# Employment and the Crisis

## By way of introduction…

Being forced out of a job is an unpleasant experience. Employers often prefer to use euphemisms such as "I'll have to let you go" that imply it's somehow liberating or what the worker wanted. Thomas Carlyle, the man who coined the expression "the dismal science" to describe economics, was much nearer the mark. Writing in 1840, he claimed that "A man willing to work, and unable to find work, is perhaps the saddest sight that fortune's inequality exhibits under this sun."

Modern research supports Carlyle's view. For instance, finding yourself unemployed has a more detrimental effect on mental health than other life changes, including losing a partner or being involved in an accident. A long spell of joblessness has social costs too, whether at the level of individuals and families or whole communities.

Tackling unemployment and its consequences has to be a major part of governments' response to the crisis. This chapter looks at the workers and sectors most affected by the crisis and how policies can help workers weather the storm.

## Which jobs are affected?

In most respects, the present crisis is like previous ones in the way it affects different sectors of the economy and categories of workers, even though the speed and scale of the changes are different. Typically, construction is the first industry to be hit during a downturn. Historical data show that labour demand in this sector is 70% more sensitive to the highs and lows of the business cycle than the average across all sectors. Today's crisis actually started in the subprime mortgage market, and even if it had gone no further, US construction workers and firms would have suffered from the drop in demand as financing for new homes dried up. Elsewhere, the bursting of property bubbles had immediate, dramatic effects. Ireland and Spain were hit particularly hard, with employment in construction down by 37% and 25%, respectively, over the twelve months ending in the second quarter of 2009.

Historical patterns suggest that after construction, durable goods would be the hardest hit. While less volatile than construction, this sector has still been 40% more sensitive to the business cycle than the average. The difficulties of the auto industry show how the financial crisis soon spread to the "real" economy. Given the global nature of the durable goods sector, the unprecedented downturn in world trade (over 10% in 2009) greatly aggravated the employment situation to the point where employment losses in this sector have been steeper than those in construction in many OECD countries.

We tend to associate the auto industry with the countries that the big car makers are based in, and most of the jobs lost have been in these countries. But looking at a smaller country with no domestic producer is revealing about the concrete reality of many of the things we talk about in this book, such as the importance of trade linkages. Five thousand New Zealand workers lost jobs in the car industry in the six months to April 2009. That's a tenth of the people involved in importing and selling cars. As the *National Business Review* points out, imports were supporting a range of jobs such as cafeteria workers in the ports, and not just the obvious ones in dealerships or auto financing companies.

Surprisingly, in view of the origins of the crisis, the impact on employment in the US financial services sector is not as bad as you might expect, despite spectacular job losses in some of the big banks and other financial institutions. Across the sector, employment losses were 6.9%, compared with 5% in the economy as a whole. Although financial and other business services are feeling the impact of the recession hitting their clients, employment has held up much better in the overall services sector (-2.9%) than in the goods producing sector (-17%). Nonetheless, the much larger services sector accounts for nearly half (46%) of the total decline in employment.

Some sectors are relatively insensitive to cyclical effects in part due to the nature of their business. Agriculture is the least affected, because it is not possible to simply halt most production and wait for things to get better, and agricultural employment is low in most OECD countries anyway. Utilities such as water and electricity continue to be in demand, even if, like agriculture, a poorer economic climate does eventually reduce demand from some customers.

## Which workers are most affected?

The crisis affects different sectors in different ways, but the impact also varies according to the age, gender, skill level and type of contract. Once again, layoffs are following patterns seen before and are similar to what you might expect, at least in most instances.

The cost to employers of hiring and firing workers (turnover costs) is important here. Turnover costs for young people are lower than for others, since they have relatively little experience and do not benefit much from any seniority rules. Over the past 15 years or so, the youth unemployment rate has been over 2.5 times higher than that of workers aged 25 to 54 ("prime age" workers) in OECD countries. Sensitivity to business cycles is twice as high for younger workers as for those of prime age, and 70% to 80% above the national average. Older workers are about 20% more sensitive to business cycles than prime age workers, but no more sensitive than the national average. We'll look at how the crisis affects the employment of young people in more detail below.

