

Promoting employment recovery and meeting fiscal goals. Part II [\(note 1\)](#)

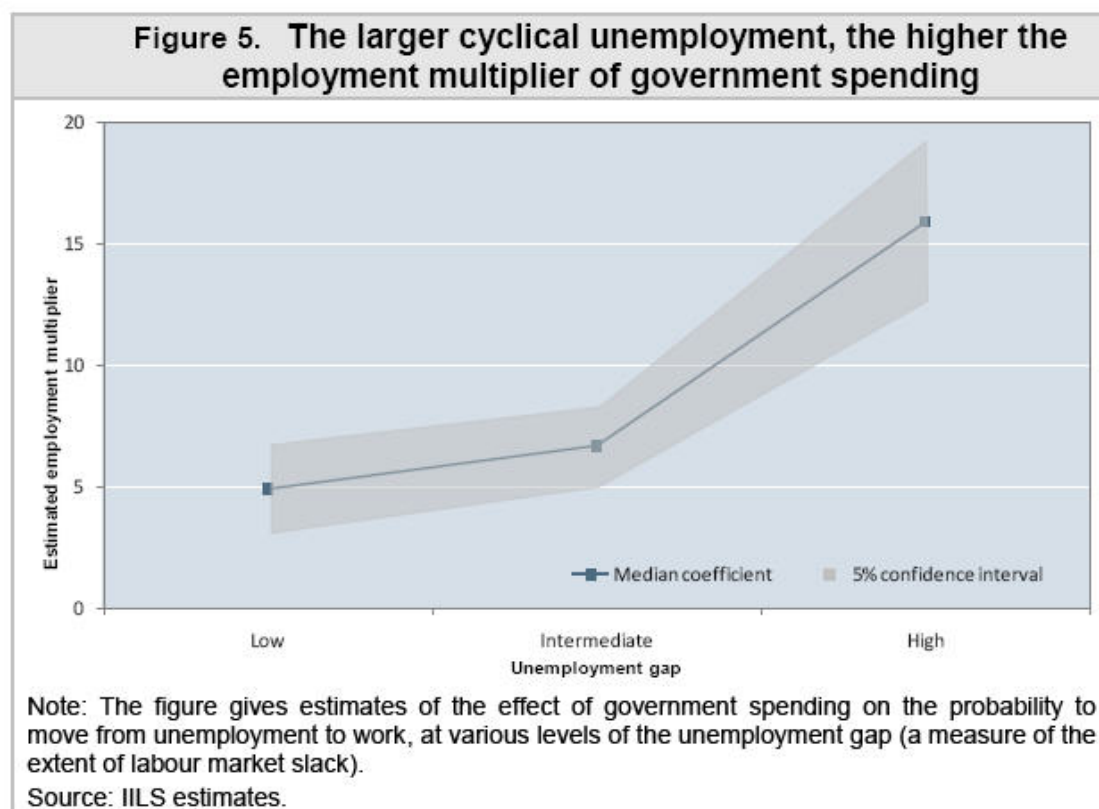
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This feature article is an excerpt from the Policy Brief [Promoting employment recovery while meeting fiscal goals \(pdf 698 KB\)](#). It is published in two parts. [Part one](#) was published last week.

Though employment-oriented stimulus measures would improve the medium-term prospects for both employment and public finances, care should be taken in the design of any fiscal measures that are continued. In general, the employment multiplier of an intervention depends on i) the timing of the intervention; ii) the direct employment effect of the intervention in question; and iii) the indirect effects, taking into account the fact that the measures need to be funded and that this, in turn, may have negative implications for the economy and jobs.

