Employment and social protection policies from crisis to recovery and beyond: A review of experience

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Introduction

What employment policies work and in what context? This is a legitimate question that is frequently posed more often when employment is difficult to come by, as during the global economic crisis. The question is also posed in times of recovery, when policies for accelerating recovery in employment catch public attention.

The ILO has been asked by the G20 countries to shed light on these questions.

In September 2009, the ILO submitted to G20 Leaders an inventory of employment, labour and social protection policies taken to respond to the crisis (ILO 2009a). The inventory covered 54 countries and showed which countries had adopted which measures.

In this report, the ILO tries to answer the question which employment and social protection policies yield good results in which context?

Thirteen policies pertaining to employment and social protection are reviewed in this document. The details of the policy measures are examined, with examples of countries having applied them, an indication of likely coverage, and some analysis of the rationale of the policy in relation to the crisis and the recovery. They were grouped in three parts: social protection, employment and training and labour demand.

The policies reviewed in this document are essentially those identified in the Global Jobs Pact adopted by the International Labour Conference in June 2009.

The effectiveness of any one policy depends on the conditions in which it is implemented. These conditions are always specific to each country. Hence the report does not aim to provide a blueprint of policies applicable everywhere at all times. Rather, it illustrates what has worked well in the context of one or more countries. This offers a range of experiences worthy of further attention for anyone seeking to apply a similar approach elsewhere.

The report implicitly suggests that a combination of measures usually tends to produce better and more lasting effects than a series of isolated measures. Critical mass matters. But no attempt is made here at analysing optimal combinations. This is left to more detailed country studies and cross-country comparisons.

Part I. Social protection

1. Social protection

Core findings

- By contrast to the previous economic crisis in the 1990s, when fiscal retrenchment policies led to substantial cuts in social expenditure, most G20 countries have responded to the recent economic downturn by ring-fencing and scaling up social protection programmes, including social pensions, family benefits, food security, education, health and housing investment. While developed countries implemented mostly temporary and discretionary measures, developing countries have opted to take structural measures to increase coverage.
- The crisis responses have shown that social protection brings a triple benefit. It protects people from becoming trapped in debilitating poverty, empowers them to seize market opportunities and contributes to aggregate demand.
- The impact of the crisis among vulnerable groups is higher where social protection coverage is lower; and 80 per cent of the world's population does not have access to adequate pensions and health protection. The adoption of a set of essential cash transfers and access to basic services in the form of a social protection floor can bring national and global gains.
- As the world economy shows preliminary signs of rebound, many governments have expressed the intention to withdraw the stimulus packages and adopt fiscal consolidation measures that may affect social spending.

Substantial job losses, coupled with existing underemployment, poverty and a rise in food prices, have entailed the risk of social unrest as a consequence of the economic distress. ILO estimated that, between 2008 and 2009, the combination of the economic and food crises might have added around 98 million people to the population living on less than $2 a day. Before the crisis, 39.7 per cent of the workers in the world were already living below this poverty line. Current projections indicate that the world's poor workers might comprise 45.6 per cent of all workers in 2009 (ILO, 2010a).

Although the impact of the financial and economic crisis among poor people varies significantly across countries, the poor will most likely suffer harder from the deterioration of social development conditions. Evidence from previous crises have shown negative impacts on school attendance of poor children and nutritional status and a worsening of other social development indicators, in particular those related to children (Ravaillon, 2009).

The impact of the crisis on the most vulnerable groups is more severe in the absence of social protection coverage or where coverage is low. Social protection policies play a major role in cushioning the economic shock, in preventing families from falling into poverty and in enhancing social cohesion. At the same time, they serve as a countercyclical policy response that can help to maintain consumption and boost aggregate demand. In the long run, evidence shows that social protection helps to build human capital and labour productivity, contributing to the sustainability the economic growth (Van Meerendonk, et al. 2010) (ILO, 2009b).

Countries that have introduced or expanded social protection schemes before are now in a much better position to cope with the economic fall-out. Nevertheless, ILO estimates that 80 per cent of the world population does not have an adequate level of social protection coverage. In many developing countries, an old-age pension is a privilege granted to a limited proportion of the workforce, mainly those in formal employment (ILO, 2010b).

The extension of social protection coverage is a pending challenge in the global agenda. The economic downturn has been changing political perceptions about the urgent need to extend and strengthen social protection systems quickly, turning the crisis into an opportunity to promote massive social inclusion strategies.

Crisis response measures

By contrast to the previous economic crisis in the 1990s, when fiscal retrenchment policies led to substantial cuts in social expending, most G20 countries responded to the recent economic downturn by ring-fencing and scaling up social protection programmes. Outside the G20 group, few countries announced cuts or freezes in social spending and in benefits, usually as part of a wider plan of consolidating public finances and reducing public deficits. [1]

The role of social protection schemes as automatic social and economic stabilizers has been acknowledged in almost all stimulus packages in the G20 area and has also been promoted by the international community. The United Nations is currently advocating the necessity to extend social protection coverage through the implementation of a Social Protection Floor as one of its core priorities to cope with the current global downturn. The Social Protection Floor corresponds to a set of essential transfers, services and facilities that all citizens everywhere should enjoy to ensure the realization of their fundamental rights. It comprises measures to ensure access to essential services, such as water and sanitation food and adequate nutrition, health, education and housing, as well as social security transfers paid to the poor and vulnerable aimed at providing a minimum income and an affordable access to health services when needed (UNCEB, 2009).

The ILO Global Jobs Pact of June 2009 also suggests that countries develop "adequate social protection for all, drawing on a basic social protection floor including: access to health care, income security for the elderly and persons with disabilities, child benefits and income security combined with public employment guarantee schemes for the unemployed and the working poor" and urges "the international community to provide development assistance, including budgetary support, to build up a basic social protection floor on a national basis" (ILO, 2009c).

[1] Ireland has announced a freeze in welfare expenditure for at least two years, reduced benefits and increased contributions. In Hungary the 13th month pension and salary have been scrapped, pensions have been reduced and retirement age will be raised. Latvia announced cuts in benefits and in health investments. Ukraine tightened the eligibility conditions for the unemployment scheme. See ILO (2010b).

Table 1.1. Social protection crisis response measures in the G20 countries

	Old age and disability pensions	Cash transfers for famy and children	Unemployment and employment policies	Food security	Health/ Education	Social housing/ water and sanitation
Argentina	X	X		X		
Australia	X	X			X	X
Brazil	X	X	X			X
Canada			X			
China	X				X	X
France	X		X			X
Germany		X	X		X	X
India	X		X		X	
Indonesia				X		X
Italy	X	X	X			
Japan			X		X	
Korea, Rep. of	X	X	X		X	
Mexico			X		X	
Netherlands			X		X	
Russian Federation	X	X	X		X	X
South Africa		X		X	X	X
Spain	X		X		X	
Turkey	X		X			
United States	X	X	X	X	X	X
United Kingdom			X			

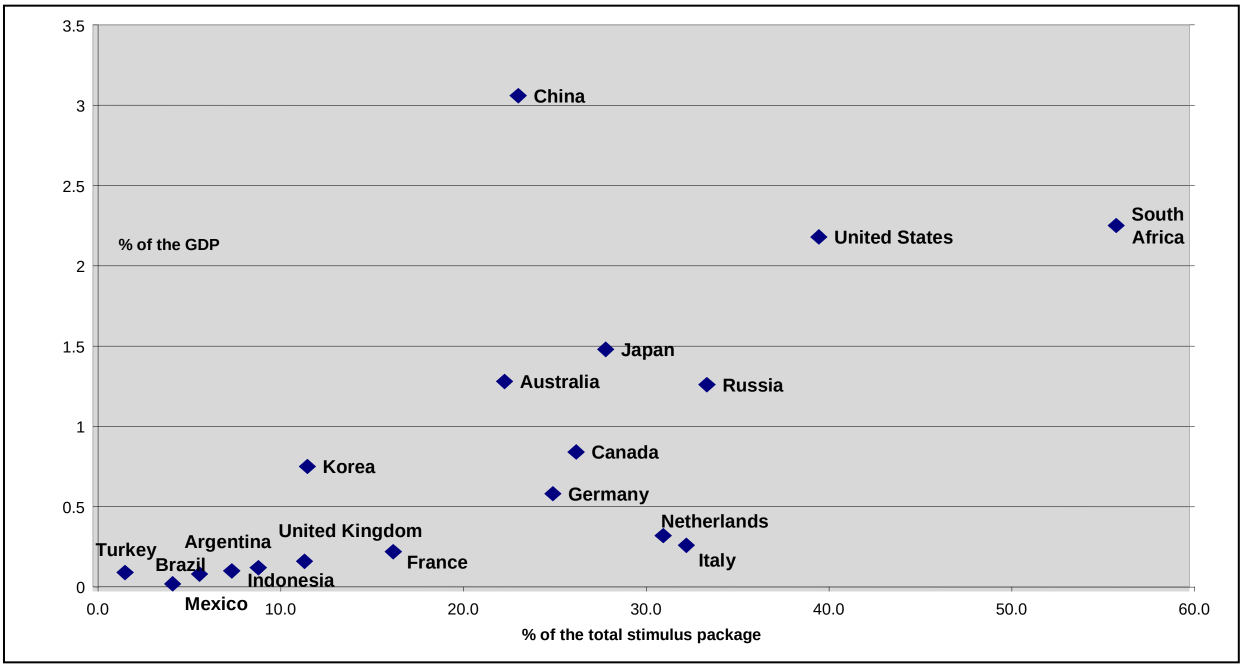
Source: (ILO, 2009a), OECD (2009a) and ECLAC (2009), (Zhang et al., 2009), own consultations.

In the G20 countries, the main measures taken over the last two years include: the strengthening of cash transfer programmes to vulnerable groups such as elderly persons, people with disabilities, poor families with children and unemployed; the enhancement of food security programmes, health protection and education; and investment in social housing, water and sanitation services targeted to the poor (table 1.1).

While some developed countries, such as Germany, Japan and the United States have adopted additional discretionary and temporary social relief measures, other countries like Argentina, Brazil and China have taken permanent steps towards deepening the coverage and effectiveness of social protection schemes.

The cost of discretionary social protection components in stimulus packages varies significantly across countries. Recent studies prepared by the IMF and UNDP have collected information from official national sources to estimate the size of the social protection financial outlay (IMF, 2009) (Zhang et al., 2009). The estimations are based on the measures announced by the governments, but which have not been necessarily implemented. The UNDP study considered only discretionary measures intended to reduce poverty and vulnerability and to improve welfare, including pensions, health, education, cash transfer to poor households, social housing, support to the unemployed, food and nutrition and social services. Preliminary figures of the fiscal dimension of such additional measures within the stimulus packages in G20 countries and in terms of GDP are presented in figure 1.1.

Figure 1.1. Discretionary social protection expenditures as percentage of the total stimulus packages and as percent of GDP in the G20 countries



Source*:* Zhang et al. (2009), IMF (2009), own estimations.

It is estimated that an additional $616 billion were allocated to such discretionary social protection measures to cope with the effects of the crisis in the G20 countries, which is equivalent to 29 per cent of the total economic stimulus. In absolute terms, the United States announced the biggest such package ($310 billion), followed by China ($135 billion).

South Africa presented the largest budget commitment to social protection as a proportion of the stimulus package. In the 2009 budget law, protecting the poor and employment creation were quoted as core objectives of the economic and budgetary policy, together with investment in infrastructure, promotion of competitiveness and fiscal sustainability. The largest share of the stimulus plan, accounting for more than 2 per cent of the GDP, goes to poverty reduction, including investments in education and health care, social assistance, school nutrition, treatment and prevention of HIV/AIDS, basic water and sanitation services and social housing (Government of South Africa, 2009).

The United States also allocated a significant share of the stimulus package to social protection. Almost 40 per cent of the resources foreseen in the American Recovery and Reinvestment Act are directed to increasing spending on pensions, education, health, water and sanitation, nutrition, unemployment insurance, social assistance and to providing tax cuts for low income and vulnerable people (Congressional Budget Office, 2009a). Social assistance programmes, such as the anti-hunger food stamps subsidies for retail food purchases have reached the historic record coverage of 12 per cent of the United States population in December 2009. None of the measures will produce structural changes in the United States social protection system, but the temporary programme’s scale and comprehensiveness represents an unprecedented recognition of the role of social protection as a socio-economic stabilizer (Burtless, 2009).

Preserving social stability is also one of the key priorities of the Russian anti-crisis policy for 2010. The plan includes provisions to increase the value of the pensions, the introduction of a new type of targeted social assistance allowance and the strengthening of assistance programmes to children in need. These measures were designed to raise purchasing power and contribute to stimulate aggregate demand (Government of the Russian Federation, 2009).

China announced the largest social protection stimulus package as a proportion of GDP, followed by South Africa and the United States. The Chinese Government's measures are directed to expanding the coverage of pension and health schemes and boosting investment in education, water and sanitation infrastructure in rural areas. The expansion of social security is expected to have substantial impacts in reducing the Chinese precautionary savings rate motivated mostly by citizens planning for illness and old age. This in turn will therefore channel additional resources to consumption and hence compensate for an expected long-term reduction of foreign demand.

In Germany, the largest part of the social package was directed to finance a reduction in contributions to the statutory health insurance scheme. The total amount of resources allocated to this single measure was equivalent to 12 per cent of the stimulus package and 0.3 per cent of the GDP.

The size of social protection packages in developing countries such as Argentina, Brazil, Indonesia, Mexico and Turkey was relatively lower, i.e. below 10 per cent of the total stimulus package and 0.2 per cent of GDP.

The following sections provide some examples of measures taken in the areas of pensions, family and child benefits, and health protection.

Strengthening pension schemes

In the G20, comprehensive crisis responses in the area of pensions have aimed at expanding and strengthening social insurance or social assistance schemes. The measures include: raising of benefit levels; extension of pension coverage to vulnerable groups such as rural and informal poor workers; reductions in contribution rates and tax grants for pension recipients. By preserving or increasing the purchasing power of pensioners and including more beneficiaries in pension schemes, these measures have helped to sustain consumption and domestic demand, and to protect people.

One of the most remarkable steps towards expanding global social protection was taken by China. In December 2009, a pilot rural pension scheme was launched in some provinces aimed at covering 700 million people living in rural areas. The scheme will be financed by farmers, collective associations and government subsidies and will pay old age pensions to rural workers over 60 years old. The benefit will vary according to the income levels of different provinces. This measure will contribute to reducing the differences in living standards and the social gaps between rural and urban areas of the country, while also boosting consumption given the huge market potential of the Chinese countryside.

In India, the Indira Gandhi National Old Age Pension Scheme has been expanded to include widows and the disable, benefiting 1.47 million people in 2009. A comprehensive Unorganized Workers' Social Security Bill was adopted in December 2008 to provide health benefits, life and disability insurance, old-age pension and a work injury scheme for workers in the informal economy, including agricultural workers and migrant labourers. Although these measures were conceived before the crisis, their implementation was pushed forward by the need to respond to the adverse economic situation.

In Australia, the pension reform was launched before the stimulus package. The country combined increases in the value of pensions with tightening eligibility for social assistance and raising the retirement age from 65 to 67 by 2023. These measures are oriented to enhancing benefit adequacy and beneficiaries' purchasing power, improving the targeting to the poor and promoting long-term sustainability of the pension scheme. The increase in benefit will affect 3.3 million age, disability and survival pensioners, carers, and veteran income support recipients at a cost of 1.4 per cent of GDP (Commonwealth of Australia, 2009).

Brazil, France and the Russian Federation have also announced real increases in the value of benefits. The Russian stimulus package contained plans to raise social assistance pensions by 35 per cent in 2009 and 45 per cent in 2010 and to increase by 10 per cent the social insurance pension in 2010 (Government of the Russian Federation, 2009).

Australia, France, Italy and the United States have opted to announce special one-time payments to low-income households. In contrast to the extension of coverage or permanent adjustments in benefit levels, such measures give temporary relief and may also boost aggregate demand, but will not make a long-term effect on household income.

Other responses include temporary exemptions from social security contributions with a view either to reduce costs for employers and thus stimulate employment or to raise net earnings of low-income workers. Canada, China, Germany and Japan lowered contribution rates and granted exemptions to unemployment insurance contributions. Spain provided various exemptions from social security contributions for employers. Turkey reduced the social security contributions for younger and female workers.

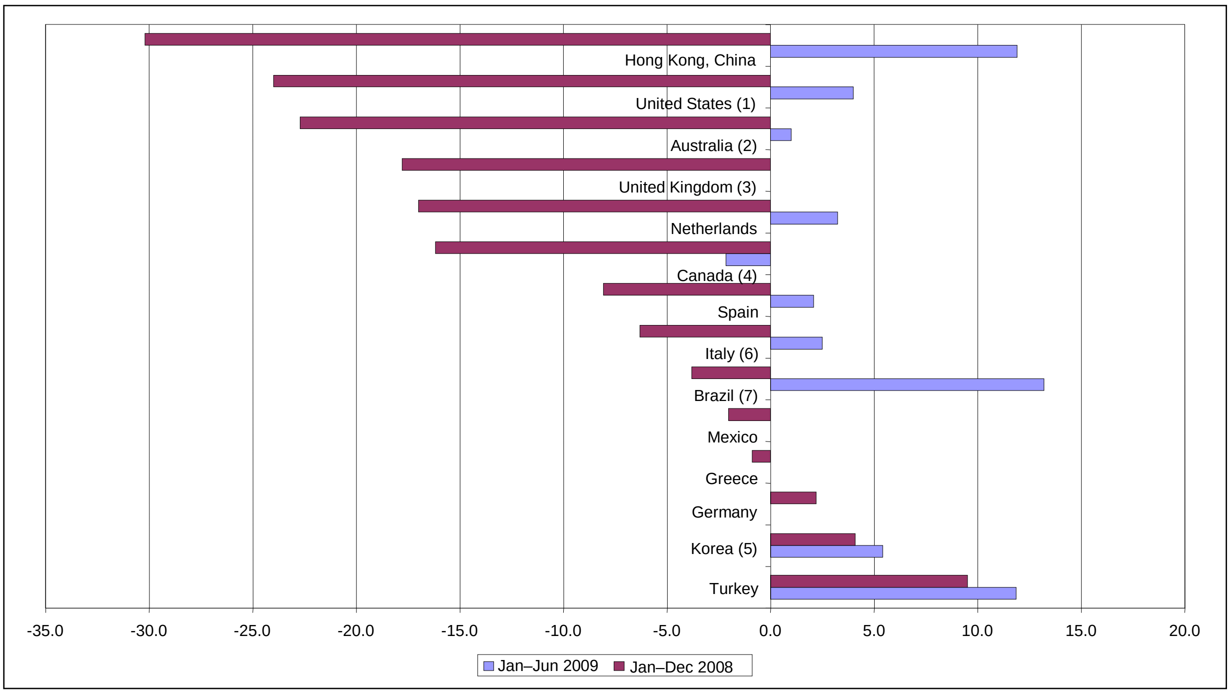
Addressing financial soundness and benefit adequacy

Another source of major concern in the G20 countries is related to the impact of the financial crisis on the pension funds and future benefit security. In defined-benefit (DB) schemes, where pension amounts are calculated without regard to the level of reserves, the immediate impact will be lower than in defined contribution schemes where benefits guarantees are by their nature less effective. However, long-term contraction of employment and hence the number of contributors will also force governments to implement adjustments in the scheme.

In fully funded defined-contribution pension schemes, pension entitlements in some cases might experience substantial losses. Those people who are close to retirement, whose savings portfolios might not recover during their remaining active life, will inevitably have lower benefits paid. Those pensioners in private pension plans who did not take annuity on retirement may also be seriously affected (ILO, 2010b).

Indeed, in 2008, pension funds in Australia, Canada, China, the United Kingdom and the United States that had investment portfolios highly exposed to equities and other higher-risk asset classes with greater international diversification, suffered losses of over 15 per cent. The pension funds in countries that mainly invested domestically, in public or private debt and in some non-listed assets, have been shielded from the financial shock, and therefore have performed comparatively well (figure 1.2). Positive recovery signs were observed in the first semester of 2009, but the 2008 downturn has hampered the growth of the reserve funds and consequently has threatened the investment performance needed to ensure future financial sustainability and adequate benefit security (Pino and Yermo, 2010).

Figure 1.2. Pension funds' nominal investment rate of return in selected G20 countries



1. Estimate including Individual Retirement Arrangements (IRAs).
2. Data refer entities with more than four members and at least AU$50m in total assets.
3. "Jan–Dec 2008" investment rate of return is an OECD estimate.
4. Data refer to the period Jan.–Mar. 2009.
5. Data refer to Jan.–Aug. 2009.
6. Data refer to contractual pension funds. Return data for open pension funds are 3 per cent (-14 per cent for 2008).
7. Data refer to occupational pension funds Jan.–Sep. 2009.

Source: OECD Global Pension Statistics.

While these losses may not be permanent, they still show the vulnerability of pension levels in defined contribution schemes, notably for people who are close to retirement and who might not have enough time to recover during their remaining active life.

In order to address the deterioration of pension funds' financial soundness and minimize the negative impact of the crisis on individuals, some governments introduced guarantees and safeguards for funded schemes, while others opted for structural change.

In Argentina, for instance, the Government nationalized the private pension scheme and reverted it back towards a collective publicly managed defined-benefit scheme with financial reserves. With nationalization, the pension contributions, equivalent to 1.5 per cent of the GDP, were transferred back to the public sector. Private pension assets, equivalent to around 10 per cent of the GDP were also transferred to the National Social Security Administration (ANSES) to form a public reserve fund that invests at least 50 per cent its assets in public bonds and treasury financial instruments. Some central and eastern European countries have also made similar moves by allowing individuals to reverse their previous decision to opt out of the public system and join the individual account arrangements (Antolin and Stewart, 2009).

Some other countries, such as Australia, Mexico, Spain and Turkey, have allowed reduction of contributions and temporary or early access to private pension savings for those in financial difficulties.

Scaling up child and family protection

Poor families with children have been one of the main targets of the social protection stimulus packages. Several countries have announced inclusion of families in existing or new schemes, along with provisions to increase the value of benefits values or to make supplementary payments.

In October 2009, Argentina introduced a new family benefit scheme that will cover poor informal workers' families with dependents up to 18 years old, including domestic workers, self employed, non-registered workers and the unemployed who are not entitled to the unemployment benefit. The new programme, *Asignación Universal por Hijo para Protección Social*, consists in a monthly amount of $47 per child that is deposited in a savings account. The parent responsible for the child can withdraw the amount saved upon demonstrating that the child has fulfilled obligatory schooling or, in the case of children under 5 years old, the obligatory vaccinations card. The programme is expected to reach 5 million beneficiaries and halve the country's poverty rate at the cost of one per cent of the GDP.

At the onset of the economic crisis, Brazil also announced the expansion of the conditional cash transfer *Bolsa Família* programme as one of the core measures of the anti-crisis package. This counter-cyclical initiative is expected to include 1.3 million additional families and contribute to mitigating the impact of the crisis among those more vulnerable, as well as to stimulate consumption. Since low-income families have a high propensity to consume, this measure can contribute to boost demand for food and basic consumer goods produced mostly locally (ILO, 2009d).

Both the Argentinean and Brazilian programmes seek to address objectives concerned with immediate poverty relief, together with the promotion of the longer term development of human capital. Income-support cash transfers are provided to poor families contingent upon beneficiaries satisfying certain behavioural obligations, such as ensuring children's school attendance, prenatal and postnatal monitoring, and participation in nutritional and vaccination schedules. In the G20 group, Mexico and Turkey have similar programmes.

South Africa has made a special budget allocation to scale up the social grants schemes, by increasing the coverage of households with children, people with disabilities and the elderly age, easing the eligibility criteria and raising the benefit value. The Republic of Korea has increased the value of the child's education grant for low-income households.

To boost consumption and support economic growth, Australia has allocated almost 30 per cent of the stimulus package to pay a one-off bonus to low- and middle-income earners and households most affected by the economic slowdown, including specific allowances to families, students and farmers.

In Germany, an additional one-time payment of €100 per child was paid in 2009 to every household, regardless of income level, as a means to support families. Around 15 million children received the allowance. Additionally, social assistance benefits for children 6–13 years old increased from 60 to 70 per cent of the value of the adults' benefit. Australia and the United States have also paid family support and child support bonuses and provided tax rebates for families with children. Italy increased the family allowances for families with children and also provided tax deductions.

Enhancing health protection

Where access to health care and health insurance is linked to employment, workers who become unemployed (and their families) not only lose their income, but simultaneously lose access to health services, along with social services and benefits such as pensions, maternity and family benefits. Measures to keep social protection coverage for the jobless are crucial elements to preserve working capacity and support the unemployed in searching for new jobs.

With this in mind, the United States' economic stimulus package provides federal subsidies to help cover the cost of health insurance premiums of low-income workers involuntarily terminated since September 2008. The programme, known as COBRA, covers 65 per cent of the cost of health insurance premiums, allowing the extension of health protection to the unemployed. The duration of the subsidy has been extended continuously, along with the successive extensions of durations announced for unemployment benefits. The budget allocated to this provision was equivalent to $21 billion (2.7 per cent of the stimulus package) and it is estimated to have benefited in average 5.9 million workers per month on 2009.

While, in past crises, countries such as Argentina, Indonesia and the Russian Federation have experienced pro-cyclical declines in per capita health spending as result of budget cuts, in the current downturn many G20 countries have announced major investments on health infrastructure and the extension of health protection coverage. Behind these efforts, there is the perception that the absence of affordable health care and education leads more individuals and families into a vicious circle of illness and poverty.

In parallel to ad hoc discretionary health protection measures, some countries such as China, have undertaken major steps towards universal health coverage. Prior to the crisis, the Chinese medical insurance programmes extended coverage from about 190 million individuals (15 per cent of the population) in 2003 to 1.13 billion individuals (85 per cent of the population) in 2008. This rapid and massive process is explained by the introduction of the New Rural Cooperative Medical Schemes, which covered 815 million people or 91.5 per cent of the rural population by the end of 2008. The scheme is heavily subsidized, with the Government paying as much as 80 per cent of the health-care premium.

In April 2009, the Government launched the blueprint *Guidelines on Deepening the Reform of Health Care System*, which provides the plan to achieve universal basic health-care by 2020. The plan foresees investments to the amount of $124 billion on the top of the stimulus package for 2009–11, aiming at introducing an essential medicines system, improving primary health-care facilities, providing equitable access to the basic public health-care services, and conducting pilot reforms of public hospitals. Under the plan, two thirds of ear-marked government budgets will be used for consumers as premium subsidies (for low-income groups), and one third will be used for (mainly community-level) service providers.

In India, the *Rashtriya Swath Bhima Yojana* is being co-implemented by the national and local governments in 21 states to provide medical coverage for families below the poverty line. The national Government finances three-quarters of the expenses. This scheme is already covering 4.5 million workers, benefiting 20 million people. It is managed through a biometric smart card through which beneficiaries have access to medical treatment, including maternity benefits, throughout the country.

Lessons from past crises

Many theoretical and empirical studies have associated the extension of social protection coverage with productivity increase, consumption stabilization and social cohesion in developed and developing countries, reaffirming the major role of social protection as a crisis response policy (Cichon and Scholz, 2009) (Van Meerendonk, et al. 2010).

The positive correlations between level of social security expenditures per capita, productivity and reduction of poverty rates are very well known in the developed countries. Recent studies have shown that the effects can be even higher in developing countries (ILO, 2010c) and evidence from costing studies in Asia and Africa has demonstrated that the implementation of basic social security packages is affordable even in poor countries (Behrendt and Hamemejer, 2009).

Stabilizing consumption and preventing poverty

Social transfers in the form of pensions, family benefits and other cash transfers can contribute to protect household consumption against shocks or crises, thus preventing asset depletion or the adoption of short-term strategies with long-term adverse consequences, such as taking children out of school.

In Argentina, the Unemployed Heads of Household programme *(Plan Jefes y Jefas)* is reported to have attenuated the sharp fall in income as a consequence of the financial crisis in 2001. The programme was particularly effective in protecting the extremely poor. A study reports that although the programme had a small impact on the overall headcount poverty rate, it achieved a significant effect on the incidence of extreme poverty and on the poverty gap (Galasso and Ravallion, 2004). Another study estimates that in the absence of the transfer, nearly 10 per cent of the beneficiary households would have fallen below the poverty line (ILO, 2010c).

Social transfers conditional on human capital investments are also reported to have significant effects on consumption, poverty and vulnerability. Brazil's *Bolsa Familia* is reported to have contributed, together with other social assistance programmes, to a 16 per cent fall in extreme income poverty (Lindert et al., 2007).

In Mexico, the conditional cash transfer programme *Progresa* (later renamed *Oportunidades*) was initiated in the rebound of the 1994–95 financial crisis. The evaluation of *Progresa* two years after its start showed a reduction of 10 per cent in the poverty headcount ratio (Skoufias, 2005). The impact of *Progresa* on household income is reflected in the level and pattern of consumption. The level of consumption was reported to have increased on average by approximately 15 per cent following receipt of the benefits, raising food expenditure of recipient households by around 10.6 per cent compared to equally eligible but non-recipient households. The improvement in the level and quality of nutrition is predicted to have long-term effects on the lifetime productivity and potential earning capacity of recipient children (ILO, 2010c).

A comparative study of social pensions in Brazil and South Africa have found that in the absence of non-contributory pension income, the incidence of indigence amongst member of households that include older people would be 8.9 and 2.3 percentage points higher in Brazil and South Africa, respectively. The study also finds that the impact on the poverty gap is much larger. In the absence of social pensions, the poverty gap would be a third larger in Brazil, and two-thirds larger for South Africa, whereas the indigence gap would be 1.5 times larger in Brazil and one-fifth larger in South Africa. In terms of vulnerability to poverty, measured as the probability of becoming poor, the study shows that having a non-contributory pension recipient in the household reduces the probability of poverty among household members by 21 and 11 per cent, in Brazil and South Africa, respectively (Barrientos, 2003). South Africa's social pension appears to be especially important for 35 per cent of blacks who survive on less than $1 a day, as that proportion would increase to 40 per cent in the absence of the pension (ILO, 2010c).

Social protection and productive investment

Most social transfers are designed to support household consumption, but they can also facilitate productive investments. The effects can be larger where the regularity of transfers enables households to take the risk of more profitable or more productive economic activity.

