

Protecting people, promoting jobs

A survey of country employment and social protection policy responses
to the global economic crisis

*An ILO report to the G20 Leaders' Summit,
Pittsburgh, 24-25 September 2009*

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Introduction

On 2 April 2009, at the London Summit on Growth, Stability and Jobs, the G20 Leaders adopted a Global Plan for Recovery and Reform. In paragraph 26 of their statement, the G20 Leaders address the employment and social dimensions of the crisis and formulate a specific request to the ILO, as follows:

“We recognise the human dimension to the crisis. We commit to support those affected by the crisis by creating employment opportunities and through income support measures. We will build a fair and family-friendly labour market for both women and men. We therefore welcome the reports of the London Jobs Conference and the Rome Social Summit and the key principles they proposed. We will support employment by stimulating growth, investing in education and training, and through active labour market policies, focusing on the most vulnerable. We call upon the ILO, working with other relevant organisations, to assess the actions taken and those required for the future.”

The present report responds to the G20 request. It is submitted to the G20 Leaders’ Summit in Pittsburgh, United States, on 24-25 September 2009. It was prepared under very tight time constraints. It should be read in conjunction with the companion text submitted to the G20 Leaders.¹

The report is organised as follows.

Chapter 1 presents recent employment and unemployment data, covering a selection of countries spanning all regions and income levels. It includes a discussion of the situation of developing countries in the context of the global financial and economic crisis.

Chapter 2 presents a survey of measures taken or announced by countries for employment and social

protection between mid-2008 and 30 June 2009 in response to the crisis.

This information was collected by the ILO in close collaboration with national authorities. The survey covers the following four broad areas:

- (i) stimulating labour demand;
- (ii) supporting jobs, jobseekers and unemployed;
- (iii) expanding social protection and food security;
- (iv) applying social dialogue and protecting rights at work.

The survey covers 54 countries, including all G20 countries. A more detailed inventory with a brief description of the measures taken by each country will be made available through the ILO web site.

This chapter also includes a section produced by the OECD that examines the size and employment impact of the fiscal and labour market policy packages in OECD countries, and identifies the main orientations of the discretionary labour market policy measures taken by the different countries.

Information Annex 1 seeks to illustrate more concretely the range of measures taken by individual countries to stimulate labour demand, protect jobs and the unemployed, extend social protection and promote social dialogue. It is accompanied by initial comments with reference to recent knowledge and literature. This is preliminary and a work in progress. It will be further developed on the basis of additional inputs by G20 countries, ILO constituents and relevant international organizations.

This information will be submitted for discussion and review to the Governing Body of the International Labour Office, at its forthcoming session of November 2009.

The product of this process will be available to the G20 for any follow-up decided by leaders on these issues.

¹ ILO. 2009. Protecting people, Promoting Jobs: From crisis response to recovery and sustainable growth. ILO communication to the G20 Leaders’ Summit in Pittsburgh, 24-25 September 2009.

Annex 2 lists the 54 countries in the ILO sample by region and income category.

Annex 3 provides an inventory of measures taken across a sample of 54 countries, including all G20 countries, for the 32 measures identified in the ILO survey.

Annex 4 estimates the aggregate employment effect of the stimulus measures taken by countries. The estimation provides an order of magnitude of employment saved or generated by the extraordinary measures taken.

Annex 5 presents four possible scenarios for recovery in global employment depending on the strength of economic recovery and its employment intensity.

Chapter 1

Recent trends in employment and unemployment, with a discussion of the situation of developing countries

In most countries, sharp employment losses have been registered as of the third quarter of 2008. These have continued into the second quarter of 2009, according to the most recent data available. Figure 1.1 depicts this trend for the G20 countries as well as the G20 and an additional 34 countries.²

1.1 Falling employment and rising unemployment

In the group of G20 countries,³ total employment had been on a rising trend of 1.6 per cent per year since early 2002. In the period from March 2008 to March 2009 total employment declined by -0.8 per cent on average.

Unemployment has followed an inverse trend (Figure 1.2). The average unemployment rate showed an upward trend in 2008 which continued in the first half of 2009. The average unemployment rate for G20 countries in March 2009 stood at 8.5 per cent, or 1.5 percentage points higher than a year earlier. The total number of unemployed, for the sample of countries, in March 2009, was 23.6 per cent higher than in March 2008.

According to the data available for a more limited number of countries, the number of unemployed in May 2009 was 29.6 per cent higher than a year earlier.

There are initial signs that the pace of deterioration may be moderating. According to data for April-June 2009 available for a limited number of countries, the increase in unemployment has slowed down compared to the first quarter of 2009.

Table 1.1 displays the latest (as at end July 2009) unemployment rate for 34 countries, including G20

countries. The unemployment rates in 31 of 34 countries (including 16 of 17 G20 countries) with quarterly or monthly data for 2009 are higher compared to a year earlier. Only Indonesia, the Philippines and Mauritius showed a decrease in the unemployment rate in early 2009 compared to a year earlier.

Among the countries with data for the first and the second quarter of 2009, the unemployment rate has increased close to 8 percentage points in Spain, more than 5 points in Ireland, Latvia and Turkey, 4 points in the United States, 3 points in the Czech Republic, 2.5 points in Canada, 2.2 points in Ukraine, 1.9 points in the United Kingdom, 1.5 points in France and 1.4 points in the Russian Federation. In Brazil the latest unemployment rate for July 2009 (8.0 per cent) is actually lower than in July 2008.

A majority of the G20 countries have recorded major increases in the number of unemployed in the past 12 months. From June 2008 to June 2009, total unemployment increased by 69 per cent in the United States, 44 per cent in Canada, 42 per cent in Australia, 26 per cent in the Republic of Korea and 22 per cent in Ukraine. In the year to May 2009 unemployment increased in the Russian Federation by 83 per cent; in the year to April 2009 it increased by 55 per cent in Turkey; and in the United Kingdom it increased by 38 per cent in the year to March 2009. The number of unemployed in Brazil shows an upward trend from January 2009.

Job opportunities in urban areas in China also fell significantly. In the first quarter of 2009, the increase in total employment in urban areas relative to the same period in 2008 was 1.2 million people or 1 per cent, significantly lower than the 2.6 per cent increase recorded in the same period in 2007-2008.

Employment in manufacturing has been in sharp decline in some countries. A fall of more than 10 per cent over the same period of 2008 has been observed,

² See Table 1.1 for list of 34 countries.

³ In the absence of monthly or quarterly data for China, India and Saudi Arabia, it is assumed that these countries have the same trend as the average for the countries with data in the group.

Figure 1.1 Percentage change in employment over the same period of the previous year (2000–2009)

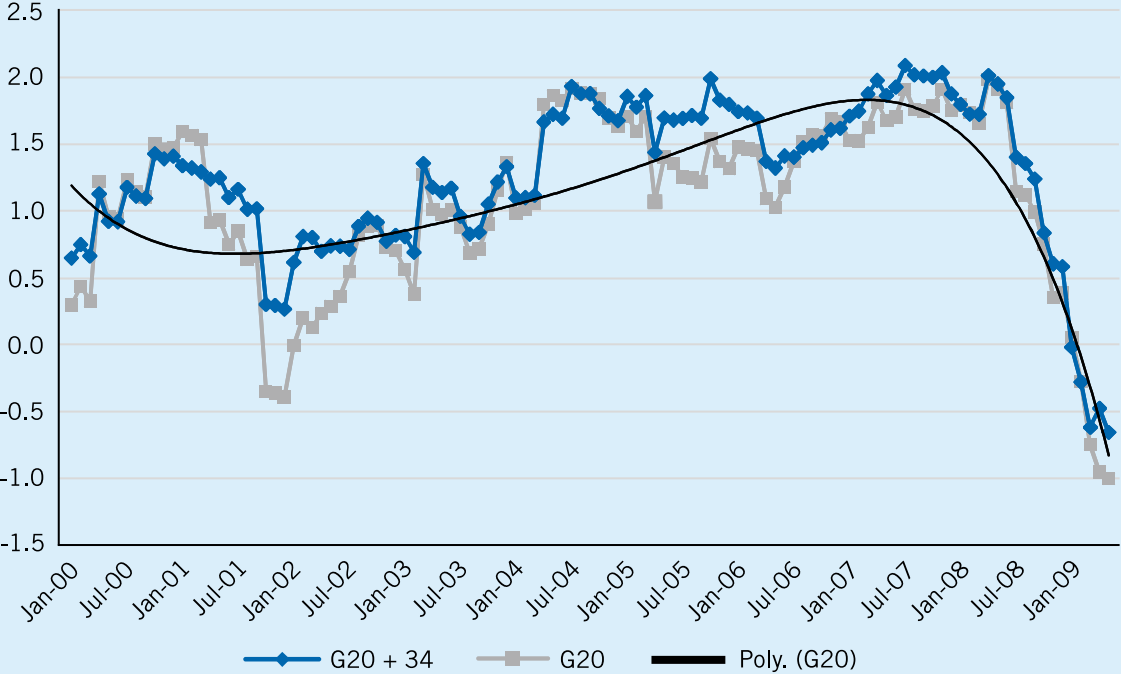
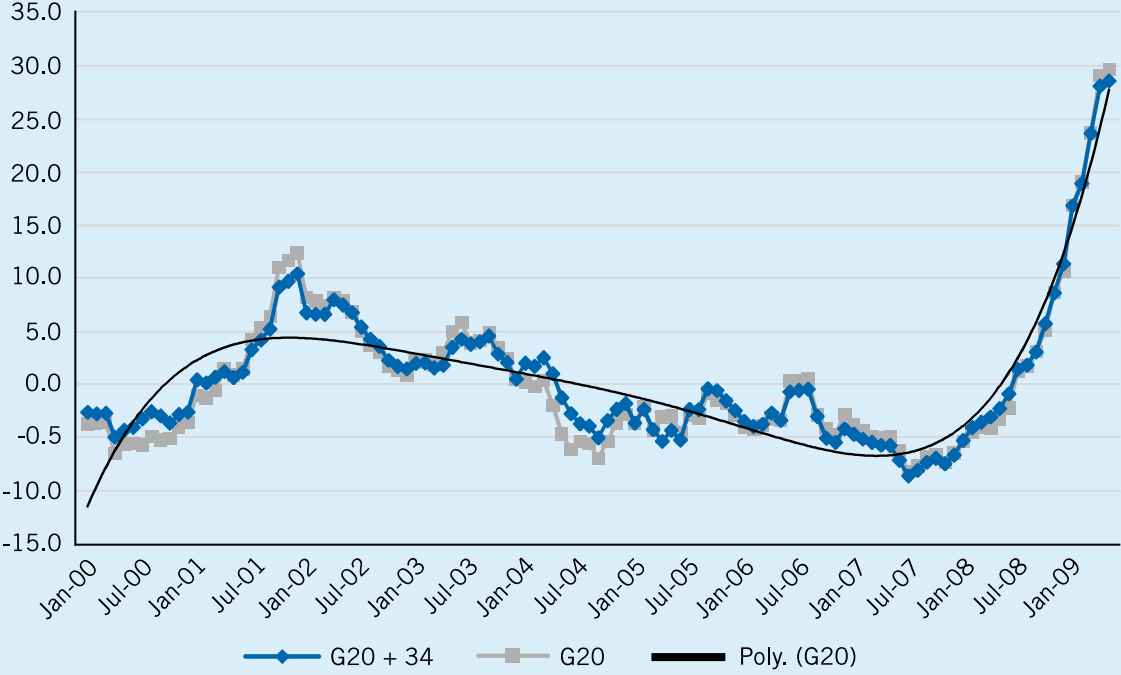


Figure 1.2 Percentage change in unemployment over the same period of the previous year (2000–2009)



among others, in Canada, the United States, Spain, and the United Kingdom.

Table 1.1 also shows for 17 countries the historical high in the unemployment rate over the last 40 years.⁴ In a majority of these countries (13) the unemployment rate is lower in early 2009 than the historical high. It is equal or very close in 3 countries (Japan, Sweden and the United States) and higher in 2009 in one country (Turkey).

1.2 Women and men are affected differently

The unemployment rate has been increasing for women as well as for men. The unemployment rate for women is, on average, higher than for men. In the first months of 2009 it has risen more slowly than for men in most of the 29 countries with data. As a result the gender gap in unemployment rates has temporarily reversed in Turkey, Mexico, Australia, Hungary and Germany where the male unemployment rate is now higher than the female one. This may change should the weakness in the labour market persist.

Depending on the gender composition of occupations, in some countries men have been hit first by job

⁴ The unemployment rates are not strictly comparable as definitions and methods vary over such a long period.

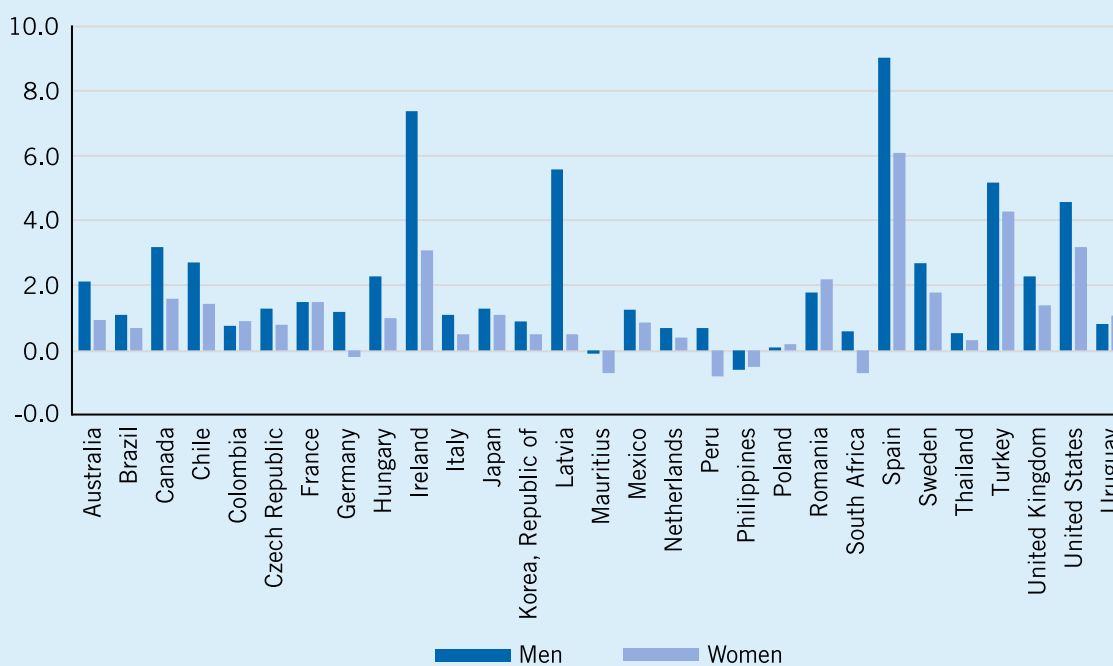
losses. The increase in the number of unemployed men in Brazil in the year to May 2009 was twice that for women. In the United States, the number of unemployed men in June 2009 was almost 80 per cent higher than in June 2008. Over the same period, the number of unemployed women increased by 57 per cent. Similar patterns are observed in Australia, Canada, Chile, Colombia, Mexico, New Zealand, Republic of Korea, Thailand, Latvia, Spain, Sweden, the United Kingdom and Turkey.

In other countries women have been hit first, for example in textile export industries in Asia. Data for the most recent months, however, show that the increase in female unemployment is rapidly catching up that for men.

1.3 Youth unemployment

Youth (15-24 years) unemployment rates in the first half of 2009 show a strong increase with respect to 2008 in those countries that publish such data. For instance, in the European Union (EU27) the youth unemployment rate in June 2009 reached 19.7 per cent, compared to 15.4 per cent in July 2008, an increase of over 4 points (Eurostat). Similar sharp increases are observed in several other countries, including Japan, Norway, Turkey and the United States.

Figure 1.3 Unemployment rates by sex, percentage point change over a year (the most recent month in 2009)



Source: ILO Department of Statistics, <http://laborsta.ilo.org>.

