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Human Resources and the Global Economic Crisis: Effective Social Safety Nets and Labor Market Policies in APEC Member Economies

Case Studies and Meeting Notes

APEC Human Resources Development Working Group

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1. HRD Experts Meeting Summary

Introduction

In November 2009, APEC leaders expressed their support for a new growth paradigm for a "connected Asia-Pacific in the 21st Century" that focuses on inclusiveness and broadening access to economic opportunities by facilitating worker training, skills upgrading, and domestic labor mobility. In this context, the APEC Human Resources Development Working Group (HRDWG) guides programs to share knowledge, experience, and skills among APEC economies to strengthen human resource development and promote sustainable growth.

In July 2010, to inform policy design and program implementation in APEC's inclusive and sustainable growth agenda, the HRDWG held the APEC HRD Experts Meeting on Human Resource Impacts of the Global Economic Crisis in Jakarta, Indonesia. At the meeting, APEC economies shared their responses to the global economic crisis in terms of the interventions carried out in labor market systems and social safety nets.

This report compiles some of the experiences shared at this meeting: This chapter presents a general summary, 10 case studies detail the impacts and interventions in individual APEC economies, and a research paper examines the labor market policy responses in APEC economies to the worldwide recession.

Overview and Impact

The global economic crisis caused a severe economic shock to the world economy, although the impact varied among APEC economies. APEC economies had different risk factors that were the source of different vulnerabilities, such as extent of poverty, household coping mechanisms, fiscal space, political instability, and institutional capacity to administer response measures. Common negative consequences for labor market systems among APEC economies included a rapid rise in unemployment and underemployment, lengthened unemployment duration, loss of household income, mounting poverty, the shift of labor to the informal sector, negative impact on wages and working hours, and disproportionately high financial stress on vulnerable groups and sectors.

APEC economies responded to the crisis in different ways. Fiscal space was a key determinant for the scope and duration of stimulus responses. Sound fiscal positions entering the crisis enabled some economies to respond with aggressive programs, while other economies had less scope for adjustment. Social safety net programs provided some economies with a stabilizing mechanism to activate simultaneously with fiscal packages that mitigated the effects of the downturn. Other determinants for the effectiveness of response to the crisis included the structure of the labor market and state of labor market organization, the institutional capacity to administer new programs, and the ability to impose strong and comprehensive financial controls over such programs.

Successful responses to the global economic crisis were driven by an effort to balance short-run stimuli with long-term growth strategies. Central to this strategy was a drive to immediately minimize the impact of job loss and income loss through a combination of macroeconomic stimulus and active labor market policies. Longer-term labor market responses included policies to stimulate productive demand for labor, upgrade the supply of labor, and strengthen social protection.

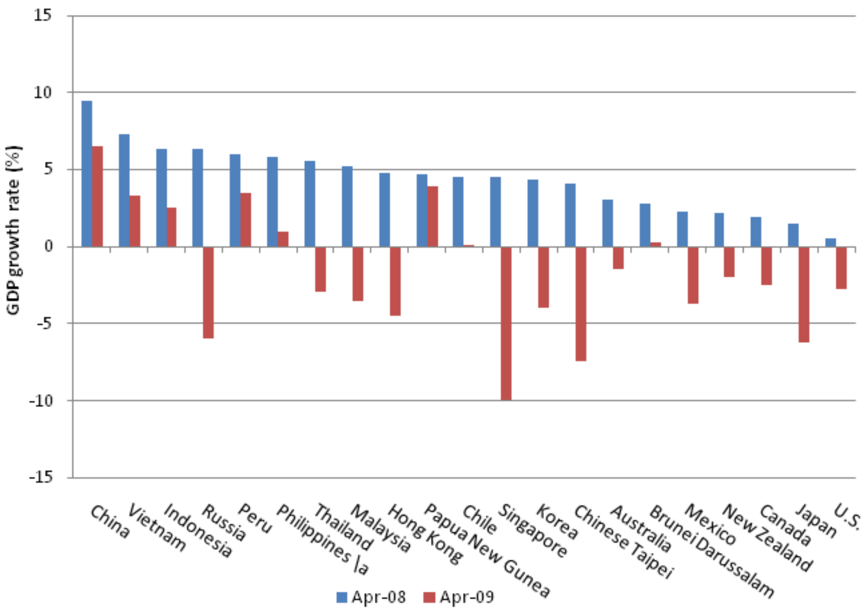
Other unique implications of the global economic crisis for labor market systems were considered in framing policy responses. A reactive shift of labor to the informal sector raised questions about the limits of labor protection coverage. This shift stressed a need for safety nets that are more broad-based than those linked to employment. Furthermore, labor protection needed to be strategically weighed against job creation initiatives to meet changing labor demands. As a result, employers required support to balance the need to create new jobs and respond to incentives to protect existing jobs. Cooperative solutions generated through productive tripartite dialogue were critical in this process. Other important issues included the sustainability of programs given fiscal constraints, environmental impact of short- and long-term responses, and mounting concern with demographic challenges as many APEC economies grapple with ageing populations.

The global economic crisis caused widespread job loss and underemployment in many APEC economies, and resulted in job creation falling to historically low rates in many APEC economies. The United States lost 4.7 million nonfarm jobs in 2009—3.5 percent of all payroll jobs. This was the greatest rate of decline in the United States since 1945. Viet Nam lost 130,000 jobs in industrialized zones and 40,000 jobs in rural areas in 2009, which threatened the government's recent successful inroads into poverty reduction. Labor force participation increased in some cases when family members joined the workforce to maintain living standards. In other cases, labor force participation decreased but real wages decreased or increased at a slower rate than previously. The fall in GDP growth experienced by APEC economies is illustrated in Figure 1-1.

Certain sectors were particularly hard hit: manufacturing, construction, and some key export sectors. In the United States, manufacturing and construction alone accounted for 48 percent of jobs lost in 2009. Other APEC economies witnessed a shift away from formal, higher valued-added activities as the number of workers exiting the formal sector and joining the informal sector increased. In Viet Nam, this shift of labor thwarted the government's recent efforts to formalize employment and increase insurance coverage for workers. In Indonesia, rapid growth in the informal sector raised policy questions about long-term job creation strategies for the significant numbers of new entries into the work force every year.

Figure 1-1

APEC Growth Rates for 2008 and 2009



SOURCE: *IMF, World Economic Outlook, 2008, 2009*

A shift to the informal sector also resulted in reverse migration in which migrant workers in urban areas returned to rural areas in search of work. In Thailand, as agricultural exports declined rapidly, agricultural employment shifted to the informal sector. There, the agricultural sector provided a safety net and an abundant source of labor for many. But negative consequences were also associated with increased economic activity in the agriculture sector in that labor was redirected to less-productive activities and threatened natural resources. China experienced a similar phenomenon, in which 10 percent of 140 million migrant workers failed to return to the cities at the earliest signs of economic recovery.

Another concern for APEC economies was the impact of the crisis on vulnerable groups. Youth employment, particularly nonstudent youth employment, suffered a disproportionately steep decline (see Table 1-1). In the United States in May 2010, surveys estimated that 26.4 percent of youth were unemployed. In China, approximately one-third of graduates in 2009 found themselves without a job at graduation, and as a consequence the economy witnessed a six-fold increase in enrollment in tertiary education. In New Zealand, the youth segment suffered the most, particularly in sensitive industries such as hospitality, retail, and construction. Other vulnerable groups include migrant workers, unskilled laborers, ethnic minorities, and women.

Remittances continued to be a source of income and household welfare, and overseas workers remained largely unaffected. In the Philippines, only 5,000 overseas workers were affected or displaced, a small number relative to the estimated 10 million Filipinos working abroad. Remittances to the Philippines also remained robust with an increase of US$2 million in 2008 and US$900,000 in 2009.