The employment multiplier is larger when measures are adopted quickly

Evidence suggests that moving quickly is essential for reducing the risk of long-term unemployment and informality. Evidence shows that the employment multiplier of policies is strongest during high

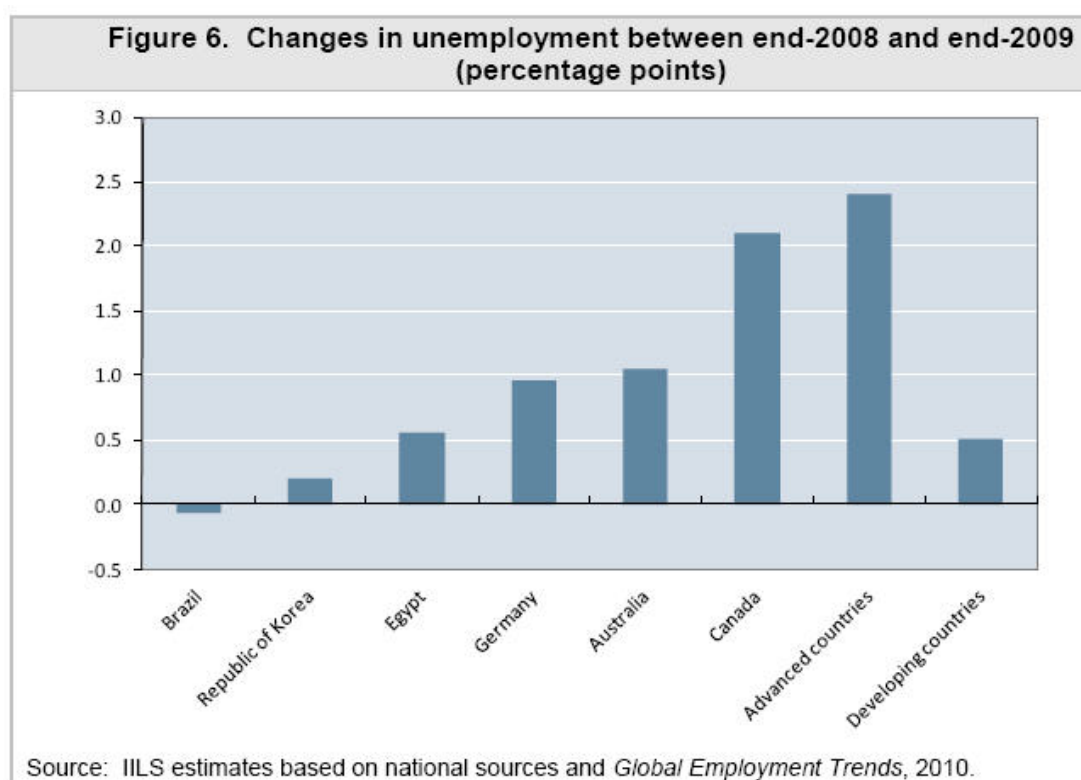


cyclical unemployment as has been the case until now in many countries (Figure 5).

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However, the employment multiplier is low for highly indebted countries. According to recent estimates, the effectiveness of fiscal measures tends to weaken when government debt exceeds 85 to 90% of GDP (Reinhart and Rogoff, 2010) because financial markets tend to demand higher interest rates on any new lending beyond this threshold.

Spending on labour market programmes can bring multiple benefits at both the macro- and the micro-economic levels. Properly designed labour market policies help job seekers to find new employment opportunities more rapidly while sustaining disposable income and demand. Such policies also strengthen incentives for firms to advertise new vacancies and can help reorient job searchers to occupations and sectors where new growth opportunities arise. This is confirmed by the crisis responses in Australia, Brazil, Canada, Egypt, Germany and the Republic of Korea (Figure 6) which have all started to emerge from the crisis.



The countries that coped better with the effects of the crisis had sufficient fiscal space to implement swift and aggressive stimulus packages. Also important was the institutional capacity to apply stimulus measures quickly, including both social protection and labour market initiatives much in line with the recommendations put forward in the [Global Jobs Pact](#).

Although there is no perfect policy package for overcoming such an unprecedented crisis, the policy approach of Australia, Brazil, Canada, Egypt, Germany and the Republic of Korea suggest possible strategies for avoiding the risks associated with an early exit. The examples below demonstrate that well-designed job-centred measures promote employment recovery and achieve medium-term fiscal sustainability.

