



**Asia-Pacific  
Economic Cooperation**

**Labor Market Policy Responses in APEC Economies  
to the Worldwide Recession**

**APEC Human Resource Development Working Group**

**April 2010**

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\* This report was prepared under a contract with the Asia Pacific Economic Cooperation Council. Opinions expressed in the report are those of the authors and do not necessarily reflect the views of the Asia Pacific Economic Cooperation Council, the Urban Institute nor the University of Delaware. Helpful comments on an earlier draft were made by readers from several APEC economies. Many of these comments have been incorporated in this report. Any remaining errors of fact or interpretation remain the responsibility of the authors.

HRD 08/2009

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APEC#210-HR-01.1

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## **Executive Summary**

This report examines existing labor market programs in the 21 members of the Asia Pacific Economic Cooperation forum (APEC) and their responses to the current worldwide recession. It documents recent increases in unemployment, describes existing programs and outlines the new initiatives that were introduced to lessen the hardships experienced by the unemployed.

The report summarizes five passive labor market programs that provide income support to unemployed persons and their families. The performance of these programs is assessed and suggestions are made to broaden their scope and effectiveness.

Unemployment compensation programs are present in 13 APEC economies: nine operate unemployment insurance programs; four operate unemployment assistance programs (Australia, China, Hong Kong China and New Zealand). The analysis shows that APEC economies are providing a very modest degree of wage loss protection to the unemployed. In response to the current recession, several APEC economies have enacted measures to broaden access to UC, lengthen potential benefit duration and increase the level of periodic benefit payments. Seven of the 13 APEC member-economies extended UC potential benefit duration and seven enlarged the scope of social assistance benefits.

Severance pay is present in nearly all APEC member-economies. The effectiveness of severance pay programs, however, is difficult to assess since relevant performance measures are not usually tracked in a systematic manner. Limited evidence shows that non-compliance is a common occurrence. Many who are eligible for severance pay do not receive it, and payments of severance frequently fell substantially below the legally entitled amounts. As presently structured, severance pay programs fall far short of their potential.

Approximately, half of APEC economies operate income-conditioned social assistance programs that make payments to families. While the unemployed are not a principal client group for social assistance, some families are eligible for benefits, especially in situations of long-term unemployment.

The report focuses on three active labor market programs that operate in the APEC economies: training, employment services, and temporary job creation. Many economies increased their funding for worker training to improve their labor market prospects. The majority of economies focus on two types of training programs: retraining initiatives for the long-term unemployed and displaced workers; and training for young workers. Nearly all APEC economies undertook new training and education initiatives in response to the current recession.

Most of the 13 APEC member-economies covered by a recent ILO survey expanded public employment services in response to the current recession. The objective was to improve the matching the limited jobs available with workers who have the appropriate skills.

All of the member-economies of APEC allocated additional funds for spending on infrastructure through temporary job creation programs. Much of the expenditure was associated with green infrastructure initiatives. Four encouraged job growth through public sector job creation employment (Japan, Korea, Malaysia and the Philippines).

The principal conclusion of this paper is that APEC economies have undertaken a variety of passive and active labor market policy measures intended to offset the negative effects of the current recession on labor market participants and their families.

## **Introduction**

The 21 members of the Asia Pacific Economic Cooperation forum (APEC) are experiencing the most serious recession of the past 50 years. According to the International Monetary Fund all 21 members will experience lower real Gross Domestic Product (GDP) growth in 2009 when compared to that in 2008. In the first half of 2009, real GDP growth was negative in many economies, and near-term prospects for a turnaround are uncertain at best.

This report examines labor market programs and policies within APEC economies intended to lessen the hardships experienced by unemployed workers and their families. Attention focuses primarily upon passive income support programs, such as unemployment compensation and severance pay, but active labor market measures such as training and temporary jobs programs are also examined. While the recession may also affect education programs and policies, this is not addressed here.

The report has three main sections. Section I reviews labor market developments in APEC economies with particular attention to recent changes in unemployment. This provides background for the later sections. Section II examines passive income support programs with major attention to unemployment compensation and severance pay. Section III examines active labor market measures such as training, employment services and temporary job creation programs. Section IV provides policy recommendations and Section V concludes.

The worldwide recession and the policy responses to the recession are being examined by several international research organizations such as the Organization for Economic Cooperation and Development (OECD), the International Labor Office (ILO), the World Bank, the International Monetary Fund (IMF), Eurostat of the European Union and the Asian Development Bank (ADB). Where appropriate, findings from their published reports relevant to APEC economies are noted.

## I. Recent Changes in Unemployment

With few exceptions the APEC economies are experiencing much higher unemployment in 2009 compared to 2008. Of the 21 member-economies, 19 support a labor force survey (all but Brunei and Papua New Guinea), and quarterly unemployment detail from the ILO website is available for 17 of them. Table 1 summarizes quarterly unemployment during the first half of 2008 and 2009, levels in the four left-hand columns and year-over-year growth in the two right-hand columns.

Table 1. Increases in Unemployment by Quarter, 2008 to 2009

	2008 Q1	2008 Q2	2009 Q1	2009Q2	Growth Q1	Growth Q2
Australia	493	475	662	654	1.34	1.38
Brunei						
Canada	1,125	1,108	1,504	1,558	1.34	1.41
Chile	543	603	669	782	1.23	1.30
China						
Hong Kong China	121	125	197	214	1.63	1.71
Indonesia-a	9,428		9,260		0.98	
Japan	2,633	2,700	3,037	3,470	1.15	1.29
Korea	801	767	908	944	1.13	1.23
Malaysia	398	388	451	416	1.13	1.07
Mexico	1,779	1,593	2,289	2,365	1.29	1.48
New Zealand	96	88	129	134	1.34	1.53
Papua New Guinea						
Peru-b	414	352	416	383	1.01	1.09
Philippines-c	2,675	2,914	2,855	2,830	1.07	0.97
Russia	5,055	4,273	6,824	6,493	1.35	1.52
Singapore-d	50	76	88	116	1.78	1.53
Chinese Taipei	417	419	611	635	1.46	1.52
Thailand	605	525	779	673	1.29	1.28
United States	8,067	8,099	13,534	14,105	1.68	1.74
Viet Nam						
Sum – 16 APEC	25,273	24,503	34,951	35,771	1.38	1.46
Sum – 17 APEC	34,701		44,211		1.27	

Source: ILO website. Three month averages of unemployment in thousands.

a – February

b – Lima

c – January and April

d – March and June, citizens and permanent residents

With two exceptions (Indonesia in Q1 and the Philippines in Q2) year-over-year unemployment grew in all economies in both periods. The first quarter data are more complete than those for the second quarter (17 and 16 economies, respectively) because Indonesia reports semi-annually. When the available data are aggregated, the average increases in unemployment in the two periods range between 27 and 46 percent. Especially large increases in unemployment occurred in Hong Kong China, New Zealand, Russia, Singapore, Chinese Taipei and the United States. For each of these six economies, the ratios exceed 1.50 in one or both periods.

Since labor market earnings are the prime source of family income in all economies, higher unemployment causes widespread and serious economic hardship. Programs to mitigate this hardship are commonly classified into two broad categories: passive and active. Passive programs such as unemployment compensation and severance pay provide cash transfer payments designed to cushion the fall in income caused by unemployment. Active programs seek to speed the transition from unemployment to employment through skill enhancement (classroom and on-the-job training), job search assistance, and temporary employment. Given the widespread and sizeable increases in unemployment depicted in Table 1, a clear need exists for both types of programs for the unemployed; that is, persons seeking work but unable to find work.

## II. Passive Income Support Programs

Table 2 identifies five separate programs that can provide income support to unemployed persons and their families. Unemployment compensation (UC) programs are present in 13 APEC economies. Without attempting to specify the full range of possibilities, five types of UC programs can be identified.<sup>1</sup> The five types of programs are: unemployment insurance; unemployment assistance; means-tested social assistance (also termed general assistance or welfare) programs; programs to provide temporary employment (through public works, public service employment, social investment fund

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<sup>1</sup> Other systems that serve terminated workers include early retirement programs, disability programs, qualification training and retraining, group loan funds and support for small business start-ups.

employment or workfare); and access to payments of accrued rights from past employment (withdrawals from provident funds or from individual savings accounts).

Table 2. Social Protection for the Unemployed in APEC economies

	Passive Measures				
	Unemp. Comp.	Severance Pay	Provident Fund	Social Assistance	Other Income Support
Australia	X	X		X	X-a
Brunei			X		
Canada	X	X		X	X-a
Chile	X	X		X	
China	X	X			
Hong Kong China	X	X			X-b
Indonesia		X			X-e
Japan	X	X		X-c	X-d
Korea	X	X		X-c	X-d
Malaysia		X	X		
Mexico		X			X-e
New Zealand	X	X		X	X-a
Papua New Guinea					X-e
Peru		X			
Philippines		X			
Russia	X	X		X	
Singapore		X	X		
Chinese Taipei	X	X		X	X-b
Thailand	X	X	X	X	
United States	X	X		X	X-a,f
Viet Nam	X	X		X	

Source: ISSA, "Social Security Programs Throughout the World," various issues, ILO, "The Termination of Employment Legislation Digest," and data from national sources.

a – Low income tax credit

b – Low earnings protection

c – Livelihood protection,

d – Wage subsidies to employers

e – Early retirement payment due to unemployment

f – Food Stamps, Women, Infants and Children support

The performance of UC in 12 economies can be assessed in terms of the reciprocity rate (benefit recipients as a proportion of the unemployed) and the replacement rate (average benefits relative to average earnings).<sup>2</sup> Severance pay programs for terminated workers are present in nearly all APEC economies, but data on

<sup>2</sup> Data from Viet Nam are not available since benefit payments commenced only in 2009.



program performance are rarely available. Thus the analysis of severance pay is mainly a summary of statutory provisions. Provident funds are present in four APEC economies, but payments to non-elderly fund members are currently not made for unemployment. In Sri Lanka unemployed dislocated and displaced workers can be paid from provident fund assets under certain circumstances. Economies such as Malaysia and Singapore could consider unemployment as an allowable reason for pre-retirement withdrawals since withdrawals for certain education and housing expenditures are already permitted. At present, provident funds are only a potential source for payments to the unemployed and only in four APEC economies.