Table 1-1

Youth Unemployment

Youth Ages 15–24	1998	2008	2009
Labor force (millions)	577.8	614.4	619.2
Employment (millions)	505.9	540.4	538.5
Unemployment (millions)	71.9	74.1	80.7
Labor force participation rate (%)	54.7	50.8	51.0
Employment-to-population ratio (%)	47.9	44.7	44.4
Unemployment rate (%)	12.4	12.1	13.0
Total (15+)	**1998**	**2008**	**2009**
Labor force (millions)	2689.0	3166.7	3212.9
Employment (millions)	2517.5	2982.7	3006.2
Unemployment (millions)	171.5	184.0	206.7
Labor force participation rate (%)	65.5	64.7	64.7
Employment-to-population ratio (%)	61.3	61.0	60.5
Unemployment rate (%)	6.4	5.8	6.4

Source: ILO, Trends Econometric Models, April 2010
http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_elm/---trends/documents/publication/wcms_143349.pdf

Economic modeling and projections were unable to predict the impact of the global downturn due to the financial crisis, which suggests that uncertainty will persist in assessing the impact of short-term and long-term policy responses over the course of the next 12 to 24 months.

Common Policy Responses

Many APEC economies formulated common short-term policy responses to the global economic crisis. In an effort to immediately stabilize the financial sector and stimulate labor markets, most APEC economies resorted to implementing short-term macroeconomic stimulus measures. The underlying question for most APEC economies was which measures were the most appropriate for their own circumstances. The crisis also presented a unique opportunity to design and implement active labor market policies and programs to support long-term structural adjustment, strengthen labor markets' resilience to future shocks, and lay the foundation for inclusive growth and broad-based prosperity. The following section outlines some of these short- and long-term responses by APEC economies.

Fiscal Response

APEC economies adversely affected by the crisis implemented fiscal stimulus packages designed to stabilize the financial sector, support job creation and job preservation, stimulate consumption, promote investment, and support sectors deemed particularly vulnerable. Fiscal packages varied in scope and composition. One commonality among them all, however, was that they were prompted by an immediate need to reduce the economic shock at the household level. In many economies, initial fiscal packages were composed largely of infrastructure spending to address abrupt and widespread job loss. For example, approximately 38 percent of China's fiscal package went to large-scale infrastructure projects in a variety of sectors. In New Zealand, the government linked job seekers with job opportunities tied to new infrastructure projects through enhanced and specialized job search and public employment service networks. Australia aimed to maximize the labor market impact of infrastructure spending by allocating funds to preapproved projects. Like Australia, several APEC economies were concerned that delayed implementation of employment-intensive infrastructure projects reduced the impact of much-needed employment relief.

Other fiscal initiatives focused on providing emergency employment and funding for the most vulnerable economic sectors. In the Philippines, the Comprehensive Livelihood and Emergency Employment Program (CLEEP) targeted tourism, agriculture, and environmental sectors by creating green-collar jobs for upland workers and more jobs in farm-to-market roads construction and irrigation projects. CLEEP and similar programs in the Philippines were able to create 375,000 new jobs in the Philippines by the fourth quarter in 2009.

Improvements in the pattern of human resource development were limited if short-term stimulus measures were not implemented in coordination with other tools available to policymakers, including social protection programs and education and skills training schemes. This also required that authorities within an economy carefully coordinate active labor market policies across sectors.

Social Protection Strategies

The ILO estimates that over three-quarters of the world's inhabitants do not have adequate social security coverage. While data suggest a wide disparity of coverage among APEC economies, a similarity among many of them is a consistent gap between the proposed coverage afforded by law and actual coverage provided through existing programs. The coverage deficit in unemployment protection is a particular concern for many APEC economies.

Social protection programs, including social safety net programs, are intended to cushion the impact of job loss and income loss at the household level, and some APEC economies responded to the global economic crisis by expanding social protection programs in scope, duration, and size. Resources for improvement and expansion of social protection programs were varied because of differing degrees of decline in government revenue and restricted fiscal space after the implementation of substantial fiscal packages by APEC economies.

One particularly successful set of social safety net programs implemented by some APEC economies was the conditional cash transfer program. These involved monetary transfers to vulnerable groups in return for certain behavioral changes, such as keeping children in school or ensuring that they receive important inoculations, thus providing additional benefits, particularly when implemented in coordination with other crisis-oriented programs. Australia devoted one-fifth of its stimulus package to this purpose, with 50 percent of cash transfer funds distributed to vulnerable groups within four months. The Philippines directed money to poor families for nutrition, health, and education expenses if children attained 85 percent enrollment in school and received regular vaccinations. The program reached 375,000 households in 2008 and 324,000 in 2009. In some APEC economies, mismanagement of funds, poor targeting of beneficiaries, and incomplete coverage were described as challenges in administering these programs.

Some APEC economies activated other social protection schemes alongside the conditional cash transfer programs. These included unemployment insurance, temporary tax breaks, food subsidies, and other targeted subsidies for poor households. For example, China provided tax credits and rebates to exporters and subsidies to consumers for home appliances, expanded pension schemes, and piloted rural insurance schemes. The United States extended unemployment insurance benefits several times and expanded weekly benefits and coverage, the Philippines instituted matching grants programs with local governments, and Thailand raised welfare payments and expanded free education. Table 1-2 gives an overview of the scope of short-term responses by select APEC economies.

Table 1-2

Measures Taken by Select APEC Economies to Stimulate Labor Demand

	Fiscal Spending on Infrastructure				Targeted Employment Programs		New Support to SMEs		
	Additional Spending	Employ-ment Criteria	Green Criteria	Public Employ-ment	New Programs	Expansion of Existing Programs	Access to Credit	Access to Public Tenders	Subsidies Tax Reductions
Australia	✓	✓	✓		✓				✓
Canada	✓		✓						✓
Chile	✓					✓	✓		✓
China	✓		✓		✓		✓		✓
Indonesia	✓	✓					✓		
Japan	✓		✓	✓		✓	✓		✓
Korea	✓		✓	✓	✓		✓		✓
Malaysia	✓			✓	✓		✓		✓
Mexico	✓		✓			✓	✓		
Peru	✓					✓	✓	✓	✓
Philippines	✓			✓	✓		✓		
United States	✓	✓	✓			✓	✓		✓
Viet Nam	✓					✓	✓		✓

Source: ILO Survey, Protecting People, Promoting Jobs, September 2009 Annex 3, Inventory tables of measures taken, Stimulating labor demand: http://www.pittsburghsummit.gov/documents/organization/129865.pdf

Education and Skills Training

Policies to upgrade the supply and quality of labor and workforce skills through education and skills training were critical. Commonly cited concerns during policy formulation were inadequate funding and lack of technical support for training. A wide range of these programs was implemented by APEC economies, to different degrees of success by coverage and quality. New Zealand instituted a workforce activation scheme that focused on expanding public employment services. This helped job seekers identify new employment opportunities and re-enter the labor force. The program prevented an estimated one-third of job seekers from seeking unemployment compensation. By strengthening long-term links with industry groups, this scheme, like others implemented by APEC economies, contributed to stalling the skill degeneration process that tends to occur during prolonged periods of economic downturn and job loss. Similarly, Peru's REVALORA program was a comprehensive training campaign that helped job seekers identify opportunities through skills development and skills certification. The coverage, however, was limited to 15,000 people, thus highlighting the importance of coverage during periods of economic crisis.

Education and training responses to the crisis were targeted to maximize effectiveness. New Zealand pursued school-based vocational training focused on employability and took steps to realign the curriculum to teach skills in demand by the labor market. A general concern among APEC economies was that training programs lacked relevance, and students therefore were not being prepared adequately for jobs. Tailored solutions for different job seekers and different sectors are needed. Another important facet of targeted skills training is the importance of easily accessible and reliable data. The Philippines used extensive, up-to-date databases to target training for specific groups, including overseas Filipino workers.

The success of all these education and skills training programs depended on effective management coupled with adequate funding and technical support. In some economies, programs were cancelled at the earliest signs of economic recovery, before they were completed. For example in Thailand, *Tonkla-Archeep*, or training for unemployed project, was ended prematurely in March 2010 after using only 39 percent of its budget and reaching 62 percent of targeted beneficiaries. Other challenges included a lack of institutional capacity in administering the programs and designing effective training modules as well as a lack of good tools for program impact assessment and evaluation.