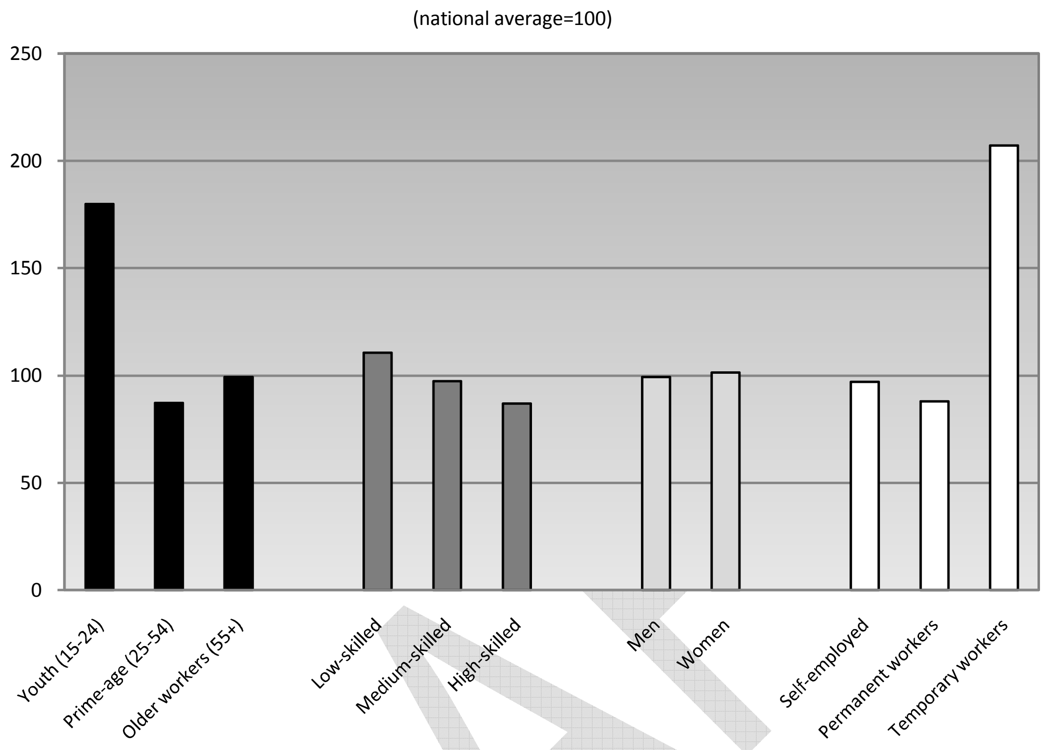
Workers on temporary contracts are also more likely to lose their job than permanent workers. During the current economic downturn, 85% of job losses in Spain and actually all job losses in Italy were among workers holding temporary contracts.

Higher skill levels tend to lessen the chances of being unemployed. Partly, because workers may move to a lower skilled occupation, and partly because firms wait longer before laying off a skilled worker who will be more difficult to replace when business picks up.

Looking at the data from past and the present downturns in the business cycle does, however, throw up surprises. First, gender has not made any difference to the chances of losing your job in past recessions. However, this may be due to the fact that construction and other hard-hit occupations are male-dominated. Looking at women and men in the same line of work substantially increases the relative volatility of female employment.

That said, the current crisis has actually hit men harder than women. On average for OECD Europe, male employment dropped by 2.9% in the year to the second quarter of 2009, whereas the figure was only 0.3% for women. The greater than typical concentration of job losses in construction and manufacturing, which is associated with the bursting of the housing price bubble and unprecedented decline in international trade flows, explains why men are bearing the brunt of rising unemployment.