For credit constrained households, investment requires raising savings and therefore reducing current consumption. Among low income households, especially those with uncertain or volatile sources of income, savings may be difficult to achieve. Additionally, poor households have difficulties in providing collateral to formal financial institutions to secure loans, especially in developing countries where informational asymmetries leads to severe credit market fragmentation (Sajeda, Rai, and Topa, 2003). In that context, social transfers can play an important complementary role to facilitate access to credit by encouraging small scale savings and thus investment decisions and by enabling access to credit. There are indications across a variety of social transfer programmes, in middle and low income countries that beneficiaries are able to save and invest a fraction of their income following the receipt of transfers, and also that access to credit can be facilitated by the transfer.

In Mexico, studies have observed a rise in investment by beneficiary households compared to non-beneficiaries in Mexico's *Progresa*. One study estimates that, on average, around 12 per cent of transfers to beneficiaries were invested in productive assets. Comparing the impact of *Progresa* with an asset accumulation programme directed at small and medium-size farmers, the study finds the latter had income multipliers of around 1.5 to 2.6 times (ILO, 2010c).

In Brazil's non-contributory pension programme for informal workers in rural areas, beneficiaries can have access to formal credit by showing the magnetic card which they use to collect their pensions. Furthermore, a study shows that a significant proportion of beneficiaries invest part of their transfer in seeds, tools and other productive assets, which strengthens small-scale economic activities and thus employment (Costa, Delgado and Cardoso, 2000).

Beyond the crisis

While the world economy shows preliminary signs of rebound, many governments have expressed intention to withdraw the stimulus packages and adopt fiscal consolidation measures that may affect social spending. The lessons from past crisis have demonstrated that by enhancing social protection programmes, governments and societies strength their capacity not only smooth the impact of the downturn, but to accelerate the recovery.

An early withdraw of the temporary social protection stimulus measures or cut in permanent social spending can affect aggregate demand and lead to a double-dip recession and jeopardize the countries' ability to build a long-term development strategy. An early exit might improve fiscal balances in the short run, but can aggravate fiscal deficits in the medium- and long-term, given its negative effects on increasing the unemployment insurance expenditures and eroding the tax base (ILO, 2010d).

The economic recovery should contribute to deep and consolidate the social protection programmes. The crisis showed that a social protection floor, comprising essential social transfers and services implemented in a articulated way, brings a triple benefit. It protects people from becoming trapped in debilitating poverty, empowers them to seize market opportunities and contributes to aggregate demand. In the long-run, it works as a developmental tool, enhancing human capital and productivity.

2. Unemployment benefits

Core findings

- With deteriorating economic conditions and mounting unemployment rates, unemployment income-support programmes have become even more important in protecting and empowering people and serving as a macroeconomic stabilizer for countries.
- Discretionary unemployment protection measures were taken in 15 of the G20 countries and include reduction in contribution rates, increase in benefit duration, easing of eligibility requirements and enhancement of partial unemployment arrangements linked to reduced hours, work-sharing and training lay-offs schemes.
- By maintaining income and smoothing consumption among job losers, unemployment benefits limit the reduction in spending and contribute to boosting the aggregate demand. While providing income security, they protect against poverty, cushioning the social impacts of the economic crisis.
- Throughout the duration of the benefit payment, workers can search for jobs that better match their abilities, increasing the efficiency of the job-matching process. Complementary skills-upgrading programmes contribute to empowering job losers, helping to reintegrate them at similar or even higher productivity levels when the economy recovers.

In periods of crisis, unemployment income-support programmes play a crucial role in protecting and empowering people and serving as a macroeconomic stabilizer for countries. These programmes are designed to support workers in regard to income lost as a result of temporary unemployment caused by cyclical or structural economic downturn (Scholz et al., 2009).

Globally, 78 countries provide legal protection to the unemployed, covering approximately 13 per cent of the world total number of unemployed, through contributory social insurance risk-pooling schemes, non-contributory tax-financed social assistance or a combination of both, usually complemented by active labour market policies (ILO, 2009b). A few countries, mostly in Latin America, also provide unemployment protection through mandatory individual savings accounts (Ferrer and Riddell, 2009). In some countries, protection for the unemployed falls into the general social assistance framework, which offers minimum income regardless the employment condition. Most G20 countries operate unemployment insurance or unemployment assistance schemes.[1] With deteriorating economic conditions and mounting unemployment rates over the past two years, such schemes have become even more important.

Crisis response measures

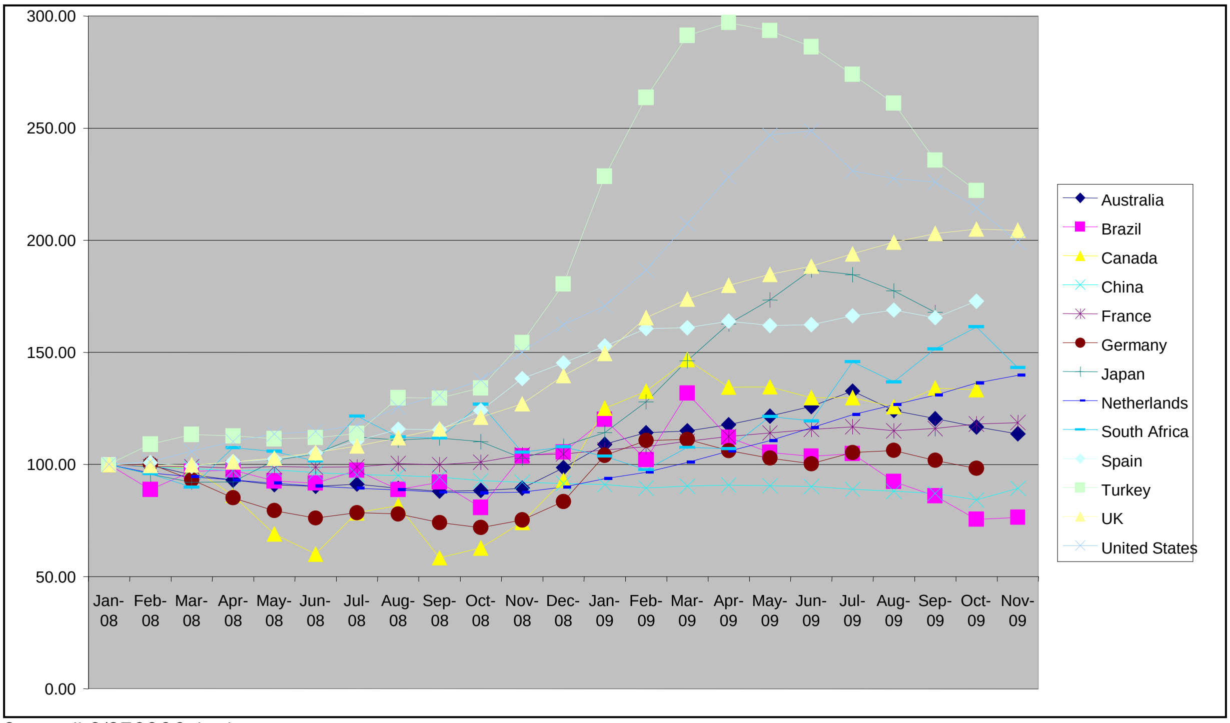
The current crisis has placed unemployment benefit schemes under a stress test. The effectiveness of programmes depends on their capacity to enhance coverage and to operate in a context of severe downturn with a massive expansion of joblessness and increase in long-term unemployment. Many G20 countries have increased budget allocations to unemployment insurance programmes and adopted administrative measures to scale up the schemes to face the unprecedented rise in the numbers of benefit claimants. Recent study prepared for a group of developed countries found that the increase in unemployment

[1] The exceptions are Indonesia and Saudi Arabia. Mexico has only locally-based schemes in the State of Mexico and Mexico DF.

benefit recipients which happened since the beginning crisis costs around 1.1 per cent of the GDP[2].

In the United Kingdom and the United States, unemployment benefit claims more than doubled in the past two years (figure 2.1). In the United States, the number of claims reached the historical record of 6.8 million in June 2009 and stabilized at around 5.8 million in the last quarter of the year, representing a 125 per cent increase with respect to January 2008. The share of the consolidated federal budget expenditure allocated to unemployment insurance increased from 0.8 per cent in 2005 to 1.4 per cent in the 2010 State budget law. [3] In the United Kingdom, jobseekers' allowances have been increasing steadily along with unemployment rates. In Turkey, the number of benefit payments increased to a peak of 300 per cent in March 2009 with respect to January 2008, and have been declining steadily since then.

Figure 2.1. Unemployment insurance claims, 2008–09 (index January 2008 = 100)



Source: ILO/SECSOC database.

Japan has also faced a significant rise of almost 80 per cent in benefit claims since January 2008, followed by Spain (65 per cent) and South Africa (49 per cent). Spain has the most expensive scheme in the G20 area. In 2005, unemployment payments were equivalent to 2.2 per cent of the GDP and 5.7 per cent of total government expenditures (figure 2.2). Since then, unemployment benefit claims have doubled. Because of the severity of the crisis, the 2010 Spanish state budget law foresees the allocation of 7.9 per

[2] This is an estimation based on the observed increase in unemployment claims in Australia, Canada, Czech Republic, Finland, France, Germany, Iceland, Ireland, Japan, Republic of Korea, Luxembourg, Netherlands, Slovak Republic, Sweden, the United Kingdom and the United States. The calculations are based on the weighted average and on net replacement rates for an average two-earner household with two children in 2008 according to the OECD tax and benefit models (ILO, 2010b).

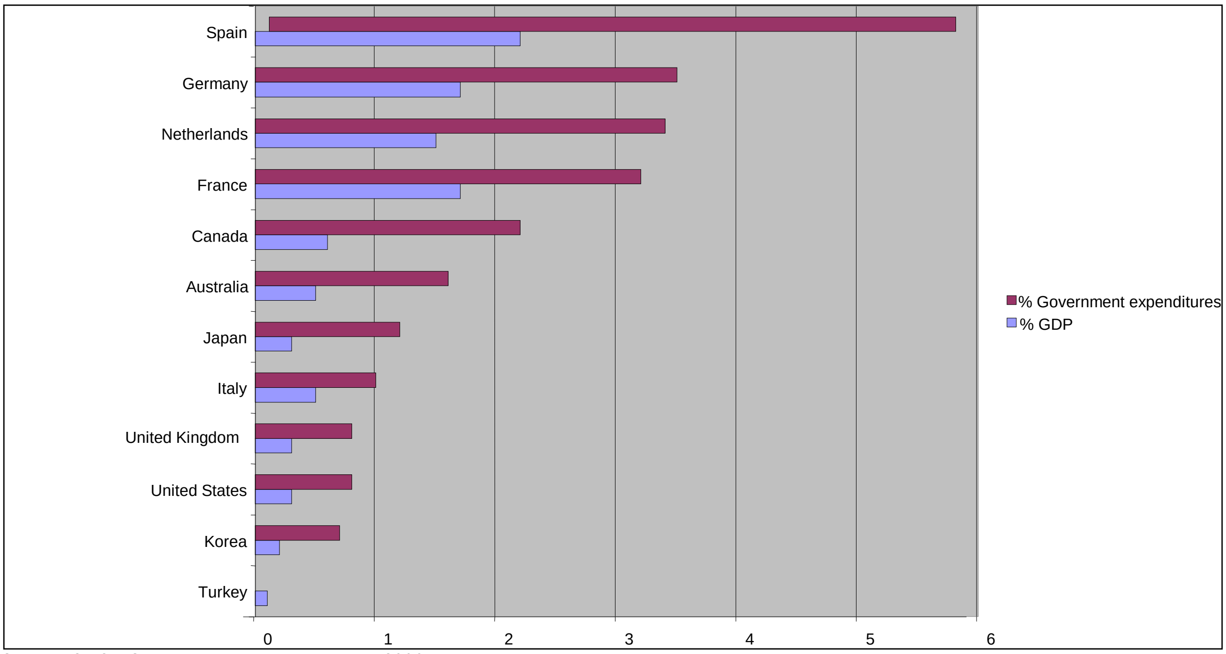
[3] See United States Government (2009). Budget of the United States Government Fiscal Year 2010. http://www.whitehouse.gov/omb/assets/fy2010_new_era/Summary_Tables2.pdf.

cent of total government expenditure (or 2.9 per cent of GDP) to finance the projected payments for next year. [4]

Australia, France and the Netherlands experienced a modest increase of 16 per cent in unemployment claims. In Brazil and Germany, after a peak in the first semester of 2009, unemployment insurance claims stabilized or even declined in the last quarter of the year. Conversely, China has shown a reduction in the payments of unemployment insurance benefits since the beginning of the crisis. By September 2009, the number of benefit claimants had decreased by 13 per cent, as compared to January 2008.

Germany, followed by France and the Netherlands, immediately follow Spain in the list of the four biggest spenders, with unemployment benefit accounting for around 3.2–3.5 per cent of public expenditures and 1.5–1.7 of GDP. In addition to the unemployment levels, the relatively high spending patterns can also be explained by the broad coverage and high rate of income replacement of the unemployment insurance schemes.

Figure 2.2. Expenditures on unemployment insurance schemes as a percentage of GDP and as a percentage of the government total expenditure, 2005



Source: OECD Social Expenditures Database 2008.

At the other end of the spectrum, countries such as Italy, the Republic of Korea and the United Kingdom keep expenditures below 1 per cent of GDP. In the case of Italy and the United Kingdom, the low cost is explained by the ungenerous nature of the benefit, and in the case of the Republic of Korea by the low coverage.

In the stimulus packages, many G20 countries have adopted temporary measures to scale up and enhance the capacity of unemployment protection schemes to cope with the immediate effects of the crisis. Table 2.1 shows how some countries have combined adjustments in different parameters of the unemployment schemes. Measures include: reduction of contribution rates; increase in benefit duration; raising the benefit value or lump sum payments; easing eligibility requirements; extension of coverage; and

[4] See Gobierno de España (2009). Presupuesto General del Estado. Proyecto de Ley 2010. http://www.sgpg.pap.meh.es/Presup/PGE2010Proyecto/MaestroDocumentos/PGE-ROM/doc/1/3/16/2/1/N_10_A_R_31_119_1_1_1_1251M_2.PDF.

strengthening of partial unemployment arrangements linked to reduced hours, work-sharing and training lay-offs. The table refers only to countries that actually changed the parameters of their schemes as part of the crisis response measures.

Table 2.1. Unemployment insurance crisis response measures in selected G20 countries, 2008–09

	Extend coverage	Reduce contribution	Increase duration	Increase benefits	Partial unemployment
Brazil			X		
Canada	X	X	X		X
France	X		X	X	X
Germany		X	X		
India			X		
Italy			X		
Japan	X	X	X		X
Korea, Republic of			X		X
Netherlands					X
Russian Federation				X	
Spain	X				
South Africa	X				X
Turkey				X	X
United Kingdom	X				
United States	X		X	X	

Source: (ILO, 2009a), OECD (2009a) and ECLAC (2009), own consultations.

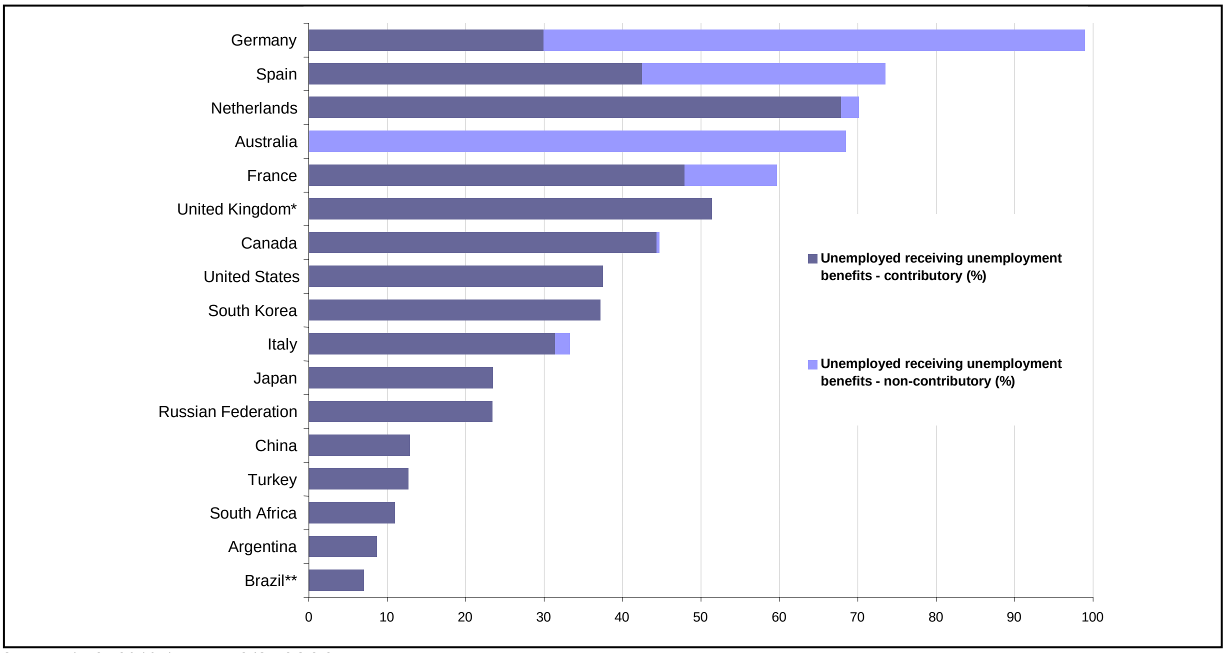
Increasing coverage by easing eligibility criteria

In developing countries, such as Argentina, Brazil, China, South Africa and Turkey, 7–13 per cent of the total unemployed population were covered by unemployment insurance in 2008 (figure 2.3). The high informality levels impose limits to the expansion of coverage and constrain the role of contributory unemployment insurance schemes as an automatic stabilizer and source of social protection. The system reaches workers in the middle and higher deciles of the income distribution. In case of underfunding, state subsidies to such programmes can induce perverse distributional income effects, since the allocations most likely will be made to groups better positioned in the socio-economic landscape. In the Brazilian stimulus package, for instance, budget allocations to the broader pro-poor conditional cash transfer programme *Bolsa Família* were prioritized with respect to a modest increase in the duration of the unemployment benefit.

Even in G20 developed countries, contributory unemployment insurance has reached a maximum of 50 per cent of the unemployed. Further expansion in Australia, France Germany and Spain was made possible by the introduction of tax-financed employment assistance.

In most cases, unemployment insurance is not designed to cover all the unemployed. The eligibility requirements related to minimum working period or contribution often exclude temporary, seasonal and part-time workers. Typically, voluntary job leavers, people looking for their first job and re-entrants who previously left the labour force voluntarily are not covered. In some countries, the system does not cover small enterprise workers, self-employed and domestic workers. Rural workers are also among the groups with low coverage. In some countries, migrant workers have their work permits cancelled after losing their jobs and become disqualified to receive unemployment benefit even if they have contributed to it.

Figure 2.3. Percentage of the unemployed receiving unemployment benefits, G20 countries, 2008



Source: (ILO, 2010b) and ILO/SECSOC database.

* Data for the United Kingdom jobseeker's allowance includes social insurance and social assistance.

** Brazil has a non-contributory unemployment scheme for fishermen.

The Republic of Korea has been successful in terms of coverage extension. The unemployment insurance scheme was first introduced in 1995 and expanded rapidly after the 1998 crisis, reaching almost 40 per cent of the unemployed in 2008. When the 1998 crisis hit the country, coverage was still limited to large companies. To face the social consequences of the crisis, the Government scaled up the scheme, by including micro and small companies. In a decade, coverage was doubled and the system is better prepared to cushion the impact of the current economic downturn.

Changes in the unemployment insurance in Argentina already happened in response to the 2001–02 crisis. The previous reform eased eligibility criteria, reducing the minimum contributory waiting period from 12 to six months and thus increasing coverage (Bertranou and Paz, 2007).

Aiming at expanding coverage towards temporary and part-time workers, some countries have reduced the minimum length of service or contribution required to qualify for unemployment benefits. In Canada, entrance requirements were lowered in 39 out of 58 regions. The United States national Government has also provided incentives to states to ease eligibility requirements.

In Japan, the minimum insurance affiliation period was reduced from 12 to six months. Similarly, the most recent French collective agreement reduced the minimum eligibility from six to four months. Spain started to count part-time work and reduced working hours in the eligibility requirement. In an attempt to improve graduates' prospects, the United Kingdom changed the benefit laws to extend the jobseekers' allowance to young workers undertaking an internship.

Most countries have implemented these measures just for a limited time. Temporary and part-time workers are the groups that were hit first and hardest by the crisis, and the measures have helped to mitigate the impact. Nevertheless, the social inclusion of these groups on a permanent basis is still a challenge for developed countries. Once these measures reach an end, there will be a step back in the expansion of social protection, restoring the pre-crisis social vulnerability level.

In developing countries, further expansion of insurance mechanisms will always be bounded by the limits of the formal economy. Some countries have overcome these barriers by initiating unemployment assistance schemes, aiming at reducing poverty among low-income families affected by unemployment. The local governments of Mexico DF and in the State of Mexico have introduced modest unemployment assistance programmes. In Brazil, a non-contributory unemployment scheme for fishermen replaces their income during the fishing prohibition period (reproduction season), helping to protect biodiversity and to ensure economic and social sustainability. The country also grant unemployment benefits to workers rescued from forced regime or the condition analogous to slavery. Income support is also given to workers registered in skills development programmes offered by their employer.

Lowering contributions

Some countries have opted to cut or freeze unemployment insurance contributions. In these risk-pooling systems, premium rates are set every year to cover the anticipated payments under the programme during the following period. The resources are put aside in a reserve fund. Normally, if unemployment is expected to rise, premium rates should increase to cover the programme cost. During economic downturns, this rate-setting approach can lead to a situation in which fewer workers bear the costs of a higher number of unemployed people, and higher labour costs encourage further shedding of labour just as unemployment is rising.

Nevertheless, Canada, Germany and Japan have adopted temporary measures to break the pro-cyclical nature of such financial measures, aiming at reducing labour costs to facilitate job maintenance and creation. Despite the increase in benefit claims and in the overall cost of the unemployment insurance programme, Japan reduced the contribution from 1.2 to 0.8 per cent of the wages from April 2009 until March 2010. Germany reduced the contribution rate from 6.5 per cent of taxable wages in 2006 to 3.3 in 2008 and to 2.8 per cent in 2009. Canada froze the employees' premium rates for 2010 at 1.73 per cent, the lowest level since 1982. The employer contribution is 1.4 times the premiums paid by their workers. As the economy recovers, the contribution rate will be raised gradually to offset the unemployment insurance expenditures over time.

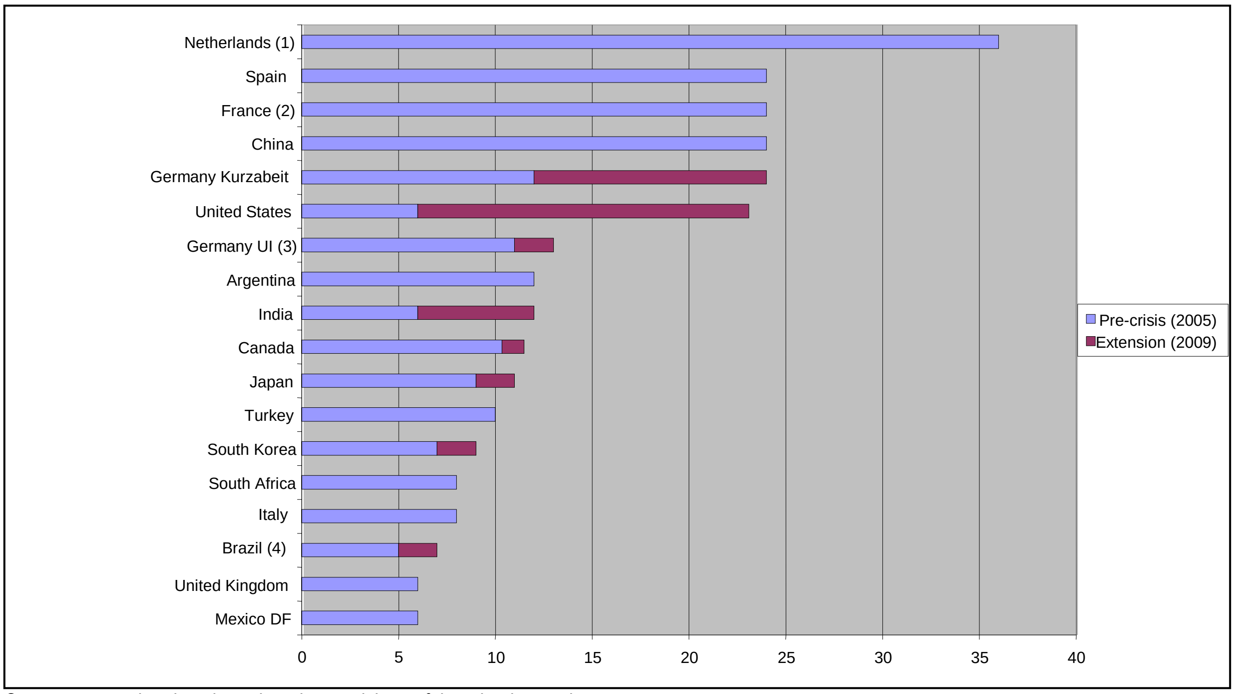
The 2010 freeze will certainly have implications for future rates. In Canada, the total cost of the frozen contribution is estimated at 0.053 per cent of GDP for 2010, and a cumulative deficit of almost 1 per cent of GDP is expected over the next three years (TD Bank Financial Group, 2009).

The current crisis has showed the advantages of a pro-cycle approach in rate-setting framework for unemployment insurance, in which rates can be frozen or decreased during recessions, and increased once unemployment goes down to assure sufficient reserve funds for future downturns.

Extending the benefit duration

The perspective of a prolonged recession and the increase in long-term employment has led some G20 countries, such as Canada, Brazil, Germany, Japan and the United States to temporarily increase the duration of the benefit (figure 2.4).

Figure 2.4. Maximum duration (in months) of unemployment benefit payment for a worker aged 49 years



Source: own estimations based on the provisions of the stimulus packages.

(1) The maximum benefit duration is 60 months for workers with 40 or more years of contribution.

(2) The maximum duration is 36 months for workers older than 50 years old.

(3) The maximum duration is 32 months for workers older than 50 years old.

(4) The extension applies for the mining and metalwork sectors.

Brazil extended the benefit duration for two months, but only for the sectors most affected by the crisis, such as mining and metalwork. It is expected that this measure would benefit 216,500 workers at a cost of 0.013 per cent of GDP (Berg, 2009). The National Economic Plan of Canada foresees five weeks extension for the payment of unemployment insurance, rising its maximum duration to 50 weeks, at a cost of US$1.1 billion for the period 2009–11, equivalent to 0.074 per cent of GDP in 2009, benefiting over 395,000 people (Government of Canada, 2009).

In Japan, from April 2009, those who have exhausted their unemployment benefit payment can have a 60 days extension. The total duration ranges from 150 to 370 days, depending on the worker's age and number of years of service (Ministry of Health, Labour and Welfare, Japan, 2009).

Germany has also extended the duration of unemployment benefit combined with short-time working compensation from 12 to 24 months. In the regular unemployment insurance scheme, the duration ranges from 152 to 832 days according to the worker's age and contribution period (Government of Germany, 2009). The unemployment subsistence scheme has indefinite duration.

The latest French collective agreement on unemployment insurance also foresees adjustments in the duration of the benefit, although the maximum duration remains the same as before. From April 2009, the duration of the benefit will be equal to the contribution period, up to a maximum of 24 months for workers until the age of 49 years, and 36 months for workers over 50 years old (UNEDIC, 2009). France has also opted to make a one-off lump sum supplementary payment.

One of the main measures of the United States recovery plan is the extension of the duration of the unemployment benefit. The legislation approved in November 2009 provides 14 extra weeks of unemployment insurance to workers in every state that have exhausted their standard 26 weeks period, and 20 extra weeks of jobless benefits for those workers in states with average three-month unemployment rates above 8.5 per cent. This is the third temporary extension of the benefit duration. Since June 2008, the total duration has been raised from 26 to 99 weeks. In the American Recovery and Reinvestment Act, launched in January 2009, there was already a provision to raise the duration to 79 weeks, along with a $25 per week increase in the value of the benefit, at an estimated cost of $39.2 billion up to 2019, to be expended mostly in 2009 and 2010, equivalent to 0.239 per cent of GDP and 5 per cent of the overall stimulus package (Congressional Budget Office, United States, 2009a).

The possibility to make discretionary adjustments in the duration of the unemployment benefit according to the length of the economic recession cycle is an important policy-making asset. In 2009, unemployment insurance duration in the United States was as generous as the European social welfare schemes.