Unemployment insurance, severance pay and provident funds require a history of past work as a condition for benefit eligibility. Unemployment assistance and social assistance programs, in contrast, use low income as the primary condition for eligibility. Approximately half (11) of APEC members have social assistance which is available to some unemployed persons even though they are not a primary recipient group. The final column in Table 2 identifies other programs, such as low-income tax credits and food stamps that may include unemployed clients. These programs typically condition eligibility on low income. While the income-conditioned social assistance programs publish details on the number of recipients and total support payments, they usually do not distinguish the unemployed from other clients.

#### A. Unemployment Compensation<sup>3</sup>

Unemployment insurance programs usually link the level of benefit payments to past wages in covered employment. Within APEC, however, four economies operate unemployment assistance programs (Australia, China, Hong Kong China and New Zealand). These programs restrict eligibility to unemployed persons with income below a specified threshold and pay a flat benefit independent of the level of past wages.

Table 3 shows summary data on unemployment and UC program participation for the three years 2006-2008. Economy-specific data are displayed along with three

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<sup>3</sup> Unemployment compensation refers to all income support programs for the unemployed; in this report, specifically to unemployment insurance and unemployment assistance. For additional information, see Wayne Vroman and Vera Brusentsev (2005). *Unemployment Compensation Throughout the World: A Comparative Analysis*. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

summary measures. The IMF purchasing power parity (PPP) data are used for the estimates of average income per-capita shown in column [1]. The entries in the bottom three lines are weighted averages of income using economy-specific population in 2007 as weights. Column [2] places each APEC member into its income decile based on a data file of 150 countries developed by the authors.<sup>4</sup>

Table 3. UC Programs in APEC Economies

	Income PPP 2005 [1]	Economy Income Decile [2]	Year UC Established [3]	Unem- ployment 2006-08 [4]	UC Recipients 2006-08 [5]	Reciency Rate =[5]/[4] [6]
Australia – a	30,879	1	1944	522	437	0.837
Brunei – b	40,000	1				
Canada	34,273	1	1940	1,102	511	0.464
Chile	11,937	3	1937	523	106	0.202
China – c, d	7,198	4	1986	8,000	4,150	0.519
Hong Kong, China	33,479	1	1977	164	38	
Indonesia	4,459	6		10,113		
Japan	30,615	1	1947	2,657	570	0.215
Korea	20,590	2	1995	793	259	0.327
Malaysia	11,201	4		358		
Mexico	10,186	4		1,492		
New Zealand – a	24,797	2	1930	82	49	0.598
Papua New Guinea	2,418	8				
Peru – c	5,983	5		302		
Philippines	4,923	6		2,733		
Russia	11,041	4	1991	4,907	1,312	0.267
Singapore	28,368	2		78		
Chinese Taipei	27,721	2	1999	427	26	0.062
Thailand	8,368	4	2004	527	50	0.095
United States	41,399	1	1937	7,668	2,563	0.334
Viet Nam	3,025	7	2007	926		
12 with UC Data	14,692			27,372	10,072	0.368
12 Less China	26,001			19,372	5,922	0.306
All APEC Members	13,191			43,374	10,072	0.232

Source: Data assembled by authors, from ILO and data from national sources.

a – Financial years 2006 and 2007 for Australia. Financial years 2006-2008 for New Zealand. Beneficiaries estimated as June-June averages in each year.

b – Estimated by authors.

c – Unemployment for urban areas

d – 2002

<sup>4</sup> The data pertains to each economy with a population in 1999 of 1.0 million or more persons. The file does not include Brunei whose 2007 population was 0.4 million. The authors estimated income for Brunei.

These first two columns illustrate that APEC members are mainly high-income economies. The 21-economy average of \$13,191 is 39 percent above the worldwide average of \$9,510 across the 150 “large” economies in our data file. Also note that 17 APEC economies have income that places them in the five highest income deciles while only four economies (Indonesia, the Philippines, Viet Nam, and Papua New Guinea) are from deciles six and lower, a second illustration of high income in APEC. Moreover, no APEC economy is from the two lowest income deciles while ten are from the highest two income deciles. A final illustration of their high income is that Chile has the median income across the 21, but Chile is from the third-highest income decile.

The fact of high income within APEC is important for present purposes because UC programs are concentrated among high-income economies. Across the full set of 150 large economies in our data file, 66 had a UC program in 2009. Among the 30 economies in the two highest income deciles, 27 have UC. Conversely, no economy in the bottom two income deciles had UC in 2009. Several factors contribute to this contrast including differing shares of wage-and-salary employment versus self-employment and family worker employment. The vast majority of employment in high-income economies (80 to 95 percent) is wage-and-salary employment.<sup>5</sup> This percentage decreases steadily as one moves to lower-income economies and is often less than 50 percent for economies in the lowest income deciles. The wage-and-salary employment shares in 2007 for the three low-income APEC economies were as follows: Indonesia, 0.379; the Philippines, 0.510; and Viet Nam, 0.256.<sup>6</sup>

Associated with a high wage-and-salary share of employment is an increased likelihood of open unemployment. It is more difficult to accurately assess unemployment among the self-employed and family workers because there is no distance between the employer and the worker. For the self-employed, the employer is one and the same person while the employer is a relative for a family worker. In these two employment situations, it is very difficult for a labor force survey to accurately distinguish among the standard labor force categories of employment, under-employment, unemployment and inactive (out of the labor force). Administrators of UC programs would encounter major

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<sup>5</sup> Table 3 shows that six APEC economies are from the highest income decile. For five of these six (all but Brunei) the wage and salary share of employment in 2007 ranged between 0.862 (Japan) and 0.928 (U.S.).

<sup>6</sup> Data for Papua New Guinea are not easily available.

problems in assessing labor force status and verifying work search activities in these employment situations. As a consequence, most countries with a low wage-and-salary employment share do not have UC programs.

The preceding factors affecting the presence of UC programs are operative in APEC economies. Five of six in the highest income decile (all but Brunei) have UC as do three of four in the second income decile (all but Singapore). In contrast, only one of the five APEC economies with the lowest incomes has UC: Viet Nam. Column [3] in Table 3 shows the years when these programs were first established. Two points should be noted in this column. First, the program in Viet Nam was established only in 2007 and UC benefits were paid for the first time in 2009. Second, UC programs were recently established in Korea, Chinese Taipei and Thailand. This trio of economies may be of particular interest in comparing responses during the current recession to the period of the Asian financial crisis of the late 1990s.

Columns [4], [5] and [6] provide details on recent unemployment and UC reciprocity in APEC economies. Not all unemployed individuals receive a UC benefit. As stated above, the reciprocity rate is the annual average of unemployed individuals who receive a benefit expressed as a proportion of total unemployment. Note that the reciprocity rate does not take into account the income level of the recipient (typically lower in countries with UA programs), only the share of the unemployed who are compensated. Average unemployment during 2006-2008 appears in column [4] for the 19 economies with an ongoing labor force survey. Since the 19 account for 99.75 percent of APEC's 2007 population, average unemployment for the three years of 43.271 million captures practically all unemployment across the 21 economies.<sup>7</sup>

Column [5] shows average UC reciprocity in the same three years for the 12 economies with functioning UC programs during 2006-2008. Recipients across these 12 averaged 10.076 million and were 0.368 of unemployment in 2006-2008. Because the data for China were not derived from a statistical agency, it seemed prudent to also display in Table 3 the totals and averages for the other 11 economies. Here (second line from the bottom) the reciprocity rate is estimated to be 0.306 for the same period. When

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<sup>7</sup> The two omitted economies, Brunei and Papua New Guinea, rank 21<sup>st</sup> and 18<sup>th</sup> respectively in population within APEC and account for only 0.25 percent of the 21-economy population total.

unemployment in APEC economies without UC is also included, the overall reciprocity rate during 2006-2008 was 0.232. During 2006-2008, fewer than one in four unemployed persons across all APEC economies were compensated by UC programs.

Column [6] in Table 3 shows that UC reciprocity rates vary widely across the 12 economies. The highest rates are observed in Australia, Canada, China and New Zealand, all at about 0.500 or higher. In contrast, averages below 0.100 are seen in Chinese Taipei and Thailand, economies where UC was established quite recently. Presumably Viet Nam will publish data in the near future. Given the relatively low share of wage-and-salary employment in Viet Nam (0.256 in 2007), however, the program may not compensate a large share of the unemployed even after several years of operation.