**Business-cycle sensitivity of different groups of workers**




*Age and type of contract have the biggest influence on the likelihood of being affected by a recession. Young workers and those on temporary contracts are the most vulnerable. And young workers on temporary contracts are doubly vulnerable.*
StatLink *http://dx.doi.org/10.1787/705888058103*

## Youth: a lost generation?

Before the crisis, the youth unemployment rate declined slightly, from 15% in the mid-1990s to 13% in the mid-2000s, although as mentioned above, young people were still more than 2.5 times as likely to be unemployed than others. There were also big differences from one country to another. In Germany the ratio of youth to adult unemployment was 1.5, largely because of an apprenticeship system that ensures a smooth transition from school to work for most people. The ratio was close to 3 in some of the Continental and Southern European countries, where about one in five youth in the labour market were unemployed. In Sweden, where the “Last-in First-Out” rule is strictly enforced in the case of lay-offs, the ratio was above four. A number of factors help to explain why youth employment is more sensitive to the business cycle. The main ones are the high share of young people in temporary jobs and their disproportionate concentration in certain cyclically-sensitive industries

Coping with a job loss in a recession and the likely protracted period of unemployment is difficult for anyone, but for disadvantaged youth lacking basic education, failure to find a first job or keep it for long can have long-term consequences that some experts refer to as “scarring”. Scarring means that the simple fact of being unemployed increases the risk that it will happen again or that future earnings will be reduced, mainly through a deterioration of skills and missing work experience, or because potential employers think the person concerned was unemployed because he or she is less productive than other candidates. Income is affected more strongly than future employment prospects, and in particular by unemployment immediately upon graduation from college.

Beyond the effects on wages and employability, spells of unemployment while young often create permanent scars through the harmful effects on a number of other outcomes many years later, including happiness, job satisfaction and health. Moreover, spells of unemployment tend to be particularly harmful to the individual – and to society – when the most disadvantaged youth become unemployed.

A "mutual obligations" approach sometimes works well for disadvantaged youth. In exchange for income support, jobseekers need to participate in training, job-search or job-placement activities. That said, governments should not underestimate the difficulties of implementing a labour market policy based on acquiring skills first, work later. The international evidence from evaluations of training programmes for disadvantaged youth is not very encouraging, and when unemployment levels rise suddenly, it may be difficult to meet both quantity and quality objectives for training programmes.

The experience of Japan during the so-called "lost decade of the 1990s" is instructive about the long-lasting effects for the generation of youth entering the labour market during the crisis. Not only were youth disproportionally affected by unemployment during the lost decade, but many had to accept non-regular (temporary and part-time) jobs even when the economy finally recovered in the early 2000s. Many employers preferred to hire "fresh" graduates for career-track jobs, leaving victims of the crisis trapped in long-term unemployment or repeated periods of inactivity.

School-to-work programmes could help the current generation of school-leavers to get off to a good start. For example, the United Kingdom implemented measures in order to "not write off a generation of young people, or allow their talents to be wasted" by losing touch with the labour market. However, young people who have become discouraged by lack of success in finding a job may become sceptical about jobs initiatives, and these programmes should not assume that providing a service is enough. They have to make an effort to go out and contact those they are supposed to help.

One way to do this is to promote early interventions when disadvantaged youth are still in school to make sure that support is available to help them in the transition to work. This is likely to be more successful than trying to persuade people who haven't done well at school to go back to the classroom to upgrade their education and skills after they've left.

Apprenticeships could also help. In a downturn however, employers are more reluctant to offer places, and some apprentices lose their job before completing training. Governments could provide subsidies to promote apprenticeship for unskilled young people and support measures to help apprentices made redundant to complete their training, as France and Australia have done.

