage	Maintains income, assists with consumption smoothing and prevents households falling into poverty	High direct and administrative costs; Potential disincentive effects (if done without activation)	Government revenue	Existing UB scheme and administrative structure including public employment service	Most developing countries do not have a UB system; Costly to establish and requires certain administrative structures that are absent in these countries
Expanding other social protection schemes (social assistance)	Maintains income, assists with consumption and prevents households falling into poverty	High direct and administrative costs; Potential disincentive effects (if done without activation)	Government revenue	Existing social protection scheme and administrative structure	Most developing countries do not have a universal social protection system; Costly to establish

Source: Bechterman et al. (2004), Card et al. (2009), and Kluve (2007).

Table 2. Responding to the crisis through labour market policies: examples from different regions

Policy (changes to policies and new initiatives)	**High-income countries**	**Middle-income countries**	**Low-income countries**
Subsidized and unsubsidized reduction in working hours	Austria, Belgium, Canada, Czech Republic, Cyprus, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, Portugal, Slovak Republic[2], Slovenia, Spain, Sweden, Switzerland, United Kingdom, United States	Argentina, Chile, Costa Rica[3], Dominican Republic, Mexico, Poland, Romania, Russia, Serbia, Turkey, Uruguay	
Job/wage subsidies and cuts to employer social contributions (for new or existing workers)	Australia, Belgium, Canada, Czech Republic[2], Finland, France, Germany, Greece, Hungary, Italy, Japan, Korea, New Zealand, Portugal, Slovak Republic, Spain, Sweden, United Kingdom, United States	Argentina, Chile, Malaysia[6], Mexico, Poland, Turkey	
Public works programmes including employment guarantee schemes	Hungary, Iceland, Ireland, Japan, Korea,	Chile, India, Indonesia, Malaysia, Mexico, Pakistan, Paraguay, Peru, Philippines, Saint Lucia, Serbia, South Africa, Turkey, Ukraine	Bangladesh
Job search assistance and improved capacity of public employment services	Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Korea, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom, United States	Argentina, Chile, China, Dominican Republic, Malaysia[6], Mexico, Pakistan, Philippines, Peru, Poland, Romania, Russia, Serbia, Ukraine	Cambodia

Policy (changes to policies and new initiatives)	High-income countries	Middle-income countries	Low-income countries
Training (including on-the-job training), Work experience and apprenticeship programmes	Australia, Austria, Bahrain, Belgium, Canada[4], Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Korea, Netherlands, New Zealand, Norway, Portugal, Saudi Arabia, Slovak Republic[5] , Spain, Sweden, Switzerland, United Kingdom, United States	Argentina, Chile, China, Colombia, Costa Rica, Dominican Republic, Egypt, Indonesia, Jordan, Latvia, Malaysia[6], Mauritius, Mexico, Morocco, Nicaragua, Pakistan, Peru, Philippines, Poland, Romania, Russia, Serbia, Thailand, Turkey, Uruguay	Bangladesh, Cambodia, Kenya, Viet Nam
Entrepreneurship incentives	Finland, France, Germany, Hungary, Ireland, Italy, Japan, Korea, Portugal, Slovak Republic, Spain, United Kingdom, United States	Argentina, China, Chile, Colombia, Costa Rica, India, Indonesia, Latvia, Malaysia[6], Mauritius, Mexico, Pakistan, Peru, Philippines, Poland, Romania, Serbia, Turkey, Uruguay	Cambodia, Kenya, Nepal, Tanzania, Viet Nam
Change to unemployment benefits schemes	Australia, Belgium, Canada, Czech Republic, Finland, France[7], Greece, Ireland, Italy, Japan, Korea, Latvia, Norway, New Zealand, Portugal, Sweden, United States	Argentina, Brazil, Chile[8], China, Jordan, Mexico, Romania, Russia, Ukraine, Uruguay,	Viet Nam[9]

Source: Council of the EU (2009), ECLAC (2009), ILO (2009a, 2009b), Kannan (2009), Lee (2009), OECD (2009a), and Titiheruw et al. (2009).