Table 1.1 Unemployment rate (most recent month of 2009) and change from the corresponding month of 2008

Country	Latest period	Source	Unemployment rate (%)	Change on year (pps)	Historical high of UR over last 40 years (%)	Year	Wage employment (% of total)
Mauritius	Feb-09	LFS	8.0	-0.2			80.0
South Africa	May-09	LFS	23.6	0.5			84.4
Argentina	Feb-09	LFS	8.6	0.2			75.8
Brazil	May-09	LFS	8.8	0.9	14.1	1981	76.1
Canada	Jun-09	LFS	8.1	2.5	12.0	1983	83.9
Chile	Apr-09	LFS	10.2	2.3			68.7
Colombia	Apr-09	LFS	11.9	0.8			48.9
Mexico	Feb-09	LFS	5.1	1.1	6.2	1995	67.1
Peru	Mar-09	LFS	9.3	0.0			61.5
United States	Jun-09	LFS	9.7	4.0	9.7	1982	93.4
Uruguay	May-09	LFS	8.1	0.9			69.8
Australia	Jun-09	LFS	5.7	1.6	10.6	1993	88.7
China	Dec-08	Est.	4.2	0.2			
Japan	May-09	LFS	5.2	1.2	5.4	2002	86.4
Indonesia	Feb-09	LFS	8.1	-0.3			27.7
Korea, Republic of	Jun-09	LFS	3.9	0.8	7.0	1998	69.6
Philippines	Apr-09	LFS	7.5	-0.5			51.9
Thailand	Feb-09	LFS	2.1	0.4			
Czech Republic	May-09	Admin. records	8.0	3.0	8.9	2000	83.4
France	Feb-09	LFS	8.9	1.5			89.1
Germany	Jun-09	Admin. records	8.1	0.6	11.1	2005	88.4
Hungary	Feb-09	LFS	9.7	1.7			87.2
Ireland	Feb-09	LFS	10.1	5.5	16.9	1986	82.6
Italy	Feb-09	LFS	7.9	0.8	12.0	1987	74.8
Latvia	Mar-09	Admin. records	10.7	5.8			88.5
Netherlands	Apr-09	Off. Est.	4.6	0.5			86.8
Poland	May-09	Admin. records	10.8	0.8	19.9	2000	77.1
Romania	May-09	Admin. records	5.8	2.0			69.2
Russian Federation	Feb-09	LFS	8.5	1.4	12.9	1999	92.7
Spain	Feb-09	LFS	17.5	7.9	22.9	1995	83.0
Sweden	Apr-09	LFS	8.3	2.3	8.2	1993	89.5
Turkey	Apr-09	LFS	14.9	5.0	10.5	2003	60.2
Ukraine	Mar-09	LFS	9.5	2.4			82.0
United Kingdom	Feb-09	LFS	7.1	1.9	11.8	1984	86.2

Source: ILO Department of Statistics, <http://laborsta.ilo.org>.

The data shown are those available to the ILO on 20 July 2009. They have been received or drawn from official national statistical services, publications and web sites. The data are based on national definitions, are not seasonally adjusted, and have not been adjusted or altered by the ILO.

Table 1.2 Discouraged workers

Country	Period	Discouraged workers ('000)	Unemployment rate, %	Expanded Unemployment rate, %
South Africa	Q2-09	1517	23.6	29.7
Brazil	Mar-09	927	9.0	12.6
Mexico	Q1-09	5656	5.1	15.6
United States	Jun-09	2176	9.7	10.9
Czech Republic	2008	11	4.4	4.6
France	2008	128	7.4	7.8
Germany	2008	255	7.5	8.0
Hungary	2008	138	7.8	10.8
Italy	2008	1810	6.7	13.0
Netherlands	2008	115	2.8	4.0
Poland	2008	488	7.1	9.7
Portugal	2008	24	7.6	8.0
Romania	2008	299	5.8	8.5
Spain	2008	348	11.3	12.7
Turkey	2008	681	9.4	11.9
United Kingdom	2008	74	5.6	5.9

Source: National statistical web sites and Eurostat database. Expanded unemployment rate calculated by dividing the number of unemployed and discouraged workers by the number of economically active persons and discouraged workers. Definition of discouraged workers may vary across countries.

1.4 Unemployment and discouraged workers

The statistics on employment and unemployment do not fully reflect the extent of the employment problem. In addition to the rising numbers of unemployed, many countries are witnessing significant increases in the number of discouraged workers. This group of the working age population that is available and willing to work but does not seek employment, if taken into account, would significantly increase the total number of unemployed and consequently the unemployment rate. Table 1.2, with data for mostly 2008, gives an indication of the size of the discouraged workers population, even before the crisis.

Job losses and unemployment, particularly when prolonged, entail high personal and social costs, in the form of loss of skills, loss of confidence, rising health care costs and rising crime. The Commission on the Measurement of Economic Performance and Social Progress chaired by Professors Stiglitz and Sen provides an important reminder of these costs ill recorded in current indicators.⁵

1.5 World crisis but different labour market outcomes

When economic activity declines, the number of jobs available declines and the number of persons looking for a job increases. This is what the data depict. A sharp (moderate) drop in GDP would logically lead to a sharp (moderate) increase in unemployment. This is verified for a number of countries as illustrated in Table 1.3 in the case of Spain and Brazil respectively. However in a number of countries a sharp drop in GDP (as in Germany and Mexico for instance) is giving rise to only a moderate increase in unemployment. And in some countries with only a moderate decrease in GDP (in relative terms) unemployment has risen sharply. These variations can only be explained by differences in country situations and labour market policies.

In fact a sharp recession can be cushioned by a strong increase in part-time employment (as in Germany), by persons withdrawing from the labour force (as in Japan) or by more persons available for work but not actively looking for work (discouraged workers as in Mexico) as well as by an increase in persons working in the informal sector (as may be the case in Indonesia with less than 30 per cent of the labour force in wage employment).

⁵ See www.stiglitz-sen-fitoussi.fr/en/index.htm.

Table 1.3 Decreases in GDP and increases in unemployment are country specific

2009 estimated decrease in GDP	Observed increase in unemployment	
	Sharp (>1.6 percentage points)	Moderate (<1.3 percentage points)
Sharp (>4 per cent)	Spain, United Kingdom	Germany, Italy, Japan, Mexico
Moderate (< 3 per cent)	Australia, Canada, United States	Brazil, Indonesia

Source: GDP data for 2009 from IMF, unemployment data from Table 1.1.

Table 1.4 Frequency of labour force surveys

	Number of countries
Monthly	19
Quarterly	46
Six-monthly	1
Annually	78
Irregular over 2004-08	
1 survey	17
2 surveys	6
3 surveys	14
Total countries	181

Source: ILO.

Conversely, the sharp increase in unemployment in Canada and the United States, with a more moderate contraction in economic activity (GDP contraction of -2.3 and -2.6 per cent estimated for 2009 respectively relative to -6 per cent or more in Germany and Japan), can be explained by more reactive employment relationships.

1.6 Timely labour market data

Comprehensive and timely data of trends in the labour market is essential for informed public debate and policy purposes. Yet serious deficiencies prevail in this area. Of 181 countries, 65 countries (36 per cent) produce monthly or quarterly labour force surveys, whereas 116 countries produce annual surveys and some only irregularly.

1.7 The impact of the crisis in developing countries

Most developing countries⁶ will experience growth contractions in 2008-2009 compared to 2007-2008 as

⁶ Least developed economies defined as per United Nations classification (<http://unstats.un.org/>). From the remaining developing economies, not included are high-income developing countries (GDP per capita >\$10,000 in 2003) and oil exporters (oil exports >50 per cent

a result of the global crisis. The growth rates for country groups are given below in Table 1.5.

All country groups in Table 1.5 show negative per capita GDP growth in 2008-2009 save two, namely medium-income developing and least developed countries. This is also reflected in the two categories of developing high manufacturing exporters and high commodity exporters. The largest negative growth in per capita GDP is recorded for transition CIS countries. Most developing countries are registering strong deceleration in growth rates rather than negative growth rates.

Table 1.6 below shows the country count of negative growth episodes in GDP per capita for two consecutive periods, 2007-2008 and 2008-2009. The latter period is an estimate.

Table 1.6 shows a negative change in GDP per capita in 2008-2009, in nearly all advanced economies of the world and the majority of transition economies. In a majority of "core" developing countries,⁷ we find that negative growth countries are comparatively fewer. There is a significant minority - 29 out of 92 - amongst the least developed and medium-income developing countries (with around 17 per cent of the developing country population) that are forecast to register negative growth in 2008-2009.

In 81 out of 123 developing countries (with around 83 per cent of the population of developing countries) the IMF forecasts positive growth in 2008-2009. However, there is a near universal deceleration in growth in these economies. Twenty-four countries with a population of around 52 per cent of the developing world have per capita GDP growth rates that are still in excess of 3 per cent for 2008-2009. The remaining (57) positive

of exports); they are included in medium-income developing countries. Medium developing and least developed are referred to as "core" developing countries.

⁷ Medium-income and least developed countries are referred to as "core" developing countries constituting over 75 per cent of countries in the developing world and over 93 per cent of its population. For details on classification, see Ghose, Majid and Ernst (2008): *The Global Employment Challenge*, ILO.

Table 1.5 Change in GDP per capita (Country group aggregates)

	2007-2008	2008-2009
Industrialized	2.3	-3.3
Transition-CIS	7.7	-4.2
Transition-CEE	6.5	-1.8
Developing-petrol exporters	5.1	0.4
Developing-high income	3.4	-4.7
Developing-medium income	7.4	2.4
Developing-LDC	6.7	2.1
All countries	4.1	-1.7
Developing high manufacturing exporters	7.4	2.4
Developing high commodity exporters	6.3	2.4

Calculations based on data from IMF (2009). World Economic Outlook April, 2009.

Note: A high manufacturing exporter is defined as a country whose manufacturing exports constitute over 50 per cent of its merchandising exports. A high commodity exporter is defined as a country whose commodity exports constitute greater than 30 per cent of its merchandising exports. High commodity and high manufacturing exporters are not exclusive of the 123 developing countries.

growth developing economies are expected to have per capita growth of less than 3 per cent.

Actual data on poverty rates pre-date the crisis. Based on historical relationships between growth and poverty, it is likely that in those countries with decelerating growth, the rates of decline in poverty will also decline. For negative growth economies, poverty rates may well increase.

These changes would adversely affect the achievement of poverty-related MDGs, although it is not clear how global poverty rates will be affected.⁸ In its mid-2009 update on the world economic situation, the United

⁸ Chen and Ravallion (2009). *The impact of the global financial crisis on the world's poorest*. These authors show that global poverty rates will continue to fall from 42 to 39 per cent for \$2 poverty and from 21 to 18 per cent for \$1.25 poverty.

Table 1.6 Frequency of countries with negative growth rates in GDP per capita (PPP)

	Year-on-year growth	
	2007-2008	2008-2009
Industrialized	1/23	22/23
Transition-CIS	0/12	6/12
Transition-CEE	2/13	11/13
Developing-oil exporters	1/17	5/17
Developing-high income	1/14	8/14
Developing-medium income	0/44	19/44
Developing-LDC	1/48	10/48
All developing countries	3/123	42/123
Developing-high manufacturing exporters	0/27	11/27
Developing-high commodity exporters	1/20	6/20

Calculations based on data from IMF (2009).

Nations states: “the crisis poses a significant threat to the world economic and social development, including the fulfilment of the Millennium Development Goals and other internationally agreed development goals.”⁹

The United Nations estimates that between 73 and 103 million more people will remain in or fall into poverty compared to a no-crisis trend. This is equivalent to a 1.3 per cent increase in the poverty incidence in the developing world. The World Bank estimates that half of developing countries could experience a rise in extreme poverty in 2009.¹⁰

In its Least Developed Countries Report 2009, UNCTAD argues that “the impact of the global economic crisis is likely to be so severe in least developed countries that ‘business as usual’ is no longer possible. This will necessitate a rethinking of the development paradigm.”¹¹

The economic crisis has sent shocks to developing countries and transition economies through significant declines in exports, capital inflows and remittances. Widening current account deficits and depreciating exchange rates are also observed. All of these channels, separately and together, affect the working and living conditions of people.

Declining exports often mean the loss of modern sector jobs, i.e. “good” jobs relative to informal economy workers. Declines in capital inflows will affect the future

rate of growth of employment. Both trends will increase unemployment, but also increase the already bloated informal economy with higher underemployment and lower productivity. Declines in remittances will lower the consumption of receiving households, which may be close to the poverty line. Where poor households are directly integrated into the export economy as labourers or as producers, declining commodity export prices will affect their living standards more directly.

In Latin America and the Caribbean unemployment increased on average to 8.5 per cent in the first quarter of 2009 compared to 7.9 per cent in the first quarter of 2008, equivalent to over one million unemployed.

Recent official data in Indonesia and Thailand corroborate the expansion of informal employment.¹² In Indonesia, the number of wage employees expanded by 1.4 per cent between February 2008 and February 2009, while the number of casual workers not in agriculture increased by around 7.3 per cent during the period. In Thailand, first quarter 2009 figures indicate that the number of wage employees grew by 104,000 or by 0.6 per cent, solely as a result of expansion in government employment. On the other hand, the number of own-account and contributing family workers combined increased by 566,000 compared to the previous year, or by 3.2 per cent. This suggests a significant increase in poor quality informal work.

The full impact of the crisis on people in developing countries, particularly lower-income ones, is yet to be fully assessed.

⁹ United Nations. 2009. *World Economic Situation and Prospects 2009*, New York.

¹⁰ World Bank. *Global Monitoring Report 2009*.

¹¹ UNCTAD. *The Least Developed Countries Report 2009*, United Nations, Geneva.

¹² Huynh, P., Kapsos, S., Beom Kim K., Sziraczki, G. 2009. *Impacts of Current Global Economic Crisis on Asia’s Labour Market*, ILO, Bangkok.

Chapter 2

Survey of employment and social protection measures taken by countries to counter the crisis

This chapter has two main sections. Section 1 presents the main findings of the ILO survey of measures taken by countries to counter the crisis across four broad areas:

- (i) stimulating labour demand;
- (ii) supporting jobs, jobseekers and unemployed;
- (iii) expanding social protection and food security;
- (iv) applying social dialogue and protecting rights at work.

Across these four headings, 32 specific measures are identified, forming the basis of the survey carried out.

The 32 measures surveyed reflect the conclusions reached by the London Jobs Conference (24 March 2009), the expanded G8 Rome Social Summit (29-31 March 2009), and the Global Jobs Pact adopted by the International Labour Conference in June 2009.

Section 2 has been prepared by the OECD. It complements the previous analysis by examining the size of fiscal and labour market policy packages for OECD countries and assessing their impact on employment. The section draws extensively from the analysis of the jobs crisis contained in the 2009 edition of the OECD Employment Outlook.

Employment impact of the measures taken

The ILO has estimated the scale of the difference the policy responses are making. Although unemployment and other indicators of labour market distress have increased significantly over the last 12 months, they would have increased even more had these measures not been taken. The ILO estimates, on the basis of IMF calculations, that discretionary fiscal expansion, together with automatic stabilisers, will have created or saved in 2009 between 7 and 11 million jobs in the G20 countries. The jobs created or saved are equivalent to between 29 and 43 per cent of total unemployment in G20 countries in the first half of 2009. Without such

spending unemployment could have been that much higher in these countries. Further details of this estimate are found in Annex 4.

2.1 The ILO survey

The information for the survey was collected by the ILO from official sources for 54 countries.¹³ The sample includes all G20 countries and provides a regional, as well as an income category, balance.

The survey covers new measures for employment and social protection announced or taken by countries between mid-2008 and 30 July 2009. It therefore does not include measures in place before June 2008. In addition, information is limited to measures taken or announced by national or federal governments, excluding initiatives taken by decentralised entities.

Annex 3 provides an inventory of measures taken by each country across the 32 items identified in the ILO survey.