Another common experience among APEC economies was that the emphasis on delivering educational infrastructure projects as part of the stimulus response prevented valuable resources from being directed to institutional educational reform, particularly in terms of addressing deficiencies in teacher quality. In Australia, 50 percent of preapproved infrastructure projects were channeled into education infrastructure, based on preapproved building templates. In this case, policymakers determined that the economic benefits of an efficient fiscal response outweighed concerns about a lack of customization of educational infrastructure.

Effects of Policy Responses

Thanks to swift policymaking, rapid implementation of fiscal packages and well-placed institutional mechanisms to provide guidance and respond to troubled sectors and vulnerable groups, many APEC economies are prioritizing the need to secure fiscal surpluses to move forward with comprehensive postcrisis strategies. Evidence in Australia suggests that the quick and substantial fiscal response may have left a behavioral impact on the business community, boosting confidence that will encourage the practice of part-time retention schemes by employers during future crises.

Although it is too early to evaluate the impact of short-term policy responses, in part because of the challenge in securing real-time data, the policy emphasis has shifted to postcrisis stabilization. The need persists to stimulate demand for labor through programs to improve the investment climate, strengthen trade, take advantage of gains from trade, improve labor market regulations, and strengthen SME development policies, among other initiatives.

Policy attention has now been directed to rebalancing the sources of economic growth and introducing new policies for vocational training and human resources development alongside pure fiscal stimulus measures. Skills upgrading is central to this strategy.

Lessons Learned and Capacity Building Activities

A single set of prescribed solutions cannot be applied as effective response measures for all APEC economies. Cooperative approaches to labor market reform are needed, and much can be gleaned by observing the assortment of policy responses that were tried and tested by APEC economies during the global economic crisis. This section identifies the lessons learned among APEC economies and potential activities to improve the quality and coverage of future response measures.

Lessons Learned

At the HRD Experts Meeting, APEC economies suggested that policy responses should follow certain guiding principles to maximize effectiveness.

First, interventions must be timely. APEC economies swiftly implemented an array of sizeable fiscal packages in response to the economic crisis. In the Philippines, as well as elsewhere, difficult budget positions limited large-scale fiscal stimulus responses. Nevertheless, responses were still deemed timely through the coordinated mobilization of government resources to monitor developments in real time, craft appropriate policies, and subsequently activate well-placed institutional mechanisms to coordinate responses to the crisis.

Second, intervention should be targeted—that is, resources should be directed to particular groups or economic sectors most affected by the crisis or strategically identified for harnessing future growth. New Zealand incorporated small-business tax-relief packages to provide financial relief to SMEs, a particularly hard-hit sector of the economy. In China, 10 sectors were identified for revitalization through the initial fiscal stimulus package. The United States provided a substantial fiscal package aimed at providing competitive grants for worker training and placement in high-growth and emerging sectors, including energy efficiency and renewable energy industries. And across the board, APEC economies designed training schemes and cash transfer programs to target youth, rural migrants, and other particularly disadvantaged groups.

Third, intervention should be of a limited duration. Keynesian fiscal stimuli are not sustainable over the long term, and priority should be given to driving the economy back to a sound surplus. At the same time, it is important to consider supply-side strategies to address longer-term challenges and avoid overheating. Education and skills training are critical components of sustainable, long-term strategies in the postcrisis context. Other lessons learned have been identified below.

Investment in training and education that targets vulnerable groups should occur simultaneously with the implementation of fiscal stimulus measures. Furthermore, training programs have to be customized to meet different groups' specific needs by linking vocational education initiatives with specific labor market demands. In this effort, public-private partnerships have to be enhanced and support for cooperative solutions leveraged through productive tripartite relations.

In New Zealand, a successful work-based training scheme provided job opportunities for apprentices. Viet Nam succeeded in instituting targeted job-matching schemes at the provincial level. The underlying message was that long-term, nonspecific training for the unemployed is ineffective.

Better labor market information and collection and dissemination of data to formulate effective labor market policies are also important. The current coverage and quality of labor market data are not ideal, particularly for poverty indicators. Also, more responsive and cost-effective data gathering is needed to address deficiencies in real-time data. Sharing what works and what does not work is critical, as is identifying ways to evaluate the impact and cost-effectiveness of labor market programs to inform current and future policy design. Many APEC economies also stressed the need for more effective quantitative and qualitative assessments to capture impacts at the household and community levels that might not otherwise be observed by macroeconomic indicators.

Social safety net programs need to stress efficiency and effectiveness by targeting the most vulnerable, addressing concerns about leakage and redundancy, and highlighting the need to address implementation challenges arising from a lack of financial controls and ineffective public administration. Retraction of crisis-response social safety nets such as subsidies and tax breaks are needed over the medium to long term. At the same time, social protection schemes should not be contemplated and introduced only during periods of economic crisis, but should be continuous and sustainable as well as flexible enough to respond effectively when required. In general, there is a need for more research on the use of social safety net programs similar to the research on conditional cash transfer programs. Social protection is strengthened when governments encourage collaboration among tripartite sectors. Policy dialogue among tripartite sectors will also contribute to guaranteeing minimal conditions for workers in the informal sector.

Greater coordination is needed among government ministries and authorities to enhance the effectiveness of immediate short-term responses and longer-term strategies. This will contribute to faster and more comprehensive responses as well as more precise targeting of resources. Government coordination can also contribute to promoting more productive tripartite relations to address other structural deficiencies in labor market systems and social safety net programs.

Last, the implementation of government stimulus programs, including infrastructure projects, should remain focused on employment-intensive projects, and in communities where infrastructure projects occur, measures should be put into place so that locals can remain engaged.

Capacity Building

APEC economies signaled the need for capacity building in specific areas related to labor market systems and social safety net programs.

First, APEC economies recognized the need for more effective labor market signaling. By forging closer links between industry and education systems, economies can match skill supply with needs and address shortages more effectively. This would promote more productive exchange of labor market information, thereby reducing costs for job seekers and employers.

Second, capacity building should also address the need for comprehensive, high-quality, and regularly collected data on labor markets to support scenario planning and target responses and skills training. Development of more comprehensive labor market database systems will enhance APEC economies' capabilities in job search, job matching, and labor market signaling. Labor market guidelines are also needed to assess new labor market skills and determine how training can be customized to meet those needs. Indonesia is developing a comprehensive crisis-monitoring system so it can understand the impact of crises on vulnerable economic sectors, population groups, and regions. This will enable Indonesia to enhance supply side readiness and inform policymakers to respond quickly in a targeted, effective manner. Capacity building efforts should be aimed at promoting the development of sustainable and institutionalized crisis-monitoring systems.

Third, support was encouraged for the development of an APEC index of inclusive growth indicators to quantify results of measures passed, covering economic opportunities, social safety nets, education, training, labor mobility, and others.

Fourth, APEC economies expressed a shared interest in enhancing the monitoring and assessment capabilities of labor market programs and in providing more effective mechanisms for providing feedback and sharing resources and results.

Fifth, capacity building efforts can also be directed at developing qualification frameworks within economies, to promote compatibility with others in the region and to allow for mobility and portability of skills domestically and throughout the region. This would address a common concern expressed by APEC economies that despite the crisis and the high unemployment that ensued, many economies still face skills shortages in certain industries.

Sixth, support is needed for more effective and efficient job placement services.

Last, continued regional cooperation is critical for coordinating capacity-building initiatives.

Conclusion

The impact of the global economic crisis on APEC communities was severe, and although recovery is imminent for some APEC economies, the global economy continues to be shaped by uncertainty. But the global economic crisis also provided APEC economies with an unrivaled opportunity to reconsider approaches to human resource development. A common message that emerged from the July 2010 APEC HRD Experts Meeting was that by repositioning human resource development at the center of national and global economic strategies, APEC economies can work together to strengthen crisis-prevention capabilities and rebalance economic structures to be more responsive to market demand. As APEC economies move forward, regional cooperation should contribute to accelerating job creation, improving the quality of jobs, strengthening social protection, and preparing the workforce for future challenges and opportunities.