Notes: These examples are drawn from various studies on regional responses to the crisis, which may exclude some country responses that have not been addressed in these references. The categories of countries are based on the World Bank classification using gross national income (GNI), see http://go.worldbank.org/K2CKM78CC0.

1 – In these countries, workers are temporarily unemployed, while their employment contract remains binding.

2 – Planned or considering implementation; see (OECD 2009a)

3 – This is only a draft law (ECLAC 2009).

4 – These programmes are not directly linked to an employer (occupational training) (OECD 2009a).

5 – This refers to training for entrepreneurs (OECD 2009a).

6 – Announced by Deputy Prime Minister of Malaysia on March 10, 2009, www.pmo.gov.my/?menu=speech&page=1677&news_id=5&speech_cat=11. Employers are eligible for increased tax deductions when they hire individuals who were retrenched after July 1 2008.

7 – Proposed extension

8 – Planned enlargement

9 – Due to the crisis, the Government of Viet Nam has agreed to postpone the scheme. As a result, employees will only be able to access unemployment benefits from the beginning of 2010 at the earliest (Pham 2009).

References

Aaronson, D.; Brave, S.; Schechter, S. 2009. "How does labor adjustment in this recession compare with the past?" *Chicago Fed Letter*, June 2009, No. 263.

Aeppel, T.; Lahart, J. 2009. "Lean factories find it hard to cut jobs even in a slump", *Wall Street Journal*, March 9, 2009, p. A1.

Auer, P.; Efendioglu, U.; Leschke, J. 2008. *Active Labour Market Policies around the World: Coping with the Consequences of Globalization*. ILO, Geneva.

Bechterman, G.; Olivas, K.; Dar, A. 2004. "Impact of active labor market programs: new evidence from evaluations with particular attention to developing and transition countries", *World Bank Social Protection Discussion Paper*, No. 0402.

Bell, D.N.F; Blanchflower, D.G. 2009. "What should be done about rising unemployment in the UK?" *IZA Discussion Paper*, No. 4040.

Bewley, T. F. 1999. *Why Wages don't Fall during a Recession.* Harvard University Press, Cambridge, MA.

Boeri, T.; Helppie, B.; Macis, M. 2008. "Labour regulations in developing countries: a review of the evidence and directions for future research", *World Bank Social Protection Discussion Paper*, No.0833.

Bundesagentur für Arbeit. 2009. *Monats bericht: Der Arbeits- und Ausbildungsmarkt in Deutschland, Juli 2009*. Available at: http://www.pub.arbeitsagentur.de/hst/services/statistik/000000/html/start/monat/aktuell.pdf

Bureau of Labour Statistics (BLS). 2009. "The employment situation: August 2009". Available at http://www.bls.gov/news.release/empsit.nr0.htm.

Card, D.; Kluve, J.; Weber, A. 2009. "Active labour market policy evaluations: a meta-analysis", *IZA Discussion Paper*, No. 4002.

Council of the European Union (CEU). 2009. "Addendum 2 to the note: Employment Committee's contribution to the informal Employment Summit – Analysis carried out by the EMCO on short-time working arrangements", 10015/1/09, REV 1, ADD 2.

Davis, S.J.; Haltiwanger, J. 1999. "Gross job flows," in: Ashenfelter, O.; Card, D. (eds.) 1999. *Handbook of Labour Economics*. Chapter 41, Vol.3, pp. 2711–2797, North-Holland, Amsterdam.

Dhanani, S.; Islam, I. 2002. "Poverty, vulnerability and social protection in a period of crisis: the case of Indonesia", *World Development*, Vol. 30, No. 7, pp. 1211-1231.

Fallon, P.R.; Lucas, R.E.B. 2002. "The impact of financial crises on labour markets, household incomes and poverty: a review of evidence", *The World Bank Research Observer*, Spring 2002, Vol. 17, No.1, pp.21-45.

Hall, R.E. 2007. “How much do we understand about the modern recession?” *Brookings Papers on Economic Activity*, Vol. 38, No. 2007-2, pp.13-30.