Following the financial crisis of 1997-1999 several Asian economies either considered or established UC programs while others made substantial program modifications. Post-crisis adoptions occurred in Chinese Taipei, Thailand and Viet Nam.<sup>8</sup> The program in Korea, which first paid benefits in 1996, underwent a major expansion during 1998 with coverage extended in phases from firms with 30 or more employees to all firms with at least one employee. Since 1997, UI contributory employment has increased from 0.32 to 0.57 of wage-and-salary (or dependent) employment in Korea.

In providing earnings loss protection, two aspects of UC program benefits are important: the share of the unemployed who receive benefits (the reciprocity rate) and the level of periodic payments relative to past earnings (the replacement rate). The product of the reciprocity rate times the replacement rate shows the share of lost earnings that is paid to unemployed persons. This product can be termed a generosity index.<sup>9</sup>

Table 4 displays information on reciprocity rates, replacement rates and UC generosity with data from 1996-1998 and 2006-2008. Details are shown for all 12 APEC economies with UC because of important developments over the period in some members with longstanding programs.

Large changes in reciprocity rates occurred in several economies between the two periods. Besides Chinese Taipei and Thailand which established new programs,

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<sup>8</sup> Sri Lanka, a non-APEC country in Asia, is considering establishing UC.

<sup>9</sup> This framework is discussed in Chapter 2 of Wayne Vroman and Vera Brusentsev, Unemployment Compensation Throughout the World, (Kalamazoo, MI: W.E. Upjohn Institute, 2005).

measurable increases are also observed in Chile, Hong Kong China and Korea while measurable decreases are observed in Australia, Japan and New Zealand. The net effect of the individual economy changes was to raise average reciprocity across the 12 from 0.347 to 0.395, or by about 14 percent between the two periods.

The replacement rates in columns [3] and [4] exhibit much greater stability between the two periods. The only large increase occurred in Chile which instituted a new UC program early in the present decade. Compared to its predecessor flat benefit program, the replacement rate in Chile increased by a factor of five, from 0.058 to 0.292. All other changes fell into the range between –27 percent in Korea and plus 30 percent in China; most changes are quite small. In the aggregate, the replacement rate decreased slightly from 0.233 to 0.223 across these 12 programs.

Table 4. Changes in Availability of UC Benefits, 1996-1998 to 2006-2008

	Recip- iency Rate 1996- 1998 [1]	Recip- iency Rate 2006- 2008 [2]	Replace- ment Rate 1996- 1998 [3]	Replace- ment Rate 2006- 2008 [4]	Gener- osity =[1]×[3] 1996- 1998 [5]	Gener- osity =[2]×[4] 2006- 2008 [6]
Australia – a	1.046	0.838	0.251	0.249	0.263	0.209
Canada	0.479	0.464	0.433	0.414	0.207	0.192
Chile	0.067	0.203	0.058	0.292	0.004	0.059
China – b	0.476	0.513	0.110	0.143	0.052	0.098
Hong Kong China	0.148	0.235	0.344	0.411	0.051	0.097
Japan	0.381	0.215	0.407	0.368	0.155	0.079
Korea	0.034	0.328	0.385	0.281	0.013	0.092
New Zealand – a	1.178	0.598	0.324	0.346	0.382	0.207
Russia – c	0.259	0.267	0.155	0.139	0.040	0.037
Chinese Taipei	NA	0.061	NA	0.400	NA	0.024
Thailand	NA	0.096	NA	0.362	NA	0.035
United States	0.305	0.330	0.326	0.332	0.099	0.110
12 APEC with UC	0.347	0.395	0.233	0.223	0.081	0.088
All APEC Members	0.231	0.263	0.233	0.223	0.054	0.059

Source: Data assembled by authors, from ILO and data from national sources.

a – Financial year data 2006-2007 for Australia, 2006-2008 for New Zealand. Beneficiaries estimated as June-June averages for each financial year.

b – Urban areas, reciprocity rate in 2003 and replacement rate in 2002

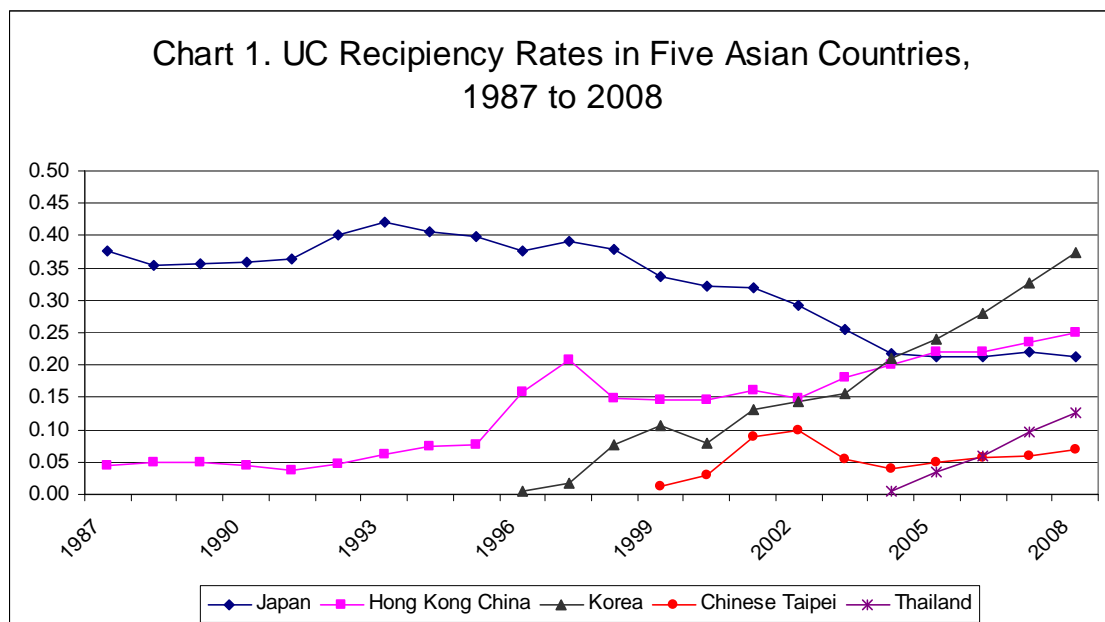
c – Replacement rate for 2004

NA – Not applicable, no UC program in 1996-1998.

Between the two periods, a modest increase in UC generosity (the product of the reciprocity rate times the replacement rate) occurred. The average generosity index for the 12 economies increased nine percent from 0.081 to 0.088. In both periods, the replacement of lost earnings as measured by the product of the reciprocity rate and the replacement rate fell below 10 percent. In three English-speaking economies (Australia, Canada and New Zealand), the generosity index was 0.200 or higher in either period – the only ones of the 12 countries where this is observed.

The bottom row in Table 4 shows UC reciprocity rates when one includes the APEC economies without UC in the calculations. Their aggregate unemployment is approximately half the total for the 12 countries with UC data. Thus including them in the calculations reduces the overall APEC reciprocity rate by about one-third, from 0.347 to 0.231 in 1996-1998 and from 0.395 to 0.263 in 2006-2008.

A final observation about UC programs pertains to the five Asian economies that regularly publish UC reciprocity data. Chart 1 traces their reciprocity rates from 1989 to 2008. Before 1996, UC was only present in Japan and Hong Kong China. New programs started paying benefits in Korea in 1996, Chinese Taipei in 1999 and Thailand in 2004.



Source: Unemployment and UC data from the ILO and country publications.

For three of five economies in Chart 1, a strong secular increase in UC reciprocity is observed. The increases in Hong Kong China and Korea were sufficiently large that both economies now have higher reciprocity rates than Japan. Japanese reciprocity has trended downward since 1993 and the change is so large that reciprocity has been only slightly above 0.200 since 2003.

To summarize, UC programs in the 12 APEC economies with UC historical data provide a modest replacement of earnings losses arising from unemployment. In recent years, earnings loss replacement calculated using indicators of the both the reciprocity rate and the wage replacement rate has fallen into the 0.08-0.09 range. Higher earnings loss replacement (0.20 and above) has occurred in three English-speaking economies. The earnings loss replacement of UC has grown noticeably in the three Asian economies with recently established programs and in Chile. When unemployment in the other APEC economies without UC enters the calculations, earnings loss replacement falls into the 0.05-0.06 range. Based on recent data, UC programs in APEC economies are presently providing a very modest degree of wage loss protection to the unemployed.

### B. Severance Pay

Severance pay schemes are widespread throughout the world and include most of the APEC member-economies from Latin America and Asia. As shown in Table 2, 19 APEC economies have severance pay as a safety net program intended to lessen the adverse effects of unemployment. Workers accrue an entitlement to severance pay as they accumulate seniority with their employer. Typically the entitlement is expressed in terms of a set number of months of salary per year of seniority. Common rates of accrual are one month or two weeks per year of seniority up to a specified upper limit and subject to a minimum period of continuous service. If a non-prejudicial separation takes place, the severance payment is to be made, most commonly as a lump sum award equal to a specified number of months at a recent monthly rate of pay.<sup>10</sup>

Most severance pay schemes involve just the worker and the employer with no direct oversight from an administrative agency (government or other). Statutory

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<sup>10</sup> The employer initiates the separation because of lack of demand for the firm's goods and/or services. In some countries eligibility extends to persons who voluntarily leave (quit) jobs.



regulations determine the severance payment obligations to be made by the employer, but there is little or no monitoring of compliance. Since the volume of employer-initiated separations rise during recessions, the obligation to make severance payments increases at a time when employer cash flow and profits are low. Consequently, non-payment (nonperformance) is a common occurrence, particularly in situations where the employer totally ceases operations or moves to another country.