Poverty is another threat for young people. Many of the jobs young people do do not qualify for unemployment benefits and are the first to go during a downturn (including temporary, seasonal and interim jobs). More than half of OECD countries have already moved to increase the income of job losers by increasing the unemployment benefits or extending coverage. One way of doing this could be to include internships and work placements in the number of months that count for eligibility.

More generally, the economic downturn may also be an opportunity to reconsider factors that tend to penalise youth even when things are going well. Many employers are reluctant to employ low-skilled youth, because they are just as expensive as more experienced workers. Almost half of the OECD countries with a statutory minimum wage (10 out of 21) have an age-related sub-minimum wage to facilitate access of low-skilled youth to employment. Others have reduced significantly the social security contributions paid by employers for low-paid workers. Another option would be to promote more apprenticeship contracts for low-skilled youth, as the apprenticeship wage is lower than the minimum wage because it implies a training commitment for the employer.

## Migrants: particularly vulnerable

Immigrants were already more vulnerable to unemployment than the rest of the population before the recession in most OECD countries, with the notable exception of the United States. In 2006, the unemployment rate of immigrants was twice that of the native-born in Switzerland, in the Netherlands, in Belgium, in Austria and in most Nordic countries.

Migrant workers are particularly vulnerable during a crisis for three reasons. First, they often work in the industries that are most affected by downturns (and upswings) such as construction. Second, turnover costs are often considerably lower for foreign-born workers because they are more likely to be on temporary contracts and have been in the job for a shorter time. Third, they may be victims of discrimination when, amid public concern about the future and the risk to livelihoods, latent resentment of the outsider often crystallises into calls to "stop them stealing our jobs".

The influence of a fourth characteristic is more ambiguous. Immigrants are more likely to be self-employed in many European countries, as well as to some extent in the United States. This could be thanks to their integration in the host country, entrepreneurial talent and desire for independence, but it could also be a last resort in the face of difficulties in finding salaried employment. Businesses owned by immigrants may be more at risk of bankruptcy in the current situation due to the fact that immigrants tend to have smaller businesses; their businesses are often in sectors that the crisis hits first; and they may be geared towards immigrant communities, so the higher risk of unemployment among their clients will have knock-on effects.

Even if there may be a delay before changes in labour migration trends are perceptible, declines are clear already in a number of countries, especially those, such as Ireland and the United Kingdom, where the recession hit first. In the United States, there was a 16% fall in the number of work-related temporary visas (the H-1B visa) between 2008 and the previous year.

It's important to note that not all forms of immigration, and not every country, will be affected equally by the crisis. For a start, not all migration is "discretionary", meaning that the government can stop it at will. Governments are bound by international agreements to allow some kinds of immigration, such as the free movement of workers in the EU or family reunification. In 2006, discretionary labour migration was less than 20% of total flows in most OECD countries and no more than a third of all flows in the leading countries. Family immigration accounts for a large part of immigration into the OECD area, and tends to fall less in response to slowdowns than labour migration.

Declining job opportunities are likely to keep some would-be migrants at home, and governments are also making to make it harder for immigrants to enter. For example, some countries have reduced the number of permits they issue for temporary labour immigrants. In Spain, the number of non-seasonal workers to be recruited anonymously from abroad (*contingente*) went from 15,731 in 2008 to just 901 in 2009. Italy has also lowered its quota for non-seasonal workers, from 150 000 in 2008 to zero in 2009 (although the quota for seasonal workers has remained unchanged). However, countries that traditionally encourage permanent immigration, such as Canada and New Zealand, have made no change to their target levels for new immigrants. Only Australia has reduced the intake in its permanent highly-skilled migration programme, by 20% in 2009.

Among other changes are reductions in occupational shortage lists – listings of occupations where workers are in short supply that some countries use in selecting immigrants. There are also signs that countries are reinforcing labour market tests, widely used in the OECD area to determine that no local worker is available to fill a position.