Partial unemployment benefit schemes

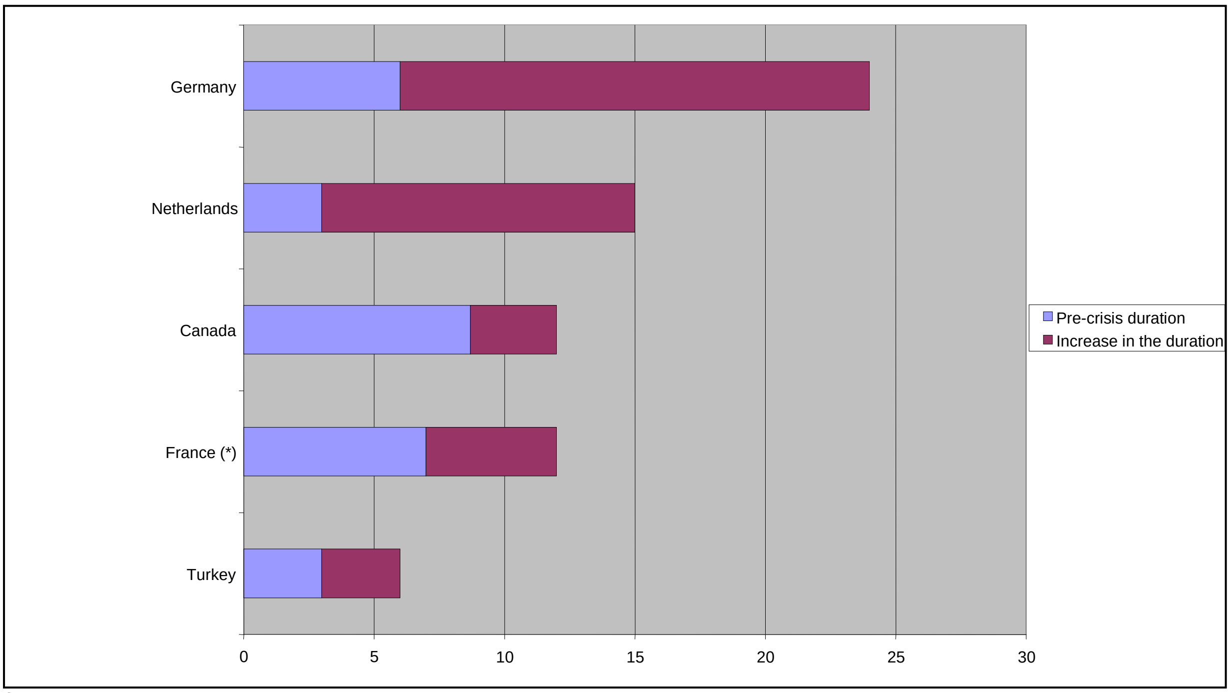
In order to preserve jobs, and at same time to allow companies to adjust their production costs to the contraction of demand, many G20 countries have provided tax-incentives for the reduction of working hours. The shortening of the workload is generally associated with a (pro-rata) reduction in wages, which can be compensated by the payment of partial unemployment benefits (figure 2.5). In some countries, cutbacks in working hours, combined with the enhancement of partial unemployment schemes to fill the income gap, have contributed to avoiding lay-offs and have enabled companies not only to survive the crisis, but to be better positioned when growth returns (ILO, 2009b).

The stimulus packages of Canada, France, Germany, Japan, the Netherlands and the Republic of Korea, have included provisions related to partial unemployment benefits to workers facing involuntary reduction in working hours.

The support is time-limited and conditional on participation in other work-related activities, such as job-search or training. Compensation for reduced working hours is generally paid through the employer who, in turn, receives wage subsidies that are conditional on partial employment of existing workers.

In Germany, the maximum duration of short-time working increased from six to 24 months. This measure was combined with refunding of social security contributions. In March 2009, the number of subsidized workers in partial employment was more than 1.2 million in 55,000 enterprises, or eight times as high as a year before (Scholz et al., 2009). France, Japan and the Republic of Korea have also increased the replacement rates. In France, the partial unemployment benefit was raised from 60 to 75 per cent of salary.

Figure 2.5. Maximum duration (in months) of partial unemployment benefit for short-time working



Source*:* own consultations.

(*) In some industrial sectors the extension can reach 11.5 months.

Along with the payment of partial unemployment benefit, major implicit subsidies are generally provided, such as continued accumulation of entitlements in pension and unemployment insurance programmes, and health coverage. For the duration of the short-time working scheme, there may be restrictions on lay-off. Training arrangements or financial incentives for training are provided during non-working hours. These programmes facilitate the temporary continuation of existing employment contracts and, therefore, support job preservation instead of job creation (OECD, 2009b).

Lessons from past crises

Unemployment insurance as an automatic stabilizer

Theoretical macroeconomic research and evidence from past crises in Canada and the United States have shown the strong stabilization impact of unemployment insurance schemes on these countries. Recent research assessing the impacts of unemployment insurance on consumption smoothing shows that the fall in consumption for the programme's beneficiaries was only 7 per cent during the economic cycles in the 1970s and 1980s. In the absence of the programme, estimates suggest that consumption could have fallen by as much as 22 per cent (Gruber, 1994). Similarly, models of precautionary savings suggest that households may increase savings rates when faced with greater income uncertainty. Therefore, increase in the replacement rates or in the coverage of unemployment insurance might stimulate households to reduce private savings, raising consumption and aggregate demand (Engen and Gruber, 2001).

These findings are corroborated by various econometric studies. By using counter-factual simulations, some researchers have shown that unemployment has consistently mitigated the severity of downward fluctuations in GDP during economic contractions in five recessions in the United States from 1969 to 1999. They found that unemployment insurance programmes reduced the loss in real GDP by around 15 per cent over all the quarters of each recession. They showed that the recessions would have been an average of

17 per cent deeper if the programme had not existed. [5] They also estimated that each dollar spent on the unemployment insurance programme ultimately increased GDP by $2.15, and for each recession an average of 131,000 jobs were saved per year (Chimerine et al., 1999).

A recent report on the United States recovery package showed that the extension of unemployment insurance together with the increase of food programmes have had a stronger multiplier effect on output than tax cuts or an increase in infrastructure spending. After evaluating various stimulus options, the author concluded that unemployment insurance benefits were the single best mechanism under consideration for boosting the economy. For each dollar spent on unemployment insurance, output increased by $1.6 (Zandi, 2008). These findings were corroborated by ex post studies prepared by the United States Congressional Budget Office, which estimated that the output multipliers for transfers to individuals, including unemployment, health, food and nutrition, range from 0.8 to 2.2 (Congressional Budget Office, United States, 2009b).

In Canada, an econometric study on the 1981–82 and 1990–91 recessions showed a very strong correlation between net spending on the unemployment insurance system and economic performance. According to the authors, the programme reduced GDP loss by 12 per cent in 1982 and by 14 per cent in 1983. Similar results were also found for the 1990s crisis. The authors also found that unemployment benefit spending is more powerful as an economic stabilizer than other measures such as tax cuts, increase in transfers of social assistance programmes, and transfers to provincial and local levels (Dungan and Murphy, 1995).

Another study analysing the effectiveness of the tax and social transfers systems in the United States and in the European Union as an automatic stabilizer in the current crisis, showed that unemployment benefits alone have absorbed 19 per cent of the unemployment shocks in Europe, compared to just 7 per cent in the United States (Peichl, 2009). These findings suggest that the multiplier effects in countries with more generous unemployment insurance schemes, such as France, Germany, the Netherlands and Spain may be much higher than those observed in the United States.

Protecting families from poverty

Recent research has shown that unemployment protection schemes are fundamental tools for social cohesion and social stability. In the absence of the transfers provided by these schemes, poverty levels would increase by 9 percentage points in Europe and by 5 percentage points in the United States. A study on the European transition economies showed that unemployment insurance schemes contributed significantly to poverty reduction during the 1990s. In Hungary and Poland, for instance, poverty among the unemployed was reduced by 50 and 45 per cent, respectively, as a result of the cash transfers made in the form of unemployment benefit (Vodopivec et al. 2005).

Well-designed unemployment support schemes can also contribute to avoiding a transition to inactivity and, in the long term, an increase in expenditures on disability and retirement benefits (Carcilio and Grubb, 2009).

[5] A previous study showed that in the 1970s the unemployment insurance system could offset 5.4 per cent of the GDP real loss or 4.9 per cent of employment losses from a recession caused by a monetary shock in the United States. In the 1980s, the system could offset 3.7 per cent of the GNP loss and 3.5 per cent of the employment loss. See Dunson et al. (1990).

Empowering workers and improving job matching

The effectiveness of unemployment insurance as a macroeconomic stabilizer depends on the relation between output and employment, coverage of the scheme, benefit duration, replacement rates and, mainly, on the impact on the behaviour of the unemployed with respect to consumption and job seeking (Auerbarch, 2000).

Many authors have raised the alert on the possible impact of generous employment insurance schemes in inducing moral hazard among workers, discouraging work and reducing efficiency of the labour markets (Kratz and Meyer, 1990). Some authors have found a positive elasticity of unemployment with respect to benefit duration and have identified a high probability of unemployment exit just before the benefit is exhausted (Ours and Vodopivec, 2005).

However, the debate on whether more generous unemployment schemes reduce the transition rate from unemployment to employment has been inconclusive (Roed et al., 2008). Some authors argue that generous unemployment benefits can increase productivity by helping the unemployed find jobs that match their skills (Berg and Salerm, 2008). By empowering workers and increasing their bargaining position, unemployment insurance contributes to raise wages and to facilitate job matches (Blanchard and Wolfers, 1999).

Despite of an eventual direct negative effect on unemployment duration, evidence shows that there is a positive indirect effect of unemployment insurance on subsequent employment stability. This effect is pronounced in countries with relatively more generous benefit systems, such as France and Germany, compared to countries such as Greece and Italy where the unemployment insurance system is less developed, and for recipients who have spent at least six months in unemployment. In terms of the magnitude of the effect, recipients remain employed on average two to four months longer, which represents a 10-20 per cent increase relative to the average employment duration. This offsets the direct effect of unemployment benefits, suggesting a positive net effect (Tatsiramos, 2006).

In Brazil, evidence shows that unemployment benefits empower workers to overcome liquidity barriers to becoming self-employed (Cunningham, 2000). Turning unemployment to self-employment has also become a major focus of the German active labour market policies (Baumgartner and Caliendo, 2007). In Spain, the stimulus package allowed the unemployed to withdraw 60–80 per cent of the accumulated amount of the entitlement over the benefit duration, as a start-up allowance to become self-employed.

Finally the combination of partial unemployment insurance with training lay-offs and with reduced working hours has proved to be an effective way to improve labour skills and enhance productivity.

Part II. Employment and training

3. Active labour market policies

Core findings

- During the global financial crisis, a range of active labour market policies have been used to maintain workers in their jobs, increase employability (including activation strategies), and generate employment for the jobless. In high-income countries, the most common measures were training and work-sharing schemes, while in poorer countries, typical interventions included public works programmes and entrepreneurship incentives.
- While it is still premature to conclude on the effectiveness of active labour market policies during the crisis, available data indicate that policies, particularly work-sharing schemes, have helped avoid a jobs crisis in a number of countries such as Germany.
- In order to avoid a further deterioration in the labour market during the recovery phase, efforts are still required to keep workers in jobs, encourage employers to start taking on new staff (through subsidies and tax credits) and strengthen re-employment policy. Specific attention is required to ensure that youth and other vulnerable groups do not lose attachment to the labour force or become long-term unemployed.
- To be able to respond more effectively to future crises, active labour market policies should be developed as a counter-cyclical measure; for example, by ensuring that spending on these policies increases with the unemployment rate. Active labour market policies are also relevant for low- and middle-income countries, but will differ in scope and nature to those used in more developed labour markets.

Active labour market policies [1] are regulatory policies that influence the interaction between labour supply and demand. [2] In contrast, labour market measures that provide income replacement are usually called passive labour market policies.

In the more developed countries, active labour market policies have been increasingly associated with the notion of activating the unemployed: increasing the efforts of recipients of unemployment benefits to actively search for a job, or to participate in training or employment programmes. These policy tools are provided by public employment services (and private agencies), and target the unemployed in terms of increasing their employability. The activation mechanism operates because benefits are conditional on compliance with participation in active labour market policies, and non-compliance triggers sanctions. In general, activation strategies focus on: the development of individual action plans, and regular reporting and monitoring of actions taken by the unemployed; job referrals for recipients; and programmes to improve motivation, skills and employability (OECD, 2009b).

In a broader sense, active labour market policies can also encompass measures to avoid dismissals and maintain workers in their jobs, such as wage or job subsidies, public works programmes, and entrepreneurship incentives. Active labour market policies can therefore also include preventive interventions that maintain and promote labour demand, which are relevant to both more developed and developing countries. This broader relationship between goals and labour market policies is outlined in table 3.1.

[1] The ILO’s mandate for active labour market policies has to be seen against the Declaration of Philadelphia (1944) as well as the Universal Declaration of Human Rights of 1948 which states that “everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment”. It is in the context of these declarations that in 1964 the International Labour Conference adopted the Employment policy Convention (No. 122) which foresees in Article 1 that: “with a view to stimulating economic growth and development … each Member State shall declare and pursue, as a major goal, an active policy designed to promote full, productive and freely chosen employment”.

[2] For a further elaboration of the issues discussed in this paper, see Cazes, Verick and Hener. (2009).

Table 3.1. Matching goals and labour market policies in times of crisis

Goal	Types of labour market policies
Keep people in jobs	Work-sharing; on-the-job training
Create new jobs	Hiring subsidies; public works programmes
Prevent long-term unemployment, human capital deterioration and drop-outs from the labour market by increasing employability	Job search assistance; work experience and apprenticeship programmes; training; entrepreneurship incentives

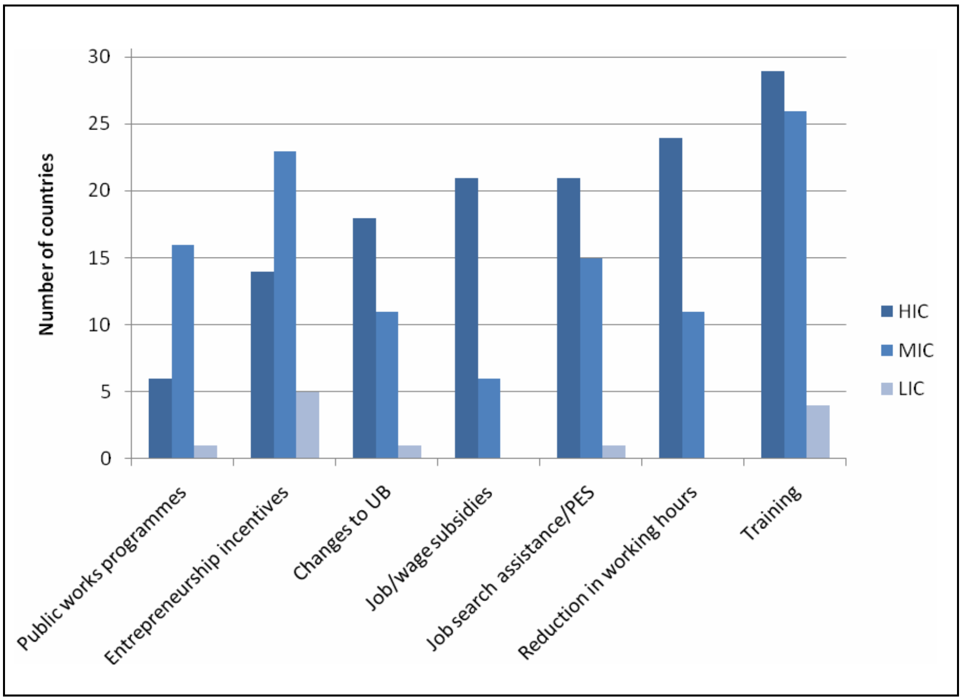
In addition to the goals outlined in table 3.1, governments seek to target segments of the population vulnerable to long-term unemployment and discouragement, such as youth, women, and the rural poor. Targeted active labour market policies can consist of measures both to support labour demand and to increase employability. In advanced economies, governments focus on hiring subsidies and training schemes to reach vulnerable groups. In developing countries, targeted policies usually revolve around public works programmes and entrepreneurship incentives.

How have ALM policies been used during the global financial crisis?

Active labour market policies vary in scope and content. A large number of high-income countries have considered policy measures that address the different goals of active labour market policies, as indicated in figure 3.1 (Cazes, Verick and Heuer, 2009). The most commonly used intervention in high-income countries is training (including work experience and apprenticeship initiatives) for both those threatened by lay-offs and the unemployed (27 countries), followed by work-sharing (24 countries), increased resources for public employment services, including job search assistance measures (20 countries), and job or wage subsidies (20 countries). The least-implemented intervention in this group of countries is public works programmes (six countries), which is unsurprising given the limited effectiveness of this intervention in such labour markets.

Overall, the use of labour market policies in terms of scope and diversity decreases with the income-level of countries, reflecting the financial and technical constraints hindering governmental response. Nonetheless, a range of policies has been used in low- and middle-income countries, in some cases in a similar way to the policy responses of more developed nations. Again, the most commonly used policy response in the middle-income group is training (25 countries), followed by job search assistance, entrepreneurship incentives and public works programmes. There are far fewer low-income countries implementing such policies in response to the crisis. In general, low- and middle-income countries tend to rely on labour market policy measures that do not require complex institutional structures and social dialogue. Nonetheless, some governments are turning to more innovative policies, such as providing subsidized training for workers threatened with unemployment.

Figure 3.1. National labour market policy responses to the global financial crisis of 2008–09



Source*:* Cazes, Verick and Heuer (2009).
Notes: World Bank classification of countries (HIC = high-income countries, MIC = middle-income countries, LIC = low-income countries); UB = unemployment benefits scheme; PES = public employment service.

Have countries maintained activation strategies?

During a downturn such as the global recession of 2008–09, activation strategies become less effective for two reasons. First, the higher number of unemployed people reduces the expenditure by public employment services per capita. Second, labour demand is weak and the number of job vacancies is low.

In response to the first constraint, many countries have increased support to employment services. In Denmark and Switzerland, spending on active labour market policies is indexed to the unemployment rate, and thus acts as an automatic stabilizer of sorts. However, the overall increase in spending on active labour market policies has been modest, and more resources are therefore required to improve the effectiveness of such policies.

The second factor is a challenging one for activation strategies, as the collapse of job openings and hiring seems to be a more substantial and longer term driver of unemployment stocks than lay-offs. In recognition of this situation, the OECD has recently recommended a shift in the focus of active labour market policies from a “work-first” approach to a “train-first” strategy, particularly for people at risk of long-term unemployment (OECD, 2009b).

Effectiveness

In the context of low labour demand, or where there is a mismatch between the jobs available and those seeking work, active labour market policies help to smooth labour market adjustment, and have been used for this purpose by, particularly, European countries, for some decades. Despite the resources allocated to these interventions, they are not always successful in increasing employment probabilities and earnings.

In general, evaluation studies conclude that active labour market policies are a potentially important weapon in the fight against unemployment and poverty, but produce mixed results [3] (Auer, Efendioglu and Leschke, 2008). Earlier evaluations of active labour market policies in Europe and the United States focused mostly on the short-term employment effects of programmes. Some key messages from this literature are that job-search assistance is relatively effective in the short-run and job subsidies generally increase employment chances but may entail significant direct and indirect (deadweight) costs, and hence should be targeted. [4]

In terms of active labour market policies targeting youth, evidence from evaluation studies has been rather discouraging. In regard to youth programmes: "One of the most disappointing conclusions from the evaluation literature is that almost all evaluations show that special measures are not effective for disadvantaged youths." (Martin, 2000: 95).

More recent studies reveal stronger positive effects of active labour market policies if a longer-run perspective is taken. For example, training measures, which are the most widely-used active labour market policy in the context of the crisis, are beneficial for participants over the longer term with respect to employment and earnings outcomes (Kluve 2006; Lechner and Wunsch 2009). More specifically, Lechner & Wunsch (2009) conclude that, while German training programmes have positive medium- to long-term employment effects in a pre-crisis period, these benefits are stronger in times of high unemployment. Therefore, such training schemes can act as a counter-cyclical measure, with expenditure increasing with the unemployment rate. [5] In terms of active labour market policies during previous recessions, the results of Forslund and Krueger (2008) for Sweden in the 1990s suggest that training and other policies in place at the time did not mitigate the impact of the severe crisis and resulting recession that hit the country in that decade.

Expenditure on active labour market policies varies considerably among OECD countries. Based on the ten-year average for the period leading up to the crisis (1998–2007), Belgium, Denmark, France, Germany, the Netherlands and Sweden all spent more than 1 per cent of GDP per annum on these interventions. In non-European OECD countries, spending on active labour market policies was far lower. These statistics provide an indication of the varying importance of active labour market policies as a policy tool and crisis-response measure in high-income countries.

A key question is whether active labour market policies can be effective in an economy that generates very few formal job vacancies, as is the case in the majority of developing countries. Because most studies on the effectiveness of active labour market policies are based on programmes in advanced economies, it is difficult to extrapolate findings to the situation in low- and middle-income countries. Nevertheless, the potential benefits are much larger in poorer countries, for example the avoidance of conflict by assisting young people to find jobs.

[3] In that context, one may question the relevance of active labour market policies or advocate for a better design and targeting of these programmes to make them more effective.

[4] See Bechterman, Olivas and Dar (2004), Card, Kluve and Weber (2009), Kluve (2006), and Lechner and Wunsch (2009) for further discussion on these issues.

[5] Some have argued that active labour market policies could be used as an "automatic stabilizer" in the economy, as passive measures can (Quiggin 2001): spending on active labour market programmes, for example, provides income replacement (wages paid) and generates a consumption smoothing effect.

Impact

One key aspect of the role of active labour market policies in times of crisis is the enhancement of individual transitions in the labour market. These policies help keep individuals in touch with the labour market, making sure that they maintain and develop adequate skills for employment when the economy is in better shape. Active labour market policies are, therefore, crucial tools in the battle to prevent long-term unemployment and avoid discouragement.

Examples from G20 countries of the numbers of beneficiaries of work-sharing schemes, wage subsidies, training, public works programmes, and entrepreneurial incentives are shown in table 3.2. They show that work-sharing schemes have been largely used for a large number of workers as a response to the crisis. Even if it is too early to evaluate these schemes, it is likely that these measures have helped to prevent further increases in unemployment.

Table 3.2. Impact of active labour market policies during the crisis: selected examples from G20 countries

Country	Name of active labour market policy	Number of beneficiaries
Work-sharing		
France	*Activité/Chômage partiel*	183 000 workers (June 2009)
Germany	*Kurzarbeit*	1.42 million workers (June 2009)
Italy	*Cassa Integrazione Guadagni (CIG)*	716.8 million hours compensated in Jan.–Oct. 2009
Japan	Employment Adjustment Subsidy Programme	Over 2.5 million workers (Sep. 2009)
Korea, Republic of	Job-sharing measure	1 999 enterprises (with more than 100 employees) have used this scheme
Netherlands	*Deeltijd WW*	36 000 workers (third quarter 2009)
Wage subsidies		
Argentina	Productive Recovery Programme (REPRO)	By Sep. 2009 coverage had extended to 2 317 enterprises and 123 444 workers
Training		
Indonesia	Vocational Training Centres (BLK)	50 000 jobseekers received training
Korea, Republic of	Youth internship programme	90 000 interns employed at administrative agencies, public institutions and SMEs
Russian Federation	Vocational training	107 000 workers threatened with lay-off
Public works programmes		
India	National Rural Employment Guarantee Scheme	1.77 million person days generated in 2009–10 financial year (five months)
South Africa	Expanded Public Works Programme	568 224 beneficiaries (2008–09)
Spain	State Fund for Local Investment	400 000 jobs created
Entrepreneurship incentives		
Russian Federation	Support to business start-ups	55 300 persons

Source: ILO (2009a).

What next?

Now that most countries are exiting recession and slowly entering a phase of economic recovery, the challenge will be to ensure that the recovery is accompanied by growth in employment. Active labour market policies should continue to play a complementary role to prevent long-term unemployment, and to help individuals remain in the labour force and find a job.

The following will be priorities during the recovery phase:

– keeping workers in jobs, where necessary through such active labour market policies as work-sharing schemes;

– using job or wage subsidies, along with tax credits, to encourage employers to start taking on new staff (minimizing deadweight costs by targeting individuals vulnerable to long-term unemployment or to dropping out of the labour force, such as youth and the low-skilled workers);

– strengthening re-employment policy (job search assistance, training and related measures) to improve the employability of the unemployed, reduce the risk of long-term unemployment and discouragement, avoid skills obsolescence, and facilitate any structural changes in the labour market.

Since financial budget constraints will become increasingly binding, governments should allocate resources to ensure that labour market policies move in line with developments in the overall economy and the labour market. Over the longer term, governments should aim to develop a comprehensive and integrated policy and institutional framework that will enable them to better respond to future crises. This involves the development of active labour market policies as a counter-cyclical measure. In addition, more efforts need to be made to monitor and evaluate the impact of specific policies to ensure that interventions are effective. It is also necessary to identify potential linkages between different labour market institutions, such as articulating active labour market policies with unemployment benefit schemes, in line with the principle of activation in the context of weak labour demand (keeping in mind the role of unemployment benefits as an automatic stabilizer).

Despite their association with OECD countries, active labour market policies are also relevant for low- and middle-income countries, but will differ in nature and scope from those used in OECD countries. Active labour market policies such as public works programmes (including guarantee schemes) are important tools for low- and middle-income countries. These policies will also contribute to efforts to meet larger development goals.

Finally, mechanisms should be developed to facilitate constructive dialogue between the social partners, the government, employers and workers, in order to formulate more effective active labour market policies during a crisis and to promote a jobs-led recovery.

4. Working time reductions

Core findings

- Working time adjustments offer an important tool for limiting or avoiding job losses and supporting companies in retaining their workforces until demand recovers. One such approach is work-sharing: a reduction of working time intended to spread a reduced volume of work over the same (or similar) number of workers in order to avoid lay-offs. When work-sharing policies are properly designed and implemented, the result is a "win-win-win" solution benefiting workers, businesses, and governments.
- Many existing work-sharing programmes in developed countries were revised and expanded during the crisis, such as *Kurzarbeit* in Germany and *chômage partiel* in France. In addition, during the course of 2009, a number of middle-income countries implemented some basic forms of work sharing.
- The most important constraint on the use of work-sharing measures is the need to target them on firms facing temporary declines in demand. The targeting approach likely to be most effective is to set time limits on work-sharing subsidies to ensure that they do not block inevitable structural adjustments.
- There is evidence from previous recessions that work-sharing programmes have helped to avoid layoffs. There is also some early evidence that work-sharing measures have helped avoid layoffs during the current economic and jobs crisis in countries such as Canada and Germany.
- Work-sharing is more likely to result in a "win-win-win" solution when: governments take an active role in promoting it; schemes are negotiated and implemented through social dialogue and collective bargaining; wage supplements (e.g. partial unemployment benefits) are provided to partially offset workers' reduced earnings; measures are inclusive, covering regular and non-standard workers; and managers make necessary changes in the work environment, such as redesigning work processes and supporting training.

Working time adjustments, such as reduced hours, offer an important tool for limiting or avoiding job losses and supporting enterprises in retaining their workforces until demand recovers. In particular, work-sharing [6] is a reduction of working time intended to spread a reduced volume of work over the same (or similar) number of workers in order to avoid lay-offs, or alternatively, a measure intended to create new employment (Messenger, 2009). This reduced working time may take a variety of forms, most typically shorter working weeks (for example, three- or four-day working weeks, instead of the more usual five-day working week), but also reduced daily hours or even temporary plant shutdown for periods of several weeks or even months.

Work-sharing is a relevant response to the global jobs crisis because it is a measure designed to share the burdens of a difficult economic situation. Appropriately tailored, work-sharing measures can be an effective short-term policy response to the crisis. Work-sharing programmes focused on maintaining employment can not only help to avoid mass lay-offs, but also allow businesses to retain their workforce, thus minimizing firing and hiring or rehiring costs, preserving functioning plants, and bolstering staff morale during economically difficult times. If complemented with targeted training for affected workers, work-sharing measures can also bring longer-term benefits to both workers and enterprises. However, some disadvantages regarding the implementation of work-sharing programmes have been identified, such as the sometimes substantial administrative costs (depending on programme design) and the need for adjustments in human resources management practices, entailing additional effort and cost for employers.

When work-sharing policies are properly designed and implemented, the result is a "win-win-win" solution: enabling workers to keep their jobs and prepare for the future; assisting companies not only to survive the crisis, but also to be well-positioned to prosper when growth returns; and minimizing the costs for governments and society as a whole of social transfer payments and, ultimately, social exclusion.

[6] Work-sharing is also known as "short-time work" and as "partial" or "technical" unemployment.

Country experiences

Work-sharing programmes had already been implemented in a number of countries in the industrialized world prior to the onset of the global economic crisis, including: Austria, Canada, Belgium, France, Germany, Switzerland, the Netherlands and a number of individual states in the United States. Many of these existing work-sharing programmes were revised and expanded during the crisis. For example, the *chômage partiel* in France extended the upper limit of the non-worked hours covered by the partial unemployment contractual allowance from 600 to 800 hours per year, and up to 1,000 hours for firms in particularly vulnerable industries, such as the textile, garment and automobile industries (Jolivet, 2009).

Preserving jobs during the global crisis has become a top priority in many middle-income countries, which have been particularly hard hit by job losses in their formal economy, often in export-oriented or consumer goods industries. As a result, many developing countries have had to take action to reduce the impact of the crisis on employment and maximize the potential for growth in jobs in the coming period of economic recovery. During 2009, a number of them acted to discuss, negotiate and implement some basic forms of work-sharing or working time adjustments – often (but not always) with links to training. These countries include: Argentina, Chile, Mexico and Uruguay in Latin America; and Bulgaria, Croatia, the Czech Republic, Poland, Hungary, Romania, Serbia (company-level only), Slovakia, Slovenia and Turkey in Eastern Europe. [7] Appendix I shows a comparative table of changes in work-time adjustments as crisis response measures in selected G20 countries.

Trade-offs and constraints

A distinctive characteristic of this type of tool is its counter-cyclical nature. While in general it is available in all phases of the economic cycle, it is more widely used during recessions, helping to cushion any immediate increase in unemployment.

One objection to schemes of this type is that in many cases they only postpone lay-offs that are inevitable at some point in the future and are thus a waste of money. There are few estimates of the jobs lost once workers have left these programmes. In the case of Canada, it has been estimated that during the 1990s, half of all the workers whose jobs had been preserved as a result of the programme were laid off during the six months after they left the subsidy scheme. Although this may create some uncertainty about the merits of the scheme, in times of crisis when job opportunities are scarce, preservation of existing jobs is not the only benefit: unemployment is postponed until recovery is under way, reducing the likelihood of workers joining the ranks of the long-term unemployed.

Another objection has been that such schemes may have the effect of keeping economically non-viable enterprises on life support, thereby interfering inefficiently in the normal processes by which enterprises are created or go under. But while there is always the risk of subsidies going to a non-viable enterprise, that risk is reduced by the limited time for which the subsidy is paid and the condition that working hours must be reduced

Work-sharing programmes implemented in response to the global jobs crisis should be targeted on firms experiencing temporary problems resulting from the downturn in the

[7] A TRAVAIL Policy Brief on "New Developments in Work Sharing in Middle-Income Countries" is currently in preparation.

business cycle – rather than on those facing structural economic adjustments – recognizing that this can be a difficult distinction to make in practice. [8]

There are a number of approaches which attempt to target work-sharing measures on firms experiencing problems resulting from the business cycle. One approach is an explicit requirement that the positions supported by the programme be continued following the end of the subsidy period. Another strategy is a requirement that firms repay all or part of the subsidy payments if the employee is laid off after the programme ends. An example of this is the requirement in the new part-time unemployment scheme in the Netherlands, *Deeltijd WW*, that companies repay half of the part-time unemployment benefits paid to their employees if the employees are laid off in the three months following the end of their participation in the scheme (OECD, 2009b).