Disputes over non-payment or inadequate payments that arise are typically settled in labor courts. The issues most commonly adjudicated by the courts include the cause of the separation (layoff, firing for cause or quit), the rate of pay and the level of seniority. Dispute resolution often involves long delays so that payment is frequently delayed, denied and/or only partially paid.

Unlike UC programs which are administered by a governmental administrative body and have data reporting requirements, the performance of severance pay schemes is usually not tracked in a systematic manner. As a result, it is difficult to assess program performance for such measures as the numbers who are eligible, the number of recipients, the entitlement amounts and total payments.

The International Labor Office (ILO) and the Organization for Economic Cooperation and Development (OECD) both track severance pay statutes for their respective member economies.<sup>11</sup> Table 5 provides summary measures for the APEC economies based mainly on information from the ILO and the OECD.

Column [1] identifies the 19 APEC economies with severance pay. Columns [2], [3] and [4] show the number of months of statutory severance entitlement at three seniority levels: nine months, four years and 20 years. These estimates are derived largely from the ILO *Termination of Employment Legislation Digest* and the OECD, but economy sources were also used for Indonesia, Peru and Chinese Taipei.<sup>12</sup> For workers with 20 years of seniority, months of severance-entitled wages equal or exceed 20 in six countries and equal or exceed 10 months in 12 countries. For a senior worker, the legal entitlement can represent a substantial sum.

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<sup>11</sup> The ILO maintains *The Termination of Employment Legislation Digest*, which summarizes severance pay schemes in some 70 economies. The OECD summarizes severance pay generosity as one component of its summary index of Employment Protection Legislation (EPL).

<sup>12</sup> Organisation for Economic Cooperation and Development, "Employment Protection and Labour Market Performance," Employment Outlook 1999.

Table 5. Severance Pay Statutory Entitlements at Selected Seniority Levels

	Severance Scheme	Months of Severance at:			OECD Severance Scale at:			OECD
		9 Months	4 Years	20 Years	9 Months	4 Years	20 Years	Sev. Pay Index
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Australia	X	0.00	1.00	1.00	0.0	1.0	1.0	0.67
Brunei								
Canada	X	0.20	1.00	5.00	0.0	0.2	1.3	1.33
Chile	X	0.75	4.00	20.00	2.0	6.0	6.0	4.67
China	X	0.75	4.00	20.00	2.0	6.0	6.0	4.67
Hong Kong China	X	0.00	2.40	12.00	0.0	4.0	4.0	2.67
Indonesia	X	0.75	7.00	16.00	2.0	6.0	5.0	4.33
Japan	X	0.00	1.50	4.00	0.0	3.0	2.0	1.67
Korea	X	0.00	4.00	20.00	0.0	6.0	6.0	4.00
Malaysia	X	0.25	1.83	12.33	1.0	3.0	5.0	3.00
Mexico	X	0.00	10.00	26.00	3.0	3.0	3.0	3.00
New Zealand	X	0.00			0.0	1.5	5.0	2.17
Papua New Guinea								
Peru	X	1.13	6.00	12.00	3.0	6.0	4.0	4.33
Philippines	X	1.00	4.00	20.00	2.0	6.0	6.0	4.67
Russia	X	0.00	3.00	3.00	0.0	4.0	1.0	1.67
Singapore	X	0.00	3.00	15.00	0.0	4.0	5.0	3.00
Chinese Taipei	X	0.75	4.00	20.00	2.0	6.0	6.0	4.67
Thailand	X	1.00	6.00	6.00	2.0	6.0	2.0	3.33
United States	X	0.00	0.00	0.00	0.0	0.0	0.0	0.00
Viet Nam	X	0.38	2.00	10.00	1.0	3.0	3.0	2.33

Source: International Labor Office, "The Termination of Employment Legislative Digest," and the Organization for Economic Cooperation and Development, Employment Outlook 1999, Tables 2.2, 2.A.3 and 2.B.1.

It should be noted that the entitlement to severance pay is not dependent upon post-separation unemployment. At a given seniority and wage level, workers who transition to new job immediately and those who exit the labor force have the same entitlement as workers who become unemployed following their job separation. Severance pay is a form of deferred compensation dependent upon seniority and the reason for the separation but not upon post-separation labor force status. In this important respect, severance pay is different to UC which specifically focuses on unemployed workers.

Studies of severance pay delivery point to serious problems in the payment of benefits. MacIsaac and Rama (2001) examined a sample of terminated workers in Peru

using data from a household survey.<sup>13</sup> Across their sample of urban households, four findings are important. First, overall coverage percentages in 1994 were 20 percent for all workers and 37 percent for wage-and-salary workers. This contrast is important in economies with low and middle income levels like Peru since only about half of employment is paid wage and salary employment (54 percent in urban Peru in 2007). Second, they also found that coverage increased from 15 percent in the lowest consumption quintile (one fifth of households) to 29 percent in the highest quintile. Third, severance pay was estimated to be received by only 3.6 percent of the unemployed with reciprocity increasing from 1.3 percent in the lowest quintile to 4.7 percent in the two highest quintiles. Fourth, among the unemployed who received severance pay, these benefits did raise household consumption levels.

We recently examined severance pay in Indonesia using 2008 data from a national labor force survey (termed the Sakernas survey). Because this work is part of a publication that is still under review, we provide only a brief summary of the findings. First, we found that severance pay coverage increased across income classes. Second, many who were eligible did not receive severance pay. Third, payments of severance frequently fell substantially below the legally entitled amounts. Fourth, payments to those eligible were more likely among workers who had worked in large firms.

Both studies were undertaken in economies with middle-income levels (the fifth and sixth income deciles for Peru and Indonesia respectively as shown in Table 3) and the findings are consistent. The likelihood of coverage, together with the likelihood of receiving severance pay, increases as one moves to higher levels of worker earnings. Those with low wages and most vulnerable to unemployment are less likely to receive severance pay than workers with higher pay.

To increase access to severance pay, two types of initiatives are noted. First, oversight of severance pay by a public agency can be helpful. The severance pay programs in Barbados and Slovenia are partially administered by a public agency. The administrative structures in the two countries are quite distinct, but both have features that increase the likelihood of receiving a severance payment. (See Appendix A.)

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<sup>13</sup> Donna MacIsaac and Martin Rama, "Mandatory Severance Pay: Its Coverage and Effects in Peru," The World Bank (2001).

Within APEC, Korea and Thailand established guarantee funds following the financial crisis of the late 1990s, funds intended to assure severance payments. In Korea the government pays unpaid wages (severance pay) owed to workers by employers who have ceased operations through the Wage Claim Guarantee Fund established in 1998. This fund is financed by a payroll tax of 0.04 percent. Between 2004 and 2008 this fund compensated more than 40,000 workers per year. Performance data on the fund in Thailand have not been secured.

Second, economies with individual savings account programs have an increased likelihood of severance payments being made since the worker makes payments into an individual account which can be accessed under designated circumstances. Two economies where workers know about and can access individual accounts following a layoff or permanent separation include Colombia and Sri Lanka.<sup>14</sup> The details of access are economy specific, but they share the common feature of recognizing the need for short-term income support when workers experience a job separation.

To summarize, severance pay is present in nearly all APEC economies. Performance data, however, are not readily available. While severance payments undoubtedly help some individual unemployed persons, severance pay performance cannot be assessed due to the lack of relevant data.

If an individual APEC member-economy wanted to make severance pay a more accessible income support program, the creation of either a government administrative agency or a system of individual accounts could be considered. These accounts could be overseen by a governmental or a quasi-governmental administrative entity. The specific features of a modified severance pay system would need to be tailored to the circumstances of the specific economy. As presently structured within APEC economies, the actual performance of the severance pay program falls far short of its potential.

### C. Other Transfers and Income Support Programs

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<sup>14</sup> We classify the individual account program in Chile as a UC program and showed 2006-2008 data earlier in Tables 3 and 4.

Three APEC economies (Malaysia, Singapore and Thailand) operate provident funds whose primary purpose is to provide income support in retirement. The funds in Malaysia and Singapore cover nearly all wage and salary (or dependent) workers and the majority of the workforce.<sup>15</sup> Early withdrawals prior to retirement are allowed in cases of permanent disability and also for specified educational and housing-related expenditures.

For both Malaysia and Singapore, it could be possible to authorize provident fund withdrawals for unemployment. This authorization would be especially relevant for unemployed wage-and-salary workers since most have provident fund accounts. Authorizing legislation could establish unemployment as an allowable withdrawal contingency. The maximum withdrawal amount should be limited to a percentage (perhaps one-third) of the person's total provident fund balance.

While Sri Lanka is not an APEC member, it allows such withdrawals for dislocated workers. An analysis of Sri Lankan experience could inform Malaysia and Singapore about the do's and don't in using provident funds for income support to the unemployed. Because these funds are present in just a few APEC economies, however, this potential use of provident fund balances has only limited applicability.

A closely-related idea would be to allow the unemployed to borrow from the social security system if they have made substantial past contributions towards retirement. The Philippines currently has an Emergency Loan Facility for Displaced Workers that was established to disburse loans. While withdrawals in the form of disbursements or loans can help support workers and families with unemployment, they also face the twin challenges of securing repayment (of loans) or reducing retirement income (for those who make permanent withdrawals).