2. Australia

Performance of the Economy and Labor Market up to the Global Recession

The performance of the Australian economy in the decade before the onset of the global economic crisis was extremely strong, and the local impact of the recent traumatic global events has been surprisingly mild. It will be argued this has been the result partly of the structure of the economy and partly of the emerging international trade patterns. Australia is now closely tied to Asia, which has been much less affected by the crisis. Also, in the long period of economic reform in the period leading up to the crisis, appropriate regulatory frameworks were put in place, notably in the financial sector. But a series of decisive and speedy government policy initiatives were also important.

In 2007 Australia’s GDP stood at US$821 billion, representing a GDP per capita of US$39,066. Between 1990 and 2007 the average annual growth rate of GDP per capita was 2.4 percent. As in all advanced nations that have favored free market approaches to economic reform, however, there have been significant increases in economic inequality. Government has remained an important actor in the economy, partly because the federal system imposes an extra layer of government at the state level. In 2006/7 the government accounted for almost 24 percent of final consumption and 11 percent of gross capital formation, with public corporations contributing a further 6 percent.

As in all developed economies, services absorb a large share of the labor force. In 2007, agriculture employed only just over 3 percent of the labor force, with 1.3 percent in mining, some 10 percent in manufacturing, and 9 percent in construction. In the services sector, the largest employers were retail trade (11.5 percent), health services (10.3 percent), education (7.5 percent), and professional services (7.5 percent). But in 2007 mining contributed 54 percent of total merchandise exports by value and agriculture a further 15 percent.

The overall employment participation rate in 2008 was 65.4 percent—72.5 percent for males and 58.5 percent for females—and immediately before the crisis unemployment hit a 30-year low of 4.2 percent (4.6 percent for females). Many employers were not able to hire enough labor, and fears were expressed that in the longer term, with the progressive ageing of the population, there would be a severe shortage of labor, and this was a major factor in the approval of very high rates of immigration. Another key feature was the emergence of what has been called a “two-speed” economy, with the mining sector and states with a significant mining industry expanding more rapidly and experiencing particularly severe labor shortages. Part of the problem has been the long-term underinvestment in education and training for the locally born population. Clearly the possession of a qualification beyond the basic compulsory level is a major determinant of employment prospects: in 2008 the unemployment rate for those without such a qualification was 6.5 percent, compared with 2.9 percent for those with more education.

General Impact of the Global Recession on the Australian Economy

As in the rest of the world, the rapid onset of the global economic crisis caused a good deal of fear, or even panic. The share price index fell very rapidly, from 6,600 to 3,200. As investors sought safe havens, the value of the A$ declined relative to the US$ by some 30 percent. Forecasts for the Australian economy were uniformly gloomy.

In fact, the impact of the crisis on Australia was remarkably mild. Australia did not fall into recession, defined here by the incidence of two consecutive quarters of GDP decline. During the fourth quarter of 2008, real GDP fell by 0.9 percent, but in all other periods of the crisis modest gains were recorded. In annual terms GDP grew by 2.4 percent in 2008 and by 0.8 percent in 2009. But as a number of commentators have argued, if Australia adopted a definition of a recession based on consecutive declines in real GDP *per capita*, in fact the last three quarters of 2008 and the first of 2009 saw such contractions. But in overall terms, the impact of the recent global crisis on Australia was rather less than the impacts of the crises of 1982 and 1991. The Australian government intervened massively to ameliorate the local impacts of the crisis, but the fears that were originally expressed that government would have severe problems in paying for these policies because of rapidly declining income from taxation have proved to be much exaggerated.

The Australian Reserve Bank—which operates independently of government—slashed interest rates. The cash rate was cut from 7.25 percent in early 2008 to 3.0 percent by mid-2009. But, unlike rates in other countries, as fears have moderated, the rate has moved quickly back up again and now stands at 4.5 percent, close to what the Reserve Bank regards as normal.

During the crisis, business confidence in Australia remained remarkably high, and one measure of this has been the continued willingness of companies to invest. Since the collapse of Lehman Brothers, Australian-listed companies have raised more than A$100 billion in investment capital, although small and medium-sized companies have had much greater difficulty in raising new capital.

There were important differences between sectors of the economy, reflected particularly in contrasting export performance. Manufacturing was hardest hit, with exports declining by about 15 percent. Mining suffered from temporary falls in prices for key commodities, but these proved short-lived, and the sharp price rises of early 2010 have erased any real impact of the crisis on this sector.

In the United States one trigger of the crisis was the rapid decline in house prices and the flow-on effects into the subprime mortgage market. No such process has occurred in Australia. House prices have continued to rise throughout the crisis, and since late 2009 have risen by more than 10 percent per year, particularly in the capital cities. Melbourne house prices, for example, have jumped 27 percent in the past 12 months. The basic reason is that with a rapidly growing population—Australia now has the largest population growth rate in the developed world—house construction is not keeping pace. It now estimated that some 180,000 extra houses need to be built each year over and above what is currently being achieved.

General Policy Responses to the Impacts of the Recession

The general response of the Australian government to the onset of the crisis was large and rapid (Australia 2010a). The first step, implemented in October 2008, a guarantee for all deposits held in Australian banks and other financial institutions, was designed to bolster confidence in the Australian financial system. Some A$700 billion was set aside to cover the banks, with a further A$4 billion for nonbank institutions. In fact the Australian banking system is well regulated and had only minimal exposure to the toxic debt that created such problems for many U.S. and European banks. Throughout the crisis Australia's big four banks have retained their AAA credit ratings, some of the very few in the developed world to do so. The real fear was that if the guarantee was not put in place, there would be a large-scale flight of capital to the many countries that were implementing such guarantees at the time. In the event, none of the money set aside was ever used, but there is no doubt that the guarantee, withdrawn as no longer necessary in January 2010, was useful.

In February 2009 the Prime Minister announced a A$42 billion stimulus package designed to support employment, foster the private sector's and consumers' confidence in the economy, and build much-needed infrastructure for long-term economic growth. The plan was made up of a series of related elements, and implementation is still proceeding:

- ***Cash payments:*** One-off cash payments totaling A$12.2 billion to eligible families, single workers, students, drought-affected farmers, and others.
- ***Business investment:*** A temporary tax break worth A$2.7 billion for small businesses buying eligible assets.
- ***Education***: Constructing or upgrading buildings in Australian schools, universities, and colleges. A$19.3 billion was allocated, and 24,099 projects have been approved.
- ***Social and defense housing:*** Construction of about 20,000 new homes, mainly low-cost housing, and the repair and upgrading of many others. Some $A5.9 billion was allocated, and 19,344 new houses have been constructed and a further 70,000 approved for repairs.
- ***Transport and infrastructure:*** Increased funding for local community infrastructure as well as local road and rail repair and safety projects. $A3.3 billion was allocated, and 930 transport projects and 3,357 community infrastructure projects have been approved.
- ***Energy-efficient homes:*** Increasing the energy efficiency of homes through insulation and new solar hot water systems. $A3 billion was allocated and some 2.2 million home installations were approved.

Specific Labor Market Impacts of the Recession

Unemployment rates in Australia have increased some 1 percent since 2007, but the current rate of 5.3 percent is approximately half that of the United States. For the whole of 2007 and 2008 the rate moved only slightly in the range 4.2–4.6 percent but increased to 4.9 percent in January 2009, to 5.3 percent in February, and 5.7 percent in March. It stayed in this range for most of the rest of 2009, gradually declining to 5.4 percent in March 2010. Overall participation rates have changed very little throughout the crisis. Rising steadily since 2004 from a little over 63 percent, participation reached a high of 65.5 percent in early 2009 before falling back slightly to the current rate of 65.1 percent.

One of the most interesting responses of employers to the crisis has been that rather than making workers redundant they have reduced working hours and therefore wage bills. This suggests that most believed that any recession would be relatively mild and short and that it would be better to hold on to workers until demand picked up again rather than go through processes of rehiring in a labor market that in recent years has been characterized by labor shortages. Overall the total number of hours worked by full-time employees dropped by some 2 percent during 2009 but is now increasing again.

Putting together the figures for unemployment and underemployment, *labor underutilization* gives perhaps the best picture of the impact of the crisis. For 2007 and much of 2008 the male underutilization rate stood at just over 8 percent but grew to 9.2 percent by November 2008. During 2009 it reached 12.1 percent by the middle of the year but fell gradually to the current rate of 11.3 percent. The rate for females has always been higher and now stands at 15.2 percent, but the changes during 2009 were very small.