The targeting approach that appears likely to be the most effective is to set time limits on work-sharing subsidies to ensure that the schemes do not block inevitable structural adjustments. Such time limits help ensure that the work-sharing programme is indeed a temporary measure in response to the economic crisis or to facilitate mutually agreed changes, and *not* a permanent reduction in hours and pay. Making such measures temporary limits the deadweight loss (that is, providing public subsidies to firms that would not have engaged in lay-offs). This approach also limits any potential displacement effects that might arise as a result of work-sharing, essentially the crowding out of emerging businesses and industries by existing inefficient ones, as a result of the public subsidies.

Effectiveness, costs and benefits

There is substantial evidence from previous recessionary periods that work-sharing programmes can avoid lay-offs (Messenger, 2009). There is also some evidence that such programmes may not always prevent dismissals in the long-run, but rather may simply postpone redundancies in times of severe economic difficulties (Calavrezo, Duhautois and Walkowiak, 2009). This latter result can also be considered a positive outcome if the work-sharing measure is linked to training and the work-sharing period is used to prepare workers to move to new jobs when the economy recovers.

Data on the effects of work-sharing since the onset of the global economic crisis are limited, in large part because many of the work-sharing programmes and measures which now exist have only recently come into force. However, in Canada, as of September 2009, a total of 5,827 company work-sharing agreements were in place involving 165,104 employees who otherwise would have faced lay-off (Department of Finance, Canada, 2009). And in Germany, where participation in the *Kurzarbeit* scheme reached a maximum of over 63,000 enterprises and 1.4–1.5 million workers at the height of the crisis in mid-2009, *Kurzarbeit* has been credited with avoiding an estimated 432,000 job losses (Federal Employment Service, Germany, 2009).

Gender dimensions

The main gender dimension regarding work-sharing measures is the fairness of their distribution between male and female workers. Women typically benefit to a lesser extent

[8] This is not to say that work-sharing policies have not been used in companies and industries facing structural economic decline, but such policies have generally proven to be ineffectual, such as the use of so-called *Transfer Kurzarbeit* to try to avoid lay-offs during the economic transition in Eastern Germany (Wießner et al., 2009).

from work-sharing for two reasons. First, a great proportion of work-sharing occurs in large, male-dominated industrial enterprises, such as automobile manufacturing and metalworking. Second, work-sharing programmes often exclude workers on temporary contracts and other types of workers in non-standard employment, who are predominantly women in most countries.

Nonetheless, in response to large numbers of lay-offs of non-standard workers, more countries are now making work-sharing available to workers who do not have regular employment contracts. For example, in 2009, the Government of Japan introduced the Subsidy for Employment Maintenance through Overtime Reduction Programme. This innovative new programme provides lump-sum payments to companies that reach agreements with workers' organizations regarding the reduction of overtime and develop an overtime reduction plan, and that maintain the employment of fixed-term and temporary agency employees working in the company over a one-year period. Likewise, in 2009, temporary agency workers in Germany were also made eligible for the *Kurzarbeit* scheme (Bosch, 2009).

Lessons learned

Perhaps the main lesson from previous economic downturns that is relevant to work-sharing policies is that lay-offs now may result in skill shortages later. This is definitely the case in Germany, where manufacturing companies made extensive use of lay-offs during the 2002–03 recession, and subsequently experienced serious skill shortages during the economic recovery that followed (see, for example, Bosch, 2009). This may, at least in part, account for German employers' generally strong support for the extensive use of *Kurzarbeit* during the current economic crisis.

Work-sharing policies and programmes are more likely to result in a "win-win-win" solution benefiting workers, employers and governments when:

– governments take an active role in promoting work-sharing;

– work-sharing schemes are negotiated and implemented through social dialogue at national level and via collective bargaining at industry level and in specific firms;

– wage supplements are provided to partially offset reductions in workers' earnings;

– work-sharing schemes are inclusive, covering regular and non-standard workers;

– managers make necessary changes in the work environment to make work-sharing pay off, including redesigning work processes when needed and supporting training;

– organizational and wage changes are not too abrupt.

5. Employment services

Core findings

- Closer collaboration between Public Employment Services (PESs), private employment agencies, nongovernmental organizations and private enterprises, has been highly effective to implement labour market policies responses to the economic crisis.
- During the crisis many countries enhanced existing programmes and services with additional financial resources and eased eligibility criteria, enabling them to respond rapidly to labour market demands. This is made possible when PES continually identify areas for improvement and remains responsive to changing labour market conditions. A key factor in this will always be the availability of reliable labour market information.
- In good economic conditions, the most cost-effective solution to unemployment is access to job vacancies combined with income support; in times of economic or structural crisis, targeted skills training followed by job search assistance produces the most lasting results.
- As a complement to traditional job-matching processes (labour exchanges), job fairs provide a convenient venue where employers and jobseekers are able to meet, exchange business cards, job applications and *resumés*, and engage in initial screening interviews.
- Many countries operate a policy that links public employment expenditure with the duration of unemployment. Thus low-cost counselling and job search assistance are offered to the short-term unemployed, and more intensive and costly measures are provided for the long-term unemployed.

Public employment services are the government institutions responsible for providing services and implementing policies to assist workers and employers make transitions in the labour market. By far the most visible and best understood service is that of job matching, linking employers who require workers to fill their job vacancies with qualified jobseekers. In many countries, public employment services offer electronic or Internet-based databases of jobseeker and job vacancies, which are readily accessible by all.

Even in times of economic stability or growth, however, less than 50 per cent of all workers who approach public employment services for assistance are considered to be completely “job ready” at their first contact. This presents an even greater challenge in times of economic decline, when many workers are dealing with job loss, and fewer job vacancies are reported. As part of their core mandate, therefore, public employment services offer additional services to help jobseekers improve their employability. These services cover information about and access to the full range of active labour market programmes available, such as skills training or retraining, as well as information on self-employment and starting a business.

Public employment services also collect, analyse and disseminate reliable labour market information, and advise individual jobseekers on how to improve their employability, along with providing career guidance and counselling, and a spectrum of job search assistance tools and techniques.

Finally, recognizing that one of the first concerns of workers suddenly faced with unemployment is how to replace the subsequent loss of income. Many public employment services also administer unemployment insurance programmes as a means of providing temporary financial support to workers while they focus on re-entering the labour market.

Thus, public employment service offices in many countries have become the first point of contact, and one-stop centre for assistance, for workers seeking to engage in the labour market in any capacity. Nevertheless, the focus of most public employment services in 2009 was on increasing employability through various labour market programmes, to enable jobseekers to retain and improve their skills in preparation for an economic recovery.

Averting or minimizing job loss

During the crisis many countries enhanced existing programmes and services with additional financial resources and eased eligibility criteria, enabling them to respond rapidly to labour market demands. This is made possible when PES continually identify areas for improvement and remain responsive to changing labour market conditions. A key factor in this will always be the availability of reliable labour market information. A detailed review of the national public service response to the global downturn in G20 countries is provided in the Appendix II.

Losing a job is more than just losing a source of income; it can also lead to a loss of identity, self-esteem and self-worth. Lengthy periods of unemployment can also result in the erosion of both technical skills and general work habits, making re-entry into the labour market more difficult. Public employment services have responded by quickly introducing or enhancing measures to prevent as many redundancies as possible. We have seen two general approaches to this: rapid response teams; and short time work arrangements. The most successful interventions combine the two responses as part of an overall solution.

In planning responses to downturns in production in individual enterprises, or in communities where several businesses are experiencing a loss of work, many public employment services have facilitated social dialogue through the use of rapid response teams. These teams, comprised of workers, employers, government and other stakeholder representatives, use a joint consultative approach to managing change. They communicate with workers and the community as a whole, and are able to plan the best way to address the situation. This approach is used in many countries throughout the world, including Canada, Croatia, Hungary, the Netherlands and the United States.

Another widely used method of minimizing job losses is the introduction of short-time work schemes as discussed in chapter 4. This programme is viewed by both workers and employers to be a win-win situation, where workers do not face a total loss of income and employers are able to address the challenge of rebuilding their business with their full work force.

While rapid response teams and short-time work schemes can be implemented as stand-alone measures, many public employment services offer them as a combined package, first establishing a short-time work arrangement within an enterprise to stem the redundancies, and then setting up the joint consultative team to handle activities to assist redundant workers and help plan measures that will return the business to full production, as described in the example of the Box 5.1.

Box 5.1
Mobility centres in the Netherlands

In 2007, an automotive company announced that it would lay off approximately 1,600 employees. The workers and employer were encouraged to negotiate a social plan that would include the development of a mobility-centre to identify the workers that will become redundant, register them as jobseekers and provide with the normal employment services offered to all jobseekers by the public employment services. Potential job vacancies were identified: through normal vacancy notices posted by employers, as well as through the public employment service’s knowledge of local vacancies and job opportunities. The current skills of the potentially redundant workers were assessed and skills development actions were recommended to ease the process of the worker’s transfer from the current employer to a new job.

Within 18 months after the announcement, 80 per cent of the workers had been successfully transferred to a new enterprise or had acquired a new marketable occupation. Since the introduction of the mobility centre approach in 2008, a total of 950 projects have been established. By the end of October 2009, 10,000 employees were successfully able to make the transition from work to work, avoiding having to claim any unemployment benefit. An additional 80,000 workers were able to move to new jobs within three months of beginning to draw unemployment benefits.

Job fairs

Job fairs, also called job bazaars, career fairs and career expos, have been used in countries throughout the world as an effective and efficient approach to match jobseekers with employers hoping to fill job vacancies. During the global economic crisis, these innovative events have attracted more attention and increased in number.

There are two main modes of delivery for job fairs: the traditional person-to-person event; and the Internet-based approach, which can further be divided into electronic job fairs or virtual job fairs. Traditional job fairs operate for a set period, either as a single event or as a regularly scheduled activity with set hours and days of operation. An electronic job fair is similar to a traditional job fair, providing a place where employers and jobseekers can meet one-on-one to discuss employment opportunities. A virtual job fair enables jobseekers to participate from the comfort of their homes or even from their current workplaces. They also enable employers to attract candidates from around the world, as well as to see a greater selection of jobseekers in less time than that required for more traditional recruiting methods. Some examples of job fairs are provided in the box 5.2.

Public employment services in many countries play supportive roles in job fairs. This is typically done through financial sponsorship or cost-sharing, providing a booth offering information on techniques to improve a jobseeker's employability, and advertising the event to their jobseeker and employer clients.

Box 5.2
Examples of job fairs

In Canada, the National Job Fair and Training Expo is held annually in Toronto and Montreal, and is co-sponsored by the private sector and Employment Ontario. It features four fairs, and in 2009 drew over 550 exhibitors, more than 55,000 visitors and 35 sponsors and partners.

In Viet Nam, the employment service centres host regular job fairs (called job bazaars) as one of their main services, and most of the job placements reported by these offices are a result of these events. In Hanoi, job bazaars are offered twice per month with an estimated 2,500–3,000 jobseekers participating, resulting in 800-1,200 successful job placements for each event. In Bach Ninh, job bazaars are held on the 15th of each month. On average, 1,000 jobseekers participate, and approximately 300 jobs are filled. In Ho Chi Minh City, the employment service centres assist jobseekers through job counselling and assistance in using the Internet, and a mobile job bazaar is held monthly. One such event was held in October 2009, when 16 Viet Nam-based foreign businesses recruited for more than 100 senior positions. The 2008 event attracted 25 companies offering 300 vacancies, and there were 2,500 visitors.

Zebrajobs.com and the Corporate Council on Africa launched the first Africa-wide virtual job fair on 30 September 2009, which ran for three consecutive months, on demand. On the day of the launch, more than 1,300 jobseekers logged on to connect with over 100 representatives from 15 exhibiting companies. By mid-October 2009, the virtual job fair had drawn interest from over 8,500 registered jobseekers worldwide.

Job fairs offer several benefits. In particular, they:

- accommodate a large number of jobseekers and employers;
- offer employers access to a large number of applicants with little investment of time;
- provide interview facilities for employers;
- offer jobseekers a one-stop job interview opportunity where they can apply for many jobs and to many enterprises with relative ease.

Nevertheless, job fairs serve only as the initial step in the process, with employers using them as a means to quickly screen applicants and get a first impression. After the job fair, recruiters follow up the more promising candidates, through additional in-depth interviews, tests and reference checks. First impressions are formed very quickly, therefore if jobseekers are not well prepared they can eliminate many possible job opportunities very quickly. Jobseekers thus need job search assistance and career guidance.

Provision of income support

One of the first concerns of workers who are faced with job loss is the resulting loss of income. Few jobseekers are able to concentrate on an effective job search strategy while dealing with basic concerns related to financial insecurity. Therefore one of the top priorities for public employment services is to ensure that some form of income support is available to eligible jobseekers as quickly as possible.

In order to fulfil this commitment, many public employment services have increased their staff, introduced longer hours of service and streamlined application procedures for unemployment insurance benefits. Some countries have also re-examined eligibility criteria for these benefits, so that a greater number of unemployed workers are able to collect benefits, for extended periods.

Improvement of employability

Improving the employability of jobseekers, with the aim of job placement, is the primary task of public employment centres. This is typically achieved through career counselling, provision of accurate and timely labour market information to assist jobseekers make sound career choices, providing jobseekers with access to information on skills training courses, and the application of wage subsidy programmes particularly when dealing with harder to place jobseekers.

The demand for enhanced employment services has increased dramatically as a result of the economic crisis, and the range of jobseekers requiring such services has expanded. Many mid-career and older workers now seek assistance in planning or training for a new career.

Public employment services in G20 countries are currently responding to the increased demands of jobseekers and enterprises by applying combinations of the techniques which worked well in previous economic and structural downturns. Again, responses can be categorized as preventing job loss, replacing lost income, and helping jobseekers improve their employability.

Impact of public employment services

Evaluation research across industrialized countries suggests that job search assistance appears to consistently provide satisfactory results. Job search assistance provides the lowest cost interventions, with generally the largest relative payoffs, and appears to be effective for most groups of unemployed persons (Evans-Klock et al., 1999). Clearly, once the initial costs have been covered for the development of Internet-based jobseeker databases and other typical services of electronic labour exchanges, the provision of basic job matching services is both low cost and requires little direct intervention by staff.

During the current economic crisis, public employment service officials have encouraged jobseekers to take advantage of these self-service options. However, when there are fewer jobs available, only the most employable workers are able to find new jobs through this source alone. As the need for more in-depth services such as career counselling, skills development and assistance in acquiring special equipment to meet job requirements increases, so do the costs of job placement. As one example, recognizing the current added cost to job placement, the Australian public employment service (Centrelink) classifies even the most job-ready client at employability level Tier 2, which increases entitlement to extra money for job search assistance.

The time spent in providing services to each individual jobseeker increases during periods of high unemployment because of the need to provide more in-depth information on labour market conditions, alternative career paths, and sources of skills development which might be available. This also has implications for the speed or the cost of providing services, depending on whether the public employment service is able to hire additional employment staff.

A report published by the OECD (2005) suggests that the impacts of public employment service interventions in moving jobseekers back into the labour market should be assessed on the basis of benefit payments saved, tax rates on earnings and total earnings, with outcomes measured for up to five years after the start of participation in the programme. Based on this method of measuring effectiveness, it is clear that it is not really a matter of whether public employment services are effective and relevant in times of crisis, but rather what services offered by public employment services are most likely to produce the best long-term results for jobseekers.

What works?

Well-established public employment services can be pivotal institutions in meeting employment challenges created by unexpected economic downturns. Closer collaboration between public employment services and private employment agencies, non-governmental organizations and private enterprises, as illustrated in the case of the Netherlands, is highly effective.

In times of crisis, building upon existing programmes and services, enhancing them with additional financial resources and easing eligibility criteria, is more efficient and effective than designing new programmes.

Public employment services must therefore constantly assess their performance, looking for areas where they can improve and ensuring that they remain responsive to changing labour market conditions. A key factor in this will always be the availability of reliable labour market information.

In times of relatively good economic conditions, the most cost-effective solution to unemployment is access to job vacancies provided through Internet-based labour exchanges, combined with income support while the jobseeker moves from one job to another. Virtual job fairs, for example, save both time and money, because no work-time is lost by physically attending or staffing a job fair, and both travel and logistical costs are largely eliminated.

In times of economic crisis, when jobs are scarce, a combination of targeted skills training and job search assistance following the training can produce the best and most lasting results. Many countries operate a policy that links public employment expenditure with the duration of unemployment. Thus low-cost counselling and job search assistance are offered to the short-term unemployed, but more intense and costly measures are provided for the long-term unemployed.

6. Wage policies

Core findings

- Falling or stagnant wages have a negative effect on consumption spending and therefore on the aggregate demand. While fiscal stimulus has provided indirect support to wages, consideration can be given to more direct wage policies which include minimum wages and wage subsidies (especially under work-sharing arrangements). Both policies involve some trade-offs. Measures to stimulate collective bargaining may help to strengthen the link between growth in wages and growth in productivity during the recovery.
- Wage trends in G20 countries, have differed during the crisis. There has been solid wage growth in a few emerging economies, including China and to a lesser extent Brazil. However, countries such as Mexico or the Russian Federation have experienced declines in real wages in 2009 compared to 2008.
- There is also a need to monitor signs of wage deflation among the more advanced economies. In Japan there is a risk that declining wages (both nominal and real) might contribute to price deflation. Despite declines in real average wages in Germany or the United Kingdom during 2009, no other G20 country has so far experienced simultaneous declines in nominal wages, real wages, and consumer prices. In the future, there is a possibility that stagnation in wages and consumption in advanced economies may result in relatively weak aggregate demand and slow economic growth.

Real aggregate demand is determined by the sum of consumption, investment, net exports and government spending. Falling or stagnant wages have a negative effect on the first element of aggregate demand, namely consumption spending. In principle, at the national level, this negative effect could be at least partially offset if lower wages result in higher investment or net exports. In practice, however, these offsetting effects are highly uncertain in the current context, not least because investment and exports themselves depend on domestic and foreign consumption demand. If wage cuts become generalized in the global economy, there is a risk that they will spread competitive deflationary pressures. Beyond the fiscal stimulus programmes, a number of policy instruments can be used to support wages, including wage subsidies, minimum wages and more widespread collective bargaining.

Is there a risk of wage deflation?

There is solid wage growth in some emerging economies. Among the G20 countries, some of the emerging economies have been surprisingly resilient to the global economic crisis. Even if the crisis has eroded the pace of economic growth, China, India, and Indonesia have all achieved positive growth rates in 2009. This resilience is also reflected in the area of wage statistics. In China, for example, official figures indicate that in the first nine months of 2009, monthly wages have increased at double digit rates in both state-owned and collective-owned units compared to the same period in 2008. [1] In Brazil, the economy has been more affected by the crisis than China, but wages can still be expected to grow in 2009 despite a slight decline in GDP. [2] Figure 6.1 shows that in Brazil the level of wages was higher on average in 2009 than in 2008, and also plots the evolution of real wages in four other G20 countries discussed in this chapter.

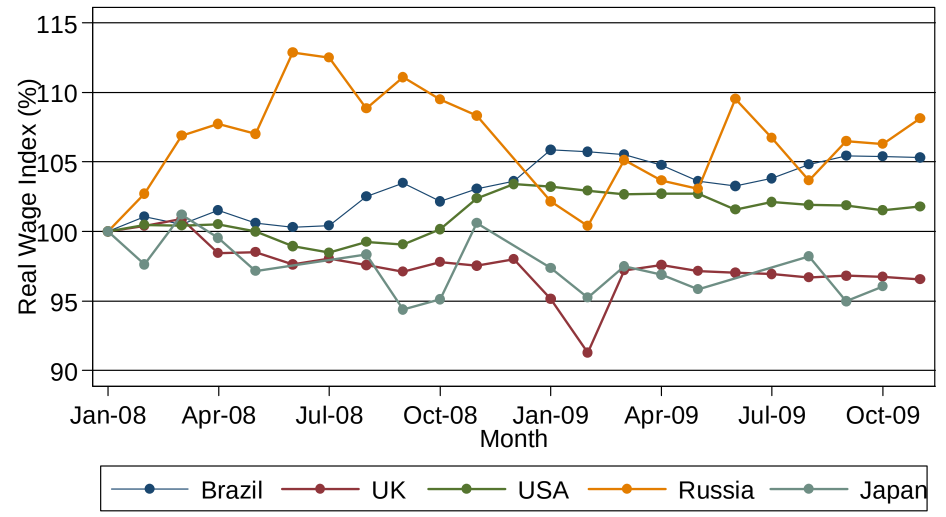
Not all emerging economies have been so resilient. In a number of G20 countries, including Mexico, the Russian Federation, and to a lesser extent South Africa, the crisis

[1] Labour Remuneration of Persons Employed in Urban Units, National Bureau of Statistics of China; no figures are available for the private sector.

[2] According to IMF projections from the October 2009 *World Economic Outlook*, GDP growth is projected to decline by 0.662 per cent in 2009.

has been felt much more strongly. In both the Mexico [3] and the Russian Federation, the severe decline in GDP figures in 2009 has been accompanied by declining real wages in 2009 compared to their levels in 2008. Although real wages in the Russian Federation have been on the increase since February, pointing towards some possible recovery, the actual level of wages in 2009 remains below the same period in 2008. In South Africa, after a period of erosion, wages seem to have moved towards recovery since August 2009.

Figure 6.1. Real wage index in selected countries, January 2008–November 2009



Note: Extreme values, which reflect bonuses, have been excluded from the graph in order to more accurately show trends in all countries. This includes the months of June and July for Japan and December for both Japan and Russia. Actual figures available upon request.

Source: National statistical offices (outlier values excluded from the graph).

There is a risk of wage deflation among the more advanced economies of the G20, so there is a need to carefully monitor signs of wage deflation. In Japan, where the new global crisis comes on top of a previous protracted crisis, there is a fear that declining wages (both nominal and real) might contribute to price deflation and reduced consumption spending. The country has found it difficult to climb out of the earlier deflationary spiral that followed the burst of a property bubble in the 1990s. From January to October 2009 there was a 2.2 per cent decline in real wages compared to the same period in 2008 and a 1.4 per cent fall in the general level of prices.

So far, no other country has experienced a similar drop in all three indicators: nominal wages, real wages, and prices. There are worrying signs, however, in a number of countries. This includes, for example, the Republic of Korea, where prices have held steady but where both nominal and real wages have declined in the first three quarters of 2009 compared to the same period in 2008. [4] In Germany too, both nominal and real wages have been declining during 2009. First results for 2009 indicate that nominal wages fell by 0.4 per cent and real wages fell by 0.7 per cent in 2009 compared to 2008. These figures may be a reflection of the trade-off arising from a work-sharing policy which in Germany has prevented massive unemployment through shorter working weeks. In other European countries, such as the United Kingdom, where working time has diminished less during the recession, weekly nominal wages appear to have recovered even though price increases have continuously eroded real wages. Nominal wages in the United Kingdom declined

[3] ILO estimates are based on Mexico's "Encuesta Nacional de Ocupación y Empleo, STPS-INEGI".

[4] ILO estimates are based on data from national accounts domestic product quarterly results (estimates available from Destatis).

considerably in early 2009 before slowly recovering, hence limiting the decline in real wages.

The United States is not completely out of the danger zone. On the positive side, GDP and price figures have been on the increase in 2009. Wages in January to November 2009 were more than 2 per cent higher in real terms than in the same period in 2008. Yet, this increase in the purchasing power of wages is mostly a result of the short but steep decline in prices between September and December 2008. Ever since then, real wages have tended to decline. Figures from the United States Bureau of Labour Statistics indicate that real average weekly earnings fell 1.6 per cent from December 2008 to December 2009. Wage trends have triggered some discussions among academics and the media in the United States about the risks of wage deflation. So far, however, the large fiscal stimulus in the United States seems to have prevented such a risk. Another possible outcome is that wages will remain stagnant in the near future, particularly for workers with low and median pay levels.

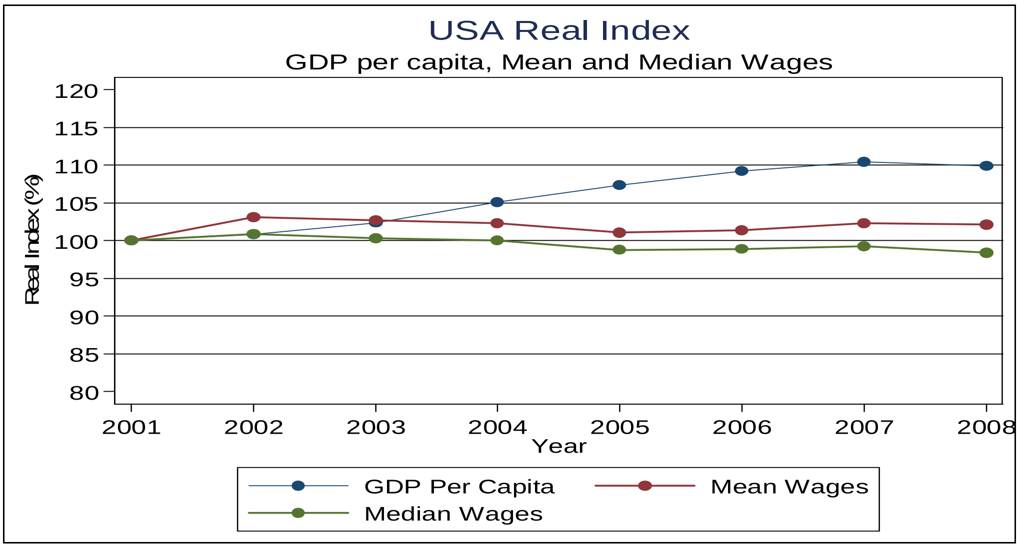
Beyond the immediate risks of wage deflation, there is a worry that wages may remain flat for some period as a result of companies' economic difficulties and high unemployment. Combined with large household debts, particularly in the United States and the United Kingdom, wage stagnation in a period of increasing risk of unemployment could result in an equilibrium characterized by weak growth in consumption spending, weak aggregate demand and hence relatively weak economic growth.

This low-growth scenario is made more plausible by the fact that in many countries the current crisis comes after years of increasing inequality and stagnation in the wages of middle-class workers, despite considerable economic growth. By way of illustration, figure 6.2 [5] plots real GDP per capita, real average wages and real median wages in the United States over the period 2001–08. [6] It shows that average wages (in real terms) have increased by less than GDP per capita and that median wages (in real terms) have not increased at all. Note that wages are only part of workers' total compensation. Because of growth in fringe benefits, total compensation may have increased faster than wages. However, the gap between average and median wages reflects the fact that wages have become more dispersed, and that wage growth was concentrated in higher paying occupations (Keller, 2009). One study found that, between 2002 and 2008, wages have only increased in real terms for the 90th percentile of workers (that is, the best-paid 10 per cent), while declining by 2.3 per cent for median workers and falling by 3.6 per cent for the lowest-paid 10 per cent (Jones, 2009). Similar patterns – with average wages increasing by more than median wages – have been documented in several other G20 countries in recent years.

[5] ILO estimates are based on annual data from the United States BLS Occupational Employment Survey, and real GDP per capita figures are based on the United States BLS Division of International Labor Comparisons, July 2009 estimates of GDP per capita.

[6] Average wages are calculated as the sum of all wages divided by the number of workers, while median wages are the wages of workers in the middle of the wage distribution. In general, earnings distributions are skewed to the right and display a long right tail, which means that the top quintiles of earners account for a disproportionate share of total wages and that average wages exceed median wages (Neal and Rosen, 2000).

Figure 6.2. GDP per capita, real mean average wages and real median wages in the United States, 2001–08



Source: US Bureau of Labour Statistics (http://www.bls.gov)

Stagnating or declining wages for the lower half of wage earners in the future would have not only economic but also social consequences, and would slow progress towards gender equality. In the United States, it is estimated that 7.5 million people – equivalent to 5.1 per cent of the labour force – could be counted as working poor in 2007 and that women who maintain families were more than twice as likely as their male counterparts to be among the working poor.[7] In Europe, holding a job does not always protect people from the risk of poverty, and it is estimated that in Spain or Italy at least 10 per cent of the employed population is at risk of poverty (Wolff, 2009).

Possible policy responses

In market economies, wages are a function of the demand for labour, which in turn stems from consumption demand. Hence, the large fiscal stimulus measures put in place in many G20 countries have provided indirect support not only to employment but also to workers' wages. In addition, there exist a number of more specific policy tools that can be used in support of wages, including:

– wage subsidies;

– minimum wage increases;

– measures to stimulate freedom of association and collective bargaining.

Declines in monthly or weekly wages that are a result of shorter hours of work can be at least partially offset through wage subsidies. In Germany, for example, the Government has taken vigorous measures to promote work-sharing arrangements, with wage subsidies during the crisis in order to avoid lay-offs (Messenger, 2009). The provision of partial wage compensation for hours not worked has prevented a much steeper decline in monthly wages. Not all G20 countries, however, have implemented such measures. The United Kingdom, for example, considered that wage subsidies are not the best way to use

[7] The working poor are defined as individuals who spent at least 27 weeks in the labour force but whose income fell below the official poverty line (United States BLS, 2009).

resources in helping people and business weather the downturn. [8] The risk is that companies will "bargain" for wage subsidies, even if they would have retained their workers without any subsidy. These points emphasize the importance of designing wage subsidy programmes that are temporary.

During the pre-crisis period (2001–07) there had been indications of a more vigorous use of minimum wage compared to earlier periods. A number of G20 countries have also continued to increase minimum wages during the crisis, with a view to supporting the purchasing power and living standards of their low-paid workers. Brazil, for example, enacted a 6 per cent real increase in the minimum wage in February 2009, which had originally been scheduled for April 2009. Japan, the Russian Federation, the United Kingdom and the United States also increased their minimum wages in 2009. By contrast, the Ministry of Labour in China has decided to freeze minimum wages across the country as a measure to help enterprises control labour costs. The trade-off is that if minimum wages are set too high, they will discourage employment and lead to job cuts. Governments may therefore want to consider the possibility of providing exemptions for enterprises in difficulty, such as exists in Indonesia for example.