Overview of measures taken

In the period between mid-2008 and 30 June 2009, countries have taken measures to:

Stimulate employment generation by:

- (i) investing public resources for infrastructure of all types;
- (ii) providing additional support through credit facilities, tax reductions and technical guidance to small enterprises in particular;
- (iii) granting subsidies and reductions in social security contributions to enterprises to lower the cost of retaining workers in jobs and facilitating new hires;
- (iv) retaining workers in jobs through working time reductions, partial unemployment benefits, labour cost reductions and training schemes.

¹³ See list in Annex 2.

Provide income support to workers and families through:

- (i) extension of unemployment benefits;
- (ii) extension of and adjustments in health benefits and old-age retirement benefits;
- (iii) expansion of cash transfer programmes and social assistance programmes.

Support unemployed and jobseekers through:

- (i) strengthening of public employment services;
- (ii) expansion of training programmes and facilities.

Stimulate social dialogue and consultations with business and labour on measures to counter the crisis through:

- (i) national and sectoral consultations between business and labour and with governments;
- (ii) national and sectoral agreements between business, labour and with governments;
- (iii) enterprise consultations and agreements.

On average each country (at national or federal level) has taken just over ten new measures (over the period indicated) across the 32 measures identified in the ILO survey. For each of the four broad areas identified above, each country has taken on average close to four new measures to stimulate labour demand, between two and three measures to support jobseekers and unemployed, between two and three measures to expand social protection and one measure to stimulate social dialogue and rights at work.

Table 2.1 illustrates the frequency of measures taken by each country, across the 32 measures identified in the ILO inventory.

There are some clear patterns in the composition of the measures taken by countries depending on their income category. Lower-income countries have taken, on average, a slightly lower number of measures and higher-income countries a slightly higher number of measures. All countries have given high priority to new or additional investments in infrastructure with

Table 2.1 Frequency of measures taken across sample countries

1. Stimulating labour demand	(%)	2. Supporting jobseekers, jobs and unemployed (%)	(%)
Additional fiscal spending on infrastructure	87.0	Additional training measures	63.0
with employment criteria	33.3	Increased capacity of public employment services	46.3
with green criteria	29.6	New measures for migrant workers	27.8
Public employment	24.1	Working time reductions	27.8
New or expanded targeted employment programmes	51.9	Partial unemployment with training and part-time work	27.8
Access to credit for SMEs	74.1	Wage reductions	14.8
Access to public tenders for SMEs	9.3	Extension of unemployment benefits	31.5
Subsidies and tax reductions for SMEs	77.8	Additional social assistance and protection measures	33.3
3. Expanding social protection and food security		4. Social dialogue and rights at work	
Social security tax reductions	29.6	Consultations on crisis responses	59.3
Additional cash transfers	53.7	Agreements at national level	35.2
Increased access to health benefits	37.0	Agreements at sectoral levels	11.1
Changes in old-age pensions	44.4	Additional measures to fight labour trafficking	3.7
Changes to minimum wages	33.3	Additional measures to fight child labour	3.7
New protection measures for migrant workers	14.8	Changes in labour legislation	22.2
Introduction of food subsidies	16.7	Increased capacity of labour administration/ inspection	13.0
New support for agriculture	22.2		

Source: ILO survey.

Table 2.2 Average number of measures taken by category and country income group

Country sample by income group	Stimulating labour demand	Supporting jobs, jobseekers and unemployed	Expanding social protection and food security	Social dialogue and rights at work	Total
Low income (10)	2.9	1.2	2.3	0.8	7.2
Lower middle income (10)	3.8	2.3	3.2	1.4	10.7
Upper middle income (17)	3.9	2.9	2.5	1.6	10.9
High income (17)	4.4	3.7	2.3	1.8	12.2
Average	3.8	2.5	2.6	1.4	10.3

Source: ILO survey.

the aim of generating employment. However, middle and lower-income countries have also invested significantly in the expansion of social protection, whereas advanced countries have invested more in labour market policies. Table 2.2 illustrates the variations in the composition of measures taken.

The number of measures taken is no indication per se of effectiveness. More interventions are not necessarily better. A more reduced, but well integrated, package of measures may be preferable to a plethora of small, poorly financed and/or designed interventions. Only more detailed analysis of the impact of the measures taken would allow such an assessment.

Size and composition of fiscal packages

The IMF reports that the average size of discretionary fiscal measures in 2009 is 1.9 per cent of GDP in advanced G20 countries, with approximately 30 per cent expended on infrastructure, and 2.2 per cent of GDP in emerging and developing G20 countries, with approximately 50 per cent expended on infrastructure.¹⁴

For low-income countries the ILO estimates that countries are investing on average approximately 1 per cent of their GDP on increased infrastructure spend-

ing and middle-income countries 0.7 per cent of GDP. Table 2.3 provides, for a selection of countries, an indication of the range of spending on infrastructure.

Timing of measures

The start dates of implementation are reported for half of the measures surveyed by the ILO. The large majority of the measures announced are taking effect in 2009, with a small proportion (5 per cent) announced for 2010. A clear spike in announcement of measures is noted in January 2009 and in April 2009. The London Summit took place on 2 April 2009. Some 15 per cent of the measures are limited in time, mostly tax cuts for enterprises, social assistance measures for the unemployed and social protection rights granted to migrant workers.

Additional spending for vulnerable groups¹⁵

Countries across all income groups have aimed to increase spending for more vulnerable social groups. Across the ILO survey sample the following measures can be highlighted.

- 29 per cent of countries extended the scope of unemployment benefits to new categories, including workers with short contributory history and

¹⁴ Horton, Mark; Manmohan Kumar; Paolo Mauro. 2009. The State of Public Finances: A cross-country fiscal monitor, IMF Staff Position Note, July.

¹⁵ The United Nations report, Global Impact and Vulnerability Alert System (GIVAS), to which the ILO has contributed, reviews the impact of the crisis on vulnerable people.

Table 2.3 2009 spending on infrastructure, as percentage of GDP

Bangladesh	0.1	Egypt	0.8	Peru	2.2
Cambodia	0.2	Jordan	2.2	Romania	1.0
Chile	0.4	Kenya	1.5	Tanzania (United Rep. of)	1.6
Colombia	0.2	Malaysia	0.6	Uruguay	1.6
Costa Rica	0.8	Pakistan	0.2	Viet Nam	1.7

Source: IMF country reports; ILO survey.

workers with reduced hours. A total of 10 per cent increased the level or the duration of unemployment benefits, sometimes only for some groups of jobseekers, such as older workers. In addition, 13 per cent of countries whose unemployment benefit systems remained unchanged introduced new support for specific categories of unemployed, tax reductions, and maintenance of social security rights.

- 23 per cent of countries granted new social protection measures to migrant workers such as education, credit, work permit facilities, labour market information and targeted employment programmes.
- 25 per cent of countries from all development levels provided additional support to the elderly.
- 6 per cent of countries, from the low-income and lower-middle-income categories, took measures to strengthen maternity protection.
- 17 per cent of higher-income countries implemented policies to increase women's employment, including upon return from maternity and parental leave, established quotas for women in employment programmes targeted at the poor, or facilitated the combination of professional and family responsibilities.
- 55 per cent of countries increased their support to low-income households. In upper-middle-income and high-income countries this additional support was targeted at low-income households with children in two-thirds of the cases. In low-income countries and lower-middle-income countries, additional transfers to the poor were targeted at the most vulnerable of the poor, such as disabled people, destitute women, deprived castes, widows and returning migrants. A total of 4 per cent implemented Make-Work-Pay measures, which increased incentives for low-paid workers to participate in the labour market by providing income tax credits.
- 48 per cent of countries targeted employment programmes at the poor. In half of the cases, these programmes were implemented in deprived or least developed areas, while the others targeted the poor and vulnerable groups of workers (low-skilled, long-term unemployed).
- Additional measures to promote the employability of youth were taken in 33 per cent of countries. The higher the level of development, the higher the probability of having measures targeted at youth. A total of 19 per cent of countries implemented new training for youth, 10 per cent introduced employment programmes for youth, 6 per cent introduced

incentives for employers to hire youth, such as lower social security contributions.

Table 2.4 illustrates the targeting of measures taken by countries.

2.2 The OECD inventory and assessment

This second section examines the size of fiscal and labour market policy packages for OECD countries, showing that the relative importance of discretionary measures and automatic stabilisers varies considerably across countries.

This section draws extensively from the country response to an OECD/European Commission questionnaire aimed at reviewing the discretionary policies introduced by member countries during the crisis and from the analysis of the employment impact of the fiscal packages conducted by the OECD Secretariat.

Quantifying the policy response to the crisis

The inventory in the previous section shows that many countries are taking measures to alleviate the labour market impact of the crisis. This section presents data on the size of fiscal and labour market policy packages implemented in response to the crisis in OECD countries. The results show that the scale and composition of policy packages, along with the relative importance of discretionary measures and automatic stabilisers, vary significantly across countries. This occurs even though the types of policy measures undertaken are often quite similar, at least when comparing across developed countries. Estimates are presented for the employment impact of these packages drawing on recent OECD work on this topic.

Fiscal stimulus packages and automatic stabilisers

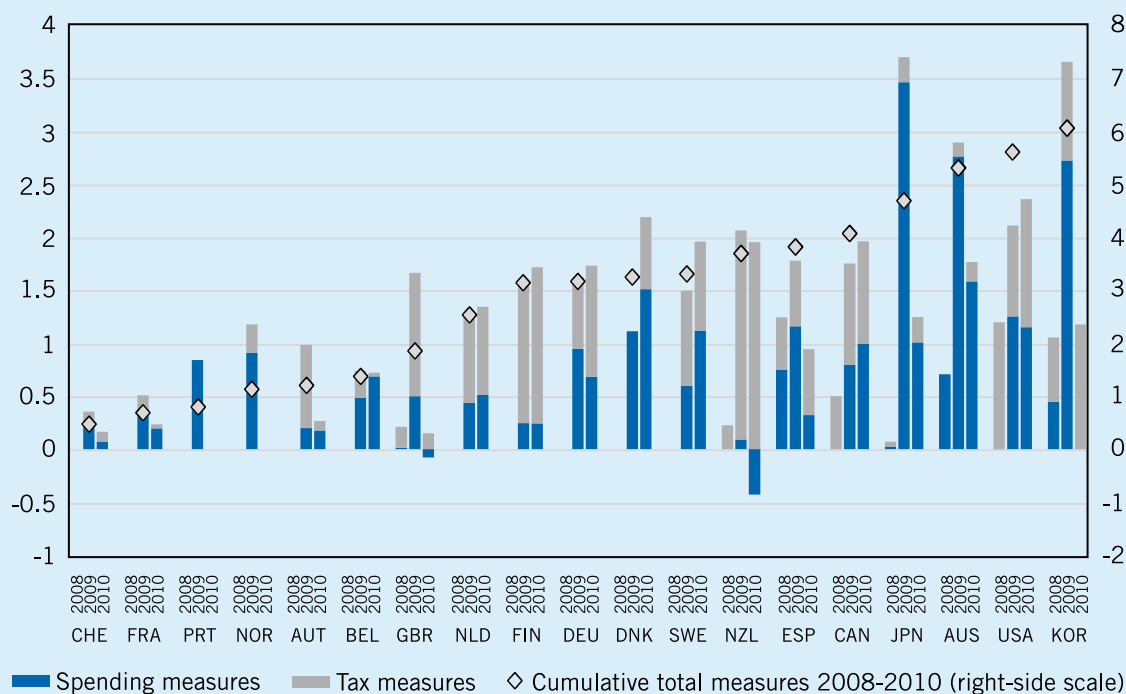
There are substantial differences across countries in the size of fiscal packages introduced in response to the crisis, their split between different revenue and spending measures and timing (Figure 2.1). Differences in the size of discretionary fiscal stimuli reflect a combination of factors, including the severity of the downturn, the strength of automatic stabilisers and constraints on governments' ability to issue debt. Among the OECD countries that have enacted stimulus packages, there is a lot of variation in the relative importance of revenue measures (i.e. tax cuts) versus spending increases. Reductions in personal income taxes account for the largest part of the tax measures. However, reductions in employer social security contributions are also quite common, albeit relatively small in most cases. A significant part of the spending measures reflects infrastructure and other public investment programmes, including measures already planned

Table 2.4 Selected examples of targeting of measures

	Low income	Lower middle income	Upper middle income	High income
Increased support to low-income households	Kenya (mentally challenged), Bangladesh (destitute women and others), Nepal (children, elderly, deprived castes), Viet Nam	India (widows, disabled), China (returning migrants), Philippines (CCT*, very poor)	Argentina, Brazil, Colombia, Costa Rica, Peru, Honduras, South Africa, Malaysia, Chile, Romania, Russian Fed.	Czech Republic, France, Germany, Hungary, Italy, United Kingdom, Korea (Rep. of), United States, Australia, Saudi Arabia, Spain
Increased targeting of employment programmes at the poor	Cambodia (small projects in rural areas), Viet Nam (infrastructure in poorest districts)	Philippines, Pakistan, India, South Africa	Uruguay (long-term and older unemployed), Peru (low-income youth), Serbia (regions), Turkey (poor regions), China (regions with low credit availability), Mexico (poor regions)	France, Netherlands (low-skilled, low-paid), Romania (poor regions), Russian Federation (single-industry cities), Spain (unemployed), Chile (high-unemployment regions), Dominican Rep. (low-income households), United States (credit for rural and distressed neighbourhoods), Saudi Arabia (less developed regions), Korea (Rep. of) (low-income, poor regions), Japan and Australia (disabled), Hungary (depressed areas)
Increasing coverage or level of old-age pension and support to the elderly	Tanzania (United Rep. of), Kenya, Bangladesh, Nepal	China	Romania, Russian Federation, Dominican Rep., South Africa, Chile	Spain, United States, Korea (Rep. of)
Increasing coverage of unemployment benefits/assistance	Viet Nam	Ukraine	Poland, Romania, Uruguay, Chile, China	France, Germany, Hungary, Italy, Netherlands, Canada, Japan
Increasing level/duration of unemployment benefits			Russian Federation, Brazil	Czech Republic, Canada, United States
Measures to protect migrant workers	Bangladesh, Nepal, Viet Nam	India (Kerala), Jordan, Egypt, Philippines, Pakistan	Brazil	Bahrain, Netherlands, Barbados, Japan
Strengthening maternity protection	Bangladesh	India, Jordan		
Family-friendly policies/promoting employment of women		India, South Africa, Jordan	Chile, Russian Federation	Korea (Rep. of), Japan, Netherlands, Hungary
Expanded training and employment measures for youth	Kenya (reallocation of resources for youth)	Philippines (expansion of employment programmes), Jordan (infrastructure targeting youth, training)	Turkey (employment incentives, training), South Africa (public works), Argentina (training), Colombia (training), Dominican Rep. (training), Peru (employment programmes), Russian Federation (training)	Japan (PES), Korea (Rep. of) (employment incentives), France (training), Germany (training), United Kingdom (training), United States (employment incentives), Netherlands (training and employment programmes)

*CCT: conditional cash transfers.

Figure 2.1 Fiscal stimulus packages as a percentage of 2008 GDP, 2008–2010



Note: The analysis takes account of all OECD countries which have adopted positive fiscal stimulus packages and for which complete information on fiscal stimulus packages is available for the period 2008–2010. Countries ordered by ascending order of the total cumulative fiscal impact over the period 2008–2010 in terms of 2008 GDP.

Source: OECD estimates based on the OECD Economic Outlook Database.

which have been brought forward. Income transfers to low-income households have also been expanded in a number of countries. For most countries, the bulk of the stimulus is due to be spent during 2009, although a significant number of countries have spread measures out over a number of years. This means that stimulus packages should continue to support aggregate demand in these countries well into 2010.