Approximately, half of APEC economies operate income-conditioned social assistance programs that make payments to families when their income and assets fall below designated eligibility thresholds. These programs have a variety of names; for example, livelihood protection in Japan and Korea, Temporary Assistance for Needy

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<sup>15</sup> Provident fund data show both membership and current contributors. Members are persons who have made past contributions, many of whom are currently retired. Recent data from Malaysia show contributors to be 55 percent of total employment and 73 percent of wage and salary employment. In Singapore members have averaged 81 percent of total employment and 95 percent of wage-and-salary employment. In Thailand, total membership has averaged only 5 percent of total employment. While contributor data are not readily available, they probably number only 2-3 percent of total employment.

Families (TANF) in the United States. Table 2 identifies 11 APEC economies with such programs. While the unemployed are not a principal client group for social assistance, some families can receive benefits, especially in situations of long-term unemployment.

The payment of social assistance to the unemployed undoubtedly varies widely across the 11 APEC economies. These payments are documented in Canada where participation and total support payments from social assistance to the unemployed in the past has been roughly comparable to UC participation and support payments.<sup>16</sup> In the United States, in contrast, an aggressive “work first” policy has reduced the scope of TANF participation to less than half of the mid-1990s level. Since fewer than 2.0 million families received TANF payments in 2008, the program’s potential to support unemployed persons and their families is very limited. Limited potential is also suggested by social assistance program data from four Asian countries. Families receiving social assistance represent about 5.0 percent of all families in Korea and from 1.0 to 3.0 percent of all families in Japan, Chinese Taipei and Viet Nam.

Two other programs that target the low income population are food support programs and tax credit programs. In the United States, food support is provided through the Supplemental Nutritional Assistance Program (SNAP, formerly Food Stamps) and the Women Infants and Children’s (WIC) program. Low income households also receive support through the Earned Income Tax Credit (EITC) which provides tax relief when earnings fall within specified ranges. Tax relief for low-income working households is also provided in Australia, Canada and New Zealand. In the United States, food programs and the EITC provide substantial income support to low income families with unemployment. Participation in both SNAP and the EITC exceeded 30 million prior to the downturn.

#### D. UC Programs to Reduce Unemployment

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<sup>16</sup> See, for example, Barrett, et. al., “The Interaction of Unemployment Insurance and Social Assistance,” Human Resource Development Canada, Report IN-AH-218E-02-96, (February 1996). Recent data also show social assistance (Canadian Social Transfers) payments and caseloads to be large relative to UC (termed Employment Insurance or EI) payments and caseloads. Details on Canadian Social Transfers are found at <http://www.fin.gc.ca/fedprov/his-eng.asp>.

Reemployment bonuses and short time compensation worksharing are two initiatives undertaken within UC programs that aim to reduce unemployment. Both are discussed in the following paragraphs.

Reemployment bonuses seek to reduce unemployment duration among UC recipients by providing a lump sum payment to persons who secure early reemployment. When claimants return to work prior to exhausting (using up) their full entitlement to UC in Chinese Taipei and Korea, they receive a lump sum equal to half of their unused UC entitlement. This payment is obviously larger when persons return to work early in the unemployment spell. Experiments conducted in the United States in the 1980s showed that bonus payments to claimants were effective in reducing the duration of claims.<sup>17</sup> In both Chinese Taipei and Korea, participation in bonus payment programs can be measured. Bonus recipients in Chinese Taipei in 2007 represented 8.4 percent of regular UC claimants and in Korea in 2008 they were 5.3 percent of regular claimants. While questions remain about the effect of bonus payments on the duration of claims (because workers with good job prospects may return to work early even without these payments), proponents point to their utilization as evidence of the popularity of the programs.

Short time compensation (STC) offers an alternative to layoffs as a way for firms to make workforce adjustments during a recession. If total hours need to be reduced by say 20 percent, workers can be placed on four-day work schedules but all will remain employed at the firm. For the fifth day, workers receive a pro-rated UC benefit that reflects the size of the reduction in work hours. The alternative to STC would be to terminate 20 percent of employees. In effect, STC spreads the burden of reduced hours more widely compared to layoffs and workers receive UC benefits as partial reimbursement for the hours not worked. More workers are affected under STC, but the per-person economic burden on affected workers is much smaller than under layoffs.

At least four APEC members operate STC programs (Canada, Japan, Korea and the United States) as part of their UC programs. Typically the programs have been of a modest scale in Canada and the United States; that is, when equivalent full weeks of STC (five days of STC) are compared to regular weeks compensated, STC weeks are typically

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<sup>17</sup> See Bruce Meyer "Lessons from the U.S. Unemployment Insurance Experiments," *Journal of Economic Literature*, Volume 33 (March 1995) pp. 91-131 for a summary of the reemployment bonus experiments.

less than one percent of regular weeks.<sup>18</sup> During calendar 2009 usage increased in the U.S., and STC equivalent full weeks exceeded one percent of regular weeks in 11 of the 17 states with active programs. STC in the U.S. remained small in 2009 despite its growth. The highest percentage of regular weeks in 2009 was only 4.17 percent Rhode Island. The potential duration of STC in Canada increased from 38 to 52 weeks in early 2009 and participation increased to record levels. In November 2009, there were 167,000 STC participants or 11.4 percent of the number unemployed that month.<sup>19</sup>

Korea and Japan recently instituted STC programs, and they were of considerable size in 2009. In Korea an “Agreement” between labor, management, civic groups and the government to encourage private-sector use of STC yielded participation by 29 percent of companies employing 100 or more workers. The Korean Labor Institute announced that the job-sharing initiative generated the equivalent of 90,000 jobs or about 10 percent of average unemployment.<sup>20</sup> Japan also had an active STC program, but estimates of program size have not yet been secured. Absent STC, unemployment rates in three of these four APEC economies (Canada, Korea and Japan) would have increased by noticeably larger amounts in 2009.

Very aggressive use of STC in this recession is occurring in Germany. Between February and September 2009, monthly STC usage ranged between 1.0 and 1.5 million workers and averaged 1.2 million. The average reduction in weekly hours averaged about 40 percent or two days per week. If STC were not present in Germany, total unemployment in 2009 (labor force survey) would likely have averaged about 0.5 million more than its reported level of 3.2 million. By relying heavily upon STC, Germany has reduced work hours substantially but without experiencing large increases in open unemployment. Short time compensation is a policy initiative worthy of consideration by other APEC member-economies besides the four discussed above.

#### E. Recent UC Policy Initiatives

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<sup>18</sup> In the United States, active STC programs are present in the UI programs of 17 states. Individual state UI programs make decisions about offering STC or not.

<sup>19</sup> STC participation in November 2009 was provided by staff of Human Resource Development Canada. Unemployment in November 2009 was 1,466,000.

<sup>20</sup> Communication from Song-Dong Yoo, Assistant Director International Cooperation Division, Korean Ministry of Labor. Open unemployment in 2009 from the labor force survey averaged 889,000.



In response to the current recession several APEC economies have enacted various measures to broaden access to UC, lengthen potential benefit duration and increase the level of periodic benefit payments. The ILO administered questionnaires in early 2009 to ascertain the changes in labor market programs in response to the crisis. The results of this ILO survey were released in September and included 13 APEC member-economies within its total sample of 55 economies. Annex 3, Table 2 of the ILO report shows that seven of the 13 have extended UC potential benefit duration and seven have enlarged the scope of social assistance benefits. While the quantitative effects of these changes were not estimated, increased income support for the unemployed is being provided under these expanded measures.<sup>21</sup>

For example, in response to the recession the *Economic Action Plan* introduced three initiatives to the Employment Insurance (EI) program in Canada. These include the expansion of coverage to the self-employed, the extension of EI benefits and a freeze in payroll tax premiums.<sup>22</sup>

The United States has undertaken several policy initiatives to broaden the scope of UC during the current recession. Two extended UC benefit programs were promoted as well as measures to raise the level of take-home pay among UC recipients. A federally-financed program of extended unemployment compensation (EUC) was first enacted in July 2008 and has been extended four times, including the most recent extension of December 2009. The second extended benefit program, Federal-State Extended Benefits (EB), was revived by allowing states to enact temporary triggers to activate EB in 2009 and 2010. As of December 2009, the combined caseload of EUC and EB equaled the caseload of the regular UI program. Maximum potential duration of UC benefits in late 2009-early 2010 is 99 weeks in more than half the states including most large states. Higher weekly benefits are now in place through a \$25 across-the-board increase for all three tiers of UC benefits. Take-home pay has also been raised

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<sup>21</sup> The same survey also identified several changes in active labor market measures across the 13 economies. These measures are intended to stabilize employment, provide temporary jobs, improve worker skills and assist in job search. The survey, however, does not administer questions about local employment subsidies that are prevalent in developing economies and, hence, is beyond the scope of this report. Active measures are discussed in the next section of this paper.

<sup>22</sup> For further information, see

<http://www.actionplan.gc.ca/initiatives/eng/index.asp?mode=5&btnSubmit=Submit&clientId=2&parent=1&1=2>

through reductions in the income taxes levied on UC benefits. The combined effects of all these temporary measures raised total UC benefits in 2009 from the \$75-80 billion range to the \$110-125 billion range. This response has been the most aggressive set of federal policy initiatives to increase UC benefits spanning the 11 recessions experienced since World War II.

### III. Active Labor Market Measures

Economies throughout the world were supporting policies designed to facilitate the (re)employment of the unemployed even before the onset of the current global recession. While economies attach varying importance to different policy approaches, active measures are common, including targeting those who face particular difficulties in the labor market, specific interventions to support the transition from education to work for young people and special measures for older unemployed people, as well as financial incentives to encourage the unemployed to accept low wage job offers. Most of the current policy responses have focused on those out of work as a result of the downturn, but many economies have increased funding for worker training to improve their labor market prospects. This section examines active labor market measures such as training, employment services and temporary job creation programs.