The phenomenon of underemployment and the way in which the rate (and the individual components of the rate) fluctuated during Australia's mild economic downturn have received a good deal of comment. Long-term unemployment was almost halved as the economy expanded from 1999 to 2009, while there was almost no change in the rate of long-term underemployment. Rates of long-term unemployment have been consistently higher for females than for males, but the reverse is true for underemployment. Both rates increase with age and are highest for those aged more than 55 years: young people have higher unemployment rates and tend to be unemployed more often but for shorter periods. These aggregate figures, however, mask some marked differential impacts on particular sections of the population and particular regions. Unemployment rates increased more for males than for females during much of the crisis. Male rates had been consistently lower between 2006 and early 2009 but for much of 2009 they were rather higher than for females, but by early 2010 these differences had disappeared.

Unemployment rates for certain immigrant groups have always been significantly higher than for the locally born, and this has been so particularly for the recently arrived. Currently unemployment in the overseas born stands at 6.2 percent, or about 0.9 percent above the average, but the rate for those born in North Africa and the Middle East is 14.5 percent, and for those born in India 9.2 percent. Certainly the impact of the crisis has been more marked for these groups.

Of the various industrial sectors of the economy, the manufacturing sector has been most affected by the crisis. In early 2008 some 1.07 million workers were employed in manufacturing, but since then there has been a decline of some 68,000 employees, and total employment in this sector is still declining by all accounts. This is in marked contrast to the mining industry, for example, which has bounced back very quickly because of the rapid recovery in demand for minerals and energy from Asia.

The government has concentrated its efforts on two particularly vulnerable groups in the population—the young and older workers—and on a number of problem regions.

As is always the case in a recession, the impact of the downturn has been different in different parts of the economy. Some regions, because of their mix of industries, resources, demographic characteristics, and skill base, have been particularly vulnerable, while others have seen relatively little impact. In this crisis the gap between the highest and lowest regional unemployment rates grew from a low of 4.8 percent in April 2008 to 9.0 percent in August 2008. This is less marked than in some earlier recessions—in 1992 the gap was 15.9 percent—but the lesson from this earlier experience is that such disparities can take many years to disappear after the recession ends, hence intervention is a high priority. In some cases, rural regions have been hit hard, representing a continuation of a long-standing problem in the Australian economy—the differential between the large cities and the rest of the economy. But some parts of major metropolitan centers also fared badly. In 2009, the unemployment rate in Far North Queensland rose to 11.4 percent, while in Fairfield-Liverpool and Outer South-Western Sydney, it was 9.2 percent, and in South Eastern Melbourne 7.8 percent.

As in many countries, youth unemployment in Australia has long been a problem, but during the crisis the rate increased more sharply than for the population as a whole. In August 2008 the unemployment rate for 15–19 year olds not in full-time education stood at 11.3 percent, but by early 2010 it had reached 24.9 percent, or more than four times the total unemployment rate.

Interventions in Response to Labor Market Impacts

The government's response was built on five lessons learned from earlier recessions:

- Direct government spending is essential to support jobs.
- Skills shortages can emerge very quickly during recovery and must be planned for as part of the response to the crisis.
- Support for young people is essential.
- Older workers who lose their jobs are more prone to long-term unemployment and also need special assistance.
- Government must listen to local communities to understand their problems and plan more effective policy responses.

The A$41 billion stimulus package already described has been justified mainly in terms of the protection of jobs and the creation of new skills. Some 70 percent of the package was spent on infrastructure, which was seen as the best way of cushioning the impact of declining employment in the early phases of the crisis and providing the basis for recovery. This approach has been applauded by the OECD, which has singled out Australia as being perhaps the most successful nation in responding effectively to the threat of unemployment (Australia 2009).

But there have also been specific labor market programs, some designed to meet the needs of particular problem groups and areas.

Some A$4.9 billion has been made available over three years to upgrade Australia's employment services. Job Services Australia was created in July 2009 and an additional $1.2 billion was used to set up an employment service for disabled people.

Several new programs have been introduced in problem regions. "Priority employment areas" have been identified for particular attention, and in each of these 20 regions, special measures have been designed to support retrenched workers, identify possible new jobs, build up local infrastructure and training programs, improve information flows on key aspects of the local labor market, and generate innovative dialogue between workers, employers, and the wider local community.

Local employment coordinators in each area are given access to detailed information about the local labor market situation. This information is used to identify recently unemployed workers, assess their needs for assistance and further training, and identify new positions for them. These officers also work with the newly formed Keep Australia Working advisory committees in each region to develop and implement strategic regional employment plans. These identify local advantages as well as problems, analyze employer needs for skilled labor, and try to match government training programs with local needs. The advisory committees include local employers, community leaders, and representatives of all levels of government.

Building on this enhanced cooperation and dialogue, Jobs Expos and financial information seminars have been organized in each priority employment area, supported by a A$4.1 million government grant. These bring together employers, industry organizations, employment service providers, all level of government, community groups, and training providers, and all job seekers are invited to attend.

Crucially, these vulnerable regions have been granted access to a special A$650 million Jobs Fund, set up as part of a wider program to support youth unemployed, retrenched workers and the wider community through job creation and skill formation for the future. In the first round of funding under this scheme, some 2,500 proposals were received, and 172 of these were funded with a total financial commitment of A$132 million, creating more than 6,000 jobs, 1,800 traineeships and 3,600 workplace experience opportunities. After the success of this first round, special effort was put into helping problem regions refine their proposals for further rounds of funding. The second round, worth A$33 million, supported 53 projects and generated 1,620 jobs, 400 traineeships or apprenticeships, and 1140 workplace experience opportunities. This second round was more targeted than the first and focused on providing opportunities for the most disadvantaged members of the community through the creation of "green" jobs in particular.

The creation of skills to cover the shortages that can emerge quickly in a recovery has also received attention. At the most basic level a major review of Australia's higher education system has been undertaken and on the basis of its recommendations A$5.7 billion has been invested over the next four years to secure skills for the future. This includes funds to support moves toward an uncapped system from 2012, allowing an estimated 50,000 additional students to commence their studies by 2013 and 217,000 extra graduates by 2025. But particular attention has also been given to the expansion of vocational training. Based on advice from Skills Australia and a variety of training and job services organizations, the Productivity Places Program has been established, and through this initiative some 711,000 places will be established over the next five years at a cost of more than A$2 billion. The program will be evaluated regularly to ensure that the skills being developed match rapidly changing patterns of demand.

Skills shortages have emerged particularly in the mining and resource sector, which has been boosted by a massive increase in demand from China. With this in mind the government has set up the National Resource Sector Taskforce to plan for the estimated 70,000 skilled workers needed in the next decade, to analyze the skills needed, the location and types of jobs that are to be created, and the kinds of new training programs needed.

Very soon after the onset of the crisis the government noted that apprenticeships were particularly vulnerable as employers were forced to adopt cost-cutting measures. So in February 2009 the government introduced new measures designed to help apprentices and trainees complete the off-the-job components of their training and assist laid-off apprentices and trainees continue their training. In November 2009 a further initiative—Apprentice Kickstart—was introduced. The $100 million investment aims counteract the impact of the global recession on apprenticeship commencements and retention and to increase opportunities for young people in the transition from school to trade training. This involved the provision of A$100 million to assist employers in particular areas of skills shortages.

In December 2009, the Council of Australian Governments (COAG)— a regular forum bringing together the national and all the state governments—agreed to 10 recommendations made by the Australian Apprentices Taskforce:

- Develop and progressively implement a more seamless system for apprenticeship access, re-entry, deferral, and support
- Develop and implement nationally consistent standards for training plans by December 2010
- Work with the Industry Skills Councils to develop and introduce a reformed preapprenticeship system with increased opportunities to engage interested senior students
- Carry out an immediate review of apprenticeship and traineeship incentives and consider strengthened financial support for trade apprentices in areas of skill shortage
- Work with industry to undertake an improved national communication strategy to highlight the benefits of the trade apprenticeship system and improve participation rates and employer engagement
- Facilitate, in conjunction with industry, improved mechanisms to ensure competency-based progression and enhanced completion rates for apprentices
- Establish an action group to oversee the implementation of these actions
- Reaffirm the objective that in all government stimulus projects, at least 10 percent of the total contract labor hours should be undertaken by apprentices and trainees

- Strengthen immediately mentoring and support for out-of-trade apprentices and those at risk of losing their apprenticeships
- Provide improved data on apprenticeships.