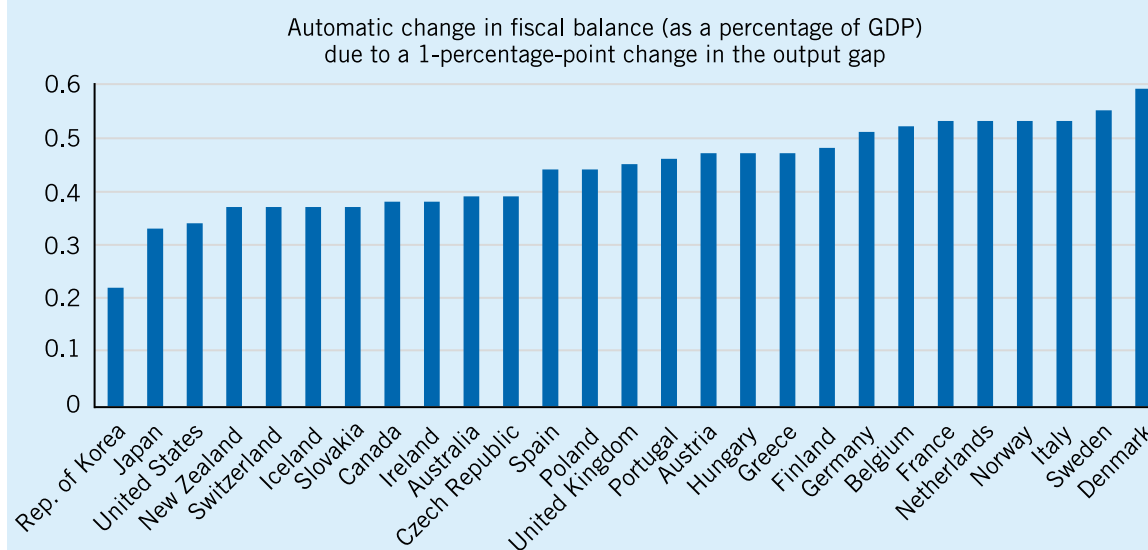
In addition to discretionary measures, most developed countries have so-called “automatic stabilisers” in their tax and benefit systems, which automatically support aggregate demand when economic conditions worsen. These automatic stabilisers include unemployment benefits and other social protection measures which smooth household income by offsetting lost earnings due to unemployment or reduced working hours. Figure 2.2 shows that the relative size of automatic stabilisers varies across the countries for which data are available. Automatic stabilisers tend to be strongest in northern European and other countries where public social spending, particularly on unemployment and other social protection benefits, is relatively generous and tax revenue more cyclical. In most OECD countries, the stimulus provided by automatic stabilisers in the current

downturn is expected to be larger than that provided by discretionary fiscal measures.¹⁶ The countries which have enacted the largest fiscal stimulus packages (e.g. the Republic of Korea, the United States) also tend to be characterised by relatively weak automatic stabilisers, suggesting that the two forms of fiscal stimulus are to a considerable extent substitutes.

Estimating the jobs impact of fiscal stimulus measures

The effectiveness of fiscal policy in boosting economic activity and employment is particularly hard to gauge in the current context. Nevertheless, the OECD has made an attempt to estimate the impact of fiscal stimulus on employment. This is done by comparing the latest OECD employment projections, which take account of the expansionary impact of fiscal stimulus measures and can be taken as a baseline, with counterfactual projections that do not. These counterfactual

¹⁶ *OECD Economic Outlook*, No. 85, OECD Publishing, Paris, 2009. Australia and the United States are the only OECD countries where the discretionary fiscal stimulus is expected to be larger than that provided by automatic stabilisers. For more details see *Interim Economic Outlook*, OECD Publishing, Paris, 2009.

Figure 2.2 Relative importance of automatic stabilisers

Note: Derived from regression estimates of the elasticity of corporate, personal and indirect taxes, social security contributions and current government expenditure with respect to the output gap.

Source: Girouard, N. and C. André (2005), "Measuring Cyclically-Adjusted Budget Balances for OECD Countries", OECD Economics Department Working Paper, No. 434, OECD Publishing, Paris.

projections were constructed using information on the fiscal packages shown in Figure 2.1 and employment multipliers, which show the impact of an increase in fiscal stimulus on employment. Three scenarios are presented to test the sensitivity of the estimates to alternative assumptions about multiplier effects.¹⁷

Even though many countries moved quickly to enact large fiscal stimulus packages, these packages have generally not had a strong effect in cushioning the initial decline in employment caused by the crisis, although Australia is a notable exception. By contrast, the projected impacts of the discretionary fiscal stimulus packages cumulate through 2010 and are likely to represent an important support for labour demand in the later stages of the recession and the early recovery period. The average employment effect in 2010 for the 19 OECD countries examined corresponds to somewhere in the range of 0.8-1.4 per cent. In total this represents between 3.2 and 5.5 million jobs. The jobs impact of the fiscal stimulus measures is estimated to be particularly strong in Australia (1.4-1.9 per cent), Japan (1.3-2 per cent) and the United States (1-1.8 per cent), owing to

¹⁷ For more details see *OECD Employment Outlook*, OECD Publishing, Paris, 2009. Further analysis suggests that cuts to employer social security contributions may well have a significant additional employment impact due to the relative price effect associated with a reduction in unit labour costs. If so, the estimates in Figure 2.3 may understate the jobs impact of fiscal stimulus packages which include significant cuts in employer social security contributions.

both the relatively large size of the fiscal packages in these countries and their relatively large fiscal employment multipliers.¹⁸

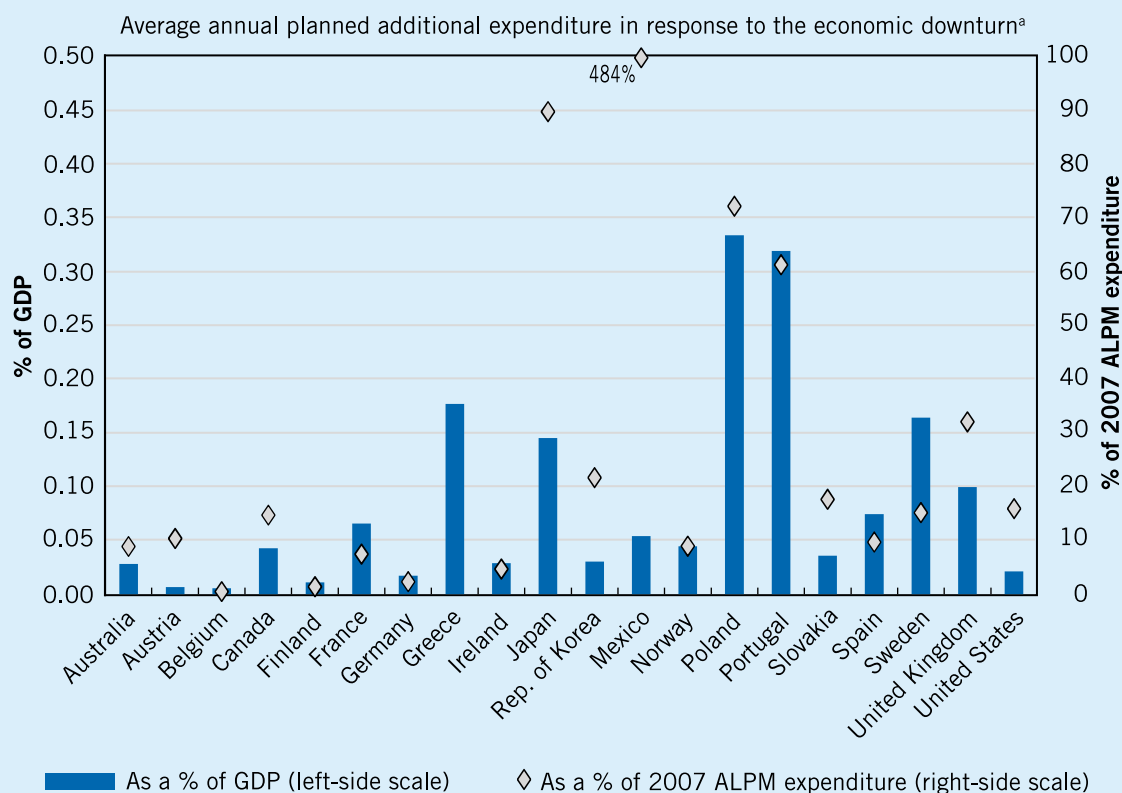
Scale and composition of discretionary active labour market measures

Turning from the overall fiscal packages to active labour market programmes (ALMPs) specifically targeted at helping the unemployed back into work, Figure 2.3 shows that the policy response to the crisis has varied considerably across countries. However, in most cases, the additional funds for ALMPs are limited.¹⁹ Greece, Japan, Poland, Portugal, Spain and Sweden are exceptions, where recent discretionary increases correspond to annual increases in ALMP spending of between 0.15 per cent and 0.45 per cent of GDP. Juxtaposing 2007 expenditure from the OECD Labour Market Policy Database with spending increases reveals that Japan, Mexico, Poland and Portugal are dramatically scaling

¹⁸ The estimated employment effects of the stimulus packages are based on information available as of June 2009. The data reflect the impact of fiscal packages on fiscal balances and may not reflect all of the measures introduced to boost activity. In particular, recapitalisation operations in the financial sector and increases in public enterprise investment are not included.

¹⁹ As shown in the first section of this chapter, many countries have implemented a range of other labour market measures, such as working time reduction schemes or passive measures such as unemployment benefits, in addition to the active measures discussed in this section.

Figure 2.3 Discretionary spending on active labour market programmes in selected countries



^a Average annual expenditure for 2008-2010. Analysis limited to countries for which spending estimates could be obtained. Denmark and Switzerland are not shown because ALMP expenditure automatically rises with unemployment in these two countries, greatly limiting the need for discretionary increases.

Source: *OECD Employment Outlook 2009*.

up national funding for ALMPs, albeit from relatively low baselines (except in Portugal).

Table 2.5 shows the types of ALMPs implemented in OECD countries in response to the crisis. Almost all countries have expanded places in training programmes for the unemployed or workers on reduced hours and increased resources devoted to job-search assistance. In many cases, this involves increasing public employment service staffing levels, but in some countries, private employment agencies have been given a greater role in helping to place jobseekers, allowing job-search assistance capacity to be expanded quickly. Many countries have also stepped up the intensity of job-search assist-

ance, notably by offering earlier personalised assistance or career counselling for jobseekers. Some training programmes are targeted at vulnerable jobseekers (e.g. youth, older workers, low-skilled or migrant workers), but most places are available for all unemployed persons. Fewer countries have expanded work-experience programmes and where these have been expanded they tend to be targeted at disadvantaged groups, notably youth. A handful of additional programmes have been established to encourage jobseekers to take up jobs or establish small businesses, either through direct incentive payments to workers, subsidies to employers, low-interest loans, reduced social contributions or in-kind assistance with training, child care or travel costs.

Table 2.5 Discretionary changes in ALMPs in response to the crisis

	Job subsidies and recruitment incentives	Reductions in non-wage labour costs for hiring unemployed	Job-search assistance and matching	Job-finding and business start-up incentives	Work-experience programmes	Training programmes
Australia	X		X			X
Austria			X			X
Belgium			X			
Canada	X		X		X	X
Czech Republic						X
Denmark						X
Finland			X	X		X
France	X	X	X		X	X
Germany			X			X
Greece	X		X			X
Hungary	X					X
Ireland			X		X	X
Italy			X			X
Japan	X		X	X	X	X
Korea, Rep. of	X		X	X	X	X
Mexico	X	X	X	X		X
Netherlands			X			X
New Zealand			X		X	X
Norway			X		X	X
Poland	X	X	X			X
Portugal	X	X		X	X	X
Slovakia	X	X		X		
Spain	X	X	X	X		X
Sweden	X		X		X	X
Switzerland						X
Turkey		X				X
United Kingdom	X		X	X	X	X
United States	X		X		X	X

Note: Refers only to federal or national government initiatives targeted at the unemployed, inactive or vulnerable workers. In Denmark and Switzerland, active labour market expenditure increases automatically when the unemployment rate increases (or is expected to increase) and is not shown in the table.

Source: Responses to OECD/European Commission questionnaire.

Information annex 1

Employment and social policy measures in response to the crisis

This information annex seeks to illustrate more concretely the range of measures taken by individual countries to stimulate labour demand, protect jobs and the unemployed, extend social protection and promote social dialogue. It is accompanied by initial comments with reference to recent knowledge and literature.

This is preliminary and a work in progress. It will be further developed on the basis of additional inputs by G20 countries, ILO constituents and relevant international organizations.

This information will be submitted for discussion and review to the Governing Body of the International Labour Office, at its forthcoming session in November 2009.

The product of this process will be available to the G20 for any follow-up decided by leaders on these issues.

1. Measures to create and retain employment

Measures to create and retain employment endeavour to keep people attached to the labour market and, in so doing, to support aggregate demand. Measures being undertaken include the following.

1.1 Infrastructure spending

Crisis-related rationale:

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.

Infrastructure spending has the largest multiplier effects, larger still in developing countries, and is the most direct way of increasing employment and of boosting or stabilizing aggregate demand. The large multiplier effects simply mean that direct effects of infrastructure spending spill over positively to other sectors of the

economy – even if initially directed toward an ailing sector in particular, such as construction.²⁰ An additional spillover effect of infrastructure spending, constituting a multiplier over time, is that it lays the foundation for future growth and achievement of long-term development objectives.

One assessment of the impact of infrastructure spending on employment concludes that US\$1 billion spent on large projects generates employment in the area of 28,000, both directly and indirectly in roughly equal proportions, in advanced economies.²¹ 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, suggesting that the choice of production technology, whether labour-based or equipment-based, can significantly influence the employment component of the expenditure.²² In its direct and indirect employment effects, especially over the longer term, infrastructure spending in developing countries is a superior choice. In its longer-term multiplier effect, moreover, the effect is likely to be greater.

While some large projects may engage large firms with high capital intensity, maximizing the employment component of infrastructure spending is a viable option for smaller, local infrastructure projects. By combining the benefits of both backward and forward linkages (such as procuring local materials and hiring local

²⁰ The multiplier effects are presumed to be around 1.5; see J. Bivens, J. Irons and E. Pollack, 2009. Tools for Assessing the Labor Market Impacts of Infrastructure Investment. EPI Working Paper, April 7.

²¹ Levine, L. 2008. *Job Loss and Infrastructure Job Creation During the Recession*. Congressional Research Office. See also ILO. 2002. *The Labour-Based Technology Source Book*, sixth edition, ILO-ASIST, Harare.

²² Tuck, L., Schwartz, J. and Andrea, L. 2009. *Crisis in LAC: Infrastructure Investment and Potential for Employment Generation*. World Bank LCR Crisis Briefs.

Box 1. Countries with employment criteria in their infrastructure spending

<i>Country</i>	<i>Employment criteria</i>
Argentina	Infrastructure spending of \$68 billion will be allocated using a combination of large enterprises and SMEs; local infrastructure will be built using labour-intensive techniques.
Australia	The Government announced the largest single infrastructure project in Australia's history—a \$43 billion broadband network which is expected to create 25,000 jobs per year (for up to eight years). In addition a \$650 million Jobs fund for infrastructure development will target communities affected by the global downturn.
France	France's crisis-related infrastructure measures are expected to create between 80,000 and 110,000 jobs.
Hungary	As part of the Pathway to Work programme, the maintenance of local infrastructure (schools, public places, child care and health care organizations) will be achieved through local public works, which tripled its funding from 2008.
Indonesia	The Economic Stimulus Package (ESP) of \$7.3 billion includes an allocation for local resource based investments of \$1.2 billion in main and local infrastructure. The ILO is currently helping to improve labour-intensiveness. It is estimated that about one million jobs could be created if 50 per cent of the infrastructure were implemented using employment-intensive approaches.
Ireland	Reprioritization of capital expenditure to support labour-intensive activities where possible.
Saudi Arabia	The four cities infrastructure project is expected to draw almost SR 300 billion in investment and create more than one million jobs. These economic zones are located in less developed regions and specifically selected to ensure that development and employment opportunities are spread equitably across the Kingdom.
South Africa	The R787 billion project for infrastructure development includes a provision that wherever possible labour-intensive approaches will be used for road maintenance.
Ukraine	Temporary reassignment of workers from the most affected industries (i.e. metallurgy, construction) to others (for example, repairs) to avoid lay-offs. Dismissed workers can otherwise be employed in the preparation of EuroCup 2012. In this case they will be paid guaranteed minimum wages out of the unemployment fund
United Kingdom	The Government is "making it a requirement that successful contractors have apprentices as an identified proportion of their workforce". It estimates that this could lead to an extra 7,000 new apprentices in construction over the next three years.
Paraguay	The counter-cyclical public works programme has been strengthened through more efficient resource allocation, the decentralization of programmes and the expansion of activities. More than 20,000 jobs are expected to be created during the crisis. ¹
South Africa	In addition to transportation and irrigation projects, the public works programme will give more attention to home-based care and community health. The programme targets poor heads of households and is expected to benefit women, who tend to be less represented in traditional public works schemes. It is expected to create 4.5 million job opportunities of 100 days, including skill acquisition opportunities.
Mexico	The country's temporary works programme has been expanded to provide employment opportunities to an estimated 250,000 workers in 2009 for a period of between four and six months at a salary of twice the minimum wage. The cost is \$160 million.
Peru	Expansion of targeted works programme to provide four months of employment for 16,000 workers at a cost of \$13 million.
Uruguay	Expansion of public works programme for up to eight months targeted at the long-term unemployed; basic wage provided and access to social security benefits.