Increasing self-reliance has been one of the dominant themes in many economies in recent years. As self-reliance has become an essential part of the social dialogue, governments are seeking to achieve a balance between providing income support for those in need and encouraging people to become independent. Hence, UC recipients of workforce age are being increasingly directed towards active labor market measures, such as job search, training and work experience placements in an attempt to improve their job prospects. Increased requirements are being placed on individuals of workforce age to pursue active job search and accept suitable employment as a condition of income support. This is often formalized through a contract or written understanding between the recipient and the public administrative agency on their respective responsibilities.

The *Social Expenditure Database* (SOCX) of the OECD (2004) shows that the member-economies of APEC who are also in the OECD spent a total of nearly \$3.1

billion in 2001 on active labor market policies (ALMPs).<sup>23</sup> This spending represents just over a quarter of one percent of their combined GDP. As a group, APEC economies also spent nearly the same proportion of their GDP on passive labor market policies. The expenditure on ALMPs was highest in New Zealand: about 0.52 percent of GDP. Mexico spent the least followed by the United States; 0.06 percent and 0.15 percent, respectively. In contrast, the 19 countries in the European Union, also members of the OECD, spent 0.67 percent of their combined GDP on ALMPs.<sup>24</sup>

The policy responses to the crisis specifically aimed at helping the unemployed to return to work has varied considerably across economies. In most cases, the additional funds for ALMPs are limited but there are a few exceptions. The SOCX database (2007) shows that Japan and Mexico recently increased discretionary expenditure on ALMPs, albeit from relatively low baselines.<sup>25</sup> More recent information on activation of the unemployed (the number of participants and spending on specific ALMPs) can be found in the statistical annex of *Employment Outlook 2009*.<sup>26</sup>

Both the ILO and the OECD-European Commission administered questionnaires in 2009 to ascertain the discretionary changes in expenditure in response to the crisis. Table 6 summarizes the frequency of measures taken by the 13 member-economies of APEC and by the full sample of 55 economies surveyed by the ILO for supporting jobseekers, jobs, and the unemployed.<sup>27</sup> The first six measures included in Table 6 are ALMPs; the final two entries are passive labor market programs.

Table 6: Frequency of Measures Supporting Jobseekers, Jobs and the Unemployed

	<u>Percent</u>	<u>Percent</u>
	APEC (13)	ILO (55)

<sup>23</sup> SOCX, [www.oecd.org/els/social/expenditure](http://www.oecd.org/els/social/expenditure). Member-economies of both APEC and the OECD are Australia, Canada, Japan, Republic of Korea, Mexico, New Zealand, and the United States.

<sup>24</sup> Member-economies of both the European Union and the OECD are Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, the Netherlands, Poland, Portugal, Slovakia, Spain, Sweden, and the United Kingdom.

<sup>25</sup> See *Protecting people, promoting jobs: A survey of country employment and social protection policy responses to the global economic crisis*. ILO Report to the G20 Leaders' Summit (2009).

<sup>26</sup> See <http://www.oecd.org/dataoecd/54/48/43766121/pdf>

<sup>27</sup> The member-economies of APEC included in the ILO survey are Australia, Canada, Chile, China, Indonesia, Japan, Malaysia, Mexico, Peru, Philippines, Republic of Korea, the United States and Viet Nam.

Additional training measures	84.6	63.0
Increased capacity of public employment services	84.6	46.3
New measures for migrant workers	30.8	27.8
Working time reductions	61.5	27.8
Partial unemployment with training and part-time work	15.4	27.8
Wage reductions	30.8	14.8
Extension of unemployment benefits	46.2	31.5
Additional social assistance and protection measures	61.5	33.3

Source: ILO survey<sup>28</sup>

With a single exception, the 13 member-economies of APEC are supporting more labor market measures for jobseekers and the unemployed as well as protecting jobs when compared to the full ILO sample. In terms of ALMPs, greater priority is given to additional training and public employment services: Japan and Mexico are the only two APEC economies that have not introduced new training measures to combat the recession;<sup>29</sup> Indonesia and Viet Nam have not expanded public employment services.

The OECD-European Commission also administered a questionnaire in 2009 on the changes to expenditure and the frequency of federal or national government initiatives targeted at the unemployed, inactive or vulnerable workers. Note that the focus of the survey is discretionary changes in expenditure on active labor market measures and does not recognize that in countries, such as New Zealand, several initiatives were in place prior to the worldwide downturn. The responses to the OECD-EC questionnaire (2009) on expenditure are shown in Table 7 for the seven economies who are members of both APEC and the OECD.

As Table 7 shows, all seven member-economies of APEC increased their expenditure on training programs for the unemployed or persons working reduced hours. Similarly, all seven increased expenditure on job-search assistance which, in most cases,

Table 7: Discretionary Changes in Expenditure on Active Labor Market Measures

	Job subsidies	Reductions in	Job-search	Job-finding	Work	Training
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<sup>28</sup> See *Protecting people, promoting jobs: From crisis response to recovery and sustainable growth*. Communication to G20 Leaders by ILO Director-General, Pittsburg Summit, 24-25 September 2009. The ILO survey covers 55 countries, including 15 APEC member-economies.

<sup>29</sup> According to Mr. Yuki Nagata of the Ministry of Foreign Affairs, Japan subsequently introduced new training measures.

	and recruitment initiatives	non-wage labor costs for hiring unemployed	assistance and matching	and business start-up initiatives	experience programs	programs
Australia	X		X			X
Canada	X		X		X	X
Japan	X		X	X	X	X
Korea	X		X	X	X	X
Mexico	X	X	X	X		X
N.Z.			X		X	X
U.S.	X		X		X	X

Source: OECD-EC (2009). *Addressing the Labour Market Challenges of the Economic Downturn: A Summary of Country responses to the OECD-EC Questionnaire*. Paris: OECD, February 2009.

As Table 7 shows, all seven member-economies of APEC increased their expenditure on training programs for the unemployed or persons working reduced hours. Similarly, all seven increased expenditure on job-search assistance which, in most cases, involves increasing public employment service staffing levels. Except for New Zealand, expenditures on job subsidies and recruitment initiatives was also increased, notably by offering earlier individual guidance, career counseling, and labor market information.<sup>30</sup>

According to the OECD-EC questionnaire (2009), some additional ALMPs were announced in response to the current recession. Table 8 shows these measures for the seven economies who are members of both APEC and the OECD.<sup>31</sup>

As Table 8 shows, the most commonly-targeted group is youth, who benefit from specialized job search assistance, job subsidies, work experience, and training or apprenticeship programs. Other programs are targeted at other disadvantaged or vulnerable job seekers such as older workers, low-skilled and migrant workers.<sup>32</sup> In three

<sup>30</sup> According to Mr. Brett Pattinson of the Department of Education Employment and Workplace Relations, Australia subsequently introduced measures to assist or improve reductions in non-wage labor costs for hiring unemployed persons, job-finding and business start-up initiatives, and work-experience programs.

<sup>31</sup> In addition to the measures identified in Table 8, Australia, Korea and Japan implemented additional ALMP measures. In Australia, Mr. Brett Pattinson provided information about the *Jobs and Training Compact* to target specific at-risk groups. In Korea, Mr. Soon-Dong Yoo of the Korean Ministry of Labor's International Cooperation Division provided information about ALMPs for low-skilled workers and workers in high-unemployment regions. Similarly, Mr. Yuki Nagata provided information about the new measures for youth and persons in high unemployment regions implemented in Japan.

<sup>32</sup> For instance, the *Economic Action Plan* in Canada provides additional funding for training delivered by provinces and territories for EI beneficiaries, older unemployed in depressed areas and those who are unemployed without access to EI training.

economies, additional programs were established to encourage job seekers establish small businesses, either through direct incentive payments to employees, subsidies to employers or low-interest loans.

Table 8: Additional Active Labor Market Measures

	Youth	Long-term unemployment	Temporary Workers	Low Skilled	Older Workers	High unemployment Regions	Small business
Australia	X			X			
Canada	X	X	X		X	X	X
Japan		X	X		X		X
Korea	X	X					X
Mexico	X			X			
N.Z.	X					X	
U.S.	X	X	X	X	X	X	

Source: *ibid.*

#### A. Training Programs

The aim of training programs is to improve the employment prospects of the unemployed. The majority of economies focus on two types of training programs: retraining initiatives for the long-term unemployed and displaced workers; training for young workers, especially those who have not completed their high-school education. Although training programs greatly increase the employability of participants, they are relatively expensive. In order to be successful, training institutions need to be flexible to adjust to the changing skills required in labor markets and governments need to establish a strong relationship with prospective employers.

Education and vocational training receive high priority as a way to improve job prospects and long-term employability of the unemployed. Among the APEC economies included in the ILO (2009) and OECD-EC (2009) surveys, all except Japan and Mexico have undertaken new training and education initiatives in response to the recession.<sup>33</sup>

The emphasis in Canada has been on expanding learning and education opportunities. Other countries provide education and training opportunities to jobless people through their active labor market program interventions. Young people have been

<sup>33</sup> According to Mr. Yuki Nagata, Japan subsequently introduced initiatives such as expanding scholarships and promoting support to university students in their job search.

especially targeted as a deliberate strategy to restrict unconditional access to passive income support benefits in a number of countries (for example, in Australia and New Zealand). Instead, they are being directed to education, training, work experience and integrated programs which seek to improve their long-term employment prospects.