International Labour Organisation (ILO). 2009a. *Protecting People, Promoting Jobs: a Survey of Country Employment and Social Protection Policy Responses to the Global Economic Crisis,* An ILO report to the G20 Leaders’ Summit, Pittsburgh, 24-25 September 2009. ILO, Geneva.

_________ 2009b. *The fallout in Asia: Assessing labour market impacts and national policy responses to the global financial crisis*, Background document prepared for meeting on “Responding to the Economic Crisis – Coherent Policies for Growth, Employment and Decent Work in Asia and Pacific”, Manila, Philippines, 18-20 February 2009.

Kannan, K.P. 2009. *National Policy Responses to the Financial and Economic Crisis: The Case of India.* ILO Regional Office for Asia and the Pacific, Bangkok.

Kanyenze, G.; Mhone, G.C.Z.; Sparreboom, T. 2000. “Strategies to combat youth unemployment and marginalization in Anglophone Africa”, *ILO/SAMAT Discussion Paper*, No. 14.

Kluve, J. 2007. “The Effectiveness of European ALMP’s”, in J. Kluve et al. (eds.), *Active Labour Market Policies in Europe: Performance and Perspectives*. Springer, Berlin and Heidelberg, pp. 153-203.

Lee, C.H. 2009. *National Policy Responses to the Financial and Economic Crisis: The Case of China.* ILO Regional Office for Asia and the Pacific, Bangkok.

Lovén, K. 2009. “Agreement on temporary layoffs reached in manufacturing”, Eiroline, available at http://www.eurofound.europa.eu/eiro/2009/03/articles/se0903019i.htm.

Messenger, J. 2009. “Work sharing: a strategy to preserve jobs during the global jobs crisis”, *ILO TRAVAIL Policy Brief*, No.1, June 2009.

Organisation for Economic Co-operation and Development (OECD). 2009a. *OECD Employment Outlook 2009*. OECD, Paris.

_________ 2009b. *International Migration Outlook 2009: SOPEMI 2009. Special Issue: Managing Labour Migration beyond the Crisis.* OECD, Paris.

Pham, N.Q. 2009. *Impact of the Global Financial and Economic Crisis on Viet Nam: a Rapid Assessment*. ILO Regional Office for Asia and Pacific, Bangkok, and Policy Integration and Statistics Department, Geneva.

Rychly, L. 2009. “Social dialogue in times of crisis: finding better solutions, *ILO Industrial and Employment Relations Department*, No. 1.

Sjoblom, D.; Farrington, J. 2008. “The Indian National Rural Employment Guarantee Act: will it reduce poverty and boost the economy?” *ODI Project Briefing*, No. 7, January 2008.

Titiheruw, I.S.; Soesastro, H.; Atje, R. 2009. ODI Global Financial Crisis Discussion Series Paper 6: Indonesia. ODI, London.

Townsend, P. 2009. *Building Decent Societies: Rethinking the role of Social Security in Development*. International Labour Organization, Geneva.

United Nations Economic Commission for Africa (ECA). 2009. "The global financial crisis: impact, responses and way forward", Background document for the "Meeting of the Committee of Experts of the 2nd Joint Annual Meetings of the AU Conference of Ministers of Economy and Finance and ECA Conference of Ministers of Finance, Planning and Economic Development, held in Cairo, Egypt, 2-5 June 2009, E/ECA/COE/28/6.

United Nations Economic Commission for Latin America and the Caribbean (ECLAC). 2009. *The Reactions of the Governments of the Americas to the International Crisis: an Overview of Policy Measures up to 31 March 2009*. ECLAC, Santiago, Chile.

United States Social Security Administration (SSA); International Social Security Association (ISSA). 2009. *Social Security Programs throughout the World: Africa 2009*. SSA, Washington D.C

Verick, S. 2009. "Who is hit hardest during a financial crisis? The vulnerability of young men and women to unemployment in an economic downturn", *IZA Discussion Paper*, No. 4359.

World Bank. 2008. "Labour market programs that make a difference in a time of crisis", Unpublished paper, Human Development Network and Social Protection, World Bank, Washington, D.C.