¹ Reinecke, Gerhard. 2009. Public investment as anti-cyclical policy tool to face the crisis: Paraguay's example. ILO. Chile.
 Note: The EU Social Fund, the EU Regional Fund and the European Investment Bank are co-funding EU Member States' crisis actions.

labour), they can have a strong immediate impact on the local economy and underpin future development. As such, these projects become a tool for local development.²³ One-third of the 54 countries assessed have included a specific employment component in their fis-

²³ Murphy, L. Rapid Assessment of Poverty Impacts (RAPI): Elaboration of a Rapid Survey Method of Assessing the Poverty Reduction Impacts of Pilot Employment-Intensive Projects. Geneva. ILO.

cal spending on infrastructure, often with even more specific targets for disadvantaged groups (Box 1).

Infrastructure spending in the crisis period is often in the form of "public works programmes", where the government is the employer of last resort. The two overlap but are not synonyms, as public works can relate to any government-funded activity to strengthen or maintain the link to the labour market for those who risk being

severed from it. Elder care, community service, or other service activities have often been publicly funded and constitute public works targeted toward the disadvantaged. Noteworthy is India's National Rural Employment Guarantee, a programme that existed prior to the crisis, but that with it has become an important automatic stabilizer, with a majority share of poor women employed – and employed in “green jobs”.

Chile provides a good illustration linking fiscal responsibility, the title of a new law adopted in 2006, with socially responsible employment policy. The law determines that should unemployment exceed 10 per cent, or the average over the previous five years, then a contingency fund is automatically activated to finance emergency employment measures.

1.2 Direct financial support to enterprises

Crisis-related rationale:

Otherwise viable businesses, particularly SMEs, have not only faced troughs in demand but are starved of credit.

Stimulating demand through public spending

SMEs form the bulk of employment in most economies and targeting them for assistance makes sense in instances of sharp falls in demand having little to do with the businesses themselves. Public procurement opportunities are well within the grasp of many SMEs, although they may be disadvantaged by tender procedures that favour larger firms (or to which larger firms can more readily respond). Several countries have tailored procurement bids to smaller firms in this period. A few examples are shown in Box 2.

Box 2

- *Hungary*: Support for SMEs has increased from 50 to 70 per cent of projects, tender evaluation time has been reduced and the rate of advanced payment has increased.
- *Mexico*: The stimulus package, requires at least 20 per cent of government purchases to be made from small and medium-sized companies.¹
- *Peru*: \$50 million increase in public purchases from SMEs.
- *South Africa*: The Government has introduced an objective of ensuring preferential procurement for SMEs.
- *United Kingdom*: Launch of a campaign urging small businesses to register with the Government's online procurement portal.²

¹ “Stimulus plan to curb impact of crisis”, IPS News Agency. 18.03.09. ² Supply2.gov.uk.

Improving access to credit

Crisis-related rationale:

A defining characteristic of this period has been the dramatic contraction in credit supply available to firms and consumers.

Firms are not only faced with falling sales, but also with limited access to financing and high borrowing costs. In developing countries where banks were not directly exposed to the crisis, trade credits have dried up, risk premiums have soared, and SMEs are considered riskier than large firms because of the volatility of their survival rates. Keeping SMEs afloat during turbulent times is a strategy for preserving and creating jobs, and several countries have targeted the small-firm sector for particular assistance. Public banks have played a key role in sustaining and increasing the availability of credit in several countries. For instance, in Brazil, between September 2008 and April 2009, public banks increased credit outlays by close to 20 per cent against 2.5 per cent in private institutions. Box 3 provides some examples.

Box 3

- *Argentina*: New credit facilities provide low-interest loans of up to \$300,000 for SME investment.
- *Brazil*: The credit resources of the national development bank (BNDES) were increased by 85 per cent in 2009.
- *China*: 9 billion RMB were made available for loans to micro enterprises, collateral requirements for SMEs were eased and interest rates for loans were subsidized.
- *The European Commission* has introduced a new micro-finance facility of an initial budget of € 100 million to support small businesses and entrepreneurs.
- *France*: Public guarantee schemes have been extended to cover up to 90 per cent of the risks related to a loan as compared with 50 to 60 per cent on average previously.
- *India*: Increased credit facilities for labour-intensive export firms and increased guarantees for small enterprises.
- *Italy*: Increased guarantees and €8 million for increased credit to SMEs; additional credit available for firms exporting outside the EU.
- *Japan*: 10 trillion yen allocated to the Credit Guarantee Association to ease credit constraints on SMEs and an additional 4 trillion for safety net loans.
- *Serbia*: CSD 3.1 billion made available in start-up credits for entrepreneurs and SMEs.
- *United Republic of Tanzania*: An additional TZS 29 billion injected for credit guarantees for export firms and SMEs.

Box 4

- *Argentina*: Reduced social security contributions for enterprises in economic difficulties, conditional on maintaining employment.
- *Egypt*: As part of its stimulus package, the Government proposed tax rebates for loss-making small businesses.
- *France*: Reduced taxes for new investment until January 2010 at cost of €1 billion; also exemption of social security contributions for low-paid workers in SMEs for up to one year.
- *India*: Lower tax rates for exporters and lower export duties.
- *Republic of Korea*: Tax rate for smaller businesses reduced by 2 per cent to 11 per cent in 2009 and a further 1 per cent the following year; the rate for larger businesses reduced 3 per cent to 22 per cent and then further to 20 per cent.
- *United States*: Reduction in capital gains tax for small businesses.

Reducing taxes

Crisis-related rationale:

Tax reductions represent an increase in real income to both consumers and businesses, and lower business costs.

Tax reductions take as many forms as there are taxes, and represent a large share of overall stimulus packages: 56 per cent of the net effect of stimulus packages in OECD countries consists of tax-related measures.²⁴ One reason for this is the rapidity with which this stimulus measure can be implemented. Speed of impact and impact, however, are not the same. Taxes affect aggregate demand indirectly through propensity to spend or invest, and have been shown to have lower multiplier effects and to be less effective in stimulating aggregate demand and creating jobs than public spending.²⁵ This is particularly true with regard to personal income tax reductions: people save rather than spend in times of adversity.

Nonetheless, some tax reductions, particularly those applied to businesses (but also to consumption, such as VAT) can have larger employment effects than suggested by aggregate multipliers. Many countries have lowered business costs through reductions in social security contributions or other payroll taxes. The penalty, of course, is a shortfall in fiscal receipts to government,

²⁴ OECD 2009, Economic Outlook Interim Report, March.

²⁵ Congressional Budget Office, 2002 Economic Stimulus: Evaluating Proposed Changes in Tax Policy. Washington DC: CBO, January; Elmendorf D. and J. Furman 2008. If, When, How: A primer on fiscal stimulus. The Hamilton Project, Brookings Institution, Washington DC, January.

but this is an impact that is presumably made up for in employment preserved (and taxes paid). Exemptions are in general also a temporary measure in the cyclical downturn. An advantage of cutting business taxes is that they reduce business costs without affecting workers' wages and thus aggregate demand.

Tax policy has also been used to prop up lagging sectors, with major-expenditure durables leading the list. Box 4 highlights country examples to stimulate demand and preserve jobs through the lever of tax adjustments.

1.3 Adjusting labour conditions to fit current demand

Two mechanisms to adjust labour conditions to fit depressed demand are being used by governments and enterprises, often in agreement with trade unions. These are wage and working-time adjustments. Wage freezes have been used as a means of cost stabilization in return for employment maintenance.²⁶ In some countries that had recourse to wage freezes in 2009, real wage increases had been particularly rapid in preceding years. While, at the macro level, depressed wages can result in a dampening of aggregate demand, the alternative of lay-offs would have the same, perhaps even worse, effect. This is particularly true in settings where income replacement mechanisms are weak or non-existent. Box 5 reports on some country experiences.

Minimum wages constitute a wage floor, guarding against wage deflation and excessive declines in aggregate demand. As such, they can be considered an auto-

²⁶ "More firms freeze annual pay rises", Virgin Media, web site, 20.02.09. The article is based on figures of the Industrial Relations Services.

Box 5

- *China*: Local governments have frozen wage increases in 2009.
- *Ireland*: Previously tripartite agreed wage increases in the private and public sector will be postponed.
- *Republic of Korea*: Freezing of wages in financial institutions and a maximum 30 per cent cut in salaries of university graduates in order to share jobs.
- *Latvia*: Wage reductions of 15 per cent for state institutions and public services for 2009; teachers' wages reduced by half from September 2009 and health-care workers' wages reduced by 20 per cent.
- *Serbia*: Salary freezes and cuts for above-average salaries in the public sector.

matic stabilizer, and are also associated with reductions in poverty levels. They are, moreover, targeted at those with the greatest propensity to consume. The effect on aggregate demand of minimum wages has been noted since the Great Depression, when the United States adopted a minimum wage as “an essential part of economic recovery”. Depending on the relative level of the minimum wage, as compared to the median wage for instance, adverse employment effects can occur, particularly for some categories of workers, such as youth. Minimum wages can be combined with other direct anti-poverty measures into a highly effective package, as illustrated in Brazil.

Work-sharing, the reduction of working hours to spread reduced workloads more evenly among workers, has attracted interest in the context of the crisis. The most sophisticated systems are those in which strong company-level negotiations are backed by government subsidies and access to training.²⁷

Businesses benefit from lower labour costs, while workers receive a portion of their lost salary from unemployment or social security schemes. The combination is generally more than unemployment benefits alone and is thus a means of stabilizing aggregate demand while lowering enterprise costs. Germany’s *Kurzarbeit* programme has been heralded in particular. It is the largest in the world, covering 1.3 million workers as of March 2009, and has been credited with increasing consumption by 0.3 per cent per month and preventing unemployment from rising an additional percentage point.²⁸ The European Social Fund supports EU Member State schemes to retain persons in employment through short-time work and training. Box 6 gives examples of what some countries have done to encourage this.

Work-sharing arrangements subsidized from the fiscal purse, of course, are not within the reach of many lower-income countries. In 2008, Argentina, for example, quickly reactivated the *Programa de Recuperación Activa*, designed during the 2002 crisis. A monthly wage supplement is provided to employees for up to 12 months, with an agreement not to dismiss workers.

Work-sharing has been shown to be a cost-effective employment retention measure, with retention in the labour market being an overarching concern. There are downside concerns as well. Subsidizing jobs that might otherwise disappear is one of them. Settings in which dismissal is easier and more cost-effective at the micro level frustrate work-sharing measures. But if the social gains of retention in the labour market are paramount,

²⁷ Eurofound. 2009. Tackling the recession: Employment-related public initiatives in the EU Member States and Norway.

²⁸ Broyer, S.; Costa, B. 2009. How do you explain the resilience of the German job market? Natixis Special Report, 30 June, No. 194.

Box 6

- *Germany*: The *Kurzarbeit* programme, which is expected to cost €5 billion during 2009-10, has extended the maximum benefit period from six to 24 months for companies that sign on in 2009. The Federal Employment Agency covers up to 67 per cent of wage losses for workers whose hours have been reduced, while also reimbursing employers 50 per cent of social security contributions (and 100 per cent if reduced working hours are used for training).
- *Japan*: The Employment Adjustment Subsidy is payable directly to employers and has been increased from one-third of employee adjustment costs to two-thirds for large enterprises, and from two-thirds to nine-tenths for SMEs - to a maximum of \$80 per day (if training is provided the amount can be increased by another \$63 per day for a maximum of three years). The subsidy is financed from the employer's contribution to unemployment insurance.
- *Poland*: A work-sharing programme supported by workers' and employers' organizations was added in July 2009, financed from the Guaranteed Employee Benefits Fund. It also establishes training support, with up to 90 per cent of the costs to be paid from Unemployment Benefits/Labour Fund (the rest financed by employer training funds).
- *Turkey*: The Government has extended the length of time that workers can benefit from the reduced hours fund from three to six months and increased the benefit level by 50 per cent.

then work-sharing measures are to be recommended, particularly in the context of a financial crisis with associated lags of labour market recovery.

2. Assessing the salience of labour market policies

The crisis in the world of work is mediated through existing labour market policies and institutions. They have a clear role to play, and labour market outcomes are mediated through them anyway. Three such policies are considered here: public employment services, skills and training programmes, and hiring subsidies.

2.1 The public employment service

Crisis-related rationale:

Labour market information is all the more precious to those who lose their jobs and are looking for another. This is the central function of the labour market intermediation of public employment services – job matching,

associated training needs and targeting of particular labour market subgroups. The premise in a crisis is that demand for public employment services will outstrip supply, that the capacity of public employment services requires strengthening, and that in the midst of job loss, there remain job vacancies.

Amid widespread job loss and job scarcity, public employment services have a crucial intermediation role to play, if only because vacancies and labour surplus have

always coexisted, even in recessions. Demand on public employment services, which cater to both the demand and supply sides of the labour market, has built up on the supply side – the job losers, and new entrants to the labour market. Young persons looking for their first job face a particularly difficult labour market situation – the pros and cons of what can be done to assist them are described in Box 7 below. One effect of the current crisis has been closer collaboration between public and private providers of employment services, as has been the case in the Netherlands, Belgium and France, through, inter alia, an exchange of trained staff.

Box 7. Youth employment programmes: Advantages and disadvantages

Type of programme	Advantages	Disadvantages
Labour market training	Works better with broader technical and employability skills that are in demand and includes work experience as well as employment services.	May produce temporary rather than sustainable solutions and if not well targeted, may benefit those who are already “better off”. Training alone may not be sufficient to increase youth employment prospects.
Employment services (career guidance, job search and labour market information)	Can help young people make realistic choices and match their aspirations with employment and training opportunities; can improve information on job prospects, as well as the efficiency, effectiveness and relevance of initiatives. They can also increase targeted/tailor-made design and implementation.	May create unrealistic expectations, if not linked to the labour market, and often cover only urban areas and the formal economy.
Employment-intensive public works and community services	Help young people gain labour market attachment and, at the same time, improve physical and social infrastructure, especially if combined with development and sectoral strategies. They can increase employability, if combined with training.	Low capacity for labour market integration; young workers may become trapped in a spiral of temporary public works programmes; often gender-biased; displacement of private sector companies.
Employment subsidies	Can create employment, if targeted to specific needs (e.g. to compensate for initial lower productivity and training) and to groups of disadvantaged young people.	High deadweight losses and substitution effects (if not targeted); employment may last only as long as the subsidy.
Entrepreneurship promotion	Can have high employment potential and may meet young people’s aspirations (e.g. for flexibility, independence); more effective if combined with financial and other services, including mentoring.	May create displacement effects and may have a high failure rate, which limits its capacity to create sustainable employment. They are often difficult for disadvantaged youth, owing to their lack of networks, experience, know-how and collateral.

Source: Rosas, G., Rossignotti, G., “Starting the new millennium right: Decent employment for young people”, *International Labour Review*, Vol. 144 (2005), No. 2, Geneva.