In the United States, several programs provide job training. The federal government provides most of the financial support for job training, but state and sub-state entities make most of the decisions in providing training services and may also provide financial support. The Workforce Investment Act (WIA) of 1998 provides the overall framework for job training programs. Clients are typically low skill workers, and important target groups include youth and dislocated workers as well as the unemployed. Specialized programs also exist for the physically handicapped, veterans and workers who lost jobs due to international trade. The Green Jobs Act in 2007 was enacted with the objective of creating three million new jobs in energy efficiency and renewable energy installations. It supports on-the-job apprenticeship and training programs to meet the increasing demand for skilled workers in these green industries. The American Recovery and Reinvestment Act of 2009 supplemented the funding for federal WIA workforce programs, relying on the existing program infrastructure. The fiscal stimulus package of February 2009 included provisions to encourage increased use of Pell grants for suitable training under UC programs.

The Recovery Act targets specific groups and programs: adults, youth, and dislocated workers. An additional \$500 million was allocated to the WIA-Adult program for states to deliver employment and training services to adults. The WIA-Youth program received an additional \$1.2 billion for the provision of activities for youth. An additional \$1.25 billion was allocated to the WIA-Dislocated Worker program for states to deliver employment and training services to dislocated workers.

In response to the global crisis, some low-income economies of APEC are addressing skill development needs. For instance, Indonesia allocated IRP300 billion for training the unemployed in an attempt to increase the number of trainees by 5,000. In cooperation with industry, Malaysia increased the number of participants in training programs by 10,000 participants and on-the-job training is being provided for 1,000 unemployed graduates.

Some APEC economies see the recession as an opportunity to address longer-term concerns of environmental sustainability and more sustainable patterns of growth. In the Republic of Korea, most of the planned 8.5 million new jobs to be created by the fiscal stimulus through 2017 are in green infrastructure: an allocation of \$6 billion for energy conservation and \$7 billion for clean transportation.<sup>34</sup> In addition, the plan includes the creation of 23,000 jobs in 2009 for low-income earners and the unemployed.

### B. Employment Services

The provision of employment services is another active labor market policy often used during a recession. Employment service staff conducts resume reviews, employment counseling, and help with the process of job search. The goal is to match the limited jobs available with workers who have the appropriate skills. These programs are relatively inexpensive, but often help workers who would have found employment without assistance from government-funded programs. To be most effective, employment service programs need to be closely coordinated with other active and passive measures.

Among the APEC members included in the ILO (2009) and OECD-EC (2009) surveys, all except Indonesia and Viet Nam have expanded public employment services in response to the current recession.

In the United States, job matching and other reemployment services are provided by the Employment Service, a set of state agencies whose funds are derived mainly from allocations made by the federal government. The Workforce Investment Act adopted the One-Stop concept which requires the provision of employment and training programs through consolidated One-Stop centers so that both individuals and employers can more easily access services. A hierarchy of services is offered at these One-Stop centers: core services, intensive services, and training. While core services are available to all individuals, intensive services are available to adults and dislocated workers who are unable to obtain employment through core services or to those whose assessments indicate the need for such services. Core services include information about how to file

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<sup>34</sup> See Box 10 in *Protecting people, promoting jobs: A survey of country employment and social protection policy responses to the global economic crisis*. ILO Report to the G20 Leaders' Summit (2009).



an unemployment insurance claim, job search and placement services, and the provision of labor market and other types of information. Intensive services include comprehensive skill assessment, development of individual employment plans, counseling, and case management. Training services are available for qualifying adults and dislocated workers who cannot obtain employment through intensive services or whose assessments indicates the need for training.

As illustrative examples of the discretionary changes in ALMP expenditure in response to the global crisis, five countries can be highlighted. In Australia, AUD42 billion were invested in employment services, including the restructuring of the delivery of public employment services and directing job services toward specific segments of the population. In Canada, public employment service offices increased the level of staffing and extended the hours of operation. Two noteworthy initiatives in Korea were the establishment of a data base of job openings at 80,000 companies experiencing labor shortages and increased staffing at job service centers. The increase in job service staffing of 1,100 persons represents an increase of 29 percent. In Mexico, USD138 million were allocated to the national employment service offices to improve services and extend hours. In the United States, the Recovery Act provided \$125 million in funding to states for Employment Services operations in One-Stop Career Centers. This funding is to assist job seekers with employment and workforce information and employers seeking qualified individuals to fill job openings. The Recovery Act also provided \$250 million in funding to supplement existing reemployment services for unemployment insurance (UI) claimants and to support Employment Service and UI information technology to identify and serve the needs of UI claimants. In addition, the Recovery Act included a UI provision for the transfer of \$500 million to states from a federal Employment Security Account for fiscal year 2009, monies to be used for UI program administration. As well as providing staff-assisted reemployment services to UI claimants, these funds may be used for administration of incentive provisions, outreach to individuals eligible for UI benefits and improvement of UC administration of benefit and tax operations.

### C. Temporary Job Creation

The aim of temporary job creation programs is not only to generate new jobs but also ensure the survival of existing ones. Governments can subsidize wages or directly create jobs in both the public and private sectors. While these programs are often aimed at improving the employment prospects of the long-term unemployed and the more economically disadvantaged workers, they can also be used during a recession. An important objective of job creation programs is the social inclusion of disadvantaged workers. Most of the employment created, however, is usually temporary. Critics argue that job creation programs are unable to generate employment in a cost-effective manner and that the jobs created may not be suitable. Also, it is possible that firms might reduce the size of their labor force in order to hire the less expensive, subsidized workers.

Table 9 summarizes the measures taken by the 13 member-economies of APEC surveyed by the ILO to stimulate aggregate demand in three areas: spending on infrastructure, public employment and targeted employment programs. All of the member-economies of APEC allocated additional funds for spending on infrastructure. Most of the expenditure was associated with green infrastructure initiatives; only Chile, Indonesia, Malaysia, Peru and Viet Nam did not focus on environmental sustainability. Japan, Korea, Malaysia and the Philippines encouraged job growth through public sector job creation employment. Except for Indonesia, all the APEC member-economies introduced a number of new measures or expanded existing programs to target specific demographic groups.

As indicated in the results of the OECD-EC questionnaire (2009), the seven member-economies of both APEC and the OECD introduced a number of new measures or expanded existing programs in response to the current recession. Australia introduced a new wage subsidy program for firms hiring laid-off apprentices and trainees in 2009 and 2010. Canada introduced a new subsidized job program targeted at Aboriginal people, youth and for small-and-micro enterprises (SMEs) to hire science or business graduates for up to one year.

Table 9: Measures to Stimulate Demand

	Fiscal spending on infrastructure	Public employment	Targeted employment programs
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	Additional spending	Employment criteria	Green criteria		New programs introduced	Existing programs expanded
Australia	X	X	X		X	
Canada	X		X		X	
Chile	X					X
China	X		X		X	
Indonesia	X	X				
Japan	X		X	X		X
Korea	X		X	X	X	
Malaysia	X			X	X	
Mexico	X		X			X
Peru	X					X
Philippines	X	X	X	X	X	X
U.S.	X	X	X			X
Viet Nam	X					X

Source: ILO survey

Japan increased the size of the subsidies for job creation in SMEs hiring people with difficulties in employment, such as persons with disabilities, and established wage subsidies for firms hiring workers aged 65 years and older. In addition, temporary subsidies were introduced for hiring former-irregular workers aged 25-39 years as regular workers and established a temporary fund for job creation at the local government level was established. Also, firms hiring persons with disabilities for the first time will receive JPY 1 million. Korea temporarily expanded the public sector job creation program and changed the rules governing job creation in social enterprises to improve the quality of jobs. Also, a new youth internship program for SMEs with wage subsidies was introduced for hiring interns on regular contracts at the conclusion of the internship.

In response to the recession, Chile is providing an employment subsidy for hiring youth workers aged 18 to 24 years. Mexico expanded its public sector temporary employment program for unemployed and underemployed workers over 16 years to cover all municipalities and extended the maximum allowed days of temporary work from 88 to 132 days. In addition, the program granting women a one-off payment to start a day care centre was expanded. The United States expanded its existing program of tax

credits to apply to employers hiring unemployed veterans or disconnected youth aged 16 to 24 years in 2009 and 2010 and increased the wage subsidy rate and duration for program-eligible workers aged 50 years and older who lose their job as a result of import competition or offshore activity and who find re-employment at a lower wage.

#### IV. Policy Recommendations

The policy responses to the crisis specifically aimed at helping the unemployed to return to work has varied considerably across economies. Yet the overall response appears to be limited.

Since labor market earnings are the prime source of family income in all economies and, given the widespread and sizeable increases in unemployment associated with the global recession seen in all APEC member-economies, a clear need exists for both passive and active programs to further assist the unemployed. In high-income economies, the vast majority of employment is wage-and-salary employment and, associated with this high share of employment, there is an increased likelihood of open unemployment. Yet, during 2006-2008, fewer than one in four unemployed persons across all APEC economies were compensated by UC programs: the average recipiency across the 12 economies with UC programs is 0.395 in the most recent data. Moreover, the replacement rate in the aggregate is 0.223 across these 12 programs. When one includes all APEC members in the calculations, the recipiency rate falls to 0.263 in the same 2006-2008 period.