The national budget introduced in May 2010 included a range of further initiatives to strengthen the apprenticeship system. An extension to the Apprenticeship Kickstart Program tripled the incentives available in the first year for employers of young people commencing trade apprenticeships by November 2010. Funding of A$19.9 million over four years was pledged for the Smarter Apprenticeships Program to support accelerated training delivery and drive improvements to competency training programs. The government also agreed to appoint an expert panel to advise on ways to sustain and expand the apprenticeship system.

Further youth initiatives include the creation of a National Green Jobs Corps, a six-month environmental training program to provide marketable skills in areas such as bush regeneration and the planting of native trees, wildlife and fish habitat protection, construction and improvement of walking and nature tracks, and the installation of improvements to energy efficiency in buildings. Some A$94 million was set aside to provide 50,000 young Australians with such skills and work experience.

Australia, like many other developed countries, has entered a period of rapid demographic change that will see the proportion of the population aged 65 years and older rise from 13 percent to 22 percent over the next 40 years. As the population ages, the proportion of older workers in the labor market will grow. Although older workers are generally more stable in their employment patterns than younger workers, if they become unemployed they usually take significantly longer to find new jobs, especially if they have few skills. The government has recognized that special measures will be needed to support labor market participation by older people, particularly their maintaining engagement during periods of economic downturn. Job Services Australia has endeavored to offer specialized support for older workers, conducting a campaign to explain to employers the advantages of engaging more mature people. Some A$295 million was made available as part of a compact with retrenched workers to assist them in finding new positions, and such workers also have access to income support, mortgage relief, and new information and advisory services.

Although responses to the labor market problems created or exacerbated by the crisis have necessarily involved a number of short-term emergency measures, the government has made clear that it sees these responses as part of a longer-term process of structural change in the economy. The growth of labor productivity is seen as the key variable here, and the new resources that have been put into education and training have been justified mainly in these terms. The crisis has speeded up a number of long-term adjustments taking place in the labor market. Employment has declined in manufacturing while growing in a range of services, especially care, retail, and hospitality. The crisis has also accelerated the rise of Asia in the global economy, and Australia's place in the new regional and global division of labor depends on the upgrading of a highly skilled labor force underpinned by a strong system of education and training.

Key Assessment

The most important measure of the success of Australia in dealing with the impacts of the crisis is that declines in national income and levels of employment have been both modest and short lived. Critics, while welcoming this outcome, have argued that it was achieved more by good fortune than by effective planning and policy implementation, but the government argues that without its stimulus measures the economy would have experienced a significant and sustained recession. In the slowdowns of 1982 and 1991, which everyone agrees were not nearly as severe globally as the recent crisis, the Australian economy was not nearly as resilient. In the absence of government stimulus the Australian Treasury asserts that a recession lasting at least four quarters would have resulted and GDP would have contracted by at least 2 percent. Similarly, the government estimates that without the stimulus, the unemployment rate would have reached 8.25 percent, representing a loss of 200,000 more jobs than was in fact the case.

The Australian experience has been all the more remarkable in that these very favorable outcomes have been achieved without plunging the economy into massive debt. The OECD has estimated that the average gross debt in its member countries will reach 103.5 percent by 2011, some 30 percent higher than in 2007, while net government debt will be some 64 percent. Similarly the IMF has predicted that in advanced economies, gross government debt will climb to 118 percent by 2014, absorbing nearly 11 percent of revenue in interest payments (Eslake 2010). Although Australia has invested heavily in its own stimulus package, its public finances are still in remarkably good shape. Both the IMF and the OECD believe that in coming years Australia's debt will be the lowest of any advanced economy, reaching 20 percent of GDP in 2010 and peaking at 27.8 percent in 2014—less than a quarter of the average among developed nations. The IMF has stated that Australia will be one of only five advanced economies in which little or no medium-term adjustment will be needed to keep debt at safe levels. In fact, Australian public finances may be back in surplus more quickly than anyone expected: the budget presented by the Treasurer in May this year anticipates that the surplus will be restored in three years.

Although these broad facts confirming Australia's remarkable performance during the crisis are not in doubt, a number of critics and commentators have raised important questions about the extent to which government policy responses were responsible as against other factors. Although it is almost impossible to identify causal chains with any degree of certainty, let us try to explore as rigorously as possible key issues of a broader nature.

Strong initial government financial position. A number of commentators, and in particular the Parliamentary opposition, have argued that the measures taken in response to the crisis were less important than the strong financial position in which the government found itself going into the crisis, which certainly made the stimulus package more easily affordable. The government of Prime Minister Kevin Rudd, which came to power in 2007, inherited a strong and rapidly growing economy from the outgoing Liberal government, which for a number of years had accumulated large budget surpluses and paid off government debt. Thus at the onset of the crisis, the government had a sizeable war chest for stimulus spending, as well as the room to borrow more funds without incurring excessive debt.

Effective regulation, especially in the financial sector. As has already been noted, governments over the years introduced a range of measures to ensure that the Australian financial system, and in particular the "Big Four" banks—were well regulated and generally run effectively. None of the banks had large exposure to toxic debts, and although there were some nonperforming loans that were recognized as the crisis progressed, everything was easily managed without recourse to government bailouts. All the banks were able to maintain their excellent credit ratings, and although borrowing on international markets was difficult (and expensive) at the height of the crisis, the situation was far better than in virtually any other economy.

Close economic and political relations with Asia. Australia's enmeshment with the rapidly expanding economies of Asia has been progressing for many years. As former Australian Prime Minister Paul Keating often reminded political and business leaders from Europe and North America, Australia's relations with Asia have an importance and immediacy not often appreciated in most of the rest of the world. For Australia, he said, Asia is not the Far East but the "Near North." It is hardly surprising, then, that Australian governments from all kinds of ideological backgrounds have given high priority to relations with our most important neighbors. Some 57 percent of Australia's merchandise exports go to East Asia, with a further 6 percent going to South Asia and 4 percent to the Middle East—a total of 67 percent to Asia as a whole. Much of this, of course, comprises exports of primary products, notably coal, iron ore, aluminum ore, and aluminum, but of increasing importance are tourism, education services, and travel services.

Over a number of years a set of structures has been put in place to support Australian companies and other organizations of various kinds in strengthening relations with their potential markets, sources of investment, and so on. State and local governments have also been important in building the economic relationship with Asia, and universities and think tanks have also had key roles to play, as have some members of the rapidly expanding Asian-born communities living in Australia (McKay 2007). The crisis had a much smaller impact on Asia than on most other parts of the world, and thanks to the massive interventions of governments in the region—China in particular—the recovery was rapid. Hence, demand for Australian primary products in particular returned very quickly, and this was vital to the rebound of the Australian economy.

Each of these factors is important in explaining Australia's remarkable resilience in the face of the crisis and is part of a larger picture of an economy that has been relatively well governed and able to position itself better than most for the major adjustments taking place at the global level. But none of this is to deny the effectiveness of particular stimulus measures that were enacted during the crisis. Both the long-term governance and short-term interventions were an essential part of the story, and this is perhaps the most important lesson of this case study.

But there has also been criticism of these emergency stimulus measures, especially from the Parliamentary Opposition:

Too much debt has been incurred. The Opposition has argued that since the economy, which was inherited by the Rudd government, was in such excellent shape, spending on such a large scale was not needed. Over the next few years, they argue, the most serious economic problem facing the economy will be the scale of government debt. In fact, as we have already seen, this level of government borrowing is one of the lowest in the world and is seen by the IMF and most independent commentators as quite manageable.