The rationale for such moves is clear. As unemployment rises, there is often a strong temptation to try to reduce the size of the workforce. For example, during the recessions of the 1970s, many European countries shut their doors to the "guest workers" who had been brought in from abroad to help rebuild broken economies after World War II. Rising unemployment also breeds resentment of immigrants, and governments may face calls to preserve "jobs for locals".

But – recession or not – there will remain a long-term need for labour immigration in many countries. The average age of people in OECD countries is rising, sometimes quite rapidly, meaning that in the years to come there will be more retirees depending on fewer active workers. Immigrants will help bridge some – if not all – of this gap. Also, immigrants are key employees in a number of sectors, such as healthcare. It's unrealistic to believe that workers laid-off in other industries can be easily retrained to take their places. Many governments will thus face a challenge to design policies that may reduce migration flows in the short-term while taking account of long-term needs.

## Are some countries worse off than others?

The downturn hit the United States earlier than most countries. Since the start of the recession in December 2007, the number of unemployed persons has grown by 7.8 million, and the unemployment rate doubled, rising from 4.9% to a peak of 10.2% in October 2009. However, unemployment slightly declined between October and November of 2009, suggesting that labour market conditions may be stabilising.

In the Euro area, unemployment rose to 9.8% in October 2009 from 7.3% since December 2007. The recent rise in unemployment in Ireland and Spain was significantly larger, with a sharp fall in house building leading to major job losses in the various jobs that make up the sector. In Ireland, the unemployment rate rose from 4.7% to 12.8%, and in Spain from 8.8% to 19.3%. By contrast, the rise in unemployment has been much smaller in other OECD countries, both in Europe and elsewhere. For example, German unemployment was actually a little lower in October 2009 than in December 2007 (although it did rise slightly in the year up to October 2009, after German exports dropped sharply), while unemployment increased from 3.7% to 5.1% in Japan. Some of the cross-country differences in how sharply unemployment rose are easily explained by differences in the overall severity of the recession. However, it is surprising that unemployment has not increased much in several countries, including Germany, where the hit to GDP was relatively big.

We talked about the vulnerability of workers on temporary contracts above. In developing countries, this is made even worse by the fact that many workers have no contract at all, beyond a verbal agreement. Up to 60% of the labour force in some developing countries work informally. In India, for example, the official unemployment rate was 4.7% in 2005, but 83% of non-agricultural workers were informal, with jobs but without employment protection, unemployment insurance or pension entitlement. The crisis is likely to lead to a surge in informal employment due to job losses in the formal sector, resulting in deteriorating working conditions and lower wages for the poorest.

## Were OECD economies better prepared for this downturn?

The OECD area entered the crisis with the lowest unemployment rate since 1980 and the highest share of the working-age population in a job. This is due in part to more than a decade of "structural" labour market reform. Reforms included measures to deter the unemployed from staying on benefit and encourage them to look for work, for instance making payments dependent on actively seeking a job; and a weakening of job protection to make it easier for employers to hire and fire.

These structural reforms have certainly contributed to an improved situation over the long term, but in a crisis, there may be tradeoffs between policies best suited to protect workers' jobs and incomes in the short run, and policies designed to shorten the length of the downturn. For example, stronger employment protection may reduce the immediate increase in unemployment, but if it makes employers wary of hiring, it could cause the extra unemployment that nonetheless results to persist longer. It is likely that past structural reforms will help economies to recover more quickly and prevent unemployment staying at a high level for long. However, it is also likely that some of those same reforms may have caused more workers to lose their jobs during the recession than would otherwise have been the case.

The changes discussed above also suggest a mixed picture regarding workers' capacity to cope with a spell of unemployment. The expansion in employment before the crisis meant that there was more than one adult working in two-thirds of OECD households. On the other hand, the number of one-adult households has increased over the past two decades, so the share of the entire working-age population living in dual-earner households only increased from 54% in the mid 1990s to 55% a decade later. Moreover, many of the "second" wage earners may be in vulnerable jobs such as temporary or part-time work and have little or no right to unemployment benefits. Once again, there are advantages and disadvantages to the changes of recent years, but no strong proof that they have made workers better (or less) able to cope with the recession.