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Policy approaches which have been successful

Job saving measures stemmed the surge of underemployment: Direct financial support to the private sector has been used successfully, particularly when it is used to lower labour costs and maintain employment through job-sharing. This also has the added social benefit of keeping workers in the labour market. Germany, for example, extended the maximum length of its existing short-time working programme (Kurzarbeit) to 24 months in May 2009. The number of beneficiaries under the shortened working hour scheme rose from over 130,000 participants in November 2008 to more than 1.4 million workers in June 2009 and is credited with saving around 500,000 jobs so far (RSM International, 2009).

Swift action on social protection brought multiple benefits: All six countries already had strong social protection policies which could be scaled up quickly. Automatic stabilizers such as unemployment insurance and pension schemes are crucial, but additional elements of discretionary policy such as minimum wage increases and cash transfers are other examples of such support. For example, Brazil's Bolsa Familia programme, which provides cash transfers to poor families, was quickly ratcheted up (the number of families benefiting rose by over 1 million and benefits were increased from R\$120 to R\$137). Brazil has also institutionalized increases in the minimum wage, and frontloaded spending on its public infrastructure programme. These programmes aided the recovery process by: a) providing an efficient mechanism for transfer payments; b) mitigating the social impact on the most vulnerable groups; and c) supporting demand by providing income support to cash-constrained households who would likely use the transfers for consumption.



Targeted assistance to vulnerable groups prevented labour market exclusion: Social assistance to low income households, young people and older workers has helped to boost consumption as well as prevent labour market detachment and long term unemployment. Such targeted assistance is commonplace in Canada and stimulus measures have reinforced or provided additional support in the form of temporary employment and skills training for young people, minorities, and older workers.

Consumption and employment was boosted through targeted assistance to labour-intensive sectors: Temporary tax rebates and subsidies were used to preserve employment in important sectors, and boost consumption. For example, small business owners in Australia received an additional 20 per cent tax deduction expenditures on capital assets. Tax rebates for automobile purchases and other durables, as was the case in Brazil, and subsidies for homebuyers, such as those implemented in Australia, have also proven effective.

Social dialogue helped identify appropriate solutions: Tripartism and collective bargaining between employers, workers and government have helped to find appropriate solutions to the crisis and reduce social unrest. In the Republic of Korea, where the groundwork for a culture of tripartism and social dialogue was laid during the Asian financial crisis, social dialogue played a significant role in its crisis response. It was agreed that workers would not strike during the crisis and that employers would foster trust and transparency in management matters.

Job creation measures are achieving employment and fiscal goals: Infrastructure spending has been a large component of successful stimulus packages, in particular helping vulnerable sectors through consumption support and job creation. It has the largest multiplier effect and is the most direct way to create employment, particularly when projects are labour intensive and have short implementation lags. In addition, public works programmes have been used for reaching disadvantaged groups, such as low income groups and the long term unemployed. In Egypt, fiscal stimulus efforts were geared predominately towards employment-intensive infrastructure spending, mainly for water supply, sewage, roads and bridges, but also for constructing new schools and basic health care facilities.

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Timely and aggressive policy initiatives which boost effective demand through targeted cash transfers, job creation and saving strategies, as well as extra assistance to vulnerable groups and sectors have generally been favourable to the recovery process. In addition, social dialogue has featured prominently in the process of finding crisis mitigation policies.



Countries have drawn on these principles to varying degrees in order to address their specific needs. In Australia and Brazil, two large commodity exporters with strong internal demand and adequate fiscal space, the economic recovery was supported by large infrastructure investment and household expenditures, of which increased social assistance to targeted groups was a significant catalyst. In Australia targeted assistance to vulnerable groups and labour hoarding helped to underpin employment until economic activity rebounded. Both countries used strong elements of social dialogue in the decision making process.