The stimulus has lasted much longer than necessary. Given the rapid rate of recovery, based largely on the rapid return of high levels of demand from Asia for Australian minerals and energy resources, the opposition argues that emergency government spending programs should have been wound back more quickly to reduce government debt. This argument has been rejected by the government as well as by international organizations such as the IMF on the grounds that the global recovery is still fragile and still needs to be nurtured. This response has been given added weight by the debt problems facing Greece and a number of other European nations.

Many government spending programs have been poorly managed. A number of programs have been dogged by controversy and even scandal. The home insulation scheme was brought to a premature end after the deaths of four insulation contractors and a number of suspicious house fires. Similarly, the school building program has been criticized for lack of consultation with individual schools and local communities, resulting in poorly targeted projects. There have also been suggestions of overcharging by many builders and a lack of control generally over spending, resulting in a significant waste of funds. There now seems little doubt that many of these criticisms are justified, but the government argues that the priority in a rapidly deteriorating global economic situation was to roll out programs quickly and ensure that individuals put money into the economy to ensure the rapid rebuilding of demand and business confidence. Given the thousands of projects being funded, some waste was inevitable.

As the economy emerges from the crisis, the biggest issue now seems to be how to handle the return of the “two-speed” economy in which the mining and energy sectors and the localities with such industries race ahead of the rest of the economy. This is an issue that was being discussed well before the crisis, but the experience of the past two years plus the crisis stimulus package has intensified the debate. The so-called Henry Review of the taxation system delivered in late 2009 but released by the government only just before the recent budget recommends that a supertax of 40 percent be levied on the profits of mining companies above a certain level after the costs of production have been deducted (Australia 2010b). The funds would be used to fund infrastructure and other projects, a higher level of compulsory superannuation for all workers, greater support for other sectors of the economy and for small business in particular, and greater incentives for new mining exploration and development projects that have yet to reach the production and high profitability stage. The government argues that this will ensure that all Australians receive their fair share of the profits from the nonrenewable resources that are the property of all citizens. This is being fiercely opposed by the mining industry and the Opposition and promises to be a central issue in the next election campaign, to be held later this year or early next year. This is not the place to explore these arguments in detail but it is striking how the stimulus package in response to the financial crisis is becoming a more general debate about the future direction of the economy.

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3. China

Performance of the Economy and Labor Market up to the Global Recession

China has experienced the highest sustained GDP growth in the world for more than two decades. With an average annual increase of 10.6 percent in the previous five years, GDP reached 24.66 trillion yuan in 2007, moving China from the sixth to fourth place in the world in total GDP. Per capita GDP in 2007 was 19,524 yuan (about US$2,675). In 2000, it had been only about US$1,000 but had kept pace with overall GDP.

In 2007, total government revenue reached 5.13 trillion yuan and foreign exchange reserves exceeded US$1.52 trillion. Urban per capita annual disposable income rose to 13,786 yuan in 2007, and rural per capita annual net income rose to 4,140 yuan.

At the end of 2007, national employment at year-end stood at 769.90 million persons, a year-on-year rise of 5.90 million persons. Employment in primary industry reached 314.44 million, or 40.8 percent of national employment; in secondary industry 206.29 million (26.8 percent); and tertiary industry 249.17 million (32.4 percent) (see Figure 3-1).

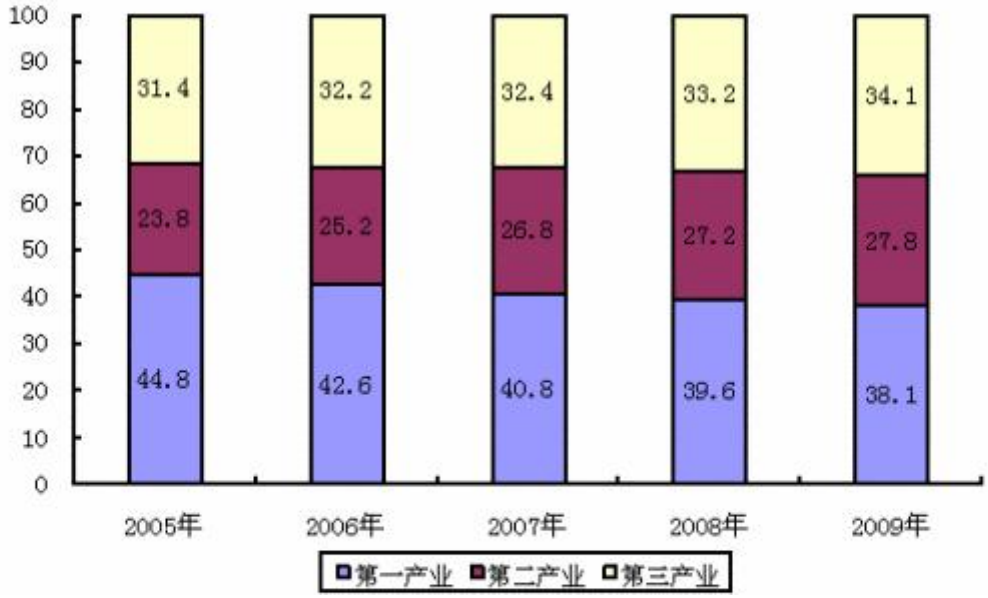
In urban areas, 12.04 million new jobs were created in 2007. Meanwhile, 5.15 million laid-off and unemployed workers were re-employed. Of these, 1.53 million of the hard-to-place—the so-called "4050" (females laid-off in their 40s and males laid-off in their 50s)—were re-employed. The registered unemployment rate in urban areas was 4.0 percent (8.30 million).

The statistics at the end of the Tenth Five-year Plan Period (2001–2005) show that males accounted for 55 percent of the employed and females 45 percent. The gap between the shares of male and female employed had expanded slightly, by 1 percent, since 2000. For the same period, the average age of the employed was 38.5 years. At the end of 2004, workers younger than 35 accounted for 40 percent of the employed, which is 6 percentage points lower than in 2000.

In 2008, the average number of years of education for the employed reached 8.5. Among them, 6.7 percent had a college or university degree or equivalent competence, and 12.5 percent had finished senior secondary school (education is compulsory from primary through junior secondary school—or approximately age 15).

Figure 3-1

China: Share of Primary, Secondary, and Tertiary Industry in GDP



(PRIMARY--SECONDARY--TERTIARY)

General Impact of the Global Recession on China's Economy

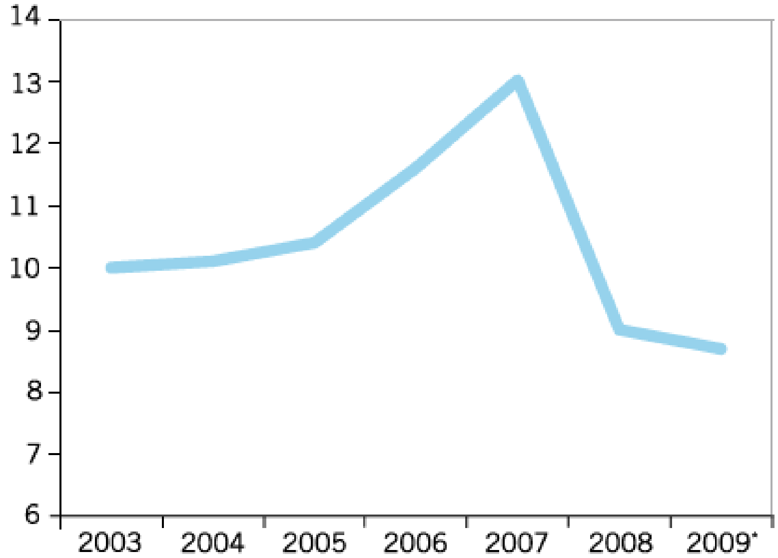
The global financial crisis hit China's economy and employment so hard that real GDP growth dropped from a high of 13 percent in 2007 to 9 percent in 2008 and 8.7 percent in 2009 (see Figure 3-2). In 2008, real GDP growth declined sharply, from 10.6 percent in the first quarter to 10.1 percent in the second, to 9 percent in the third and 6.8 percent in the fourth (see Figure 3-3). The lowest GDP growth recorded in the first quarter of 2009 was 6.1 percent. Thanks to the stimulus package, the rate climbed in the second quarter to 7.8 percent.