Despite some negative trends in the unionization of workers, collective bargaining remains an important way in which wages are determined in many G20 countries. So, for example, France, Germany and Spain are all estimated to have more than half of all workers covered by collective agreements. Sometimes – as in the case of France – this happens despite low rates of unionization and is the result of compulsory extension mechanisms. Collective agreements are also the main method of setting pay for almost 40 per cent of workers in Australia. ILO research has shown that collective bargaining promotes wage trends that are in line with changes in productivity. Collective bargaining plays much less of a role in the United Kingdom and the United States, where lawmakers are considering measures to facilitate the formation of trade unions.

[8] http://www.berr.gov.uk/whatwedo/employment/pay/wage-subsidies/index.html.

7. Migrant workers

Core findings

- Migrant workers do not always enjoy the same rights and protection as the local workforce. Economic recession generally means additional vulnerability to them, with shrinking employment opportunities and deteriorating working conditions.
- The consequences of the crisis for migrant workers depend largely on the economic performance of their country of destination and the sector in which they work. Construction, manufacturing and the hotel and catering industry employ large numbers of migrants and are all sectors particularly affected by the crisis.
- Various destination countries have responded to the crisis by making new immigration more difficult, protecting labour markets for native-born workers, clamping down on migrants in irregular situations and encouraging the return of migrant workers, while a number of countries of origin have made efforts to explore new labour markets for their workers, protect the rights of those already abroad, and facilitate the reinsertion of returnees.
- Massive returns have not occurred but higher unemployment among migrants and fewer migration opportunities suggest a fall in remittances in the near future, which in turn could put poverty reduction and economic stability at risk in some countries that are heavily dependent on remittances.
- Efforts to counter the effects of the crisis on migrant workers should focus on protecting them from discrimination and poor working conditions, which is also in the interest of well functioning labour markets, and on helping with their reinsertion whenever they opt for return – voluntarily or for lack of other options

During economic downturns, migrant workers can be particularly vulnerable because they do not always enjoy the same rights and protection as nationals in the destination countries. Their migration and employment opportunities are very likely to decrease, remittances to fall, working conditions to deteriorate, and their return to their countries of origin might occasionally be unavoidable.

Unemployment has risen considerably since the outset of the crisis in many countries of destination, with migrants being particularly affected. Table 7.1 shows the difference in unemployment rates between native and migrant workers in four major countries of destination. In Spain, for instance, the unemployment rate among migrant workers is 10 percentage points higher than the total unemployment rate.

Table 7.1. Unemployment rates for total labour forces and for migrant workers

Country	Unemployment rate total labour force	Unemployment rate for migrant workers	Unemployment rate total labour force	Unemployment rate for migrant workers
United States	YR 2008 5.4	YR 2008 7.3	YR 2009 9.3	YR 2009 11.3
United Kingdom	Third Q 08 6.0	Third Q 08 7.2	Fourth Q 08 6.1	Fourth Q 08 7.4
Ireland	Fourth Q 08 7.4	Fourth Q 08 9.5	Second Q 09 11.3	Second Q09 15.6
Spain	Fourth Q 08 12.5	Fourth Q 08 21.3	Third Q 09 17.9	Third Q 09 27.5

There are two main determinants of the impact of the crisis on migrant workers: the economic performance in the country of destination; and the sectoral distribution of migrants. Migrant workers are often present in construction, manufacturing, hotels and restaurants, health care, education, domestic service and agriculture, but economic growth and employment has not dropped equally in these sectors. Construction, manufacturing, and hotels and restaurants have particularly suffered, both in terms of growth and employment.

To date, no mass returns of migrant workers have been observed. Aside from employment in sectors where economic activity has not declined drastically, other reasons holding migrants back could be the high cost of going home, the high cost of a potential future return, issues related to immigration status, or a general belief that difficulties in host countries are less severe than the alternatives in home countries. Migrants who have been in host countries for longer periods of time will have formed attachments to their communities and may have locally born children or other family that has joined them abroad.

Outflows from some countries of origin have, however, slowed down as new migration opportunities have declined. For example, in Mexico, according to the National Statistics, Geography and Information Institute, the net outflow of Mexicans dropped by over 50 per cent from the second quarter of 2006 to the first quarter of 2009. In contrast, the number of returning migrant workers remained similar to that in previous years. In 2008, about the same number of migrants (450,000) returned to Mexico as in 2007. In Ireland, the share of non-Irish workers in total employment registered a 17.8 per cent drop in 2009, indicating smaller inflows or returns to countries of origin. [1]

Many returns resulting from job losses in the Russian Federation have been reported. One country with significant return migration is Uzbekistan. Migrants have allegedly sought alternative destinations to the Russian Federation and Kazakhstan. Uzbek migrant workers are said to have found jobs in the Czech Republic, the Republic of Korea and Turkey. It is possible that a number of regular migrant workers have moved into irregular situations (ADB, 2009).

With regard to the Middle East and North Africa, no massive returns from any of these destinations have been witnessed to date. Some returns, on a limited scale, are bound to happen. This will apply to workers employed in countries that link employment contracts to residence permits. If workers lose their jobs as a result of the crisis, they will have to return to their home countries. This is the case of workers employed in the Gulf countries. Migrant workers whose employment contracts and residence permits are not linked are likely to sit out the crisis in their countries of destination. Also, outflows of fresh migrant workers are quite likely to decline. Some recruitment agencies in Egypt and Jordan have pointed out a drop in demand, especially for skilled labour in the Gulf region. In some Asian countries, such as Bangladesh, Nepal and Sri Lanka, returns have not been significant.

Remittances

Remittances are the most visible and tangible benefits of labour migration. At the macro-level they bring in needed foreign exchange and contribute to correcting balances on current accounts in countries of origin. In many countries, remittances represent a high proportion of GDP. Migration opportunities, employment and levels of earnings are the factors determining the volume of remittances.

Even though no massive returns to countries of origin have been registered so far, shrinking migration opportunities and higher unemployment among migrant workers suggest a declining trend in remittances in the near future. In July 2009, the World Bank forecast a general decline of 10 per cent in remittance flows to developing countries in 2009 (see table 7.2).

[1] Central Statistics Office, Ireland, Quarterly National Household Survey (27 February 2009).

Table 7. 2. Outlook for remittance flows to developing countries, 2009–10

	2005	2006	2007
All developing countries	18.5	17.4	22.7
Low-income countries	21.8	29.5	29.1
Middle-income countries	18.0	15.7	21.7
East Asia and the Pacific	19.2	13.4	23.2
Europe and Central Asia	40.8	22.7	31.5
Latin America and the Caribbean	15.7	18.1	6.6
Middle East and North Africa	5.3	6.1	21.6
Sub-Saharan Africa*	–	34.5	47.3
South Asia	15.3	19.7	31.5

Source: World Bank (2009).

* World Bank staff estimates based on the International Monetary Fund's Balance of Payments Statistics Yearbook 2008.

Policies in countries of destination

A number of countries of destination responded to the crisis with changes in attitudes towards labour migration. This was obviously prompted by the economic slowdown, reduced overall labour demand and grim employment situation they faced. The changes affected their general admission policies in addition to the introduction of polices to encourage return to countries of origin. A number of countries intensified their efforts to curb irregular migration.

In Spain, a law adopted in September 2008 encourages non EU unemployed migrant workers to return to their countries of origin. The law offers to those migrants who wish to return home an advance payment of a lump sum equivalent to the accumulated amount of unemployment insurance benefits to which they are entitled. Additional assistance is also provided to facilitate return trips. The beneficiaries must not return to the country for a minimum period of three years.

The deteriorating economic and labour market situations in the countries of origin may be an obstacle to the success of the policy. A recent study by the Spanish Permanent Observatory of Immigration admits that many people showed an interest in the plan but few chose to start the application. The target is that 87,000 foreign workers benefit from the law and return to their countries of origin. By November 2009, a total of 8,724 applications had been submitted, but only 3,706 migrant workers and 1,581 family members have so far benefited from the programme. [2]

In the Czech Republic, the authorities launched a voluntary return programme for non-EU migrant workers in February 2009, which offers free transportation and a repatriation bonus to those interested in returning to their home countries. In the United Kingdom, changes to the points-based system for admission of foreign workers were introduced to decrease the number of highly skilled workers from outside the EU by half, and the Government suspended employment of non-EU workers for low-skilled occupations. In Italy, admission of new migrant workers was seriously restricted and "irregular migration" was established as a criminal offence. In the Republic of Korea, the

[2] Ministerio de Trabajo e Inmigración, "*Balance del primer año del Programa de Retorno Voluntario de Trabajadores Extranjeros no Comunitarios*" (13 Nov. 2009) http://www.tt.mtin.es/periodico/Laboral/200911/LAB20091113_3.htm.

Ministry of Labour stopped issuing visas through its Employment Permit System, and the authorities intensified the crackdown on migrants in irregular situations. The Korean Government offered wage subsidies to companies which replace migrant workers with nationals.

In the United States, the stimulus bill passed in February 2009 banned financial and business institutions receiving relief from applying for visas for highly-skilled migrants, if United States citizens were made redundant. [3] This provision will mainly affect financial institutions and will expire in 2011.

Policies in countries of origin

Countries of origin have resorted to three types of policy measures in responding to the crisis. They have formulated programmes to facilitate the reinsertion of returnees in their labour markets, or expanded existing programmes. They have ensured the protection of the rights of their migrant workers. And some have explored new labour markets for their workers, probably looking for the economies least affected by the crisis.

In the Philippines, the Overseas Workers' Welfare Association announced the establishment of an expatriate livelihood support fund to provide loans to returnees to start businesses or other livelihood activities. The Government made a commitment to assist returnees in finding lucrative employment in the Philippines through the creation of jobs or in new external labour markets. [4] The Department of Labour also provided economic assistance packages, announced that it would set up retraining programmes, and opened up existing entrepreneurship programmes for return migrant workers. Special reintegration teams went to Taiwan (China) and Dubai to assist workers who had lost their jobs or were expected to lose them. Missions exploring new markets are reported to have resulted in a Memorandum of Agreement with Qatar in October 2008 and a Memorandum of Understanding with Japan's International Corporation of Welfare Services in January 2009.

In Tajikistan, the Labour Ministry looked at entrepreneurship as a possible remedy and adopted measures to provide loans to return migrant workers wishing to set up small enterprises. In Morocco, a particular focus was placed on remittances by migrants and on the promotion of their investments in Morocco. Protection measures were also introduced by the Moroccan Government through the intensification of diplomatic efforts to resolve problems caused by the loss of employment and residence, strengthening of social services in embassies, and appointing committees in consular missions and embassies to monitor the situations in destination countries.

Conclusions

It is clear that the consequences of the crisis for migrant workers depend on its impact on the economies of the destination countries, and more specifically on the specific sectors of activity in which they are working. Some sectors with high concentration of migrant workers (construction, manufacturing, hotels and restaurants) have been seriously affected, while others (healthcare and education) have maintained or expanded employment.

[3] D. Bradshaw: *Job Offers to Foreign MBAs withdrawn, Financial Times* (9 Mar. 2009).

[4] *The Daily Tribune*, *Arroyo says she will not abandon displaced OFWs* (12 Dec. 2008), p. 14.

No massive returns to countries of origin have been observed, even though some localized returns have been registered. The impact on migrants’ remittances is one of the most important consequences of the crisis, putting poverty reduction and economic stability at risk in some countries.

Efforts to counter the effects of the crisis on migrant workers should focus on protecting them from discrimination and poor working conditions, which is also in the interest of well functioning labour markets, and on helping with their reinsertion whenever they opt for return – voluntarily or for lack of other options.

8. Labour inspection

Core findings

- The economic crisis has led to an increase in undeclared and vulnerable work suggesting that enforcement and preventive measures are a key part of any labour policy response to ensure good labour market governance and labour law compliance.
- Labour inspectorates have had to confront an increased workload and rising complaints, even though they are sometimes faced with budget cuts and reduced number of staff. In some countries, inspection activities have increased by as much as 300 per cent. Moreover, safety and health concerns are on the rise, with a greater number of occupational illnesses, particularly stress-related conditions.
- Many labour inspectorates have undertaken immediate action to address undeclared and vulnerable work through targeted action plans and campaigns, in some cases through cross-border collaboration.
- Evidence is limited on the overall impact of the economic crisis on national labour inspection practices and outcomes, but a clearer picture will be available once annual inspection reports for 2009 are published later in 2010.

Changes in the structure of labour markets and in employment relationships have obliged labour inspectorates to respond by ensuring compliance through preventive measures, advice and the detection of labour law infractions. Many of these changes – including subcontracting, outsourcing and an increase in undeclared or illegal work – are linked to the emergence of new business models and modes of production, globalization and increased labour migration, as well as technological advances.

Sudden and widespread disruption in national labour markets, linked to the current financial and economic crisis, has tested the ability of labour inspectorates to promote and ensure compliance with labour law. [1] There have been redundancies, plant closures and a variety of temporary crisis-related work arrangements (such as work-sharing, job sharing, and partial unemployment). Labour inspection responses have been mixed. In some countries, such as Sweden, there have been cuts in operational budgets and in the number of inspectors, as part of broader governmental efforts to reduce expenditures. The reverse has been true in other countries, such as Argentina and Portugal, where governments have strengthened inspection services despite cost-cutting pressures, recognizing the importance of a strong inspectorate during periods of labour market turmoil.

In general, labour inspection reform has not been a major policy response adopted by national governments to address the crisis. However, the role of labour inspection in protecting workers has certainly increased during this period, and this has perhaps accelerated efforts on the part of some governments to build up the capacity and effectiveness of inspectorates. As such, many of the developments or reforms listed here do not have a direct link with national crisis measures. They nonetheless reflect the priority given by governments to strengthening labour inspection, even in the midst of an economic downturn and growing budget deficits.

Strengthening labour inspectorates

The United States Department of Labour recently hired an additional 250 wage and hour investigators, a staff increase of more than one third, to ensure a prompt response to

[1] The role of labour inspectorates has always been heavily influenced or affected by times of crisis. For a historical perspective, see ILO: *Tripartite symposium of specialists in labour inspection,* Geneva, 21–25 Oct. 1985. Comparative analyses of selected European countries of Western Europe. (Geneva).

complaints and to undertake more targeted enforcement. [2] In the autumn of 2009, the Department had several significant enforcement cases, collecting nearly $2 million in back wages for more than 500 workers. The Occupational Safety and Health Administration (OSHA) received a substantial budget increase in 2010, enough to increase the number of inspectors in the field. [3] In 2009, after an extensive six month inspection, OSHA imposed its largest ever fine, $87 million, against a global petroleum firm for failing to correct potential hazards endangering its employees. [4]

Elsewhere, the Brazilian Government is planning to recruit some 200 additional inspectors, and has improved the salaries and benefits of existing inspectors. It is continuing to study ways to retain staff, strengthen their career prospects, and reduce the temptation for fraud or corruption. In France, the Government is in the process of modernizing the labour inspectorate, as well as increasing the number of highly qualified staff (planning for an additional 240 inspectors, 420 controllers, 40 engineers and physicians). In Italy, some 1,400 inspectors have been recruited in the past few years as part of the Government's efforts to uncover and deter undeclared or illegal work.

Institutional restructuring and reform

France has undertaken an ambitious restructuring of its inspection services, merging four previously separate inspection services (agriculture, seafarers, transportation and general inspection) under one central authority, in line with international practice. Also, the creation of the National Labour Inspection Council (CNIT) in 2007 is designed to ensure that the duties of labour inspection are properly discharged, in the country, in line with international standards.

In China, the Government has been working in recent years to improve its labour inspection system by establishing a central labour inspectorate, carrying out an internal audit of labour inspection, and by adopting an innovative policy (the "2 N System") which establishes a more noticeable presence of labour inspectors at the grassroots level.

Labour inspection in South Africa is facing a number of challenges, including high turnover, which have affected the ability of the labour inspectorate to function effectively. [5] Currently, the Department of Labour is considering various ways of addressing the vacuum resulting from high turnover, and of improving the quality of services provided to clients.

In Argentina, measures have been taken to improve cooperation between the labour inspectorate and the justice system in order to achieve common objectives for the protection of workers (for example, an accessible data system on social security cases, and a procedure for fines).

Some countries with specialized inspection systems concerned mainly with occupational health and safety matters are introducing measures at the structural level to expand the scope of activities to such areas as undeclared or illegal work. An example of

[2] http://www.dol.gov/opa/media/press/whd/whd20091452.htm.

[3] Remarks delivered by David Michaels, Assistant Secretary of Labor For Occupational Safety and Health.

[4] http://www.osha.gov/pls/oshaweb/owadisp.show_document?p_table=NEWS_RELEASES&p_id=16674.

[5] South Africa has not ratified Convention No. 81.

this can be found in Germany, where specialized inspection staff and customs officers have been merged into one unit to combat undeclared work.

Cooperation with the social partners

In Australia, trade unions have historically played a major role in monitoring and enforcing minimum employment standards, in part because government enforcement was often under-resourced. This strong union role was diminished in the years of Work Choices reform, during which time the Government took over the predominant role in labour inspection. With the recent change of government, the Fair Work Act 2009 helped to restore a more tripartite and collaborative approach to labour inspection. However, continued restrictions on the right of entry when carrying out inspection visits suggest that unions might only regain a minor role in the new enforcement regime (Hardy and Howe, 2009).

Since early 2005, the United Kingdom's Health and Safety Executive has developed collaboration with the social partners in the context of a new programme intended to improve the quality and quantity of worker involvement in health and safety risk management with a view to prevention.

In Germany, the Federal Ministry of Finance concluded a national action pact with the social partners against undeclared work in the transport sector. In this pact, the parties agreed to raise awareness among their membership and the public at large. They further agreed on an information exchange between the inspectorates entrusted with monitoring undeclared work and the social partners. They also arranged to establish a joint tripartite working group at the national level on the subject.

Undeclared work

The issue of undeclared work, and the role of labour inspection in combating it, has been of particular concern within Europe. The European Commission is particularly worried that undeclared work, if not properly confronted, will undermine the European Union's ability to meet its employment targets for more and better jobs, and for stronger growth. As a result, a number of countries have taken measures to address this issue, which has gained even greater prominence during the economic crisis because of publicized tensions between national and migrant workers, as well as efforts by governments to maximize tax revenues.

Recently, a European Network on Undeclared Work was set up between the Governments of Belgium, France, Germany, Italy and Romania. The network is coordinated by the Italian Ministry of Labour, and seeks to promote the exchange of expertise on a wider policy agenda dealing with undeclared work. Such cooperation could be extended to a broader range of countries, and across the full range of strategic and operational topics, particularly data sharing.

In Germany, a special action programme has been developed under the leadership of the Federal Ministry of Finance with a view to addressing undeclared work in specific sectors that are prone to undeclared work (for example, the construction sector). In the context of this action programme, an information campaign has been launched, and temporary inspection control centres have been set up on a number of large construction sites. Special monitoring campaigns have also been conducted in the transport sector.

Outside of Europe, undeclared work is also a matter of concern, although it is more commonly related to the phenomenon of the informal economy. In Argentina for example, the regularization of clandestine workers has been a high priority of the labour administration. Since launching its National Labour Regularization Plan, an estimated 24 per cent of workers concerned have been visited. The inspections combine information recorded during the visit with databases providing information on employers' contributions and payments, detailing the number of workers registered.

Cross-border initiatives

Taking into account the increasing mobility and circulation of workers (in particular posted workers in the European Union context), and services across borders, more and more cross-border joint inspection campaigns are being conducted, notably in border zones. Recent examples of this include joint inspections conducted by Argentina and Brazil. Moreover, Brazil plans to develop a proposal which has been adopted for the training of labour inspectors within the framework of MERCOSUR.

Similarly, under the leadership of the Spanish Inspectorate for Labour and Social Security, with EU funding, a network has been created between European inspectorates (the CIBELES project). Participating countries include Austria, Belgium, France, Germany, Hungary, Italy and Portugal. The aim is to build channels for the easy exchange of information, in order to build a knowledge base for cross-border enforcement and mutual assistance, as well as to provide guidance to the European Commission. The objectives are to foster information exchange between labour inspectorates, and enhance cross-border enforcement and the development of legal and organizational responses.

Final remarks

Based on existing evidence, it is difficult to identify clear trends or draw conclusions about the impact of the crisis on national labour inspection services. It is equally challenging to say with certainty how far labour inspection has minimized the impact of the crisis on firms and workers. Information about the impact of the crisis on labour inspection is difficult to obtain, in part because annual reports reviewing developments in 2009 will only be available later in 2010. That being said, the economic crisis, has had various effects in regard to labour inspectorates.

The primary effect has been to confirm the importance of labour inspectorates in labour market governance, especially in times of economic hardship where the downward cost pressures increase the need to protect workers and to ensure that adjustments to working time, wages and other working conditions are done in accordance with the law. In this respect, labour inspection might constitute a vehicle for a broader approach to social protection and economic development – one that is not at odds with, but rather supports workplace competitiveness and productivity.

At the same time, the crisis is one of the reasons compelling workers and their representatives to call for more inspectors to ensure that labour laws are respected and sanctions increased. This can sometimes result in creating tension between social partners and inspectors.

The sudden impact of the labour market crisis has challenged the delivery of effective labour inspection services, particularly where there have been no measures in place or appropriate tools designed to help in this situation. Some inspection campaigns and action plans were justifiably intensified as a result of the crisis (e.g. dealing with undeclared work or vulnerable workers) but no analysis of the real impact and overall consequences of the crisis on labour inspection has yet been carried out.

9. Social dialogue

Core findings

- The global economic downturn has re-emphasized the role of tripartite social dialogue between governments and workers' and employers' organizations as a key component of crisis recovery strategies, as well as of collective bargaining at all levels, through which the social partners craft responses to the challenges of maintaining employment and promoting enterprise sustainability.
- In many countries, tripartite consultations on ways and means of addressing the crisis have led to national tripartite agreements and other collective arrangements. The measures deployed based on these agreements and arrangements have helped the countries concerned to mitigate the consequences of the crisis and to accelerate recovery. Creative collective agreements have enabled social partners to save jobs and workers' income while at the same time promoting enterprise sustainability. As such they play an important role as part of a broader crisis response.
- In some countries, social dialogue faces challenges with regard to bridging the differences between the tripartite partners. However, where there has been political will and engagement the tripartite partners have managed to overcome their divergences and move the dialogue forward.
- In countries where social dialogue is not yet part of the means of finding solutions to the crisis and accelerating job recovery, efforts should be made to promote the establishment of effective social dialogue institutions.

Challenging times offer an opportunity to the State and the social partners to improve cooperation through social dialogue and to address problems facing workers and employers, as well as society in general. The need to engage in social dialogue is particularly strong now, to help States implement the anti-crisis measures adopted at the beginning of 2009, and to design appropriate strategies and policies to deal with the challenges of employment and of increasing public deficits.

In many countries, tripartite consultations on ways and means of addressing the consequences of the crisis and stimulating the economy have led to national tripartite agreements, joint statements and the like. In some countries, however, there have been disagreements between the government and the social partners, or obstacles to implementing agreements. However, in many cases, the tripartite partners have managed to overcome their divergences and move the dialogue forward.

Successful experiences

Experience of using national tripartite social dialogue to deal with the crisis highlights the benefits of:

– a tradition of sustained dialogue;

– promptness in engaging in consultation and dialogue;

– information sharing for problem solving;

– political will and the capacity to implement agreements;

– a clearly defined implementation strategy for agreed measures.

In Chile, in order to reduce as much as possible the negative impact of the global economic crisis on employment, the Government, the Confederation of Production and Trade (CPC), the Confederation of Small and Medium-Sized Enterprises and the Confederation of Workers (CUT) concluded a national tripartite agreement (Tripartite

Pact) for employment, training and labour on 6 May 2009, which was enacted into law on 28 May 2009.

This law stipulates six measures on employment, training and social protection, valid for a period of 12 months, as well as a programme of grants for women. These measures were aimed at reducing the unemployment rate by 1.5 percentage points and benefit approximately 125,000 people.

In terms of impact, a number of workers and enterprises have already benefited from the deployment of the different measures contained in the tripartite pact, as shown in table 9.1.

Table 9.1. Participation of workers and enterprises in the different schemes under the Tripartite Pact, 2009, Chile

	Participating workers	Enterprises
Training permissions	944	31
Retention of workers	2 659	210
Pre contract training	8 440	325
Scholarships for women heads of households	19 001 plans approved	Not applicable
Subsidized youth employment	160 267	4 506

Source: Gobierno de Chile, Ministerio de Trabajo y Previsión Social. Medidas Presidenciales. Permiso; Precontrato, Retención, Subisdio Empleo Joven, Jefas de Hogar Emprendedoras, 26 October 2009.

A further step was made in the implementation of the Tripartite Pact in October 2009, when the Government of Chile and the CPC concluded an agreement on a plan to boost small and medium-sized enterprises. The plan involves CHL$28,000 billion (over $50 million) and will benefit more than 170 thousand micro, small and medium-sized enterprises. The plan aims to improve competitiveness and productivity of small and medium-sized enterprises, to enable them to fully benefit from economic recovery. The plan is co-financed through public funds (76 per cent) and private contributions (24 per cent).

The Tripartite Pact was adopted speedily, and implementation started quickly. This success of tripartite social dialogue has been attributed to the consensus rapidly achieved between the Chilean Government, workers and employers on ways and means of confronting the effects of the global economic crisis, and preparing workers and employers to benefit fully from the opportunities stemming from recovery.

In Germany, in order to cope with the crisis and its consequences for the labour market, the Federal Government deployed two major programmes, after broad consultations with the social partners. Both the German Employers Association (BDA) and the Confederation of German Trade Unions (DGB) approved the government packages, though the latter considered them insufficient. Both parties welcomed the measures related to short-time working *(Kurzabeit)*; the maximum duration of partial unemployment was extended from 12 to 18 months, and then to 24 months, while its cost to employers was reduced. From the union standpoint, this measure promotes employment protection. The view of employers is that it enables companies to maintain human resources and increase labour flexibility at a time when the volume of work is reduced. The Government, employers and trade unions expressed their agreement on this priority measure in a joint statement, and collective negotiations improved the initial government proposal. For example, under the “short-time work allowance plus” agreed upon by the tripartite partners, companies are to be exempt from social insurance contributions provided they fulfil certain conditions, and the number of workers entitled to benefit from this measure has been expanded. Also, the implementation process has been simplified.

According to a survey conducted by the Institute for Employment Research in September 2009, 17 per cent of German enterprises have exploited the potential offered by the short-time working scheme. These include 41 per cent of enterprises employing between 50 and 249 workers, and 55 per cent of enterprises employing 250 or more. The total number of workers who were on short-time work reached 1.143 million on average in 2009, as compared to an average of 68,000 in 2007, and 101,000 in 2008. The same Institute forecasts that 700,000 workers will be on short time work in 2010. [1]

The workers that have benefited from the short-time work scheme might have been laid off had the Government and social partners not pushed for these measures to be implemented. The scheme has been welcomed by the German public and by labour market experts.

Tripartite social dialogue is not institutionalized in Germany because of the strict separation between the responsibilities of the State and collective bargaining, which falls within the prerogatives of the social partners. However, the crisis appears to have instigated an implicit, if temporary, tripartism. Thus, despite the deep impact of the global economic crisis on the German economy, job losses have so far been minimal, primarily because of the tripartite consensus on short-time working measures.

In Japan, in order to cushion workers against the risk of a further increase in unemployment, perceived as a threat to social stability, the social partners and the Government have engaged in tripartite consultation with a view to promoting employment stability. Work-sharing and support for small and medium-sized enterprises were considered to be among the key means of achieving this objective.

Following heated discussions – there was a divergence of views regarding the definition and scope of work-sharing arrangements between employers' and workers' organizations, and even among the latter – the tripartite partners in March 2009 reached an agreement on job stability and employment creation. This agreement contains various measures aimed at maintaining employment through work-sharing arrangements subsidized by the Government, to be implemented at the enterprise level based on consultation between labour and management. Such measures include: suspension of employment contracts (lay-offs) in lieu of dismissals; reduction in working hours; education and training; and temporary transfer of workers between companies. The Government has supported work-sharing initiatives through a wide range of measures, including raising subsidies for employers who avoid lay-offs, as well as financial support for small and medium-sized enterprises.

Work-sharing, as a core component of the agreement on job stability and employment creation, has had the following effect: enterprises made a total of 448,008 applications for the subsidy (covering 13,794,564 workers) from April to September 2009, as compared with only 90,509 applications from April to December 2008 (covering 5,289,431 workers). It is likely that the workers who have been put on short-time work have been saved from unemployment. Hence tripartite cooperation appears to have contributed to employment stability in Japan.

In Singapore, the impact of the economic downturn was felt around October 2008, prompting the Ministry of Manpower (MOM), the Singapore National Employers' Federation and the National Trades Union Congress to get together on 19 November 2008

[1] Institut Fur Arbeitsmarkt Und Berufschung "IAB-Kurzbericht", Mar. 2010. http://www.iab.de/en/iab-aktuell.aspx (English version).

to formulate the Tripartite Guidelines on Managing Excess Manpower to help companies manage their excess manpower and to use retrenchments only as a last resort. According to the guidelines, companies could implement a shorter working week or temporary lay-offs, cut wages, or take other non-wage cost-cutting measures. The number of workers on a shorter working week and temporary lay-off increased from 550 before the downturn to 26,500 in the first quarter of 2009.

To complement the measures, the Government introduced in December 2008 the Skills Programme for Upgrading and Resilience (SPUR) to subsidize training course fees and absentee payroll. Companies could send their staff for training and skill upgrading to make better use of their excess capacity. The Singapore National Employers' Federation was able to help over 200 companies train 10,000 workers in the first year.

In January 2009, the tripartite partners released a set of revised National Wages Council guidelines on tackling wage challenges during the downturn. The Government responded to the call by the National Wages Council to reduce business costs by reducing corporate tax and providing other tax rebates and incentives in the 2009 budget. Also, it moved forward its budget statement from February to January and announced a S$20 billion resilience package to help companies and its citizens.