## What can government do to help the unemployed?

One thing to remember is that even during a recession, firms still hire workers. In February 2009, as the full force of the crisis was being felt, around 4.8 million workers in the US separated from their jobs (nearly 4% of workers). In the same month, 4.3 million were hired. More workers leaving than starting jobs meant that total employment fell, but the impression you sometimes get that there are only layoffs and no hope for anybody is misleading.  In most OECD countries, you could probably find reports of firms having trouble filling vacancies.

However, the reduced number of vacancies means competition for jobs is fierce in a deep recession. For example, the US labour market has gone from a pre-crisis ratio of 1.5 job seekers for each job opening to more than 6 unemployed competing for each vacancy. Some categories of workers may be locked out of the labour market because they don't have the skills requested, or even the contacts needed to know about the openings in the first place. In some countries, unemployment rates never recovered after a severe recession. Finland for example never got back to the low levels of the 1980s after a recession in the early 1990s.

OECD countries already had a range of programmes in place to help the unemployed when the crisis struck. However, these programmes were designed for much lower levels of unemployment than we see now in many countries, and were intended to get people back to work quickly. Apart from cash benefits for the unemployed, the programmes usually offer help in finding a job, or in finding a training course to improve or acquire skills. As the number of unemployed has soared in many countries, the resources available per unemployed person have fallen. Most of the stimulus packages put in place to respond to the crisis contain extra funding for labour market programmes, but these supplementary funds are small relative to the increase in unemployment in most cases. A few countries, notably Denmark and Switzerland, automatically expand funding for re-employment assistance when unemployment rises, reducing the danger that job losers drift into long-term unemployment or totally disengage from the labour market.

Even with the extra funds, there is still the problem of finding qualified staff to implement the programmes. Helping job seekers is a skilled task, and the counsellors and trainers may not be available in sufficient numbers. Some countries are collaborating with private sector agencies to expand re-employment assistance for the unemployed. Presumably, these firms have staff with less to do at a time of reduced labour demand, but they would have to be controlled to make sure they weren't creaming off the most employable workers for their private contracts and extending the length of time the others were unemployed. One the other hand, private agencies may feel their reputation would suffer if they try to place more difficult candidates rather than the best ones.

Governments are also faced with a dilemma as to how assistance programmes should be adapted to operate in the context of unusually high unemployment. For instance, welfare-to-work and similar programmes usually make a number of demands on those seeking help, such as asking them to prove that they are actively looking for a job or progressively reducing benefit the longer a person is out of work. When there are nowhere near enough jobs for the number of applicants, this type of condition may seem pointless and unfair. While some flexibility is required in enforcing these requirements, it is crucial to maintain core job placement services. In fact, employers continue to hire significant numbers of workers, even in a deep recession, and the public employment service should actively assist the unemployed to match up with potential employers.

A "work first" approach is unlikely to be successful for all job losers, because employers can be very selective when many job seekers are competing for a diminished supply of job openings. Other forms of assistance will often be required for less qualified workers. In particular, some shift towards a "train first" approach for more vulnerable workers appears to be required. That is, a more long-term strategy would be adopted for the least employable which aims to improve their skills and chances of finding a job when the economy recovers.

Employment subsidies may also be a useful way to offset the worst impacts of the crisis on employment. These could take several forms. Most straightforwardly, the government can offer subsidies to firms that expand employment, where the subsidy can be limited to hires of disadvantaged workers. Many countries operate such schemes, often targeting them at youth, older workers or the long-term unemployed.

Temporary reductions in employers' social security contributions may be effective in encouraging firms to hire in the short term. One downside is that there would be enormous pressure to apply the reduction to all jobs, not just newly created ones or those at risk. In the longer term, higher taxes may be needed to make up the loss of revenue from reduced charges.