Overall, UC programs in the 12 APEC economies with historical data provide a modest replacement of earnings losses arising from unemployment. Furthermore, when unemployment all APEC economies are included, the earnings loss replacement falls into the 0.05-0.06 range. Based on recent data, APEC economies are presently providing a very modest degree of wage loss protection to the unemployed. More unemployment protection needs to be considered in the current economic climate.

While severance pay programs are present in nearly all APEC economies and severance payments undoubtedly help some individual unemployed persons, severance pay performance cannot be assessed due to the lack of relevant data. If an individual

APEC member-economy wanted to make severance pay a more accessible income support program, the creation of either a government administrative agency or a system of individual accounts could be considered. These accounts could be overseen by a governmental or a quasi-governmental administrative entity. The specific features of a modified severance pay system would need to be tailored to the circumstances of the specific economy. As presently structured within APEC economies, the actual performance of the severance pay program falls far short of its potential.

Approximately, half of APEC economies operate income-conditioned social assistance programs that make payments to families when their income and assets fall below designated eligibility thresholds. While the unemployed are not a principal client group for social assistance, some families can receive benefits, especially in situations of long-term unemployment. The payment of social assistance to the unemployed varies widely across the 11 APEC economies with such programs. Overall, the program's potential to support unemployed persons and their families is limited. Governments could consider increased utilization of social assistance programs.

Reemployment bonuses and short time compensation worksharing are two initiatives that aim to reduce unemployment. Reemployment bonuses seek to reduce unemployment duration among UC recipients by providing a lump sum payment to persons who secure early reemployment. This payment is obviously larger when persons return to work early in the unemployment spell. Questions remain, however, about the effect of bonus payments on the duration of claims because workers with good job prospects may return to work early even without these payments.

Short time compensation (STC) offers an alternative to layoffs as a way for firms to make workforce adjustments during a recession. In effect, STC spreads the burden of reduced hours more widely compared to layoffs and workers receive UC benefits as partial reimbursement for the hours not worked. While more workers are affected under STC, the per-person economic burden of the affected workers is considerably smaller than under layoffs. Absent STC, unemployment rates would have increased by noticeably larger amounts in 2009. Short time compensation is policy tool is worthy of consideration by other APEC economies (besides the four discussed in the report).

## V. Conclusions

This report examined existing labor market policies in APEC member- economies and analyzed their response to the worldwide recession to lessen the hardships experienced by unemployed workers and their families. Given the widespread and sizeable increases in unemployment, a clear need exists for both passive and active labor market programs for the unemployed.

The report identified five passive labor market programs that can provide income support to unemployed persons and their families. The performance of these programs was assessed and suggestions to broaden the scope were made. In addition, the responses to the current recession were noted.

Unemployment compensation programs are present in 13 APEC economies, including the four that operate unemployment assistance programs (Australia, China, Hong Kong China and New Zealand). In the APEC economies with UC historical data, our analysis shows that these countries are providing a very modest degree of wage loss protection to the unemployed. In response to the current recession several APEC economies enacted various measures to broaden access to UC, lengthen potential benefit duration and increase the level of periodic benefit payments. Seven of the 13 APEC member-countries extended UC potential benefit duration and seven enlarged the scope of social assistance benefits. While the quantitative effects of these changes were not estimated, increased income support for the unemployed is being provided under these expanded measures.

Severance pay is present in nearly all APEC member-countries. The performance of severance pay programs, however, is difficult to assess since the relevant performance measures are usually not tracked in a systematic manner. Limited evidence shows that non-payment is a common occurrence, many who are eligible do not receive severance pay, and payments of severance frequently fell substantially below the legally entitled amounts. As presently structured within APEC economies, severance pay programs fall far short of potential. Hence, if severance pay were to become a more accessible income support program, the creation of either a government administrative agency or a

system of individual accounts could be considered. The specific features would need to be tailored to the circumstances of the economy.

Provident funds operate in three APEC economies (Malaysia, Singapore and Thailand) to provide income support in retirement. For both Malaysia and Singapore, it could be possible to authorize provident fund withdrawals for unemployment by enacting legislation to establish unemployment as an allowable withdrawal contingency.

Approximately, half of APEC economies operate income-conditioned social assistance programs that make payments to families. While the unemployed are not a principal client group for social assistance, some families could be eligible for benefits, especially in situations of long-term unemployment.

The report focused on three active labor market programs that operate in the APEC economies: training, employment services, and temporary job creation. While most of the current policy responses tend to support initiatives for those out of work as a result of the downturn, many economies increased their funding for worker training to improve their labor market prospects. Generally, greater emphasis has been placed on additional training and public employment services.

The majority of APEC economies focus on two types of training programs: retraining initiatives for the long-term unemployed and displaced workers; and training for young workers. Education and vocational training received considerable attention. Some low-income countries of APEC have addressed skill development needs. Still other APEC economies are addressing the longer-term concerns of environmental sustainability and more sustainable patterns of growth.

All except Indonesia and Viet Nam of the 13 APEC member-economies covered by the ILO survey expanded public employment services in response to the current recession. The aim of the staff at the employment service offices is to match the limited jobs available with workers who have the appropriate skills. As noted in the paper, to be most effective, employment service programs need to be closely coordinated with other active and passive measures.

All of the member-economies of APEC allocated additional funds for spending on infrastructure through temporary job creation programs. Most of the expenditure was associated with green infrastructure initiatives. Four APEC economies encouraged job

growth through public sector job creation employment (Japan, Korea, Malaysia and the Philippines). Except for Indonesia, all the APEC member-economies introduced new measures or expanded existing programs to target specific demographic groups.

The principal conclusion of this paper is that APEC economies have undertaken a variety of passive and active labor market policy measures intended to offset the negative effects of the current recession on labor market participants and their families.



## Appendix A. Severance Pay in Barbados and Slovenia

The severance pay scheme in Barbados, created in 1973, is unusual in at least in two ways. First, it has broader eligibility criteria than in most countries. Second, the government takes responsibility for making payments when the employer does not make the payment.

Like most schemes, the Barbados scheme mandates payment when a worker is terminated. Additionally, eligibility is also conferred if the worker has been laid off or kept on a short-time work schedule continuously for 13 or more weeks or for a period of 16 weeks (of which not more than 12 were consecutive) of a continuous 26-week period. Access in these latter situations is unusual because eligibility is conferred even if the employment arrangement is still active, albeit with a temporary interruption or shorter work hours than originally negotiated.

The National Insurance Board (the Social Security agency) makes two payments related to severance pay. For situations of routine payments, the employer is reimbursed for one fourth of the severance payment made to the former employee. The basic entitlement for persons with at least 104 weeks (two years) of seniority starts at 2.5 weeks for each year from 2 to 10 years, then 3.0 weeks for each year from 10 to 20 years and finally 3.5 weeks for each year from 20 to 33 years.

When a company does not make its obligated payment (due to financial problems, bankruptcy or leaving the island with unpaid obligations), the National Insurance agency makes the payment to the worker from a Severance Fund. During the five years 2001 to 2005, the National Insurance Board paid \$18.5 million to employers in 5,881 situations where severance payments were made to workers (payments totaling \$74.0 million) and \$17.0 million to workers in 2,128 situations where employers did not make payments. These performance statistics were available because the agency made a payment following each severance, either to the worker or to the employer. Overall, employers made payments in 73 percent of the severance situations.

Administrative costs associated with the \$35.5 million of payments totaled \$3.0 million or 8.5 percent of total payments. For employers who did not make required

payments but remained active in Barbados, the National Insurance Board tries to enforce collection of severance pay. Data on recovery, however, were not secured.

Since 1997 Slovenia has operated a Public Guarantee Fund to ensure that employers meet their severance pay obligations.<sup>35</sup> Under the labor code of 1990 employers were to pay two weeks of severance for each year of service above two years based on average wages of the last three months prior to termination. Under the more recent labor code of 2003 the rate of reimbursement is 20 percent of monthly wages per year for workers with one to five years of seniority, 25 percent for those with five to 15 years of seniority and 33 percent for those with more than 15 years of seniority.

Workers who unsuccessfully claim severance from their former employers can claim benefits from the Guarantee Fund. Unlike voluntary payments by employers, payments from the Guarantee Fund are at the rate of a single month of wages measured at the minimum wage. Data from the Guarantee Fund for the period 1994 to 2003 show that average reimbursement from the fund is only about 10 percent of the average amount claimed.<sup>36</sup> Between 1998 and 2003 the average claim was about 700 Slovenian Tolars whereas the average payment from the Fund was about 70 Tolars.

Even after establishment of the Guarantee Fund, non-payment by employers has remained a large problem. In 2000, it was estimated that employers voluntarily paid only 64.3 percent of their severance pay obligations. The likelihood of voluntary payment was higher for large firms and those in the manufacturing sector. Because of the restricted level of payments from the Guarantee Fund, their payments represented only about 2.7 percent of the amount claimed while fully 33.0 percent went unpaid.<sup>37</sup>

In both Barbados and Slovenia, administrative involvement in the severance pay program is useful for documenting the scale of non-payment and for helping to ensure payment to eligible claimants.

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<sup>35</sup> This description is based upon Milan Vodopivec, et. al. "How Does the Severance Pay System Work in Slovenia?" The World Bank (February 2005).

<sup>36</sup> See Figure 8 op. cit.

<sup>37</sup> See Table 1 and Figures 1 and 2 op. cit.