Finally, a tripartite taskforce, comprising the Government, the National Trades Union Congress and the Singapore National Employers' Federation, was formed to gather feedback and updates on manpower-related issues during the economic downturn. The taskforce also revised the Tripartite Guidelines on Managing Excess Manpower to improve its relevance for application. The number of courses under SPUR increased from 150 to more than 1,000. In addition, the Professional Skills Programme was introduced to help the workers to gain new skills or upgrade their skills. About 244,000 workers had signed up for training courses under SPUR as at October 2009.

As a result of these interventions, Singapore was able to avoid the high retrenchment numbers it had experienced during the 1998 financial crisis. Moreover, trust among the tripartite partners has been strengthened. The long tradition of tripartism in Singapore helped in taking prompt joint action to address the crisis. In November 2009, on the back of an economic recovery, the tripartite partners have released an advisory to help companies manage imminent manpower challenges. This experience demonstrates the critical role of an effective implementation strategy to enforce agreed measures.

In South Africa, where there is a tradition of effective tripartism under the National Economic Development and Labour Council (NEDLAC), an innovative and timely framework agreement was concluded in February 2009. However, a tripartite review of the implementation of the framework notes that, despite comprehensive commitments, while some areas have been strongly implemented, others "have not been concluded with the necessary urgency" (NEDLAC, 2009, page 40).

While representatives of business and of workers enthusiastically supported the idea of a training lay-off scheme, poor devolution of government responsibilities and a lack of awareness of the programme by business may have delayed access to these services. By November 2009, few enterprises had been able to apply for the promised funds, because of slow implementation. A total of only 7,000 workers, otherwise subject to retrenchment, are enrolled (NEDLAC, 2009, page 37). Issues such as negotiations with financial institutions over mortgage payments for workers receiving reduced wages are cited as one of the reasons for the prolonged negotiations which delayed implementation of the training lay-off scheme.

Difficulties

In a number of countries it is difficult to bridge the differences between the tripartite partners. For example, in Bulgaria the two main confederations of trade unions, CITUB and Podkrepa, withdrew from the National Council for Tripartite Cooperation in autumn 2008 on the grounds that the Government was acting unilaterally in such matters as a pay freeze in public services, in violation of the National Pact on Economic and Social Development in effect for the period 2007–09. However, the new Government, which took office in July 2009, established a tripartite working group within the Council and invited CITUB and Podkrepa to return to the social dialogue table. At the same time, it initiated dialogue with branch unions and employers' organizations on specific sectoral measures. These confidence-building moves prompted CITUB and Podkrepa to return to the National Council for Tripartite Cooperation, and tripartite cooperation resumed. After a few weeks of consultation, consensus was reached on a set of measures to protect workers and improve the business environment for enterprises.

In Kenya, where a new labour law regime was recently introduced, the parties are in disagreement over both the process and the substantive content of some laws, especially the Labour Institutions Act and the Work Injury Benefits Act, 2007. Nevertheless, the tripartite partners are actively engaged in dialogue in the National Economic and Social Council which endorsed the stimulus package prepared by the Government in June 2009. The package includes investment in infrastructure and public employment creation. This mature approach to social dialogue acknowledges that conflict and cooperation are both inherent features of social concertation.

Social dialogue cannot to be taken for granted, even in countries with a tradition of successful social dialogue. For example, in Ireland, after achieving seven national agreements and more than 20 years of remarkable economic growth with record employment creation, the social partnership reached a stalemate on the strategy required to tackle the economic crisis. In Spain, the social dialogue has encountered difficulties over the strategy to address the job crisis and labour market reform one year after the social partners and the Government had signed a joint statement on the consolidation of social dialogue.

Two major lessons can be drawn from the examples of temporarily unsuccessful social dialogue. First, discussions should not only focus on defensive measures, such as wage freezes or cuts in public-sector jobs, but also aim at establishing a win–win situation by virtue of a broader approach to the economic and social challenges facing the social dialogue partners. Second, in case of disagreement, the parties should not simply give up, but maintain contact and strive to restore confidence in order to bridge their differences and move the dialogue forward.

Collective bargaining to address the crisis

In the present context of economic downturn, collective bargaining between employers and workers' organizations has been playing an increasing role in country responses to address the impact of the crisis. The questions of how to save jobs to maintain workers' income, and how to cut production costs to promote enterprise sustainability, are at the top of the collective bargaining agenda in countries where collective bargaining plays a significant role in industrial relations.

The levels of coordination and coverage of collective bargaining are important determinants of the emergence of negotiated responses to the crisis. Countries with well developed collective bargaining mechanisms offer more scope for promoting innovative negotiated solutions than those where collective bargaining is limited.

Countries with less developed collective bargaining mechanisms, for instance in many countries in Africa, Asia and Latin America, as well as the United States, limit the scope for the development of negotiated responses. In contrast, European Union countries, where collective bargaining mechanisms are more developed and coverage is much higher, allow for more negotiations and collective agreements to address the crisis. Where collective bargaining coverage is limited, there is less likelihood that crisis responses will be formulated through social dialogue.

In Europe, the crisis appears to have spurred supra-enterprise negotiations, especially at the sectoral level. In many countries, these negotiations have led to the conclusion of creative collective agreements offering innovative and balanced solutions aimed at promoting employment stability, and maintaining income and business sustainability. Work-sharing arrangements figure prominently in these sectoral agreements. Other topics include wages, training, job placement, pre-retirement and measures on restructuring.

Sectoral agreements have been concluded in a variety of sectors and, in many cases, have been supported by the State and have helped to implement public policy measures, especially related to short-time work and temporary unemployment.

For example, in the Netherlands, the transport sector was confronted with a substantial decline in demand for labour, prompting the social partners to engage in negotiations in order to craft solutions aimed at facilitating the adaptability of enterprises in the sector to the prevailing global downturn, while preserving human resources by preventing dismissals. Three measures were agreed upon, subject to further negotiations at company level. These were: guaranteed access to pre-pension schemes for workers born between 1947 and 1950 who are threatened by unemployment; a temporary expansion of the obligatory and voluntary time-for-time regulation, allowing for a more flexible scheduling of working hours; and allowing the employer to determine unilaterally when the working-time reduction days agreed in the collective agreement should be taken up. Later on, a temporary mobility centre was established by the parties with the aim of finding employment within the sector for unemployed or redundant truck drivers and crane operators, to safeguard their expertise and knowledge of the sector.

In Cambodia, the current global economic crisis has had a dramatic impact on the garment industry in terms of a drop in exports and in demand for labour. Manufacturers, unions and the Government have engaged with Better Factories Cambodia in negotiations to minimize the negative effects of the crisis. The Cambodian Ministry of Labour and Vocational Training has started a crisis-related training programme for laid-off workers, and is planning to establish nine job centres by the end of 2010. These job centres have strong links with employers, and their objectives are shared by the Garment Manufacturers' Association in Cambodia. Unions are also deeply involved, as they are directly in touch with potential clients who have lost their jobs, and are able to facilitate communication between laid-off workers and potential new employers.

Creative inter-sectoral collective bargaining is illustrated by the example of the Exceptional Inter-Sectoral Agreement in Belgium. This agreement, concluded by the Federation of Employers of Belgium and five trade union confederations in December 2008, seeks to find a balance between competitiveness of enterprises, employment levels and protection of the purchasing power of workers, especially the lowest paid. The unions agreed to a limited pay increase targeting primarily the lowest paid and to soft increases (luncheon vouchers and travel subsidies) which added little to employers' labour costs. Unemployment benefits and pensions were increased, while employers benefited from tax reductions. Other measures agreed upon include the maintenance of the automatic indexation of wages to inflation, and financial incentives to recruit the long-term unemployed. The agreement was given a legal backing in March 2009. A further agreement concluded in February 2009 provided for the payment of eco-cheques as of 2009 which workers could spend on so-called green consumer products. The newly created possibility of eco-cheques and travel subsidies are being used extensively by employers in order to compensate for the limited nominal wage increase and to maintain the workers' purchasing power. This inter-sectoral agreement has strengthened the anti-crisis measures taken by the Government and opened the door for innovative sectoral negotiations in the country.

Bargaining at the enterprise level, where the crisis is felt more directly, tends to follow two approaches. The first is a reactive strategy aimed at survival, through which the social partners attempt to cut both jobs and wages, sometimes combined with uncompensated extension of working time. The second approach involves formulating a package of short- and longer-term measures aimed at maintaining income and employment, for example through work-sharing arrangements, preparing for recovery by using downtime for retraining and employability, and facilitating the longer-term sustainability of the enterprise through the introduction of innovation processes.

The choice between the two approaches depends on various factors, including the prevailing industrial relations system, the economic situation and the strategies of the actors, as well as the power relationship between them. Higher-level agreements and State measures, especially in the form of wage subsidies and training funds, appear to favour the second approach. The State can play a central role in the development of collective bargaining as an element of a national strategy to address the crisis.

It is not easy to say which approach is used most often in the present economic circumstances. What is certain is that the second approach has been used in all regions and is reported to have helped save jobs, improve employability and promote enterprise sustainability. Some examples of innovative enterprise agreements exemplifying the use of this approach are outlined in box 9.1.

Box 9.1
Examples of successful collective agreements at enterprise level

Indonesia

In Indonesia, a large supermarket chain estimated the significant increase in "shrinkage" (loss of products between point of manufacture or purchase from supplier and point of sale) were provoking a loss of 80 billion rupiah annually. In September 2009, the company's management team and union representatives concluded a collective bargaining agreement to deal both with workers' wage concerns and with shrinkage. The agreement included a new wage increment in which the lowest-wage workers would enjoy a full 14 per cent increment, with a lower increment for workers earning higher wages. Allowance increments for 2008 would not be raised. To address the company's concerns over shrinkages, the parties agreed on the implementation of anti-shrinkage programmes.

Rising inflation put pressure on the union's representatives to push for another round of negotiations on increasing allowances. After announcing a two-fold increase in profits for the 2nd quarter, the company paid a two-week bonus for all workers and the staff discount and religious holiday budget was expanded from 1.5 million to 6 million rupiah. These measures were implemented without disputes or demonstrations. Furthermore, early reports from the anti-shrinkage programme indicate positive results: problems have been reduced in seven out of eight supermarkets. Social dialogue between the company and the union led to collaboration and trust-building, and served as a mechanism to address mutual concerns in difficult times. The results were better work conditions for workers and an increase in profits for the company.

Source: *Social Partnership in the Making: Trust, Reciprocity & Social Capital at Hero*. Uni Global Union Asia-Pacific, ASPEK Indonesia, Serikat Pekerja PT Hero Supermarket Tbk.

South Africa

A sharp fall in prices of dairy products posed serious difficulties for dairy farmers worldwide. In South Africa it affected hardly the largest dairy company, which processes 30 per cent of South Africa's milk in 17 factories, employing more than 5,800 workers. In May 2009, the company the planned to close one of its cheese factory and relocate the production of some products to other factory located in another region. High production costs of bulk cheese and the need to remain efficient and competitive forced the company to consider cutting costs by retrenching some 92 workers.

After a 60-day consultation period, union representatives and the company's management agreed to retrench only 31 employees by transferring them to the other factory and granting them a relocation allowance of 10 per cent of their basic salary for a period of 12 months. The remaining workers accepted a severance package of two weeks' salary for every completed year of service, with a minimum of two full months. This process, which was handled by the South African Commission for Conciliation, Mediation and Arbitration, had a better outcome than that initially considered by the company. At least one-third of lay-offs were avoided, and the company retained the critical skills and expertise that will be necessary when economic and business conditions improve.

Source: Commission for Conciliation, Mediation and Arbitration (CCMA). South Africa: http://www.ccma.org.za/; Clover Beverages Limited: http://www.clover.co.za/125/about-clover-exports/.

Germany

In April 2009, in the midst of a global economic crisis, a large German motor vehicle producer announced that 16,000 workers risked redundancy. Through a process of negotiation, management and the works council agreed to a range of cost-cutting measures, including reduction in working hours and short-time work provisions, and the postponement of pay increases and bonuses. The multi-employer agreement for the sector contained a clause which provided enterprises and works council with the flexibility to agree to postpone wage increases for a fixed time period, depending on economic circumstances. Management also agreed to forego a portion of monthly salary and no salary increase in 2009.

Conflict arose during the negotiations when management proposed to reduce the working week from 35 to 30 hours. Short-time work is more costly to the employer, but implies lesser income reductions for employees and thus the works council preferred short-time work. The social partners met the requirements for short-time work and could therefore benefit from the existing provisions of German unemployment insurance, without which it would have been difficult to implement changes without a loss in income for workers.

The company reported that the 2009 agreement is set to save €2 billion in labour costs. Together with the 2004 agreement, it also saved a substantial number of jobs. The strong relationship that exists between the company and the works council is identified as one of the key reasons why the company's management and the works council were able to reach an agreement that could help the company navigate through particularly difficult economic circumstances.

Source: Zagelmeyer, 2009 and http://www.daimler.com/dccom.html.

Spain

At the end of 2008, a large multinational company announced that it would lay off 275 of the 1,300 workers at on of its plant in Spain in response to declining demand for its television sets. The company was willing to negotiate job retention for 86 of these workers in return for salary freezes or reductions, increased flexibility, and increased annual working time. This would allow the plant to reach cost levels concurrent with other factories in Europe, such as in Slovakia. The unions and workers were concerned about a possible relocation as part of the company's global restructuring plan, although management repeatedly denied that this was being considered.

In January 2009, trade union representatives and managers reached a preliminary agreement in terms of which the company agreed to keep the plant in operation for 2009 and 2010 and maintain at least 1,000 jobs producing 1.5 million units. Pay will be frozen and hours of work (40 hours per worker) increased during this period. Additionally, the company committed support to technological innovation and competitiveness. A joint commission will follow up the implementation of the agreement. Although the company abandoned its restructuring and redundancy plan, it left open an alternative in order to deal with the surplus workforce of 93 workers. It proposed a voluntary redundancy plan for a six-month period, enabling 150 workers to take early retirement, encouraged by monetary or social compensations.

While pay cuts have generally been resisted by unions as an alternative to job losses in Spain, this initiative was praised because it allowed jobs to be maintained and kept the company's operations in the region.

Source: European Foundation for the Improvement of Living and Working Conditions. European Industrial Relations Observatory On line: http://www.eurofound.europa.eu/eiro/2009/02/articles/es0902019i.htm.

Global developments

In respect of global trends in industrial relations, a growing number of transnational company agreements (TCAs) have been concluded between multinational enterprises and union federations representing workers at global or European levels.

In addition to promoting core labour standards, TCAs deal with a number of issues of common interest for management and labour, such as restructuring. By November 2008, approximately 150 TCAs had been reached, covering roughly 7.5 million of workers globally (Papadakis, 2008). Among them, 37 agreements addressed the issue of restructuring in 22 enterprises. Six new agreements on restructuring emerged in the period 2008–09. The role of transnational company agreements in addressing restructuring related issues (including mobility and anticipation of change) has been key during the current global economic crisis.

In the maritime sector, a unique agreement was reached in an international bargaining forum between the International Transport Workers' Federation and the International Maritime Employers' Committee. The agreement has many of the characteristics of a collective agreement, covering wage increases, working hours, leave entitlement, death and disability compensation, repatriation, sick and maternity pay and medical treatment.

Collective bargaining can play an important role as part of a broader crisis response, together with national tripartite consultations and public policy measures. It can contribute to maintaining employment, keeping wages stable – thus maintaining aggregate demand and avoiding deflationary wage spirals – and facilitating enterprise adaptability.

Critical role of the State

One of the main lessons learned is that the capacity of industrial relations to play a preventive or mitigating role in times of crisis largely depends on the political will and involvement of the State. For the State's involvement in industrial relations to be efficient, it must go well beyond setting the legislative framework. A legislative framework has limited impact if it is not accompanied by specific policy measures. Apart from "soft" methods such as the creation of a general climate of cooperation or moral appeals to the social partners, government interventions in industrial relations can take more proactive forms, for example:

– consulting the social partners on macroeconomic management;

– financial support to programmes implemented, with the involvement of various forms of social dialogue;

– implementing income policies by establishing minimum wage fixing mechanisms;

– promoting regular employment relationships through legislation on various forms of atypical work and through policies encouraging employment in the formal sector;

– direct intervention by mediation or by financial interventions in the restructuring of enterprises, especially if large collective redundancies are expected;

– administrative decisions extending collective agreements to employers who are not party to the agreement or (via legislation) to workers who are not members of signatory unions;

– involvement of the social partners in the management of agencies administrating social programmes (such as vocational training institutions);

– providing assistance to employers and workers through labour inspection and public employment services;

– providing conciliation, mediation and arbitration services, and establishing judicial bodies to deal with industrial disputes;

– providing the social partners with relevant information needed for collective bargaining.

Conclusions

In the present turbulent times, social dialogue is part of the response to the crisis in many countries, although in several cases it took some time for governments to start involving the social partners. In countries where it is not yet part of the means of finding solutions to the crisis, a lack of engagement and political will on the part of the government, as well as unilateral decisions on critical issues such pay policy (particularly in the public sector), have hindered the functioning of social dialogue and prevented it from playing its role as a key component of crisis recovery strategy. Social dialogue should be promoted in such countries.

Well-established and efficient social dialogue institutions have a stabilizing function, while ad hoc and informal forms of social dialogue do not have long-term effects, even if they are sometimes necessary as a complement to institutionalized practices. Social dialogue institutions, to be efficient in crisis situations, must be connected to policy-making, either through high-level representation of the State in these bodies, or by their recognized role in macroeconomic management. Large, formal, purely advisory bodies without governmental representatives have only a very limited role.

Collective bargaining is playing a key role in the crisis response at all levels and in many countries across the world. Creative agreements have enabled workers and enterprises to save jobs while at the same time maintaining income and securing enterprise sustainability.

Political will and engagement with the social partners are key to the success of national recovery strategies. The critical role of the State in creating an enabling industrial environment through effective public policy measures has been highlighted. Another important aspect is the active role played by the social partners. In nearly all cases, the social partners have tried to contribute to the formulation of anti-crisis programmes and packages and to find creative solutions to limit the impact of the crisis in terms of job losses and enterprise failures. They have examined government plans and put forward their own proposals. Frequently, tripartite cooperation between the government and the social partners has been supplemented by bipartite initiatives taken by the social partners at industry and enterprise levels, aimed at reinforcing measures taken at the national level.

Where governments have responded positively to the solicitations of the social partners and have involved them in national deliberations on anti-crisis stimulus packages, workers and employers have supported the implementation of those packages on the ground.

Part III. Labour demand

10. Small and medium-sized enterprises

Core findings

- Small and medium-sized enterprises (SMEs) represent a substantial slice of the employment created in most economies and are often particularly vulnerable to changing economic conditions.
- Cooperatives and employee-owned enterprises have proven somewhat resilient to the crisis: their performance is more stable over business cycles and they have outperformed the market during the crisis. The employee ownership model offers particular advantages to SMEs. Evidence suggests that they can significantly outperform competitors, and that they recruit more employees at a faster rate and reward employees with higher wages.
- The crisis does not change the need for a conducive enabling environment for SMEs, with laws and regulations that facilitate enterprise growth, foster decent work and safeguard the natural environment. SMEs need to be aware of support measures and how to access them: business associations play a vital role in this regard.
- Crisis responses have entailed measures taken to provide credit (increasing access and reducing costs) and tax benefits to SMEs, often as part of a broader package of support. Tax incentives can ease working capital constraints for businesses and stimulate demand among consumers. Common measures adopted are: reducing value added taxes, providing export incentives including duty drawbacks, sector specific tax incentives, spreading tax liabilities over a longer timeframe and payroll tax rate reductions with incentives linked to employee retention.
- Other successful measures to keep SMEs afloat and workers in jobs include: work-time reductions; support to business start ups and self-employment; and measures to ensure that SMEs can take advantage of public works and procurement opportunities via decentralized procurement processes, such as the issuing of small tenders and specific measures to favour SMEs in tendering processes.

The crisis is affecting firms of all sizes and across a range of sectors and organizational types. However, there is some evidence to suggest that the cooperatives (including cooperative banks and other financial cooperatives) and employee-owned enterprises have proven somewhat resilient to the crisis (Birchall and Ketilson, 2009).

Employee-owned enterprises are generally more resilient, their performance is more stable over business cycles and they have outperformed the market during the crisis. The employee ownership model offers particular advantages to small and medium-sized enterprises (SMEs) in knowledge-based and skill-intensive sectors. There is evidence to suggest that such businesses can significantly outperform competitors, and they recruit more employees at a faster rate and reward employees with higher wages (Lampel, Bhalla and Jha, 2010).

While large firms grab headlines when disclosing lay-offs and dramatic declines in sales and earnings, many small and medium-sized enterprises (SMEs) [1] are also trying to cope with weak demand, tight credit and reduced orders. It is obviously more difficult for small enterprises to downsize in times of crisis because they are already small.

Small businesses are big employers, and SMEs represent a very big slice of most economies. In Europe, for example, SMEs represent 67 per cent of all private sector jobs. In Indonesia, SMEs account for just over half of GDP and about 95 per cent of employment. In the United States, almost a third of Americans work in businesses with fewer than 50 employees, but it is estimated that such businesses have suffered about 45

[1] There is no common, universal definition for SMEs. Countries have their own definitions usually based on number of employees, turnover or assets: generally the richer the country, the higher the threshold. In the EU, for example, an SME has fewer than 250 employees, an annual turnover of less than €50 million and assets of less than €43 million, but micro-enterprises have fewer than ten employees and small enterprises between ten and 49.

per cent of the job losses of the downturn. These SMEs – and their workers and families – are often particularly vulnerable to changing economic conditions.

Integrated approaches

Providing support to SMEs in times of crisis is not greatly dissimilar to providing support at other times. Best practices do not vary significantly in relation to economic conditions. However, in an economic downturn, the policy responses simply become more urgent and the needs greater. This does not negate the benefits of integrated packages of support that entail financial and non-financial assistance to SMEs. Nor does a crisis change the need for a conducive enabling environment for SMEs, with laws and regulations that facilitate enterprise growth, foster decent work and safeguard the natural environment.

The economic crisis has proved decisively that making markets work and improving the investment or business climate for SMEs is not simply about unleashing market forces. Rather, it is essential to recognize that efficient markets need effective institutions, and that markets cannot be left to themselves to allocate resources equitably or efficiently (Buckley, Salazar-Xirinachs and Henriques, 2009).

Policy responses

Roughly three-quarters of all policy responses to the crisis have entailed measures taken to provide credit and tax benefits to SMEs, often as part of a broader package of support. This implies that it is sometimes difficult to distinguish the value of support targeted specifically at SMEs: many tax measures, for example, target all enterprises irrespective of their size.

To illustrate this point, the United Kingdom Government reduced the value added tax (VAT) from 17.5 per cent to 15 per cent for 2009. Obviously, this affects all businesses (and consumers). The Government estimated that this has cost about £12 billion in lost revenue but has put almost 1 per cent of GDP back into the economy. However, one study suggested that this VAT reduction had, in fact, little effect on actual consumer spending. [2] The effect it has had on small businesses is unclear, although there is some anecdotal evidence to suggest it has helped some SMEs to weather the storm during 2009.

SMEs are highly varied, both within countries, and between richer and poorer countries. Formal sector enterprises that operate within the framework of formal credit institutions, tax regulations, labour codes and social security programmes can benefit from changes to the policy environment that are designed to assist enterprises during the downturn.

Most stimulus packages include specific measures for SMEs. These measures can be classified into four broad categories:

- Access to finance.
- Tax benefits.
- Employment incentives and entrepreneurship.

[2] A study by PricewaterhouseCoopers showed that 88 per cent of people said that the tax reduction had not prompted them to spend more. See www.niesr.ac.uk/pdf/060309_93415.pdf for a technical discussion of why this may have occurred.

– Access to market opportunities.

To date, there have been very few assessments of the impact of this support, which is understandable given that most of the measures are still in mid-stream.

Access to finance

SMEs typically struggle to have access to the type of financing they desire, whether it be for investment, working capital, export credits, receivables or supplier credit or equity. Generally, access to mainstream finance is inversely related to enterprise size: the smaller the activity, the harder it is to access finance. Banks typically view SMEs as risky investments, often because of a lack of appropriate collateral or a proven business plan, but sometimes simply because the unit costs of lending to SMEs are high compared to lending to large businesses.

Many small business owners, especially sole proprietors, had used overdraft facilities and credit cards to maintain liquidity in their businesses, and tighter lending standards and new rules to protect consumers threaten to squeeze this source of money. The option taken by some SME owners of using their properties as collateral for borrowing for their business is closed to the many homeowners who are stuck with negative equity and the even greater number affected by banks' greater caution on mortgage finance.

SMEs have fewer options for raising finance compared to bigger businesses, as the latter can raise finance through capital markets or access venture capital funds but the former tend to rely almost solely on banks for their formal credit needs. This has spawned alternatives to traditional collateral-based lending such as credit unions, peer or group-based lending, loan guarantees and leasing arrangement that target small scale enterprises.

The economic crisis has exacerbated the access problem, making banks even more cautious of lending to SMEs. Governments have responded by loosening monetary policy, strengthening banks and encouraging lending (see Box 10.1). But even if banks are being shored up by governments and are beginning to show signs of recovery, SMEs continue to face obstacles in accessing finance because months of poor economic conditions have eroded credit-worthiness. Banks are still cautious of SME lending, and lower rates in the inter-bank markets are not always being passed on to commercial customers, perhaps especially SMEs.

Solutions include:

– maintaining loose monetary policy with low interest rates passed on to SME;

– ensuring adequate volumes of SME lending, including for working capital requirements;

– increasing lending through SME support programmes;

– increasing credit to micro-enterprises, including those newly created by laid-off workers;

– improving access to finance for SME exporters;

– encouraging liquidity among enterprises by prompt payment and enforcement of rules on late payment (public and private sector);

– expanding the coverage and decreasing the enterprise cost of credit guarantee schemes;

– ensuring access to equity finance;

– assisting enterprises in preparing financing proposals.

Box 10.1

Example of increased access to finance for small and medium-sized enterprises in the United States

The United States Treasury Department has committed up to $15 billion to help unlock secondary markets (for securities) for small business loans. The credit flow programmes provided in the American Recovery and Reinvestment Act assigned $730 million to help unlock the small business lending market, which has temporarily raised the guarantee on small business loans and eliminated upfront borrowing fees on certain loans. In terms of impact, the Small Business Administration reports that loan volumes have increased over 75 per cent, supporting $19 billion in small business lending until the end of 2009. From mid-February to mid-November 2009, weekly loan dollar volumes rose 79 per cent in certain programmes. Furthermore, a significant share of loans supported by the Act has gone to rural (25 per cent), minority-owned (23 per cent), women-owned (15 per cent), and veteran-owned (8 per cent) businesses.*

* See www.sba.gov/ for more details.

Tax benefits

A reduction in tax can ease working capital constraints for businesses and stimulate demand among consumers. As taxes are levied at several levels – income, production, value added, sales and imports – there is considerable room for governments to make cuts. Many of these measures are applicable to enterprises of all sizes but a number of governments have targeted SMEs (see Box 10.2). [3]

Tax cuts today will require additional taxation in the future, which can confront resistance by taxpayers and businesses. Policy-makers need to judge how much cutting is feasible and to what extent debt accumulation will inhibit future growth prospects and future government spending.

Value added taxes are an important target of cuts. Some tax cuts are targeted at employment-intensive sectors, such as the garments and textiles sector. Many countries have found ways to promote exports by cutting the tax related to export production or by offering rebates on duties on imports used in exports in the form of duty drawbacks.

SMEs need to be aware of the changes and may need assistance to understand how they apply. In this regard, business associations, including sectoral ones, can play a role in explaining tax changes to their members. Enterprise promotion agencies may provide similar assistance. Business associations play a critical role in advising governments of the hardships experienced by their members and on where tax cuts can be most effective in stimulating output, exports and employment.

Solutions include:

– reducing the corporate tax rate;

[3] Many countries already provide lower tax rates for small businesses or for those with a low level of profit.

– reducing the tax rate for sole proprietorships and partnerships;

– linking tax rate reduction to employee retention;

– reducing excise tax;

– reducing value added taxes;

– allowing SMEs to spread tax liabilities over a longer timeframe (multi-year income or loss smoothing);

– increasing duty drawback rates;

– reducing assessments on property taxes.

Box 10.2

Example of tax benefits for small and medium-sized enterprises in China

In China, the value added tax for small businesses was cut to a uniform 3 per cent from the existing 4–6 per cent. The Government is speeding up the process of moving away from the use of excise taxes on production to value added taxes. Recent changes are estimated to reduce total taxes paid by enterprises by about $17.6 billion annually.

Employment incentives and entrepreneurship

It may be difficult for employers to retain workers in SMEs but, because of the nature of the employment relationship particularly in some smaller enterprises, there may be strong social incentives for employers to hold on to workers during a downturn.

To avoid permanent retrenchment, some enterprises have instituted work-time reductions, either in the form of a shorter working week or a temporary plant shutdown. Such measures ease pressure on the payroll, while still allowing workers to bring home a pay cheque. Workers affected by time reductions or temporary lay-offs can often take advantage of unemployment insurance or other support, in countries where such schemes exists (see Box 10.3).

Business start-ups can play an important role in easing the impact of the slowdown. New businesses can be started by locally retrenched workers, as well as by new entrants into the labour market and by migrants moving from urban to rural areas or returning from abroad. It must be recognized, however, that new businesses have a high potential to fail.

Self-employment is not for everyone but for those who wish to set up a business, governments can provide suitable entrepreneurship training and support. Similarly, training and advisory services can be provided to existing SMEs to enhance their operations. In both cases, voucher schemes can be used to enable businesses or individuals to buy support in the form of training or expertise. Support should be tailored to ensure that women as well as men have access to appropriate advice and training.

Strategies for SMEs include:

– providing retaining opportunities;

– work-sharing;

– temporary work stoppage;

– negotiating a wage freeze or a low rise in wages.

Strategies for government support or business service providers include:

– using unemployment insurance benefits to cover work-time reductions;

– subsidizing new hiring or retention of workers;

– extending the duration of unemployment insurance benefits;

– subsidizing training for employees;

– entrepreneurship support or training;

– subsidizing non-wage labour costs.