Subsidies for short-time working may prevent job losses and compensate for loss of income. Such schemes can be effective if they are temporary and target firms where demand has fallen temporarily or workers who would have difficulty finding another job. Indeed, a number of European countries, including Germany and the Netherlands, have aggressively expanded short-time working in response to the crisis and this appears to have contributed to keeping the increase in unemployment small relative to how sharply GDP has fallen. While this is encouraging, past experience shows that it is essential to wind these programmes down rapidly when the recovery begins, since otherwise they become a brake upon necessary structural change.

Public sector job creation schemes are frequently used to expand employment in recessions. For example, the stimulus packages in a number of countries contain infrastructure and other green growth initiatives that should pay a "double dividend": lowering unemployment and contributing to the transition towards a low-carbon economy. However, past experience shows that it is very difficult for direct job creation schemes to provide a road back into stable employment for disadvantaged workers while also producing socially valuable goods and services.

While the ultimate goal is to reintegrate the unemployed into productive employment, it is also essential to provide adequate income support to job losers in the meantime. The crisis has revealed gaps and shortcomings in unemployment insurance schemes, particularly regarding "non-standard" workers on temporary and short-term contracts. Governments have extended coverage and lengthened the time benefits are paid. Even so, many people are still not covered, and social assistance and income-support schemes require extra funding to help families threatened with poverty.

Governments appear to have learned from past mistakes in treating unemployment. In particular, they have resisted the temptation to encourage early retirement for older job losers and to expand access to long-term sickness or disability schemes for job losers with health problems. These schemes were abject failures in the past, often condemning workers to a life of inactivity whether they wanted it or not, and demographic ageing will make these policies unviable in the long term. The right approach is to make sure that these groups have adequate income support which is coupled with assistance to become re-employed.

Likewise, it is important to prevent large numbers of young people losing contact with the labour market or being condemned to low-skill, low-wage, dead-end jobs. They should have access to training and other job services even if they don't qualify for unemployment benefit.

## Timely, targeted, temporary

Governments moved away from major interventions in, and regulation of, many markets in recent years and have made attempts to promote flexibility in the labour market. The present crisis shows that they have a major role to pay when things go wrong. Special measures to help workers weather a deep recession should be characterised by the "Three T's": timely, targeted and temporary.

*Timely* People who have lost their jobs and seen their income suddenly and drastically reduced need help quickly. Income support and services that help in finding a new job need more resources to meet rapidly expanding demand.

*Targeted* Resources will be limited so they have to be used where they can do the most good. This is straightforward for income support, but much more delicate for job services. Policy makers have to decide if it's better to target those who can be found jobs more easily, or disadvantaged workers who need much more training and other kinds of help.

*Temporary* Structural labour market reforms contributed to the high levels of employment seen before the crisis. It may be necessary to adapt some practices to cope with recessionary conditions, and the crisis may reveal the need for some permanent changes. Nonetheless, any changes should not stay in place if they hold back employment prospects once the recovery begins.

*This chapter is based on chapter 1 of the OECD Employment Outlook 2009 and papers prepared for* Tackling the Jobs Crisis: the Labour Market and Social Policy Response, *a meeting of OECD Labour and Employment ministers held in September 2009, notably* The Jobs Crisis: What are the implications for employment and social policy?; Maintaining the activation stance during the crisis; and Helping youth to get a firm foothold in the labour market. *These papers and other material related to the ministerial meeting can be found here:* www.oecd.org/employment/ministerial.

*In addition, the section on migrants used material presented at the* OECD High-Level Policy Forum on Migration *in June 2009* www.oecd.org/migration/policyforum*, notably the 2009* International Migration Outlook www.oecd.org/els/migration/imo as well as International Migration: The Human Face of Globalisation, *Brian Keeley, OECD Insights Series, 2009* www.oecd.org/insights.