Several studies of youth employment programmes have shown that while some programmes are successful, others fail to enhance participants' chances of gaining a job. Several youth employment programmes in Latin America (as in Chile, the Dominican Republic and Uruguay, for instance) underscore the role of integrated interventions providing a package of training, income support and employment services targeted at low-income and low-skilled youth.

Labour market information is the chief function of the public employment services, yet other sources also provide labour market information. Indeed, during the Asian financial crisis, registrations in the Republic of Korea's public employment services increased tenfold, although only 5.8 per cent of those registered found employment through the public employment services, the remainder finding it through other means.²⁹ In the present crisis, lessons from previous crises have apparently been learned. These relate for the most part to staffing and capacity, and examples are illustrated in Box 8.

In countries with little public employment service capacity, "emergency public employment services"³⁰ might be worthwhile. This measure has been used to deal with crises of a different order – military, natural

²⁹ Betcherman, G.; Islam, R. 2001. East Asian Labor Markets and the Economic Crisis. ILO and World Bank.

³⁰ *Guidelines for the Establishment of Emergency Employment Services.*

Box 8

- *Australia:* A\$42 billion were invested in employment services, covering a wide range of services, including the reshaping of the public employment services and directing job services towards various population segments.
- *Canada:* Increased staff and longer public employment service opening hours.
- *Dominican Republic:* The country has opened seven new public employment service regional offices.
- *Germany:* €2 billion injected to increase the staff of federal employment agencies by 5,000 persons.
- *Mexico:* \$138 million has been allocated to the national unemployment service to extend hours and improve services.
- *Cambodia:* Strengthening public employment services through nine new regional job centres.
- *Spain:* The public employment services have hired 1,415 staff in employment offices and 1,500 staff members to assist with job search.

disasters, etc. The procedure is to establish temporary employment agencies, often mobile and often designed for casual labourers. The principle might well be appropriate to economic crises in some other locations.

The intermediary and informational role that public employment services play is vital to labour market functioning. In the context of economic downturns, the effectiveness of employment services faces particular challenges.³¹

2.2 Skills and training

Crisis-related rationale:

At the micro level, this is the opportunity for some enterprises to invest in skills in anticipation of recovery, and to reduce obsolete skills, sometimes with government support for employment retention. For economies that view the current passage as a change in economic structure, investment in the skills required for the future is an appropriate macro-level response.

Idle demand but retained employment creates the opportunity for skill development, as many enterprises and countries have realized.

Box 9 shows how some countries are addressing skill development needs. Box 10 shows how some countries are using the interruption of the business cycle to address the longer-term concerns of environmental sustainability. A shortage of skills for "green jobs" is a constraint for conversion to a sustainable economy, and many countries are using the crisis as an opportunity for more sustainable patterns of growth.

The recovery from the crisis will look different to the global economy that brought us here – in other words, substantial economic transformation will be an integral part of the recovery. To the extent that the opportunity for economic restructuring exists, supply constraints need to be met with appropriate investment in skills.

Some studies have called into question the value of training on the grounds of cost-effectiveness, minimal effect on employment outcomes during recessionary periods, and the high amount of deadweight loss.³²

Other studies suggest that skills training is more effective when well targeted towards disadvantaged and displaced workers, and tailored best to fit local labour

³¹ de Koning, J. 2001. Aggregate Impact Analysis of labour market policy: A literature review, *International Journal of Manpower*, Vol. 22, No. 8, pp. 707-734.

³² Friedlander, D., D. Greenberg and P. Robins. 1997. Evaluating government training programmes for the economically disadvantaged. *Journal of Economic Literature* 35(4).

Box 9

- *Ireland*: €128 million was re-allocated to provide additional training slots for some 25,000 participants; training programmes were added in sustainable energy and green technology.
- *Hungary*: A HUF 10 billion programme was instituted to provide training, along with an extra HUF 20 billion for training targeted at those who lost their jobs during the crisis.
- *Indonesia*: 300 billion rupiah allocated for training the unemployed; the goal is to increase trainees by 5,000.
- *Malaysia*: In cooperation with industry, training programmes have been increased by 10,000 participants, while on-the-job training has been provided for 1,000 unemployed graduates.
- *Saudi Arabia*: Funding has been increased by close to 17 per cent for education and training to support the unemployed.

Box 10

- *United States*: The Green Jobs Act enacted prior to the crisis in 2007 envisions the creation of 3 million new jobs. It supports on-the-job apprenticeship and training programmes to meet increasing demand for skilled workers in energy efficiency and renewable energy installations.
- *Spain*: The Government's green jobs objectives consist of two components. The first involves raising employment rates, which is an €8 billion investment fund aimed at increasing local investments in the environment, pollution prevention, energy efficiency, road safety and urban mobility. The second component is the €3 billion special fund for the stimulation of the economy and employment,¹ aimed at investing in strategic sectors to improve infrastructure, technology and energy efficiency. This has already resulted in 76,180 new jobs.²
- *Republic of Korea*: The fiscal stimulus plans to create 8.5 million new jobs through 2017, most in green infrastructure - there is an allocation of \$6 billion for energy conservation and \$7 billion for clean transportation. The plan also includes a target of 23,000 jobs in 2009 for low-income earners and the unemployed.
- *China*: 210 billion yuan will be directly allocated to energy conservation, emission reduction and environmental protection. Policy measures include a prioritization of eco-friendly products in public purchases and tenders; assessments based on the environmental soundness of growth; carbon emissions reduction targets in national development programmes; and setting targets to reduce energy intensity, chemical oxygen demand and sulfur dioxide emissions.

¹ <http://www.meh.es/> ² <http://welcome.plane.gob.es/figures/>

market needs, with the implication that local labour market needs diagnoses precede training strategies. Targeting appears important: evaluations show that initiatives aimed at adult women are particularly successful.³³

For working women and men in the informal economy beyond the reach of formal training institutions, there are nonetheless strategies for improving productivity and raising incomes. Apprenticeship training in the informal economy is a widespread practice and a strong means by which to increase the income-generating potential of poor people. Apprenticeships in this context can be structured learning experiences that are transmissible and replicable, contributing to the creation of a foundation of occupational standards. Such approaches require more attention.³⁴

2.3 Hiring subsidies

Crisis-related rationale:

They reduce the cost of labour and thus stimulate labour demand. They are often targeted to labour-market disadvantaged groups. They are paid out of the fiscal purse. Under certain conditions, they can raise hires, although displacement of workers is a risk. They can be temporary and ought to be.

An important stimulus to employment can come from subsidizing the recruitment of newly hired and disadvantaged jobseekers. This is of particular importance to displaced workers and young workers, who face unusual barriers to their entry to the labour market in the present conjuncture. Subsidies of this nature can be considered as an important counter-cyclical tool in the face of the crisis affecting labour demand. However, at a time when jobs are scarce, substitution and deadweight costs exist. Hiring subsidies can be effective during a strong recovery, to encourage the employment of vulnerable workers and raise their labour market attachment.

Box 11 shows examples of what some countries have done in this regard. In general, hiring subsidies are more effective when they are well targeted to specific categories of workers. Effectiveness can be further enhanced through reasonable duration of programmes and as part of an integrated package of services supporting job ac-

³³ Martin, J.P. 2000. What works among active labour market policies: Evidence from OECD countries' experiences. OECD Economic Studies No. 30, 2000/1, pp. 79-113.

³⁴ Nubler, I.; Hofmann, C.; Greiner, C. 2009. Understanding informal apprenticeship: Findings from empirical research in the United Republic of Tanzania, ILO Employment Working Paper No. 32, Geneva.

Box 11

- *Chile*: Employment subsidy for hiring young workers (aged 18 to 24 years).
- *France*: A €3,000 subsidy given to enterprises that hire an intern on a permanent contract.
- *Japan*: Firms hiring persons with disabilities for the first time will receive 1 million yen, with graduated subsidies based on number hired and when.
- *Republic of Korea*: Subsidies given to SMEs for new hires, interns, and for converting irregular to regular jobs.
- *Romania*: Tax reductions for SMEs hiring job-seekers.
- *Slovakia*: Subsidies for new jobs and reduction of employment taxes for employers that might otherwise retrench workers.
- *United Kingdom*: Companies will receive £2,500 for hiring workers who have been unemployed for more than six months.

cess for vulnerable groups. Some experience suggests that the overall employment effect of targeted wage subsidies is positive, albeit modest.³⁵

3. Supporting the unemployed and social protection

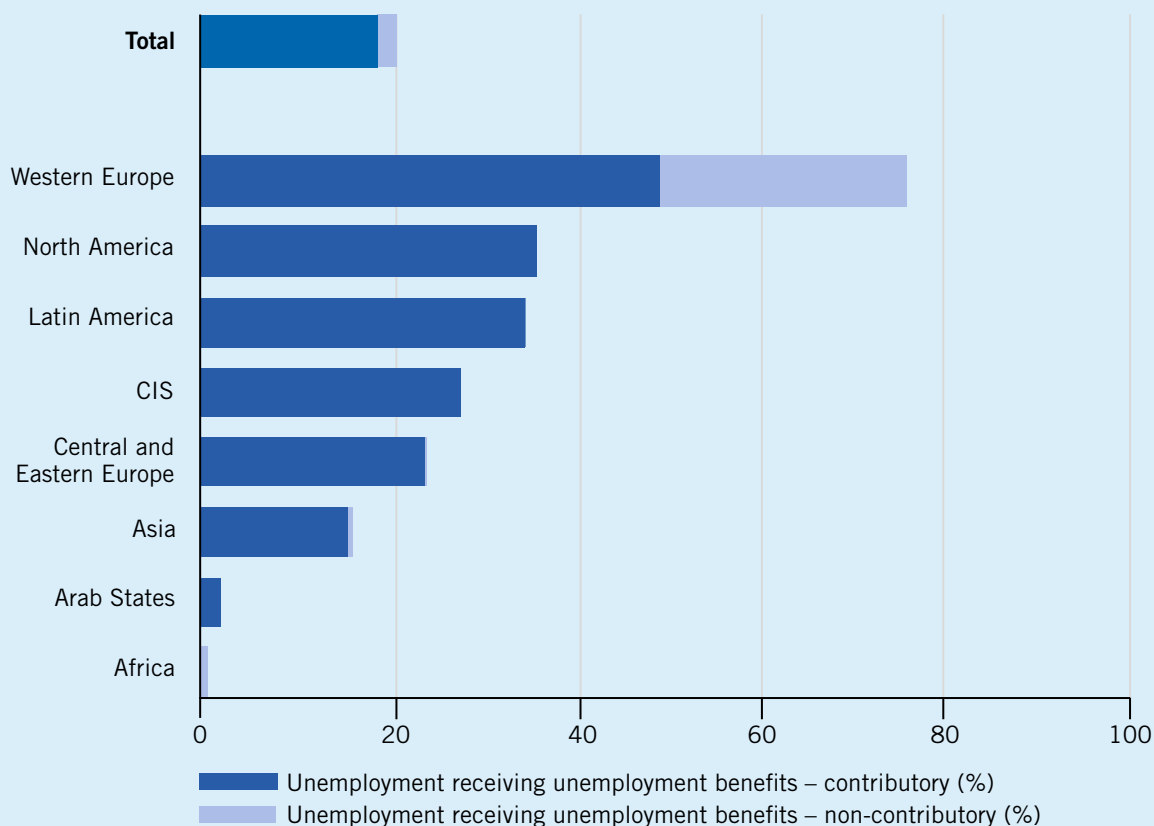
Crisis-related rationale:

Massive job losses, coupled with existing underemployment and poverty, entail the risk of a social crisis fomented by the economic one. Social protection programmes play a major role in stabilizing aggregate demand. Their absence, globally, is widespread.

Unemployment insurance schemes are the branch of social security that bears the brunt of income replace-

³⁵ See Gupta, Nabanita Datta; Larsen, Mona. 2008. Evaluating Employment Effects of Wage Subsidies for the Disabled, the Danish Flexjobs Scheme, which provides a useful review of the literature. The experience in Germany is reviewed in Jaenichen, Ursula; Stephan, Gesine. 2007. The Effectiveness of Targeted Wage Subsidies for Hard-to-place Workers, IAB discussion paper, No. 16.

Figure 1. Percentage of total unemployment with unemployment benefits (contributory and non-contributory), weighted by labour force



Source: ILO estimates.

ment for employees who have lost their jobs. Extended in downturns, unemployment insurance is an automatic stabilizer of proven worth in the present crisis. Unemployment benefits are in place in only 56 of 167 countries for which information is available. Coverage and benefits vary greatly across countries.

Evidence from the United States suggests that transfer schemes, such as food support and extension of unemployment benefits, can be consequential stimulus measures in a downturn.³⁶

In previous economic crises, as in Latin America and Asia, most countries did not have social security systems. Consequently, unemployment and poverty soared. On the contrary, countries that had unemployment insurance schemes prior to the crisis, such as the Republic of Korea and Argentina, were able to scale up their mechanisms in response to the crisis, as the channel for doing so was already in place.³⁷

3.1 Current benefit schemes

In the current crisis, many countries have extended unemployment schemes and/or expanded coverage. Germany, the Netherlands and France have expanded the application, eligibility and coverage of partial unemployment benefits. Partial unemployment benefits allow workers to stay in their employment relationship, but at reduced working hours (work sharing). It aims to prevent the loss of skills and the discouragement of workers, which may occur when they become fully unemployed. Examples of extension and expansion are shown in Box 12.

In many middle-income countries in Asia and Latin America self-employment and informal employment shares are high. Unemployment schemes are not accessible to such workers. In addition, the crisis has pushed more workers into the informal economy and non-standard forms of work, further limiting coverage.

In several low-income economies, schemes have been introduced relatively recently (Viet Nam and Bangladesh) and coverage is limited to certain categories of formal employment workers.

Several low-income countries have various small-scale pilot income support schemes providing cash benefits

³⁶ Each additional dollar spent increases GDP by 1.6 for unemployment insurance and 1.73 for food stamps. Bivens, J., J. Irons and E. Pollack, 2009. Tools for Assessing the Labor Market Impacts of Infrastructure Investment. EPI Working Paper, April 7.

³⁷ Kang, Soon-Hie et al.: Korea (Rep. of): Labor Market Outcomes and Policy Responses after the Crisis, in: Betcherman, Gordon; Islam, Rizwanul (ed.) op. cit.; see also Prasad, Naren; Gerecke, Megan. 2009. Employment-oriented crisis responses: Lessons from Argentina and the Republic of Korea, International Institute of Labour Studies, Geneva.

Box 12

- *Brazil*: Two months' extension in the benefit payment duration of unemployment insurance for formal-sector workers in the most crisis-ridden sectors. This will reach around 103,000 workers, or 20 per cent of the schemes' beneficiaries.
- *Chile*: Unemployment insurance has been expanded to cover workers with fixed-term employment or service contracts for up to two months of benefits at replacement rates of 35 per cent of income. The objective is to cover 25,000 additional workers per month.
- *Czech Republic*: The duration and amount of unemployment benefits have been increased (by one month). Expenditure on unemployment benefits for January to April 2009 has almost doubled with respect to the same period last year.
- *France*: Unemployment benefits have been extended to those who have worked four months within the last 28 months, with a duration equivalent to the duration of work, up to 24 months (36 months for workers over 50 years of age).
- *Romania*: Unemployment benefits have been extended from six to nine months.
- *United States*: Extended unemployment benefits for up to 33 weeks and the amount increased by \$25 per week; 25 million workers will benefit.

and/or employment to various targeted groups of the population. These are usually too small to help in the current crisis beyond targeted groups, but there is evidence that the capacities of benefit delivery and administration are gaining ground. The decisive and missing factor in many cases is sustainable funding, which has to come through joint long-term commitments of the governments, supported temporarily, where necessary, by the donor community.³⁸

Unemployment insurance systems are critical in providing income support during downturns and in enhancing job search. However, they are criticized for providing limited economic stimulus and prolonging job search.³⁹ Such views suggest unemployment benefits provide a disincentive to job search and an incentive to remain unemployed. The exact terms of the right balance between hiring and firing flexibility and security of income of workers remain elusive, save in a few countries with well-established social protection systems.