Box 10.3

Example of employment incentive and entrepreneurship support for small and medium-sized enterprises in Canada

In Canada, the Government's stimulus package provides C$10 million to the Canadian Youth Business Foundation, which mentors new entrepreneurs. The National Research Council's Industrial Research Assistance Program received an additional C$200 million over two years to temporarily expand its initiatives for technology-based SMEs and contribute to an innovation-led economic recovery. This includes C$170 million for contributions to firms, and C$30 million to help companies hire over 1,000 new post-secondary graduates in business and science over the next two years.

Access to market opportunities

Many of the fiscal stimulus packages now being implemented include infrastructure development, such as the building of roads, schools, rural infrastructure. Such stimuli are designed to create employment, either directly through the projects or indirectly through inputs that enterprises will supply to those projects.

For many of the larger projects, governments may seek to engage large firms, and high capital intensity may limit the employment creation benefits of the stimulus measures. Governments that use labour-intensive practices will see a greater employment impact. This approach may include the contracting of work to SMEs. Small tenders and the decentralization of procurement decisions can also increase opportunities for small firms.

Where feasible, governments should:

– ensure that there is no minimum enterprise size for bidding on projects;

– source SMEs for small projects and components of large projects;

– reserve a specific percentage of government contracts for SMEs;

– favour bids from SMEs with high employment intensity.

11. Hiring subsidies

Core findings

- Job retention policies have shown to be very effective in times of crisis and recession and workers benefiting from such schemes are mostly skilled and employed in modern enterprises. Countries with stable programmes of this kind have shown they can respond automatically in a counter-cyclical way, as there are more job applications in times of crisis and fewer in boom times.
- Hiring subsidies appear to be more effective when used during periods of economic recovery and are aimed at improving the employability of unemployed and relatively low-skilled workers. At such times they can provide an incentive for enterprises with better prospects to anticipate hiring which, without a subsidy, would take place at a later date.
- Incentive payments should normally be higher in the first phase of recovery and reduced thereafter. Initially, subsidies programmes are fairly broad in coverage, but as recovery becomes more robust and new jobs are created, programmes should be redirected towards the more disadvantaged.
- Econometric analyses of a number of programmes indicate that the net effect in terms of job creation is rather limited. However, these analyses do not consider that many enterprises anticipate new hiring, which in itself constitutes a net positive effect. In addition, when subsidies are aimed at disadvantaged groups, they introduce greater fairness by improving their chances to be employed.

Against a background of high or growing unemployment of the kind we are now experiencing, the use of subsidies should be considered as a possible way of protecting or promoting employment. The underlying idea is that reducing labour costs by paying a subsidy will help an enterprise through difficult periods by minimizing lay-offs or allowing new hiring. Those two possible objectives differ in many important respects, and warrant closer analysis.

The formula most often used in developed countries to preserve jobs is work-sharing. As explained in Chapter 4, an enterprise in difficulties agrees on a reduction in working time with its employees, thereby lowering labour costs, part of the workers' loss of income being made up by means of a subsidy. In general, workers benefiting from such schemes are skilled and employed in modern enterprises and, if they become unemployed, are likely to be covered by unemployment insurance.

Hiring subsidy schemes, on the other hand, are temporary measures aimed at improving the employability of unemployed and relatively low-skilled workers. Such programmes can help unemployed people in general or can be targeted at more specific groups, such as young people from poor homes, the long-term unemployed or disabled people. As the subsidy reduces the cost of hiring, it can be an incentive for the enterprise to recruit workers.

So employment subsidies may perform quite distinct functions and protect different groups. Apart from issues of labour cost, a key determinant of the outcome relates to the prevailing phase of the economic cycle, in particular the situation with regard to demand for an enterprise's services and products. It is therefore important to differentiate between economic recession with net job losses; the recovery phase, generally with only weak gains in employment; and the economic growth phase with net job creation.

Subsidies as an incentive for hiring

Subsidies can also be used as an incentive to encourage enterprises to hire new workers. These are temporary subsidies intended for low-paid workers, the amount paid and sometime also the number of beneficiaries per enterprise being subject to limits. In general, employers must fulfil certain conditions: they must normally not have laid off workers in the months immediately preceding payment of the subsidy; or there may be a limit on the net increase in the workforce by comparison with a reference period.

Practical implementation of subsidy schemes differs widely from one country to another. It may involve reducing social security contributions, payment of a fixed wage subsidy, vouchers for workers, accumulation of tax credits for each additional worker hired, and so on. All these possible arrangements have advantages and drawbacks in operational and incentive terms, but they are all based on the assumption that a temporary reduction in labour costs because of the subsidy may make an enterprise more willing to hire workers.

This analysis in general fails to take into account the demand for an enterprise's products or services, which is assumed to be static. It is clear, however, that in the face of the financial crisis, many enterprises have experienced a considerable fall in demand for their products. In a recession, it seems unreasonable for enterprises to hire new workers, even if the cost of doing so is considerably reduced by a subsidy. However, during a period of general economic recovery (and of growth in sales), a hiring subsidy may prompt some companies to anticipate hiring in order to take advantage of lower labour costs.

All this suggests that hiring subsidies, if used by employers in the right way, are essentially pro-cyclical. This means that if the criteria for not laying off workers, or for allowing a net increase in the payroll, are applied stringently, very little use should be made of such subsidies in periods of recession, but they should be used extensively when the economy is growing and demand increasing, although it remains to be seen whether they are really indispensable for creating the new jobs.

Impacts

One criterion for assessing these programmes is their effectiveness in promoting hiring which would not otherwise have taken place if no subsidy had been available. There may also be a "substitution effect" whereby the subsidy unduly skews selection in favour of workers benefiting from a subsidy. Although econometric analyses of a number of programmes have yielded differing results, the overall conclusion has been that the accumulated effect of wasted expenditure and substitution has been such that the net effect of the programmes in terms of job creation has been rather limited. A review of empirical studies of these programmes in the developed countries conducted by Marx (2001) estimated the net impact at around 10 per cent. OECD studies have reached similar conclusions (Martin, 2000).

Nevertheless these results call for some comment. In general, the studies do not take into account the situation with regard to growth in the economy and in the labour market in which the programmes are implemented; this, as already indicated, is crucial. In addition, the possibility of obtaining a subsidy prompts many companies to anticipate hiring which would otherwise take place at a later date. Even if the same jobs would have been created eventually anyway, creating them sooner than would otherwise have occurred is in itself a net positive benefit.

Even if the net effect of subsidies in terms of job creation may be limited, they will help to bring about greater fairness if they are aimed at workers in disadvantaged groups and effectively help them to improve their chances of finding productive employment. For that reason, while subsidies may, in periods of recovery, be aimed at integrating broad categories of unemployed workers (the unskilled and low-paid) and boosting job creation, once unemployment has fallen it may be preferable to redirect the subsidies towards more restricted categories of worker (the long-term unemployed, for example). The studies also show that when subsidies are combined with training and vocational guidance, they improve the long-term employment prospects of people in the vulnerable groups. In the case of Germany, for example, the targeted subsidy programme substantially improves the probability of workers still being employed 20 months after leaving the scheme.

In the United States, a programme to stimulate job creation in 1977–78 using tax credits successfully boosted job creation in the private sector. The incentive payment was equivalent to an annual subsidy of $7,000 in today’s terms, and helped small and medium-sized enterprises in particular, as it was conditional on a maximum of 48 new workers being hired by each beneficiary enterprise. The proposal for tax credits currently being put forward by the Economic Policy Institute is based on the same idea. This is a temporary subsidy for two years and is aimed at all economic sectors, with a greater incentive payment in the first year than in the second; this reflects the intention to anticipate new hiring on the basis of the number of workers on the payroll in the same quarter of the previous year (to avoid the seasonal fluctuations to which some activities are prone).

At the beginning of 2009, Ireland introduced an employment subsidy for enterprises in sectors experiencing difficulties (manufacturing and exports), which are required to preserve existing jobs. The subsidy can be up to €9,100 per worker over a period of 15 months. Payments are progressively reduced from €200 a week in the first six months to €50 a week by the end of the scheme. In its initial phase it is expected that the scheme will create about 7,500 new jobs and preserve 35,000 existing jobs. In a second round, the policy will be extended to a broader range of economic sectors.

In the case of developing countries, the potential impact of such programmes in providing incentives to formalize unregistered jobs should not be underestimated. Although hiring subsidies would not in this case be generating new jobs, they would introduce some regulation into informal employment situations while recovering a portion of the costs involved through subsequent social security contributions. For example, Argentina in 2009 implemented a programme for regularizing unregistered jobs and promoting registered employment. This was done by reducing employers’ social security contributions by 50 per cent in the first 12 months of the scheme and by 25 per cent in the 12 months thereafter. In the context of the crisis, the programme led to more than 300,000 unregistered workers being registered.

In some cases, subsidies have also been seen as a factor that can facilitate the process of staff selection. In order to accelerate the generation of jobs once the Asian crisis had passed, Chile introduced a hiring subsidy programme intended to help unskilled and low-paid workers, priority being given to heads of household. The subsidy consisted of a fixed amount equivalent to almost 40 per cent of the minimum wage, payable for a period of four months. The programme included a further fixed amount for training. In practice, many enterprises that took advantage of the subsidy retained the higher-performing workers once the subsidy had ended and laid off the rest.

Gearing subsidies policy to the economic cycle

Any discussion of subsidies as an incentive to employment must take account of the prevailing phase of the economic cycle in order to ensure that the most appropriate policy is implemented (see table 11.1).

Job retention policies have shown themselves to be very effective in times of crisis and recession. Countries with stable programmes of this kind have shown they can respond automatically in a counter-cyclical way, as there are more job applications in times of crisis and fewer in boom times. In such cases most of the workers who benefit from the programmes are skilled and represent valuable human capital which enterprises are reluctant to lose. Countries which have such programmes for dealing with financial crises are showing that they can limit growth in unemployment.

Table 11.1. Subsidies policy in relation to the economic cycle

Subsidies policy	Phase in the economic cycle	Beneficiaries
Job retention	Recession	Industries with skilled workers
Hiring subsidies	Recovery	Unskilled and low-paid workers
Targeted subsidies	Growth	Vulnerable unskilled workers

Hiring subsidies appear to be more effective when used during periods of economic recovery. At such times they can provide an incentive for enterprises with better prospects to anticipate hiring which, without a subsidy, would take place at a later date. An important aspect of this is the fact that the programmes in question subsidize only the net number of new jobs created and take account of the cyclical fluctuations in employment in certain activities. Given that one objective of such programmes is to enable enterprises to anticipate hiring that would, in the absence of a subsidy, only have taken place at a later date, the incentive payments should normally be higher in the initial period of the programme and reduced thereafter.

In the first phase of recovery, these programmes in general are fairly broad in coverage. As recovery becomes more robust and new jobs are created, subsidy programmes should, in the interests of fairness, be redirected towards the more disadvantaged.

12. Infrastructure spending

Core findings

- Counter-cyclical public spending in infrastructure is an effective tool to create jobs. With weak demand in private-sector markets, the government serves as employer of last resort in an effort to sustain both jobs and aggregate demand.
- Investments in infrastructure are often both in economic sectors (improving transportation in particular, including roads, railways and waterways) and social sectors (education, water and sewerage, and so on). This both lays the foundation for long-term development and deals with immediate social needs.
- Bringing forward planned infrastructure investments or improving the efficiency of implementation of works budgeted in public investment programmes are common features of fiscal stimulus packages and are very useful, because plans have often already been approved and can be rapidly mobilized.
- Wherever feasible, decentralized public investment should be favoured. Advantages of local investments (higher job creation, greater ownership, more rapidly boosting local economy) are particularly relevant in times of crisis.
- Because many infrastructure projects in low- and medium-income countries are co-financed by International financial institutions, these institutions should make sure that their regulations allow for an increase in labour content in infrastructure development.
- It is of crucial importance to assess the overall labour outcome of these investments in terms of direct, indirect and induced employment, not only to assess their short-term effects but also the long-term impact on growth and its distributional effects.

Counter-cyclical public spending in infrastructure is an effective tool to create jobs. With weak demand in private-sector markets, the government serves as employer of last resort in an effort to sustain both jobs and aggregate demand. According to the World Bank Group, infrastructure spending announced for 2009 represented on average 64 per cent of the total stimulus packages in emerging market economies and 22 per cent of the total stimulus in high-income economies[1]. An ILO survey of employment and social protection measures taken by 54 countries confirmed the importance of infrastructure in fiscal stimulus packages: 87 per cent of the countries allocated additional fiscal spending on infrastructure, one-third of those having included a specific employment component, often with targets for disadvantaged groups (ILO, 2009a).

In terms of employment, a theoretical model-based assessment of the impact of infrastructure spending on employment concluded that $1 billion spent on large projects generates around 28,000 jobs, both directly and indirectly in roughly equal proportions, in advanced economies. Infrastructure expenditure in developing countries has a substantially greater employment impact: $1 billion spent in Latin America can yield upward of 200,000 direct jobs; spending the same on labour-intensive rural projects can yield up to 500,000 direct jobs. However, as shown by some recent case studies, these rough estimates should be taken with a lot of caution. Although it is difficult to obtain reliable data, fiscal stimulus packages for selected countries are analysed below, in an attempt to answer the following questions:

– How much of the fiscal stimulus package was actually spent in 2009 on infrastructure and how many jobs were created?

– What measures were taken to guarantee timely implementation?

– How well targeted was this part of the fiscal stimulus package?

[1] See Primo Braga. 2009. *The Financial Crisis and its Implications for Infrastructure Investments.* Available at http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1234469721549/0.2_Infrastructure_Crisis.pdf

Level of infrastructure spending and impact on employment

In the United States, infrastructure expenditures constitute only a small portion of the total potential fiscal stimulus from the American Recovery and Reinvestment Act. Grants by the federal government to state and local governments for infrastructure investments are estimated to be $44 billion, or 5.6 per cent of the projected total budgetary cost over the period 2009–19 (Congressional Budget Office, 2009a).

Infrastructure expenditures incurred up to 30 September 2009 amounted to $4.44 billion (2.6 per cent of the total fiscal stimulus during the period). The overwhelming bulk of the infrastructure expenditures were aimed at improving the transportation system of the country. They are mainly devoted to refurbishing selected areas in the vast network of roads and, to a lesser extent, to improve and extend the public transit systems in urban areas.

It is estimated that about 59,300 new jobs could have been created, either directly or indirectly. Construction is the biggest contributor (56 per cent of the total new employment), followed by transit and ground passenger transport (38 per cent). The estimates imply that a billion dollar of additional infrastructure expenditures would have created around 13,350 new jobs, directly and indirectly. The new employment was distributed heavily in favour of construction (35 per cent), transit and ground passenger transportation (20 per cent), and local government passenger transit (11 per cent). Compared to the loss in employment experienced by the three industries during the current recession, the likely gains appear to be quite modest in construction but more impressive in transit. The unemployment rates in the occupational groups that are most likely to get the new jobs are still quite high compared to the national unemployment rate.

As compared to the existing pattern of employment, additional employment resulting from the infrastructure investments would tend to favour men over women, whites over nonwhites, those without college degrees over college graduates, and prime-age workers over workers of other ages. These findings are driven by the demographic characteristics of the workforce in construction and transit (for example, the workforce is predominantly made by men) and the employable pool from which the new workers emerge (for example, it is largely populated by workers with low educational levels). Since the recession began in December 2007, 68 per cent of overall employment reductions have been among men, while 70 per cent have been among whites. Meanwhile, there have been net gains in total employment among college graduates.

Given the scale of infrastructure expenditures in the American Recovery and Reinvestment Act, their potential to alleviate the current unemployment problem in the United States is quite limited. To address this, the strategic focus of policy needs to shift from the amount of money spent to the number of jobs created relative to the employable pool of workers, and to the amount of public services provided relative to existing needs. A two-pronged strategy aimed at providing immediate short-run relief from unemployment and long-run job creation aimed at meeting the structural infrastructure deficits need to be developed under the leadership of the federal government. Long-run goals cannot be met without developing national, state and regional infrastructure plans that, in their totality, form a coherent national vision including the potential to create employment.

Compared to the historical record, the current federal stimulus programme appears to be puny in terms of its employment potential. Bold action by the federal government to directly create jobs was critical to reducing mass unemployment during the Great Depression of the 1930s. Employment was created under a variety of programmes such as the Civilian Conservation Corps, National Youth Administration, Civil Works Administration, Emergency Work-Relief Programme of the Federal Emergency Relief Administration, and the Works Progress Administration. It is estimated that the employment created directly by the federal government alone, laving aside the indirect effects of the associated expenditures, in its various programmes averaged about 2.24 million (43.2 per cent of the unemployed) during the period 1933 to 1943 (Darby, 1976). The overwhelming proportion of the employment was in construction, and a large number of roads, public buildings, bridges and tunnels built in the 1930s can be found in many parts of the United States.

Indonesia launched a fiscal stimulus package worth IDR73.3 trillion ($7.6 billion) aimed at boosting aggregate demand. The package includes up to IDR12.2 trillion ($1.28 billion) for infrastructure development, including the improvement of highways, ports, bridges and irrigation systems, through which the Government estimates that over 1 million workers will be gaining work. At the end of October 2009, approximately half of the stimulus package had been absorbed, and over 750,000 additional jobs had been created in the Indonesian economy (see table 12.1). By December 2009, the Government estimates that 90 per cent of the stimulus package will have been absorbed and that it will surpass its job creation targets.

Table 12.1. Estimates of job creation from the 2009 stimulus package, Indonesia

Government Ministry/Department	Budget allocation		Number of jobs	
	IDR billion	% of total	Planned	Actual (10/2009)
Public Works	6 601	54.1	944 170	675 160
– Centre	3 617	29.6	259 375	148 640
– Regional	2 984	24.5	684 795	526 520
Transport	2 198	18.0	45 962	31 403
Energy and Mineral Resources	500	4.1	N/A	8 435
Public Housing	400	3.3	N/A	5 000
Maritime Affairs and Fishery	100	0.8	12 450	6 943
Labour and transmigration	300	2.5	N/A	19 094
Health	500	4.1	400	423
Trade	335	2.7	5,149	4 746
Cooperatives and SMEs	100	0.8	5,720	2 976
Other departments	1 165	9.5	N/A	N/A
Total	**12 199**	**100.0**	**1 013 851**	**754 180**

Source: Coordinating Ministry of Economic Affairs (2009).

The budget allocation from the 2009 stimulus package includes IDR6.6 trillion for the Department of Public Works, mainly for water resource development, roads and sanitation systems. Water resource development alone is to receive IDR1.5 trillion and is responsible for creating 250,000 jobs. At the regional level, the Department of Public Works is expected to create close to 70 per cent of the employment opportunities funded by the stimulus package. Progress in job creation targets has been on target, with over half a million new jobs as of October 2009.

In OECD countries, the resumption of growth has been helped to a considerable extent by the feed-through of lagged effects from past monetary policy easing, the gradual normalization of conditions in financial markets, and ongoing fiscal stimulus. Some countries are benefiting from stronger government final consumption and the advent of new public infrastructure projects. In others, private demand is being boosted, and brought forward, by assorted measures, such as car scrappage incentive schemes, direct lump-sum income payments to households, temporary reductions in indirect taxes, and housing tax credits.

Some components of public spending contribute to economic growth, in particular the development and maintenance of useful public infrastructure, and spending on an active labour market policy that can contribute to improved labour market performance. Such forms of spending should be sheltered from future spending cuts, unless ways can be found to maintain services with reduced costs. Investments in public infrastructure should enhance long-term growth prospects, as well as offering short-term relief.

Latin American and the Caribbean countries are estimated to have increased the allocations for public investment by an average of 20 per cent. Importantly, certain countries are attempting to prioritize those investments that have the greatest effect on job creation or to replace machinery with labour in a given project.

In 2007, Brazil had started to implement the Growth Acceleration Programme (PAC), which includes a large public investment component. One of the responses to the crisis was to allocate more resources to the programme, by bringing forward to 2009 certain investments scheduled for 2010–11.

In Argentina, a “plan of public works for all Argentineans” provides for an increase in resources for infrastructure works in response to the crisis. The 2009 budget estimated outlays of $8.5 billion, to which $6.2 billion have been added. The National Strategic Investment Plan for Development includes a classification of works where the management system varies in accordance with their size and type, thus allowing small- and medium-scale works to be executed in a decentralized way.

Measures taken to guarantee timely implementation

Speedy implementation is important because an economy in a recession can deteriorate quickly. The faster that government can act to create jobs and boost aggregate demand, the better. The pace at which jobs can be created depends largely on type of projects (new large construction versus small or maintenance projects), institutional capacities, procurement procedures and earlier experience in those areas. Nonetheless, in the short term it is much easier to allocate additional resources than execute the corresponding works.

In Brazil, execution of public investment in the first quarter of 2009 was 20 per cent higher than in the first quarter of 2008. Similarly, although execution remains relatively low in Peru compared with resources budgeted, the volume of public investment executed in that country between January and April was 72 per cent higher than in the same period of 2008.

In Indonesia, to ensure timely rollout of the stimulus package and to benefit from existing administrative structures, many of the current or ongoing public works schemes were given additional funding to allow them to be scaled up. In addition, new programmes funded through the fiscal stimulus package followed standard administrative procedures, and much of the funding was broken into small grants that went to small local contractors and local labourers. To enhance the employment outcomes of the infrastructure component of the stimulus package, the Government of Indonesia has advocated for methods that use local contractors, local labour and local resources.

Targeting

Programmes based on increasing public investment, and emergency employment programmes all face targeting challenges in reaching the intended beneficiaries. Whereas in boom times the public sector's efforts use categorical targeting mechanisms by focusing on population groups with difficulties in finding a job (such as young people and women with certain educational and socio-economic backgrounds), in a crisis public support must target a much wider section of the population. The aim is generally to prioritize the employment situation of male and female heads of household at risk. There is also a need for geographical targeting, to ensure that programmes reach those areas most affected by the crisis.

In traditional public investment programmes, the targeting options are often limited, as most works tend to be executed by private enterprises, and their objectives can only be influenced to a certain degree through the procurement system. Therefore, emergency employment programmes, for which special targeting mechanisms can be applied, may play an important complementary role.

In regular maintenance activities, women may take a larger share of job opportunities. For instance, many women work for the road maintenance micro-enterprises operating in several of the Latin American countries (Ecuador, Honduras, Paraguay, Peru and the Plurinational State of Bolivia).

In any event, simply prioritizing the execution of investment projects in the areas most affected by the crisis constitutes an important means of targeting, and subcontracting small works to labour contractors allows for the targeting of special groups, such as women.

Impact of infrastructure spending

The above country assessments and the overall situation of OECD and Latin American countries confirm the importance of infrastructure investment as a counter-cyclical measure to sustain both jobs and aggregate demand.

Investments in infrastructure are often both in economic sectors (improving transportation in particular, including roads, railways and waterways) and social sectors (education, water and sewerage, and so on). This both lays the foundation for long-term development and deals with immediate social needs. The composition of infrastructure investments depends a lot on the immediate needs of the country.

Improving accessibility through maintenance and rehabilitation of roads is an efficient recipe, as the needs always exceed regular budget allocations even in normal times. In addition, a significant part of these works can be executed through small- or medium-scale contractors or micro-enterprises.

Bringing forward planned infrastructure investments or improving the efficiency of implementation of works budgeted in public investment programmes are common features of fiscal stimulus packages and are very useful, because plans have often already been approved and can be rapidly mobilized.

Increasing public investment as a means of job creation during a crisis involves a lag inherent in the cycle of identifying, formulating and approving projects, as well as the subsequent tendering and execution. In many countries, procedures (procurement procedures and others) have been adjusted to facilitate the rapid rollout of stimulus measures. Part of additional public investment can be executed in a decentralized way, which is often more effective than centrally planned and executed projects in terms of timely response and more jobs.

The number of jobs really created by fiscal stimulus packages seems to be in line with those forecasts. This finding should, however, be taken cautiously because the definition of a job differs from one county to another. There is no uniform way to account for the direct employment created under a fiscal stimulus package, and most countries face problems in collecting reliable data.

Moving ahead

Infrastructure projects should be launched both to reduce the deterioration of public capital stock (maintenance and rehabilitation projects) and to help build countries up for durable economic growth and permanent employment. It is of crucial importance to assess the overall labour outcome of these investments in terms of direct, indirect and induced employment, not only to assess their short-term effects but also the longer-term impact on growth and its distributional effects.

Wherever feasible, decentralized public investment should be favoured. Advantages of local investments are particularly relevant in times of crisis. First, decentralized decision-making processes usually make the local population more committed to the works, and the proper use and maintenance thereof. Second, the works undertaken are usually on a smaller scale and involve less expensive tenders, which means there is less need for heavy machinery, and hence greater job creation for the amount invested. Third, decentralized tenders are more likely to be executed by local firms using workers from the area, and this will boost the local economy and recovery.

Because many infrastructure projects in low- and medium-income countries are co-financed by international financial institutions, these institutions should make sure that their regulations allow for an increase in labour content in infrastructure development. Readjusting the design, procurement and contracting modalities of such projects could have a major effect on employment.

13. Public works programmes

Core findings

- Public investments in infrastructure are undoubtedly a powerful tool for creating jobs and boosting the economy in times of crisis. Public works programmes complement this, and their advantages include the fact that a higher percentage of resources can be spent on labour and different targeting mechanisms can be applied.
- Proper geographical targeting allows necessary resources to be channelled to the areas most affected. Combined with categorical targeting (focusing on unemployed youth and women) and appropriate wage setting, this often gives the best outcome in reaching the most needy groups of society.
- While emergency public works programmes have been used widely and for a long time, there has recently been significant innovation in the area of public employment. The range of forms of work undertaken has changed. Public works programmes have been strongly associated with infrastructure and construction, but this has been expanded with good examples of work in the social sector, environmental services, and multi-sectoral community-driven programmes.
- One of the main lessons learnt is that public employment programmes should be established when there is sufficient fiscal space, enabling governments to scale them up in a timely and targeted manner in response to a crisis. Secondly, a basic level of capacity and an institutional framework should be in place to support public employment programmes, which will shrink and expand as economic conditions change, shifting from a short-term perspective in the case of emergency public works, towards the medium- to long-term perspective of public employment guarantee schemes.

As employment provided by the private sector has shrunk dramatically, adding to an already growing employment challenge, it is increasingly recognized that the State needs to play a much more active role in generating employment. This not only implies looking at overall employment policy and strategy, and at its role in creating an enabling environment for employment creation by the private sector, but also at the role of the State in the direct creation of employment – beyond the needs of the public sector.

Public investments in infrastructure are undoubtedly a powerful tool for creating jobs and boosting the economy in times of crisis (see Chapter 12). In addition, targeted public employment programmes complement this, and their advantages include the fact that a higher percentage of resources can be spent on labour. These types of responses to the crisis can complement each other to ensure appropriate targeting, and especially equitable access so that both men and women benefit.

The main features of some large-scale public employment programmes that were established before the onset of the financial crisis are described below, including the National Rural Employment Guarantee Scheme (NREGS) in India and the Expanded Public Works Programme (EPWP) in South Africa. The evolution of public employment programmes in Latin America and the Caribbean is also analysed.

All these programmes have been set up in the belief that they can effectively contribute on the demand side of the labour market as an active labour market instrument. Through the analysis of public employment programmes in selected countries, an attempt is made to answer the following basic questions:

– How were already existing public employment programmes adjusted to cope with new crises?

– How many jobs were actually created (in comparison with the number planned) and at what cost?

– What are the main challenges facing these programmes?

– How well targeted was this part of fiscal stimulus packages?

– What are the new developments in public employment programmes?

Many public employment programmes were designed in 2009, and new ones or extensions of existing ones are being prepared, hence the need to draw lessons from previous and ongoing public employment programmes to optimize the labour market outcomes of such programmes.

Successful experiences

Expanded Public Works Programme in South Africa

The Expanded Public Works Programme (EPWP) in South Africa uses public funds to boost job creation and skills development nationwide, as an integral part of the fight against poverty. In the first phase, 2004–08, it created one million job opportunities in the provision of infrastructure for basic services, social services (child care, and home- and community-based care), environmental rehabilitation, and conservation and management. One important feature of the EPWP is that there were no separate budgets for any of these sectors. Funding for the programmes was consistently channelled through the existing budget mechanisms. Although the first phase of the EPWP was successful, the job opportunities offered were of shorter duration than anticipated. The second phase of the EPWP, launched in April 2009, aims at creating more jobs and training opportunities. Under the second phase, about 500,000 job opportunities were created by the end of 2009. It is expected that every South African rand 1 million (ZAR) ($135,000) invested will create at least five full-time jobs or 15 short-time work opportunities per annum.

One of the innovations in the second phase of the EPWP is the introduction of a wage incentive for different government bodies to encourage more job creation. The EPWP wage incentive will be structured as an intergovernmental fiscal incentive that will allow all provinces and municipalities to claim back a portion of the wage cost of employment created for the EPWP target group. The national government will provide ZAR50 ($6.75) for every person-day of work created by the responsible technical or local implementing agencies or government units, provided that proof is provided that workers were employed and that the actual wage paid was between ZAR50 and ZAR100 per day.

The main challenge is to mobilize all the local governments (provincial and municipal) to commit to meeting their respective employment targets. The target group comprises all unemployed people willing to work at the wage rate offered. It is anticipated that the second phase of the EPWP will create 4.5 million job opportunities of 100 days duration, including opportunities to acquire skills. The wage incentive of the second phase will cost ZAR12.5 billion over the next five years (around $1.7 billion).

National Rural Employment Guarantee Scheme in India

The Government of India launched the National Rural Employment Guarantee Act on 2 February 2006. The Act guarantees 100 days of employment in every financial year to adult members of any rural household willing to do unskilled manual work at the statutory wage. The aim is to improve the purchasing power of rural people, by providing primarily semi-skilled or unskilled work to people living below the poverty line in rural India. The target group thus comprises one adult member of any rural household willing to do unskilled manual work in the context of public works, and mainly concerns the poorer sections of the population, such as landless labourers and marginal farmers.

Expenditure on NREGS has increased from 88.23 billion Indian rupees (INR) (around $2 billion) in 2006–07 to INR269.8 billion (around $5.6 billion) in 2008–09. Provisional expenditure for 2009–10 is INR377.8 billion (around $8.1 billion).