In countries with a more muted economic recovery, specific employment and social policies have helped labour market stabilization and provided critical support to those most in need. Canada's plethora of smaller labour market initiatives provided targeted support for the unemployed and vulnerable workers. In Germany and the Republic of Korea, job losses were limited by enhancing existing job-sharing schemes, while in the Republic of Korea negotiating wage restraint with the social partners played a key role, as did targeting social assistance to the most vulnerable groups, particularly young people and the recently unemployed.

Egypt's labour market response also consists of frontloading budgeted public investment projects as well as additional infrastructure projects in an attempt to prop up domestic consumption and stabilize the employment situation. The country has tried to tackle both the food crisis and the fallout from the global financial crisis concurrently with initial measures to increase social assistance to low-income households and increase minimum wages.

Concluding remarks

Despite the encouraging signs of economic rebound, the crisis continues to pose serious challenges to labour markets across the globe. This calls for an implementation of job-centred measures along the lines of the Global Jobs Pact. Though some of the measures have a budget cost in the short run, the benefits for employment are significant.

The effectiveness of these measures is heightened if they are put in place quickly. The longer the labour market crisis continues, the more unemployed workers get discouraged and leave the labour market. Implementing the Global Jobs Pact as swiftly as possible will help support labour market recovery while also achieving medium-term fiscal goals.

Note 1 The Policy Brief was prepared by Marva Corley-Coulibaly and Ekkehard Ernst, with contributions from Uma Rani Amara, Matthieu Charpe, Naren Prasad and Steven Tobin. Assistance was provided by Judy Rafferty, with overall coordination by Raymond Torres.

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Further resources

ILO publications

Cazes, S.; Verick, S.; Heuer, C. 2009. [*Labour market policies in times of crisis \(pdf 699 KB\)*](#) (Geneva, ILO).

ILO. 2010. [*Accelerating a job-rich recovery in G20 countries: Building on experience \(pdf 542 KB\)*](#) (Geneva).

- [Français \(pdf 561 KB\)](#) • [Español \(pdf 597 KB\)](#)

ILO. 2010. [*Employment policies for social justice and a fair globalization \(pdf 1.55 MB\)*](#), Report VI, International Labour Conference, 99th Session, Geneva, 2010 (Geneva).

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ILO. 2009. [*Protecting people, promoting jobs: a survey of country employment and social protection policy responses to the global economic crisis \(pdf 1.05 MB\)*](#) (Geneva).

ILO. 2009. [*Recovering from the crisis: a global jobs pact \(pdf 93 KB\)*](#) (Geneva).

- [Français \(pdf 105 KB\)](#) • [Español \(pdf 108 KB\)](#)

ILO. 2009. [*Review of the sector-specific stimulus packages and policy responses to the global economic crisis \(pdf 742 KB\)*](#) (Geneva).

ILO. 2009. [*The financial and economic crisis: a decent work response \(pdf 561 KB\)*](#)

- [Français \(pdf 612 KB\)](#) • [Español \(pdf 621 KB\)](#) (Geneva).

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Jha, V. 2009. [*The effects of fiscal stimulus packages on employment \(pdf 283 KB\)*](#) (Geneva, ILO).

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["Real economy" leaders discuss policy responses to global economic and jobs crisis](#)

[ILO Director-General calls for "balanced" response to address debt crisis and promote jobs recovery](#)

ILO Videos

[CNN Interviews ILO Director-General Juan Somavia: Jobs recovery may be at risk](#) - 

[ILO Director-General Juan Somavia presents his report to the ILO's 99th International Labour Conference](#) - 

[The Global Jobs Pact and macroeconomic policy](#) - 

ILO Websites

[Global Job Crisis Observatory: Employment Promotion](#)

[Global Job Crisis Observatory: National Recovery Policies](#)

[Global Job Crisis Observatory: Social Dialogue](#)

[Global Job Crisis Observatory: Social Security](#)

[Global Jobs Pact](#)

[Global Statistics on the Labour Market](#)