³⁸ Economic Policy Research Institute: Low-income country preparedness for social protection responses to the global crisis. Draft Paper. 5 March 2009.

³⁹ Kyung Won Lee, James R. Schmidt and George E. Rejda, "Unemployment Insurance and State Economic Activity," *International Economic Journal*, Vol. 13, No. 3 (Autumn 1999), pp. 77-95.

3.2. Social assistance

Unconditional transfers

Where access to health care and health insurance is linked to employment, workers (and their families) who lose their jobs and source of income simultaneously lose affordable health services. Measures that protect the unemployed from losing access to health care, other social services or other social benefits (like pensions, maternity and family benefits) are crucial – but often forgotten – elements of the design of any scheme providing protection to those affected by job losses.

A number of countries, like Chile and Mexico, used lessons learned previously. Today, they are much better prepared to cope with the consequences of the crisis. Only a few countries have announced cuts and freezes in social spending, normally as a way of limiting public sector debt. Most have sought to expand coverage or increase benefit levels of pensions, health schemes and family benefits. Examples are given in Box 13.

Conditional cash transfers

Several countries have expanded conditional cash transfers (CCT) that provide direct cash payments to recipients in exchange for an obligation to partake in specific services. Conditions range from enrolling and maintaining children in school to receiving medical check-ups on a timely basis. Compared to unconditional cash transfers, CCTs influence household behaviour by tying supplemental income to choices that improve their human capabilities in the long run. The premise is that “affordability not availability is what constrains the utilization of services”, and this is expected to be further accentuated by the global crisis.⁴⁰

CCT programmes have gained in popularity since their success during the Latin American crisis of the

⁴⁰ UNDP India, 2009. Conditional cash transfer schemes for alleviating human poverty: Relevance for India. April.

Box 13

- *Bangladesh*: Increase in old-age pension by 20 per cent.
- *Brazil*: Social assistance extension, raising of old-age pension in line with minimum wage.
- *Chile*: Extension of social pensions to another 5 per cent of the poor elderly, and a raise in the benefit level.
- *China*: Gradual extension of old-age pensions to the rural population; lower health insurance premiums encouraged.
- *France*: 6.9 per cent increase in old-age pensions; extension in health coverage.
- *India*: Expansion of pension and health coverage.
- *Kenya*: Cash transfers to the elderly.
- *Pakistan*: Health coverage and social safety net extended.
- *Russian Federation*: Pensions adjusted to inflation forecast.
- *United Republic of Tanzania*: Increased minimum pension benefit levels.
- *United Kingdom*: Child benefits increased.
- *United States*: Extended health insurance coverage.

1990s. Programmes in both Mexico and Brazil were later integrated into the larger well-known programmes of *Oportunidades* and *Bolsa Familia*. Evaluations find that between the mid-1990s and the mid-2000s, these programmes were responsible for a 21 per cent reduction in income inequality in Brazil and Mexico, and constituted 50 and 25 per cent of incomes of the poorest households, respectively. The Mexican programme (with a focus on education) increased secondary school enrolment by 11.1 percentage points, while simultaneously reducing the labour force participation of boys by between 15 and 25 per cent (UNDP, 2009). In addition

Table 1. Coverage and investment of selected CCT programmes

Country (programme), year	Coverage		Investments in CCT	
	% of total population	% of extremely poor ¹	% of GDP	% of social spending
Brasil (<i>Bolsa Familia</i>), 2006	22.7	>100.0	0.43	2.0
Mexico (<i>Oportunidades</i>), 2006	23.8	>100.0	0.44	4.3
Guatemala (<i>MFP</i>), 2008	13.6	46.7	0.06	0.8
Honduras (<i>PRAF</i>), 2006	6.8	14.9	0.02	0.2
Nicaragua (<i>RPS</i>), 2006	2.5	7.8	0.04	0.4

¹ Does not consider exclusion or inclusion errors. Source: Cecchini, 2009.

such programmes have been relatively cost effective, accounting for 0.4 per cent of GDP in 2006 in both Brazil and Mexico.⁴¹

A number of countries have either bolstered or introduced new CCT programmes during the current crisis, as shown in Box 14.⁴²

Box 14

- *Barbados*: A CCT programme is being developed jointly with the World Bank and the Inter-American Development Bank to expand health care in the countries poorest areas.
- *Belize*: A CCT programme is being designed with assistance from the World Bank.
- *Colombia*: *Familias en Acción*, a programme focusing on strengthening nutrition and education for children, is expanding to an additional 1.5 million families.
- *Costa Rica*: The Government has increased coverage of CCT from 132,000 to 150,000 families.
- *Honduras*: The CCT programme *Asignación Familiar* doubled in size from \$20 to \$40 million, conditional on the health and education of children and expectant mothers.
- *Mexico*: The World Bank approved a \$1.5 billion loan to expand the *Oportunidades* programme, which is conditional on health and nutrition for all members of the household.
- *Paraguay*: The country has expanded the *Tekepora* programme to benefit 120,000 extremely poor families, increasing the total coverage to 600,000 people (which is half of those living in extreme poverty).
- *Peru*: Expanded coverage of CCT programme.
- *Philippines*: A CCT programme conditional on education and health was introduced in 2008; additional resources to expand the programme were provided in December 2008.
- *Uruguay*: The CCT programme expanded to cover all children (500,000) from low-income households conditional on school attendance.

One of the criticisms of CCT programmes is the focus on demand constraints, ignoring problems of supply capacity. CCTs were initially started in middle-income countries with adequate infrastructure and limited supply constraints. In low-income countries, weaker institutional and statistical capacity and banking coverage

⁴¹ Cecchini, S. 2009. Do CCT programmes work in low-income countries? One Pager No. 90, July, International Policy Centre for Inclusive Growth, Brasilia.

⁴² Some of the information here is obtained from ECLAC, 2009, "The reactions of Governments of the Americas to the International Crisis: An overview of policy measures up to 31 May 2009." United Nations, Chile.

have posed challenges for the proper functioning of programmes (Cecchini, 2009).

As programmes targeted at low-income households, CCTs cannot replace a universal basic social protection system. They can, however, contribute to expanding the coverage of existing systems.

Spending on social protection

Spending on social protection varies quite significantly among countries. Public social protection spending tends to rise with economic development. Nevertheless, there are wide variations between countries, as Table 2 illustrates for the G20 countries.

Table 2. Public social protection spending as a percentage of GDP

Indonesia (2004)	1.4
India (2005)	1.5
China (2007)	2.9
Korea, Rep. of (2005)	6.9
Mexico (2005)	7.0
South Africa (2004)	8.8
Argentina (2004)	10.8
Russian Federation (2006)	12.3
Turkey (2005)	13.7
United States (2005)	15.9
Canada (2005)	16.5
Australia (2005)	17.1
Brazil (2007)	18.6
Japan (2005)	18.6
United Kingdom (2005)	21.3
Italy (2005)	25.0
Germany (2005)	26.7
France (2005)	29.2

Sources: ADB, CEPAL, IMF, OECD, ILO.

The crisis has highlighted the importance of automatic stabilizers in advanced countries as well as the much smaller stabilisers in emerging countries, compensated by larger fiscal stimulus. Gradual expansion of social protection coverage is a widely shared objective, the urgency of which is underscored by this crisis. Social protection systems have a key role to play in reducing global imbalances. The ILO and the WHO, within the United Nations High-Level Committee on

Programmes, are jointly developing the notion of a “social protection floor” consisting of an essential body of rights, transfers and services that all countries should progressively establish, according to their means and available external support. This should be a central objective of national development policies as advocated in the Global Jobs Pact.

The OECD Development Assistance Committee recently noted: “Social protection directly reduces poverty and helps make growth more pro-poor. It stimulates the involvement of poor women and men in economic growth, protects the poorest and most vulnerable in a downturn and contributes to social cohesion and stability. It helps build human capital, manage risks, promote investment and entrepreneurship and improve participation in labour markets. Social protection programmes can be affordable, including for the poorest countries, and represent good value for money.”⁴³

4. Social dialogue and rights at work

The forms and role of social dialogue vary from country to country depending on the magnitude and composition of formal economic activity, labour legislation, levels and coverage of collective bargaining; the strength and legitimacy of the social partners; and the degree to which international labour standards and workers’ rights are respected. The crisis has not changed this. Nevertheless, the crisis has spurred governments and social partners in many countries to engage in consultations and dialogue. This is borne out by the inventory carried out by the ILO.

In 32 countries, national consultations and dialogue between government, business and labour have taken place between mid-2008 and 31 July 2009. This is equivalent to 59 per cent of the sample of countries surveyed by the ILO. In 19 countries (35 per cent of countries) these consultations have led to the signing of a national agreement. This data is in line with an earlier survey carried out by the ILO, which also pointed to an increase in the practice of social dialogue, in all its forms, across a large and varied number of countries.⁴⁴

These initiatives are in line with the Global Jobs Pact adopted by the International Labour Conference in June 2009, which states that: “especially in times of heightened social tension, strengthened respect for, and use of, mechanisms of social dialogue, including collective bargaining, where appropriate at all levels, is vital.”

⁴³ OECD Development Assistance Committee. 2009. Making Economic Growth More Pro-Poor: The Role of Employment and Social Protection, Policy Statement, DAC High-Level Meeting, 27-28 May.

⁴⁴ Ludek Rychly. 2009. “Social dialogue in times of crisis: Finding better solutions”, ILO, Working Paper, May.

Box 15 provides selected examples from the ILO inventory of tripartite national consultations and agreements.

Countries that have utilised social dialogue more extensively have been those with well-established institutions and experience with consultations and negotiations. Several of these are European countries (including Belgium, the Czech Republic, Ireland and the Netherlands). In the Netherlands the social partners agreed on the need to maintain purchasing power and asked the Government to postpone planned increases in value-added tax. Spain was another country that moved rapidly to initiate social dialogue when the severe downturn in the construction sector became apparent in the summer of 2008 and the parties formulated an important agreement covering increased liquidity for companies, financial protection for housing construction and reforms to the vocational training system.

South Africa has a highly respected institution for dialogue and negotiation over economic and social issues. This forum (NEDLAC) has been utilised extensively, along with a Presidential initiative, to formulate a comprehensive national response to the crisis based on the following principles: protection of the most vulnerable groups of workers; economic growth to increase employment and guarantee the quality of jobs; high investment in infrastructure; and a timely, targeted and tailored review of interventions.

Countries as diverse as France, India, the Republic of Korea and the Russian Federation also have formal consultation mechanisms that have been extensively used in the current recession. A wider range of countries have established informal or ad hoc mechanisms for consultations with the social partners and civil society.

Among those countries that have reached national-level agreements, one example is Japan, where a tripartite agreement was reached in March 2009 that provided guidance and commitments on: the maintenance of employment through work sharing and reduced working time; the expansion and strengthening of the social safety net; support for vocational training and employment creation; and a special focus on expanding sectors of the economy like medical services, care work, and the environment. An interesting example in Nigeria is the “Abuja Declaration on Meeting the Employment Challenges of the Global Economic and Financial Crisis” adopted in April 2009.

A much broader range of countries have engaged the social partners in dialogue and have concluded national agreements covering specific labour market measures, such as extending the duration of unemployment benefits or the provision of partial unemployment benefits to workers forced to accept a reduction in working time.

Box 15

Brazil	The tripartite-plus Economic and Social Development Council plays an important role in monitoring the crisis, in addition to ad hoc meetings between President Lula and the social partners.
Chile	A national tripartite agreement was signed in 2009 for training and employment protection, unemployment benefits and measures for women workers.
Dominican Republic	In early 2009 a series of tripartite consultations were held, leading to agreements on the protection and promotion of employment and the protection of workers' rights in the context of the crisis.
France	Series of ad hoc tripartite meetings, a Social Dialogue Summit with the President, use of the National Labour Council, and a newly created tripartite commission on follow-up to the crisis.
Germany	Series of ad hoc meetings and consultations at the national and regional levels, often tripartite, a job summit, and a council of economic experts.
Indonesia	Industrial relations forum; national tripartite consultative body.
Ireland	National consultative bodies and ad hoc informal meetings, transitional agreement to implement the joint medium-term plan "Towards 2016", but talks on the economic recovery programme stalled in February 2009.
Japan	National tripartite agreement signed in March 2009 on retaining jobs, social protection and vocational training.
Republic of Korea	Economic and social development commission; emergency meeting of labour, management, civic groups and the Government (tripartite plus); series of formal and informal meetings; adoption of tripartite-plus document called "The agreement by labour, management, civic groups and the Government to overcome the economic crisis".
Mexico	National tripartite agreement on labour productivity signed in May 2009.
Netherlands	National consultative bodies; informal meetings; social and economic council (tripartite body); no agreement on wage moderation.
South Africa	The Presidential economic joint working group (tripartite), NEDLAC, in partnership with the Presidency, established the framework for "South Africa's Response to the International Economic Crisis" to be implemented and monitored through action plans and five task teams.
Spain	Ad hoc meetings; series of informal consultations; social dialogue monitoring commission; tripartite "Declaration of principles for the promotion of the economy, employment, competitiveness and social progress" (29 July 2008).

The best-known example of the latter has been in Germany with the *Kurzarbeit* scheme referred to previously. In Chile, in May 2009 a national tripartite agreement was concluded which covered a range of temporary measures to protect employment and promote training.

In some cases dialogue has failed to bridge different views. For instance, in both Spain and Ireland there are disagreements over proposals designed to cut labour costs or introduce measures to raise labour market flexibility.

From the experience to date a few general conclusions can be drawn. First, it has been tripartite institutions with a mandate for negotiations (rather than just consultations) and which are composed of senior political figures, such as members of the Cabinet and high-level representatives of the social partners, that have

proven to be the most efficient in finding responses to the crisis. Previous experience also confirms that this type of structure works better than large advisory or consultative councils with heavy structures and procedures. Second, centralised negotiations work best where the agenda is reasonably comprehensive and there is scope for trade-offs and compromises. A narrow focus, such as on labour cost reductions, is unlikely to lead to a successful negotiation. Third, centralised negotiations often include measures designed to protect and improve the situation of the most vulnerable workers, often unorganised, or on temporary or atypical employment contracts, and migrant workers.

Experience from past crises suggests that pressures can build for labour market reforms that promise greater flexibility and reduced labour costs. In slack labour

markets and an environment where labour costs competition is intensified the incentive to attempt to avoid labour laws, ignore obligations in collective agreements and infringe workers' rights is heightened.

The concern for preventing a downward spiral in labour conditions is noted in the Global Jobs Pact. Already in November 2008, the Officers of the ILO Governing Body issued a statement on the global economic crisis which warned that social progress should not be undermined by the crisis.⁴⁵

It is encouraging to note that to date there are not many examples of countries that have weakened their labour legislation in response to the current recession. A few countries, including the Republic of Korea and Argentina, have indicated that they have strengthened their labour administration and labour inspection systems in response to such pressures. Another example is the Fair Work Act recently adopted in Australia.

China has taken steps to improve the legislative framework for labour relations. In the first half of 2008 the Government of China adopted several new laws in an attempt to mitigate the non-payment of wages and a range of other labour abuses. These legal reforms included the enactment of the Labour Contract Law, the Employment Promotion Law, and the Labour Dispute Mediation and Arbitration Law.⁴⁶ The strengthening of labour institutions in China is an important part of its agenda to achieve greater income equality, boost domestic demand and sustain high levels of economic growth.

The current crisis has seen a wave of "concession bargaining" where the parties to a collective agreement freely renegotiate the terms of an agreement with a view to saving jobs. Bargaining of this nature normally takes place between trade unions and management at

⁴⁵ Statement of the Officers of the ILO Governing Body, November 2008.

⁴⁶ Dr Fang Lee Cook: "The enactment of three new labour laws in China: Unintended consequences and the emergence of new actors in employment relations", June 2009.

the enterprise level, but also at industry level. Concession bargaining first emerged in organised workplaces in the United States that were adversely affected by the economic downturn and stagflation of the 1980s. Similar practices became prominent in a range of European and other industrialised countries in the 1990s when economic growth was subdued and labour markets deteriorated. In the last 18 months reliance on such practices has increased dramatically across a broad range of countries as management and trade unions have strived to limit job cuts and reduce costs in credit-starved companies.