The works carried out so far under the National Rural Employment Guarantee Scheme (NREGS) suggest that the basis is being laid for raising agricultural productivity in the future. Water conservation, land development and drought proofing together account for nearly four-fifths of all works; road connectivity constitutes another 16 per cent.

The programme has expanded quickly: in 2006–07, 200 of the poorest districts were covered of the total of 619 districts (907 million person-days of employment generated, benefiting 21 million households), while in 2008–09, all districts were included (2,163 million person-days of employment generated, benefiting 45 million households). Five months into the financial year 2009–10, 1,765 million person-days of employment had already been generated, benefiting 39 million households, a remarkable achievement. Women constituted 49.5 per cent of all persons working in 2009–10, which is well above the original 30 per cent target.

The above figures show that such a programme can easily act as a buffer during crises. In fact, because of the severe drought in 2009, the government extended the scope of employment from 100 to 200 days per year in 272 drought affected districts.

The main challenge remains the implementation capacity at village level. Given the massive scale of the programme, it is important to increase such capacity by appointing and training more functionaries.

Public employment programmes in Latin America and the Caribbean

Although public employment programmes have been used less during this crisis than in other crises that occurred in Latin America and the Caribbean over the past few decades, they do play an important role in many countries.

For instance, Mexico had a temporary employment programme even before the crisis, and this was modified and expanded in the light of the current climate. The changes included extending the territorial coverage (to include urban areas) and increasing the volume of resources invested and the number of places covered. Between January and December 2009, 729,616 men and women benefited from the programme. In most cases, the project duration is shorter than the maximum six months allowed. The operating rules of the programme set the percentage of the budget used for labour at 65 per cent, while 28 per cent is allocated for machinery and materials, and 7 per cent for administration and assessment. This ensures a balance between the need to channel a high percentage into the workforce to make an impact on the labour market during the crisis, and the use of materials and equipment to ensure that high-quality works are produced.

Chile has also opted for direct job creation, and has scaled up programmes that existed before the crisis. In June 2009, 41,605 people were participating in direct employment programmes, compared with 25,222 in the same month of 2008. The most important programme, Investment in the Community, accounts for around half of the beneficiaries.

Targeting

Programmes to increase public employment face challenges in reaching the intended beneficiaries. Different targeting mechanisms can be applied alone or combined, such as geographical, categorical and self-targeting.

In Chile, the Unemployment Contingency Programme includes a geographical targeting mechanism, so that when an area’s unemployment rate exceeds 10 per cent, resources from the fund are automatically allocated to finance additional places on employment programmes. In addition, the Labour Department has developed a rapid monitoring system that assesses the labour situation in small and medium-sized communes for which the National Employment Survey does not provide reliable unemployment data.

Geographical targeting is the approach most frequently used, as it allows necessary resources to be channelled to the areas most affected. Combined with categorical targeting (focusing on youth, women or other special needs groups), this often gives the best outcome.

There is a debate about self-targeting, concerning the amount of the benefit paid. Self-targeting by means of offering conditions and remuneration that are less attractive for people already working elsewhere has played an essential role. This would also limit the risk of distorting the labour market. Self-targeting appears particularly attractive in countries with weak institutional capacity to identify beneficiaries. However, self-targeting may drive wages downwards and result in remuneration below what people need to survive.

Many women participate in public employment programmes, especially when work is part-time and pay is relatively low. In Chile, for example, around 80 per cent of the beneficiaries of the direct emergency employment creation programme Investment in the Community are women. That rate is much higher than the rate of female participation in the Chilean workforce as a whole.

Youth-targeted employment programmes

The employment prospects of young people are highly sensitive to the current recession. Young people, as new jobseekers with little or no work experience, are the least likely to be offered jobs. Even young people in good jobs fear they may lose them, if the common practice of “last in, first out” is followed.

There is considerable scope for youth-oriented initiatives, connected directly to the new opportunities for employment created by the stimulus packages. National strategies to improve the employment prospects of young people need to be linked to the demand side of the labour market. One way to do this is to include in the specifications of public tenders for the new infrastructure projects a focus on young people’s access to employment and skills transfer, and to invite enterprises to propose youth workforce development strategies.

Lessons learned

Despite some inherent weaknesses, direct employment programmes nonetheless complement the increase in investment through regular public investment channels and help countries to tackle the consequences of the crisis for the labour market. Regular investments and public employment programmes are mutually supportive.

While emergency public works programmes have been used widely and for a long time, there has been significant innovation in the area of public employment in recent years. The range of forms of work undertaken has changed. Public works programmes have been strongly associated with infrastructure and construction, but this has been expanded with good examples of work in the social sector, environmental services, and multi-sectoral community-driven programmes.

Most well known and large-scale public employment programmes have benefited from experience gained over many years from previous similar schemes in their respective countries. New countries embarking on public employment programmes in response to the financial crisis should not be discouraged if the results are not immediately what they expected.

Ensuring satisfactory and balanced performance on the twin objectives of social protection and asset creation is challenging, especially because programmes are often implemented in contexts in which institutions and technical capacities are weak. Setting up and operating long-term public works programmes, with or without a guarantee of employment, requires a combination of adequate resources, appropriate management structures, effective planning and administrative processes, and adequate technical inputs.

As the employment crisis continues more countries will consider implementing programmes that lead to direct employment creation. It is important to learn from other programmes, and adjust the programme design to the specific conditions encountered in the country concerned. From an analysis of experience to date, it seems clear that:

– Public employment programmes should be established when there is sufficient fiscal space, enabling governments to scale them up in a timely and targeted manner in response to a crisis.

– A basic level of capacity and an institutional framework should be in place to support public employment programmes, which will shrink and expand as economic conditions change, shifting from a short-term perspective in the case of emergency public works, towards the medium- to long-term perspective of public employment guarantee schemes.

– Formats and data should be harmonized, and proper monitoring and evaluation systems should be established to qualify and quantify the beneficiaries, so as to know whether they fit the profile of the intended target population.

– Public employment programmes should not subvert established employment norms, and any special provisions should be designed to create decent employment and abide by basic labour legislation.

– In order to avoid confusion in implementation, public employment programmes should have a clear and well communicated objective, and the different components of the programme should all support the main objective.

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Appendix I

Work-time adjustments as crisis response measures in selected G20 countries

Country	No. of participating workers	No. of participating enterprises/ sectors	Wage supplements	Links to training	Time limits	Financial outlays
Canada [1]						
Work-sharing programme	■ As of Sep. 2009, more than 165,104 employees compared to figures showing that 27,000 workers were participating in work-sharing in January 2009.	■ 5,827 company work-sharing agreements were in place as of mid-Sept. 2009. ■ Work units for the programme do not have to include all employees in a company, but should include all employees who perform similar functions. Work units must have a minimum of two workers.	■ Paid directly to the employee. ■ The benefits payable are based on the employee's normal average weekly earnings, as calculated at the start of the agreement. ■ The work-sharing benefit payable is based on the reduction in normal weekly earnings and the normal weekly employment insurance (EI) benefit. ■ The basic benefit rate is 55 per cent of a worker's average insured earnings up to a yearly maximum insurable amount of $42,300. This means the maximum payment through EI will be $447 per week. ■ Employers are required to continue to cover employee benefits such as health insurance and cannot reduce the hourly wages of employees.	■ Employers and employees encouraged to look for opportunities to include formal or informal training activities into the scheduled work-sharing days. ■ The training activities can focus on upgrading the skills of employees to meet forecasted skill needs to support the employers recovery plans; to prepare workers for upward mobility within the company as business returns to normal; or in the worst case scenario, to prepare the workers for jobs outside the company should the downward trend in the business continue.	■ The duration of a work-sharing programme must be a minimum of six weeks. ■ Normally, the maximum duration of work-sharing agreement will be 26 weeks. In exceptional circumstances there is a possibility of up to 12 weeks extension to this time frame. ■ As part of Canada's Economic Action Plan, the Government has extended work-sharing agreements by 14 weeks to a maximum of 52 weeks (1 February 2009). This extension is in effect until 3 April 2010.	■ Funding: Social security (the extension of the work-sharing period is being paid by central budget). ■ It is estimated that the total cost for the new work-sharing criteria (in effect until 3 April 2010) will be approximately $200 million over two years (or $100 million per year).

Country	No. of participating workers	No. of participating enterprises/ sectors	Wage supplements	Links to training	Time limits	Financial outlays
France						
Chômage partiel	■ During the last quarter of 2008, close to 146,000 employees were participating in the *chômage partiel* scheme, which was three times more than during the previous quarter. ■ In the second trimester 2009, 319,000 persons were participating in this scheme. The Ministry of Labour, Employment and Vocational Training forecasted 500,000–600,000 people being partially unemployed in 2009. ■ All employees are included: part-time workers, temporary agency workers and those on fixed-term employment contracts, if their employer has a decrease in sales of at least 50 per cent in case of short-time work.	■ Particularly vulnerable industries, such as the textile, garment, and auto industries. ■ Some companies – such as the car manufacturers PSA Peugeot Citroën and Renault – have rolled out 100 per cent wage allowance schemes, funded by a range of sources, including co-funding by management in the case of Renault.	■ Subsidy paid to the employer. The benefit is then paid by the employer along with regular wages. The employer does not have to pay any contribution to the social security system for their contribution for the short-work remuneration wages. ■ The employee receives for hours not worked at least 75 per cent of their gross wages (which is about 90 per cent of net wages). ■ Employers receive a fixed subsidy per employee work-hour reduced from the French national Government. This allowance is €3.84 per hour for enterprises with one to 250 employees and €3.33 for those with more than 250 employees. ■ The company will receive an additional allowance from the State for the first 50 hours (€1.90 an hour) and then from l'Unédic up to the limit for partial unemployment hours (€3.90). This allowance supplements the special partial unemployment allowance.	■ The employer is required to offer workers an individual meeting to discuss training options or employment reviews during the period of partial unemployment. ■ Increased access to training for short-time workers with various combination of training schemes and partial unemployment period or a combination of multiple jobs with partial unemployment period (to maintain an adequate level of salary for workers).	■ The partial unemployment agreement for employees who are working fewer than the legal number of hours over a long period will last for a minimum period of 3 months and a maximum period of 12 months (since March 2009). ■ Maximum duration: 800 hours per employee in most enterprises (1,000 hours in some particularly vulnerable industries, such as the textile, garment, and auto industries). ■ Companies must maintain the positions of the affected employees for twice the length of time mentioned in the partial unemployment agreement.	■ **Funding**: central budget. ■ According to the amendments effective from 2009, the maximum budget to accommodate the provisions of the programme was €150 million in 2009.

Country	No. of participating workers	No. of participating enterprises/ sectors	Wage supplements	Links to training	Time limits	Financial outlays
Germany						
Kurzarbeit	■ In May 2009 the programme participation reached a preliminary maximum of 1.52 million employees. ■ All types of employees are included: temporary agency workers, and workers on a fixed-term employment contract, if their employer has a decrease in earnings of at least 10 per cent.	■ By May 2009 the programme had been introduced in more than 60,000 establishments. ■ Around 200,000 (18 per cent) of the employees receiving short-time work allowances are in the car [automotive] industry, with over 150,000 (14 per cent) in engineering and another 150,000 (13 per cent) in other metal-based manufacturing.	■ Paid to the employer via the employee: The German Government fully reimburses the employer for those hours not worked. ■ Wage supplements available for all workers covered by the social security system with a loss of at least 10 per cent of their gross monthly earnings. ■ For those hours that employees are not working, they receive payments (*Kurzarbeitergeld*) equal to 67 per cent of the normal wage one dependent child and 60 per cent for those without dependent children. ■ In addition, the German Federal Employment Agency covers half of their social security contributions for the first six months of *Kurzarbeit* and 100 per cent thereafter. ■ The Federal Employment Agency will pay the employers' social insurance contributions for 2009 and 2010.	■ Reduction of 50 per cent in employer social contributions for companies with short-time workers in training. ■ Companies that offer their employees training opportunities during the short-time working period receive additional financial support. ■ This additional support ranges from full funding (and support for transport and childcare costs) for training that will lead to a recognized qualification for workers who do not already have one, to partial funding (of between 25 and 80 per cent) of training for those who are already qualified.	■ Short-time work programme will be available until the end of 2010. ■ For all applications that companies make before the end of 2009, the maximum period of participation in the programme (in respect of an individual application) is 24 months. ■ The period of time for which employees can receive short-time work allowances is normally 6 months regular terms, or 24 months (extended terms).	■ **Funding**: Social security. The fund used to pay *Kurzarbeitergeld* is also the source of some unemployment benefit payments. Some support for training is also paid for from the European Social Fund. ■ The German Government has budgeted €5.1 billion in 2009 on its short-time work programme, which currently replaces some of the lost income of over 1.4 million workers.

Country	No. of participating workers	No. of participating enterprises/ sectors	Wage supplements	Links to training	Time limits	Financial outlays
Japan						
"Japanese-style" of work-sharing Agreement by Government, workers and employers for the attainment of employment stability and job creation	■ Data not available.	■ Factories of such major Japanese companies as Toyota, Nissan, Hitachi, and Fujitisu have reduced their production and capacity. This has affected their subcontractors, with lowered wages and increased holidays spreading widely throughout the manufacturing sector.	■ Employment Adjustment Subsidy paid to the employer to subsidize maintenance of employment as reimbursement: 80 per cent for small firms, and 66 per cent for large firms. ■ In addition, in 2009 the Japanese Government introduced the Subsidy for Employment Maintenance through Overtime Reduction Programme. This Programme provides direct payments to companies which: (1) reach agreement with workers' organizations on the reduction of overtime and develop an overtime reduction plan; and (2) maintain the employment of fixed-term and temporary agency employees working in the firm over a one-year period.	■ Training is not included as an essential element.	■ Maximum duration: 200 days in the first year, 300 days in total over three years.	■ **Funding**: Social security. ■ The Government project for the preservation of the employment dedicates 1,500 billion yen (€11.6 billion) to the objective of employment preservation.

Country	No. of participating workers	No. of participating enterprises/ sectors	Wage supplements	Links to training	Time limits	Financial outlays
Mexico						
Programme for the preservation of employment “Paros Técnicos”	■ The scheme was originally projected to assist 500,000 workers to remain employed (data on the actual number of programme participants is not available).	■ Until 1 Sep. 2009, 224 companies had been supported by *Paros Técnicos.*	■ The amount of support per bimonthly period is 110 pesos per day and per worker. ■ The specific amount is determined based upon the following factors: – the number of permanent workers affected; – the number of months in which the temporary changes in the working conditions were made; – the changes in employment and sales of the company.	■ Training is not included as an essential element.	■ The validity of the Programme was from Feb. to Sep. 2009 (it has not been extended to date). ■ The available funds could be used until Dec. 2009.	■ The Mexican Ministry of the Economy has allocated 2 billion pesos (approximately $150 million). ■ The maximum amount of support per company is 5,100 pesos (approximately $382) per worker.

Country	No. of participating workers	No. of participating enterprises/ sectors	Wage supplements	Links to training	Time limits	Financial outlays
Netherlands						
Part-time unemployment benefits (Deeltijd-WW) ■ *The temporary short-time working regulation (Werktijdverkorting or WTV) was in force from 1 Dec. 2008 to 21 Mar. 2009.* ■ *The new regulation for part-time unemployment benefits (Deeltij WW) came into force on 1 Apr. 2009 and it ended on 23 June 2009 (after the entire budget for the measure was spent).* ■ *A new, more restrictive part-time unemployment scheme was introduced on 20 July 2009.*	■ Between Dec. 2008 and 21 Mar. 2009, the Ministry received 1,029 requests for arrangements for shorter working hours, for a total of 810,339 working hours. 229 requests were refused. A total of 849 applications were granted which resulted in 761,678 working reduction hours. ■ The number of individuals on this part-time unemployment benefits rose from 3,600 in April 2009 to 10,000 in June 2009; there were a total of nearly 19,000 beneficiaries by the end of June 2009. ■ By the end of the third quarter of 2009, 36,000 Dutch employees were participating in the part-time unemployment benefits scheme.	**Sectors**: ■ Most part-time unemployment benefits are paid to workers in enterprises in the metal branch. In June, the number of benefits in this branch was 9,400, i.e. half of the total number of part-time unemployment benefits. ■ In business services and wholesale and retail trade, the number of beneficiaries was 2,600 and 2,500 respectively in June. The most substantial relative increase in June (150 per cent) was recorded in the metal branch.	■ In cases of part-time unemployment, firms pay half of the employees' salary, which is supplemented by an unemployment benefit of 70 per cent of the other half of the salary, resulting in the employee receiving 85 per cent of their former total earnings. ■ The arrangement is based on a reduction of total earnings of 15 per cent. Unions may be able to negotiate a higher percentage. ■ The amount of WW benefit: generally depends on the wage the worker was receiving in the year before he/she became unemployed. The WW benefit that he/she receives will be equal to 75 per cent of that wage for the first two months and equal to 70 per cent of that wage in subsequent months. ■ Maximum WW benefit: The amount of the WW benefit is linked to a certain maximum, namely the maximum daily wage. A maximum daily wage of €183.15 applies. ■ WW benefits are available for a minimum term of 13 weeks, and can be extended to an additional 26 weeks.	■ The scheme is accompanied by training agreements of employees during the periods that they are not working. ■ The employer is required to provide training and education for the employees concerned during the time they receive partial unemployment benefits. ■ Employees participate in training in the period of non-work. ■ Many of the 266 companies that applied for eligibility under the reduction of working hours scheme have initiated regular training programmes.	■ The part-time unemployment benefits scheme was introduced on 1 Apr. 2009, and ended on 23 June 2009, when the entire budget of €375 million had been spent. ■ A new, more restrictive part-time unemployment benefits scheme.	■ The temporary part-time unemployment scheme: Until June 2009, the allocated budget of €375 million had been spent. ■ Since 20 July 2009, employers can use the new more restrictive partial unemployment scheme. The maximum budget for the scheme has been raised from €375 to €950 million.

Country	No. of participating workers	No. of participating enterprises/ sectors	Wage supplements	Links to training	Time limits	Financial outlays
Turkey						
Short-time work and short-time work payment	■ Until July 2009, 103,234 employees have been employed on short-time working.	■ Until July 2009, the Ministry of Labour and Social Security has accepted 1,024 employer applications to participate in the programme.	■ When working hours are temporarily shortened, the short-time payment will be based on the reduced part of the wage paid by the employer. ■ For 2008 and 2009, the daily amount of short-time payment was 60 per cent of the gross earnings for the last four months, taken as a base rate for social insurance contributions. ■ The ceiling amount is 120 per cent of the minimum gross wage and the ceiling monthly amount is 799 Turkish lira.	■ Training is not included as an essential element.	■ Short-time working was originally scheduled to be applied until 30 June 2009. ■ Then, it was decided by the Ministry to extend the short-time working period by six months, expiring on 31 Dec. 2009. ■ Since the impact of the economic crisis is still showing its effects in Turkey, the short-time working period may be extended for a further six months.	■ Data not available.

Country	No. of participating workers	No. of participating enterprises/ sectors	Wage supplements	Links to training	Time limits	Financial outlays
United States						
Work-sharing programmes and short-time compensation in 17 States	■ The total number of employees who are receiving short-time compensation (STC) was 258,082 for the period from Jan.–Sep. 2009.	■ Data not available.	■ Paid directly to the employee. ■ Eligibility provisions for STC benefits vary by state, but in general employees whose normal workweeks have been reduced by at least 10 per cent are potentially eligible. ■ STC is calculated as pro-rata share of a worker's regular unemployment benefits.	■ Eligible employees may participate in an employer-sponsored training programme to enhance job skills if such programme has been approved by the State's employment security agency.	■ Currently, 26 weeks in most States that have existing work-sharing/STC programmes.	■ Total STC payments for the 17 US States that have existing work-sharing programmes were $387 million for the period from Jan.–Sep. 2009.

Notes: [1] Sources: Service Canada. (2009): "Work-Sharing 2009", at http://www.servicecanada.gc.ca/eng/work_sharing/index.shtml; Department of Finance, Canada. 2009. *Canada's Economic Action Plan: A Third Report to Canadians.* www.fin.gc.ca/report-rapport/2009-3/capc2b-eng.asp 2009-09-28. Koelz, D. "Canada. Work-sharing: An Alternative to Layoffs", unpublished ILO paper, 2009. [2] Source: Ministère du Travail, des Relations Sociales, de la Solidarité et de la Ville. "Le chômage partiel", www.travail-solidarite.gouv.fr/informations-pratiques/fiches-pratiques/chomage/chomage-partiel.html. [3] L'Unedic manages the unemployment insurance system in France. [4] Source: www.pub.arbeitsagentur.de/hst/services/statistik/200910/iiia7/kurzarbeitd.xls. In addition, an ILO working paper on the use of *Kurzarbeit* during the crisis is currently in preparation. [5] ILO (2009): "Agreement by the Government, Workers and Employers for the Attainment of Employment Stability and Job Creation" (unofficial translation of tripartite agreement) (Tokyo). [6] Galhardi, R. (2009): *Mexico: Programa para la preservación del empleo,* Notas sobre la crisis, OIT. [7] Van het Kaar, Robbert (2009): *Tackling the recession: The Netherlands*, ID: NL0907029Q, HIS, Eurofound, 13 July; ILO G20 Country Brief for the Netherlands, 2010. [8] Onaran Yüksel, M. and Pammukkale, A. (2009): *Short-Time Working under the Labour Law,* International Law Office, 8 July. [9] USDOL, Employment and Training Adminstration (2009). Short-time Compensation (STC), unpublished data, 2007–2009 Q3_1.xls. [10] Arizona, Arkansas, California, Connecticut, Florida, Iowa, Kansas, Maryland, Massachusetts, Minnesota, Missouri, New York, Oregon, Rhode Island, Texas, Vermont and Washington State. New legislation has been proposed in the Senate (S. 2831) to both expand work-sharing programmes in the 17 US States where they exist and help the other 33 States develop new programmes.

Appendix II

National public employment service (PES) responses to the global economic crisis

Country	Primary PES responses	Related programme responses (directly implemented or supported by the PES)		
		Training measures	Employment retention measures	Self-employment assistance
Argentina	■ Strengthening the PES by equipping local offices with wide connectivity access to make available the full array of labour market information ■ Jobs units for youth ■ 10 additional local offices by the end of 2009	■ Offering youth vocational guidance, and work-related training	■ Subsidizing jobs for young, lower-skilled jobseekers	■ Providing counselling and financial support to young jobseekers to start a business ■ Unemployed are entitled to use unemployment insurance (single payment) as capital assets to start a business
Australia	■ Folding seven employment services programmes into a "one stop shop" ■ Tailored assistance for jobseekers commensurate with their level of disadvantage ■ Immediate employment services to support retrenched/laid-off workers, including access to intermediation services through the Employment Pathway Fund	■ Doubling budgets for training and retraining for displaced and newly retrenched workers ■ Additional funds supporting continuation of the qualification of laid-off apprentices and trainees	–	–
Canada	■ Additional staff, extended hours of operation in employment insurance call centres ■ *Targeted Initiative for Older Workers* provides a wide range of employment activities such as skills training and self-employment support ■ Targeted funding from the Youth Employment Programme to enable more employers in the not-for-profit sector hire summer students	■ Additional funds to respond to demand for programmes and training ■ *Strategic Training and Transition Fund* provides funding to unskilled and low-skilled individuals, whether or not they qualify for employment insurance ■ *Severance Investment for Training Initiative* entitles long-tenured workers to invest a portion of their employment insurance benefits for training	■ Work-sharing programme extended to 52 weeks duration ■ *Joint (Fed/Prov) Rapid Response Action Plan* to assist workers, employers and communities affected by mass lay-offs ■ The *Wage Earner Protection Programme* reimburses unpaid wages and vacation pay when enterprise declares bankruptcy	–

Country	Primary PES responses	Related programme responses (directly implemented or supported by the PES)		
		Training measures	**Employment retention measures**	**Self-employment assistance**
	■ Aboriginal Skills & Employment Partnership creating work for aboriginal people in key economic sectors	■ Employment Insurance and Training Incentive for long-tenured workers extended up to 12 weeks ■ Apprenticeship Completion Grant to assist apprentices become certified	■ Doubled tax relief provided by the *Working Income Tax Benefit* to encourage low-income Canadians to find and keep a job	
China	■ Strengthening training, job placement and employment information services aimed at reinforcing the employability of jobseekers	■ Implementing a vocational training programme for migrant workers with preference to youth	–	■ Counselling services to support self-employment
Germany	■ Expanding capacity of regular employment programmes and services ■ Increasing staff	■ Training programmes designed for low-skilled and older workers have been expanded to other target groups	■ Increased the number of eligible employees and the compensation for reduced working hours. (Normally PES covers 50 per cent of employer's social insurance premium; 100 per cent when work related training is provided)	–
India	■ Continuing to restructure the national employment services including automation of the employment exchange	–	–	–
Indonesia	■ Allocating additional resources to the Ministry of Manpower to train the unemployed and to acquire training equipment and the renovate training centres	■ Intensifying training programmes for the unemployed	–	–
Japan	■ Additional staff in employment offices ■ Special emphasis on career counselling and placement services ■ Using job-card system to compile jobseekers data ■ Reinforcing the capacity to provide employment placement services and retention support for workers with disabilities ■ Providing guidance to employers to prevent inappropriate dismissals	■ Enhancing vocational training for jobseekers e.g. the newly implemented long-term training on care services and IT	–	–

Country	Primary PES responses	Related programme responses (directly implemented or supported by the PES)		
		Training measures	**Employment retention measures**	**Self-employment assistance**
	■ Fund to support unemployed not eligible for unemployment benefits on the condition they participate in a training programme ■ Ten additional employment services centres dedicated to supporting female jobseekers.			
Korea, Rep. of	■ Flexible measures enabling PES to recruit temporary staff ■ Offering job experience and vocational training to youth ■ Easing eligibility requirements for unemployment benefits ■ Public Employment Information Network capable of integrating the job vacancy database and information on the labour market ■ Comprehensive employment support services for disadvantaged groups	■ Expanding customized job training programmes ■ Increasing training programmes offered to vulnerable workers	■ Reduced work-hours ■ Subsidizing employers who allow employees to take two or more temporary leaves per month ■ Introducing employment promotion allowance to assist SMEs in their search for workers ■ Broadening eligibility criteria and simplifying administrative rules for the employment retention subsidy ■ Training subsidy paid for employment retention	–
Mexico	■ Increasing in the range of options offered by National Employment Sevice in order to include not only the unemployment population, but also the workers at risk of losing jobs. ■ Emergency Temporary Employment Programme, coordinated by the National Employment Service, including a toll free number to provide information to jobseekers on current job vacancies ■ Placing retrenched/laid-off workers in temporary jobs ■ Providing support to retrenched/laid-off workers in the service sector	■ Training grants for unemployed and underemployed	■ Temporary support to the unemployed ■ Launching Technical Stoppages Programme	■ Grants to encourage self-employment
Russian	■ Intensifying career guidance and job search	■ Providing access to training or	–	–

Country	Primary PES responses	Related programme responses (directly implemented or supported by the PES)		
		Training measures	**Employment retention measures**	**Self-employment assistance**
Federation	support ■ Providing relocation/labour mobility programmes	internships for employees facing the risk of dismissal *before* contract termination		
South Africa	■ Additional resources to provide extended counselling services for retrenched/laid-off workers ■ Proposal to offer training to employees indentified for retrenchment	–	–	–
Turkey	■ Increasing flexibility in procurement of services in active labour market programmes ■ Broadening PES mandate to offer vocational training in addition to recruitment services	■ Offering vocational training to improve individuals' employability both during and after the crisis ■ Providing training and rehabilitation programmes financed with resources allocated from the Unemployment Insurance Fund	■ Duration of Reduced Work-Hours Compensation extended up to six months for affected staff	–
United Kingdom	■ Allocating additional funds and staff to the PES for job search assistance and personalized counselling ■ Streamlining administrative processes to better serve higher customer volumes ■ Extending Local Employment Partnerships to cover the newly unemployed and the "harder" to place. ■ The National Employment Partnership encourages employers to advertise vacancies through Jobcentre Plus, and provide greater access to work-related training through Train to Gain ■ Job training or work placement for 18–24 year olds unemployed 12 months or more	■ Strengthening pre-redundancy retraining support through Train to Gain and Skills Hubs. ■ Extra funding for training to reskill unemployed people ■ Subsidies to make available apprenticeships for low-skilled workers and to sustain employer's investment in training programmes ■ Job search assistance for apprentices at risk of redundancy in the construction sector	■ Incentives paid to employers to recruit and train unemployed people for more than six months ■ Doubling funds for Rapid Response Service (RRS) to support employees at risk of losing their job as part of a significant lay-off	■ Assisting individuals to set up a business by giving advice on creating a business plan, and granting funds for the first months of trading

Country	Primary PES responses	Related programme responses (directly implemented or supported by the PES)		
		Training measures	**Employment retention measures**	**Self-employment assistance**
	■ Introducing new services for sole support parents to prepare them for paid work ■ Promoting work-focused volunteering options			
United States	■ Broadening unemployment insurance coverage: extending duration, increasing levels and expanding eligibility for benefits ■ Providing additional funds for training and job search assistance ■ Competitive grants to stimulate green jobs and jobs in high-growth sectors ■ Community service employment for older workers	■ YouthBuild education and construction training for disadvantaged youth ■ Providing vocational rehabilitation grants to help persons with disabilities	–	–

Notes: [1] These terms also refer to displaced, redundant, dislocated or dismissed workers.

Sources: *Addressing the Labour Market Challenges of the Economic Downturn: A Summary of Countries Responses to the OECD–EC questionnaire, OECD Background document, 2009. ILO Public Employment Services Responses to the Global Economic Crisis, ILO-Employability and Skills Department files, November, 2009. ILO Survey for Assessing Country Employment and Social Protection Policy Responses to the Global Economic Crisis: the G20 request to the ILO, ILO-Economic and Labour Market Analysis Department files. June, 2009. ILO-WAPES Survey for Assessing Public Employment Services Responses to Past and Present Economic Crises, ILO-Employability and Skills Department, March, 2009. National Public Employment Services Presentations on Crisis Response of Public Employment Services: Operational Initiatives towards Sustainable Recovery, WAPES World Congress, Dubrovnik, Croatia, 28–29 May, 2009. Various National Public Employment Services web sites.*