Employment Working Papers

2008

1 Challenging the myths about learning and training in small and medium-sized enterprises: Implications for public policy;
ISBN 92-2-120555-5 (print); 92-2-120556-2 (web pdf)
David Ashton, Johnny Sung, Arwen Raddon and Trevor Riordan

2 Integrating mass media in small enterprise development: Current knowledge and good practices;
ISBN 92-2-121142-6 (print); 92-2-121143-3 (web pdf)
Written by Gavin Anderson;Edited by Karl-Oskar Olming and Nicolas MacFarquhar

3 Recognizing ability. The skills and productivity of persons with disabilities. Literature review;
ISBN 978-92-2-121271-3 (print); 978-92-2-121272-0 (web pdf)
Tony Powers

4 Offshoring and employment in the developing world: The case of Costa Rica;
ISBN 978-92-2-121259-1 (print); 978-92-2-121260-7 (web pdf)
Christoph Ernst, Diego Sanchez-Ancochea

5 Skills and productivity in the informal economy;
ISBN 978-92-2-121273-7 (print); 978-92-2-121274-4 (web pdf)
Robert Palmer

6 Challenges and approaches to connect skills development to productivity and employment growth: India;
ISBN 978-92-2-121275-1 (print); 978-92-2-121276-8 (web pdf)
C.S. Venkata Ratnam, Arvind Chaturvedi

7 Improving skills and productivity of disadvantaged youth;
ISBN 978-92-2-121277-5 (print); 978-92-2-121278-2 (web pdf)
David H. Freedman

8 Skills development for industrial clusters: Preliminary review;
ISBN 978-92-2-121279-9 (print); 978-92-2-121280-5 (web pdf)
Marco Marchese, Akiko Sakamoto

9 The impact of globalization and macroeconomic change on employment in Mauritius: What next in the post-MFA era?;
ISBN 978-92-2-120235-6 (print); 978-92-2-120236-3 (web pdf)
Naoko Otobe

10 School-to-work transition: Evidence from Nepal;
ISBN 978-92-2-121354-3 (print); 978-92-2-121355-0 (web pdf)
New Era

11 A perspective from the MNE Declaration to the present: Mistakes, surprises and newly important policy implications;
ISBN 978-92-2-120606-4 (print); 978-92-2-120607-1 (web pdf)
Theodore H. Moran

12 Gobiernos locales, turismo comunitario y sus redes. Memoria: V Encuentro consultivo regional (REDTURS);
ISBN 978-92-2-321430-2 (print); 978-92-2-321431-9 (web pdf)

13 Assessing vulnerable employment: The role of status and sector indicators in Pakistan, Namibia and Brazil;
ISBN 978-92-2-121283-6 (print); 978-92-2-121284-3 (web pdf)
Theo Sparreboom, Michael P.F. de Gier

14 School to work transitions in Mongolia;
ISBN 978-92-2-121524-0 (print); 978-92-2-121525-7 (web pdf)
Francesco Pastore

15 Are there optimal global configurations of labour market flexibility and security? Tackling the "flexicurity" oxymoron;
ISBN 978-92-2-121536-3 (print); 978-92-2-121537-0 (web pdf)
Miriam Abu Sharkh

16 The impact of macroeconomic change on employment in the retail sector in India: Policy implications for growth, sectoral change and employment;
ISBN 978-92-2-120736-8 (print); 978-92-2-120727-6 (web pdf)
Jayati Ghosh, Amitayu Sengupta, Anamitra Roychoudhury

17 From corporate-centred security to flexicurity in Japan;
ISBN 978-92-2-121776-3 (print); 978-92-2-121777-0 (web pdf)
Kazutoshi Chatani

18 A view on international labour standards, labour law and MSEs;
ISBN 978-92-2-121753-4 (print); 978-92-2-121754-1 (web pdf)
Julio Faundez

19 Economic growth, employment and poverty in the Middle East and North Africa;
ISBN 978-92-2-121782-4 (print); 978-92-2-121783-1 (web pdf)
Mahmood Messkoub

20 Employment and social issues in fresh fruit and vegetables;
ISBN 978-92-2-1219415(print); 978-92-2-1219422 (web pdf)
Sarah Best, Ivanka Mamic