Concession bargaining can take many forms, and at its best can lead to a widening of the collective bargaining agenda and increased cooperation between management and workers. Some bargaining is set on defensive or reactive strategies with a narrow focus on reducing labour costs through wage cuts or wage moderation below what had previously been agreed, with a view to saving jobs in the short term. Other proactive strategies aim to reduce unit labour costs through productivity-enhancing improvements in work organisation or other process or product innovations. The latter often include a focus on training, the transfer of workers into more productive units, multi-skilling, investment in new products or technology, and functional flexibility.

The introduction of more coordinated collective bargaining that provides greater scope to take into account the public interest and broad economic developments is highly desirable in the present circumstances. However, even if a move to coordinated collective bargaining is not feasible in the short term, a greater degree of social dialogue on appropriate measures to counter the crisis and its effects on workers and families is desirable. By involving employers' organisations and trade unions in dialogue about the current economic outlook and the policy options available, governments can maximise their chances of securing support for maintaining expansionary, yet non-inflationary, macroeconomic policies until economic recovery is well established.

Annex 2

List of countries covered in the ILO survey⁴⁷

	Low income	Lower middle income	Upper middle income	High income
Sub-Saharan Africa	Kenya, Mali, Senegal, Tanzania (United Rep. of), Rwanda, Uganda	Nigeria	South Africa	
Americas		Honduras	Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Mexico, Peru, Uruguay	Canada, Caribbean* (Bahamas, Barbados, Trinidad and Tobago, Jamaica), United States
Arab States		Egypt, Jordan		Bahrain, Saudi Arabia
Asia Pacific	Bangladesh, Cambodia, Nepal, Viet Nam	China, India, Indonesia, Pakistan, Philippines	Malaysia	Australia, Japan, Korea (Rep. of)
Europe (East and West)		Ukraine	Latvia, Poland, Romania, Russian Federation, Serbia, Turkey	Czech Republic, France, Germany, Hungary, Ireland, Italy, Netherlands, Spain, United Kingdom
Total	10 countries	10 countries	17 countries	17 countries

* The ILO survey covered four countries of the Caribbean computed as one entity and classified as high income. Jamaica is classified as an upper-middle-income country.

⁴⁷ The country income classification adopts the World Bank classification based on gross national income (GNI) per capita. Regional classification follows ILO groupings.

Annex 4

Estimating the employment impact of stimulus measures in G20 countries

Are the crisis response measures taken by G20 countries to support employment in proportion to the observed downfall in employment and the increase in unemployment? Both the IMF and the OECD have estimated the additional economic growth that could be expected from the additional fiscal spending decided by governments. This annex seeks to estimate the additional employment to be expected from the fiscal stimuli decided by governments in G20 countries⁴⁸ based on IMF calculations.⁴⁹

While the observed relationships between growth and employment are subject to substantial variation over time and across countries, the ILO has estimated the aggregate effect on employment of the additional fiscal spending decided by governments in response to the crisis. In assessing the projected impact of stimulation measures on employment, account is taken of both additional discretionary fiscal spending and of automatic spending (or automatic stabilisers).

The purpose of the estimation is to provide an order of magnitude of the expected impact on employment of the measures taken by governments to respond to the crisis.⁵⁰

⁴⁸ The group of G20 countries used here is composed as follows: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russian Federation, Saudi Arabia, South Africa, Spain, Turkey, United Kingdom, United States.

⁴⁹ IMF. 2009. Note to Group of Twenty Deputies, 31 January-1 February, at <http://www.imf.org/external/np/g20/pdf/020509.pdf>.

⁵⁰ This order of magnitude recognizes a number of caveats in the single-equation methodology used here, namely, projecting a short-term employment effect based on a historical employment to GDP relationship, ignoring here cross-country differences in labour markets, the composition of fiscal packages which may have different employment effects, and ignoring the interactions between employment and monetary policy.

Assessing the rise in the number of unemployed persons in the G20 countries

The cumulated net increase in the number of unemployed for the G20 countries in early 2009 is estimated at 25.2 million. This number is derived from the unemployment rates in the first and second quarters of 2009 (as per data availability) with those prevailing at the turning point, upwards, of the unemployment rate in 2008 in each of the G20 countries.

The potential impact of the announced discretionary fiscal stimulus on employment

The size of the discretionary fiscal stimulus for the G20 countries, for 2009 and 2010, is given in Table 1. The aggregate discretionary stimulus for the G20 countries amounts to 1.4 per cent of GDP for 2009 and 1.3 per cent for 2010. Table 1 shows that this discretionary stimulus is estimated to enhance GDP growth by a weighted average ranging between 0.4 per cent and 1.3 per cent in 2009, and by a lower range of between 0.1 per cent and 0.3 per cent in 2010. This discretionary stimulus multiplier is seen to be just less than 1 for 2009, but drops significantly for 2010.

The ILO has estimated the potential impact of the discretionary stimulus on employment, based on the IMF projected impact on GDP growth. There are two important qualifications to this exercise, which apply equally for the stimulus multipliers estimated by the IMF and for the employment multipliers estimated by the ILO. The main assumption is that the stimulus amount will be spent fully. A second qualification is that the full amount may not be spent in the fiscal year for which the stimulus has been budgeted and announced. The exercise assumes that the potential impact of the stimulus applies to the full expenditure of this amount, over the total time taken.

The ILO has estimated long-term employment elasticities with respect to GDP growth for all the G20 countries over 1997-2007. This ten-year period has been chosen because it spans several crises, including recovery of GDP growth and employment from the Asian crisis of 1997-98 and the global synchronised recession in 2000-01. These employment elasticities with respect to GDP growth reflecting periods of crisis and recovery make them more suited to estimating recovery in employment through the stimulus package and the automatic stabilisers. The elasticities have been estimated in log linear form to dampen the effect of outliers stemming from black swan events.

The IMF's estimated impact of the discretionary stimulus on GDP growth, multiplied by the ILO's employment elasticities for GDP growth, gives a potential impact of the stimulus on employment growth. It is important to note that these estimates are not precise projections, but orders of magnitude. They are meant to indicate the approximate impact of the stimulus in creating jobs, relative to the size of the unemployment generated by the crisis.

Table 1 translates the projected increase in employment growth as a result of the discretionary stimulus into an increase in the number of persons employed, over 2009 and 2010. The table shows that the discretionary stimulus has the potential to increase employment in a band range of 2.0 to 5.7 million over 2009. Over 2010, the increase in employment is expected to drop, but still generate between 0.3 and 0.9 million jobs.

In aggregate, over 2009 and 2010, the discretionary stimulus has the potential to generate employment in a band range of 2.3 to 6.6 million.

The employment generated by the discretionary stimulus is equivalent to between 9 and 26 per cent of the increase in unemployment in the first half of 2009 (relative to 2008).

The projected impact of automatic stabilisers on employment

To this potential employment impact of the discretionary fiscal stimulus undertaken by the G20 countries must be added the potential impact of the non-discretionary automatic stabilisers at work as a result of the drop in GDP growth.

The potential impact of non-discretionary automatic stabilisers on employment has been estimated using the same method as for the discretionary stimulus. The IMF has estimated the size of the automatic stabilisers for 2009 for the G20 countries. Since the stabiliser is estimated as a fiscal balance which is deteriorating with GDP growth, its sign is negative, while its impact on GDP growth is immediately positive. So the IMF's projected impact of the stabilisers ranges between 2 per cent of GDP for the United Kingdom, the Republic of Korea, France, Spain and Germany, 1.5 per cent for the United States, and 0.25 per cent to 0.5 per cent for the emerging economies like Brazil, China, India, Indonesia and South Africa. The weighted average of these stabilisers across the G20 countries is estimated at 1.2 per cent, as indicated in Table 2.

Table 1. Discretionary fiscal stimulus impact on employment

	Size of stimulus ¹ (% of GDP) Total (PPP weighted average)			Stimulus impact on GDP growth ¹ (%)		Employment level ² (million)	Discretionary fiscal stimulus impact on employment ³					
	2008	2009	2010	2009	2010		2008	Change in employment (million)	Employment level (million)	Change in employment (million)	Employment level (million)	Change in employment (million)
								2009	2009	2010	2010	2009 + 2010
G20 countries	0.5	1.4	1.3	0.4 – 1.3	0.1 – 0.3	2026.12	2.030 – 5.704	2028.15 – 2031.82	0.316 – 0.899	2028.46 – 2032.72	2.346 – 6.603	
Increase (%)							0.100 – 0.282		0.02 – 0.04			

¹ IMF, 2009.

² Computed from: Instituto Nacional de Estadística y Censos; Encuesta Permanente de Hogares, 2009; Organisation for Economic Co-operation and Development (OECD), 2009; Ministry of Labour and Social Security, National Bureau of Statistics, China, 2009; Economist Intelligence Unit (EIU), 2009; Economist Intelligence Unit and Central Bureau of Statistics (EIU and CBS), 2009; Saudi Arabian Monetary Agency (SAMA), 2009.

³ Computed by ILO, 2009, based on employment elasticities for 1997-2007.

Table 2 then estimates the potential impact of these automatic stabilisers on employment growth, and the increase in the number of people employed over 2009, for each G20 country. The aggregated increase in employment for all the G20 countries is estimated to generate 5.2 million jobs in 2009.

The combined impact on employment of discretionary fiscal spending and automatic stabilisers

The combined potential impact of the two macro stimuli, the discretionary fiscal stimulus adopted by the G20 countries and the automatic stabilisers at work in these countries, is estimated to generate between 7.2 and 10.9 million jobs in 2009. This is equivalent to between 29 and 43 per cent of the 25 million increase

in unemployment estimated in G20 countries in the first half of 2009.

The order of magnitude estimated here is significant. Automatic stabilisers will continue to work beyond 2009, while GDP growth is projected to remain weak. The discretionary fiscal stimulus is likely to start tapering off in 2010 and thereafter.

While providing a significant boost to employment generation at a time when jobs are hard to find, the fiscal measures will need to be relayed by market-led economic growth as quickly as possible in order to generate the jobs required for all the persons looking for one. This raises the related issue of the employment content of economic growth and the quality of the employment generated.

Table 2. Impact of automatic stabilizers on employment

	Size of automatic stabilizers, 2008-09 ¹ (% of GDP) Total (PPP weighted average)	Employment level ² (million)	Impact of automatic stabilizers on employment ³	
			Change in employment (million)	Employment level (million)
	2009	2008	2009	2009
G20 countries	-1.2	2026.12	5.17	2031.28
Increase (%)			0.25	

¹ IMF, 2009.

² Computed from: Instituto Nacional de Estadística y Censos, Encuesta Permanente de Hogares, 2009; Organisation for Economic Co-operation and Development (OECD), 2009; Ministry of Labour and Social Security, National Bureau of Statistics, China, 2009; Economist Intelligence Unit (EIU), 2009; Economist Intelligence Unit and Central Bureau of Statistics (EIU and CBS), 2009; Saudi Arabian Monetary Agency (SAMA), 2009.

³ Computed by ILO, 2009, based on employment elasticities for 1997-2007.

Annex 5

Fast recovery in employment: The challenge and the options

In 2008 the crisis ended the long-term decline in global unemployment. The gap between employment generation and labour force supply, growing at approximately 45 million per year, is widening again.

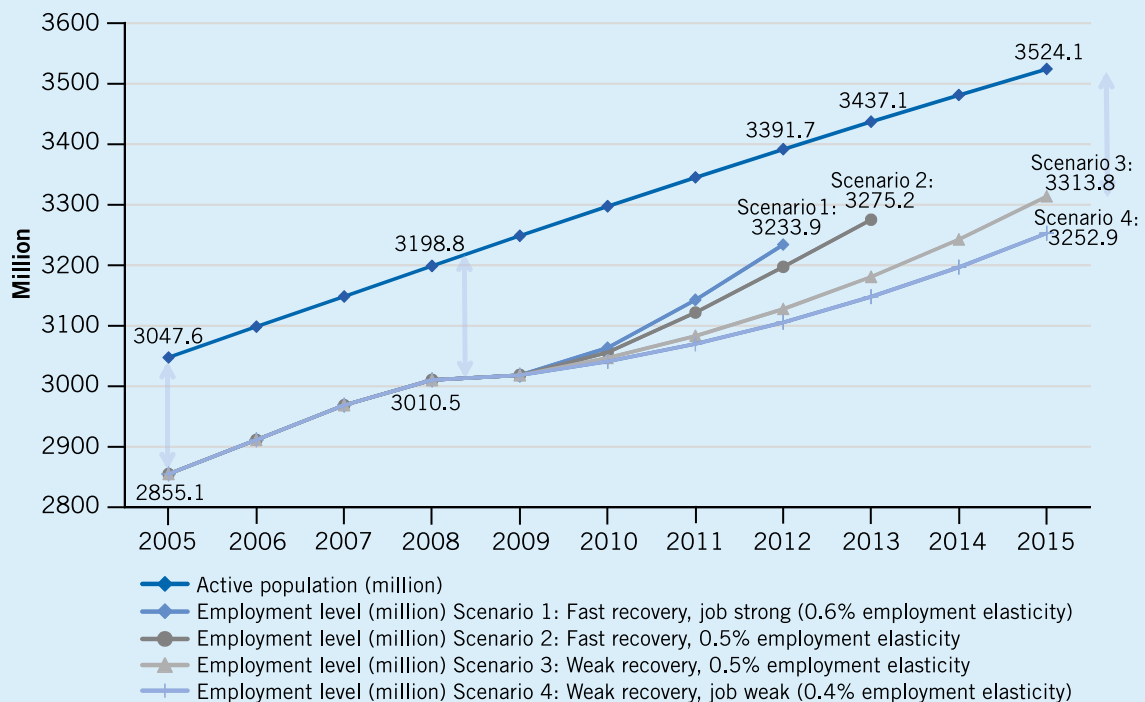
To gauge the scale of the employment challenge, the following figure illustrates four possible trajectories for global employment growth for the period up to 2015, the horizon set for the Millennium Development Goals. The top line is the growth in the world's economically active population, reaching 3.5 billion in 2015. The

four bottom lines depict possible trajectories or scenarios, each illustrating different assumptions about the pace of output recovery and the ratio of employment growth⁵¹ to output growth.

If growth picks up rapidly and the job content of growth is high the accumulating jobs shortfall can be pulled back within three to four years. This is the as-

⁵¹ The figure refers to total employment growth, irrespective of the quality or income levels associated with employment.

Figure 1. Global employment shortfall: Four scenarios



Source: ILO estimates.

sumption in the best-case scenario 1, with strong recovery (above 4 per cent world economic growth as of 2011) and strong employment content of growth (elasticity of 0.6 per cent).⁵² This scenario shows that in 2012 global unemployment would be lower than in 2007. Under such conditions, the shortfall, the distance between the labour supply line and employment, will have been reduced.

However, if recovery is weak and its job content also weak, the employment shortfall (the gap between labour supply and employment) will remain wide well after 2015. This is reflected in the worst-case scenario 4, char-

⁵² An employment elasticity coefficient (here 0.4, 0.5 and 0.6 per cent) is the increase in employment expected from a 1 per cent increase in economic growth.

acterized by a weak economic recovery (world economic growth between 2 and 4 per cent to 2014) and a relatively low employment to growth elasticity (of 0.4 per cent).

Scenarios 2 and 3 present intermediate trajectories. Scenario 2 retains the fast economic recovery assumption of scenario 1 but with a slightly weaker employment elasticity of 0.5 per cent. Scenario 3 assumes a weak recovery with the same employment elasticity (0.5 per cent) as scenario 2.

The figure illustrates one major conclusion. Strong employment growth and strong economic growth are both essential. Policies should remain focused on both objectives in order to reduce the lag in the recovery of global employment. Subsuming one (employment) under the other (economic growth) is likely to yield socially and economically inadequate results.