21 Trade agreements and employment: Chile – 1996-2003;
ISBN 978-92-2-121962-0 (print); 978-92-2-121963-7 (web pdf)

22 The employment effects of North-South trade and technological change;
ISBN 978-92-2-121964-4 (print); 978-92-2-121965-1 (web pdf)
Nomaan Majid

23 Voluntary social initiatives in fresh fruit and vegetables value chains;
ISBN 978-92-2-122007-7 (print); 978-92-2-122008-4 (web pdf)
Sarah Best, Ivanka Mamic

24 Crecimiento Económico y Empleo de Jóvenes en Chile. Análisis sectorial y proyecciones;
ISBN 978-92-2-321599-6 (print); 978-92-2-321600-9 (web pdf)
Mario D. Velásquez Pinto

25 The impact of codes and standards on investment flows to developing countries;
ISBN 978-92-2-122114-2 (print); 978-92-2-122115-9 (web pdf)
Dirk Willem te Velde

26 The promotion of respect for workers' rights in the banking sector: Current practice and future prospects;
ISBN 978-92-2-122116-6 (print); 978-2-122117-3 (web pdf)
Emily Sims

2009

27 Labour market information and analysis for skills development;
ISBN 978-92-2-122151-7 (print); 978-92-2-122152-4 (web pdf)
Theo Sparreboom, Marcus Powell

28 Global reach - Local Relationships : Corporate social responsibility, worker's rights and local development;
ISBN 978-92-2-122222-4 (print); 978-92-2-122212-5 (web pdf)
Emily Sims, Anne Posthuma

29 The use of ILS in equity markets: Investing in the work force social investors and international labour standards;
ISBN 978-92-2-122288-0 (print); 978-92-2-122289-7 (web pdf)
Elizabeth Umlas

30 Rising food prices and their implications for employment, decent work and poverty reduction;
ISBN- 978-92-2-122331-3 (print); 978-92-2-122332-0 (web pdf)
Rizwanul Islam, Graeme Buckley

31 Economic implications of labour and labour-related laws on MSEs: A quick review of the Latin American experience;
ISBN-978-92-2-122368-9 (print); 978-92-2-122369-6 (web pdf)
Juan Chacaltana

32 Understanding informal apprenticeship – Findings from empirical research in Tanzania;
ISBN 978-2-122351-1 (print); 978-92-2-122352-8 (web pdf)
Irmgard Nübler, Christine Hofmann, Clemens Greiner

33 Partnerships for youth employment. A review of selected community-based initiatives.
ISBN: 9789221224686; 9789221224693 (web pdf)
Peter Kenyon

34 The effects of fiscal stimulus packages on employment
978-92-2-122489-1 (print); 978-92-2-122490-7 (web pdf)
Veena Jha

35 Labour market policies in times of crisis
978-92-2-122510-2 (print); 978-92-2-122511-9 (web pdf)
Sandrine Cazes, Sher Verick, Carolina Heuer

36 The global economic crisis and developing countries: transmission channels, fiscal and policy space and the design of national responses
ISBN 978-92-2-122544-7 (print); 978-92-2-122545-4 (web pdf)
Iyanatul Islam

37 Rethinking Monetary and Financial Policy:
Practical suggestions for monitoring financial stability while generating employment and poverty reduction
ISBN 978-92-2-122514-0 (print); 978-92-2-122515-7 (web pdf)
Gerald Eptein

38 Promoting employment-intensive growth in Bangladesh: Policy analysis of the manufacturing and service sectors
ISBN 978-92-2-122540-9 Print); 978-92-2-122541-6 (web pdf)
Nazneed Ahmed, Mohammad Yunus, Harunur Rashid Bhuyan

39 The Well-Being of Labour in Contemporary Indian Economy
ISBN 978-92-2-122622-2 (print); 978-92-2-122623-9 (web pdf)
Praveen Jha

Employment Sector

For more information visit our site: http://www.ilo.org/employment

International Labour Office
Employment Sector
4, route des Morillons
CH-1211 Geneva 22

Email: edempdoc@ilo.org