In 2009, national GDP was 33.5 trillion yuan, putting China in third place, behind the United States and Japan. GDP per capita in 2008 was 22,590 yuan (US$3,322); it rose to 25,094 (US$3,690) in 2009. However, the average rate increase in per capita GDP from 2000 to 2008 was higher than 20 percent. In 2008 the rate of increase was 15 percent and in 2009 only 11 percent.

According to employment data on 512 key enterprises from the Ministry of Human Resources and Social Security, the sectors most affected were as follows: textile, garment, shoe-making, hat and toy manufacturing, special equipment manufacturing, construction and installation industry, metal products manufacturing, ceramics, artwork and crafts processing. Exporting enterprises and the manufacturing sector of coastal area were also affected heavily. The Pearl River Delta region suffered the most, followed by the Yangtze River Delta region. Northeast China, such as Liaoning Province, was less affected. Small and medium enterprises (SMEs) in coastal areas were most affected because of the collapse in export demand and the credit contraction. According to data from the Ministry of Industrial Information and Technology, 7.5 percent of SMEs suspended production or closed down at the end of 2008.

Figure 3-2

China: Real GDP Growth Rate, 2003–2009 (percentage)



**2009: Official estimates of the International Monetary Fund.*
SOURCE: Official website of the State Statistics Bureau and the World Bank.

From 2007 to 2008 total government revenue increased by 19.5 percent to reach 6.13 yuan. In 2009, it was 6.85 trillion yuan, an increase of only 11.7 percent.

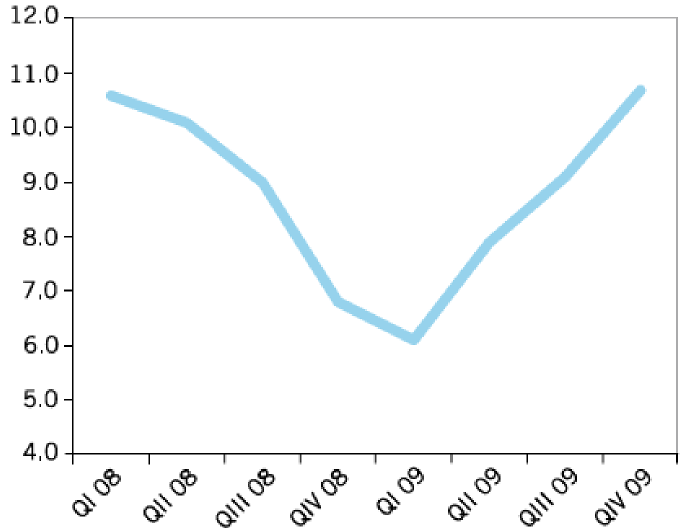
Within one year, the interest rate on a one-year savings deposit plunged from 4.14 percent (end 2007) to 2.25 percent as a consequence of China People's Bank's five successive adjustments to restore liquidity. The rate did not change for nearly 15 months until March of this year.

The aspect of the global crisis that hit the Chinese economy hardest was shrinking demand for exports as the economy had become very reliant on exports for growth. In November and December 2008, foreign trade fell by 9 percent and 11.1 percent. The severest contractions came in early 2009, when export growth fell by 17 percent in January, as compared to January 2008, and by a further 25 percent in February. Chinese exports slumped in value from US$1.4 trillion in 2008 to US$1.2 trillion in 2009, a contraction of some 15 percent.

As of the end of 2009, 127 million workers contributed to China's national unemployment insurance scheme and 2.35 million unemployed claimed benefits. A lump-sum subsistence allowance was paid to 1.08 million rural migrant workers whose employment contracts had expired or had been suspended. In 2008, 124 million workers contributed and 2.61 million claimed benefits. Lump-sum subsistence allowances went to 0.93 million rural migrant workers whose employment contracts had expired or been suspended.

Figure 3-3

China: Real GDP Growth Rate, by Quarter (year over year change), 2008–2009 (percentage)



SOURCE: Ministry of Human Resources and Social Security.

General Policy Responses to the Impacts of the Recession

To combat the impact of the crisis, a number of key policy measures have been introduced. They aim to expand domestic demand through consumption and investment, and to address immediate problems and long-term needs to ensure balanced, inclusive, and sustainable knowledge-based growth. Major policy responses are as follows.

Increase public spending and encourage public and private investment to stimulate and maintain economic growth. The central government has pledged 1.18 million yuan for a two-year, ¥4 trillion public investment plan to accelerate development of low-income housing projects, infrastructure construction in rural areas, improvements in railways and highways, medical and health services, cultural and educational services, environmental protection and preservation programs, independent innovation, and reconstruction in areas damaged by the Sichuan earthquake in May 2008 (see Figure 3-4).

A proactive fiscal policy continues to be implemented and China has significantly increased government spending. The 180 billion revenue deficit soared to a record high of 750 billion in 2009, plus 200 billion of national treasury bonds. It was the highest since the foundation of the People's Republic, about 2.93 percent of GDP, and on the warning line recognized throughout the international community. Also, China has endeavored to optimize the structure of government expenditures by increasing investment in key areas, cutting day-to-day expenditures, and reducing administrative costs.

Figure 3-4

China: Composition of ¥ 4trillion Investment Fund for Expanding Domestic Demand

Source: Government website of the National Development and Reform Commission.

Strengthen technical upgrading and innovation to vitalize 10 industries of strategic importance for future growth. These industries are as follows: automobile, steel, shipbuilding, petrochemicals, textiles, nonferrous metals, equipment manufacturing, information technology, modern logistics, and light industry. The government's SME support fund was greatly expanded from 3.9 billion yuan to 9.6 billion yuan.

Implement moderately easy monetary policies to ensure adequate credit for business operations. The benchmark interest rate has been cut five times and the required reserve rate has been raised five times. A credit of 7 trillion yuan has been channeled to release the pressure of the credit contraction, with special attention on SMEs and exporting businesses.

Adopt tax reforms. Tax cuts, rebates, and exemptions have been introduced to encourage business investment and consumer spending. Measures include VAT reform, preferential tax schemes for SMEs, real estate and securities transactions, export rebates, and the rescinding or suspension of 100 administrative charges. Subsidies for home appliances, agricultural machines and automobiles, etc. were provided to rural and urban purchasers who exchanged used automobiles and appliances for new ones. Tax incentives have resulted in approximately 500 billion yuan in relief among eligible enterprises and individuals.

Improve social security to sustain economic growth and enhance livelihoods. The central government spent 293 billion yuan on the social safety net in 2009, up 43.9 billion yuan or 17.6 percent from 2008. Social security coverage was extended to rural populations, pensions were increased, and a health reform program was initiated in 2009.

Transform the international financial system. As the world's largest developing economy, China is a keen proponent of financial system transformation. China has constantly advocated more representation of developing economies in global affairs and opposed protectionism in a pro free-trade campaign. China has been very involved in G-20 dialogue and collaboration on various fronts, promoting realistic and feasible cooperation in regional and international arenas, including labor and employment.

Specific Labor Market Impacts of the Recession

The recession has gravely affected China's employment, especially given the already huge pressure stemming from excessive labor supply and the mismatch between skills and needs. According to the statistics of the Ministry of Human Resources and Social Security, registered unemployment has been rising since the fourth quarter of 2008 and on into the second quarter of 2009. The groups hardest hit are rural migrant workers and youth.

Slowing Job Growth and Rising Unemployment

First, growth in urban new jobs declined, job losses increased, and unemployment rose. The employment market followed the rise and fall of GDP growth. In the first half of 2008, urban employment grew on average by 1.07 million each month; in the second half it grew by only 790,000—and in December, only 380,000, the lowest ever recorded (see Figure 3-5). Enterprises faced difficulties and tended to cut jobs. According to the Ministry of Human Resources and Social Security, 64 percent of 512 monitored enterprises cut jobs between September 30, 2008 and June 30, 2009. The number of registered urban unemployed rose steadily from the fourth quarter of 2008, reaching 9.15 million (4.3 percent) in the first quarter of 2009 (see Figure 3-6 and Table 3-1).

Figure 3-5

China: Number of Urban New Jobs by Month (in ten thousand)

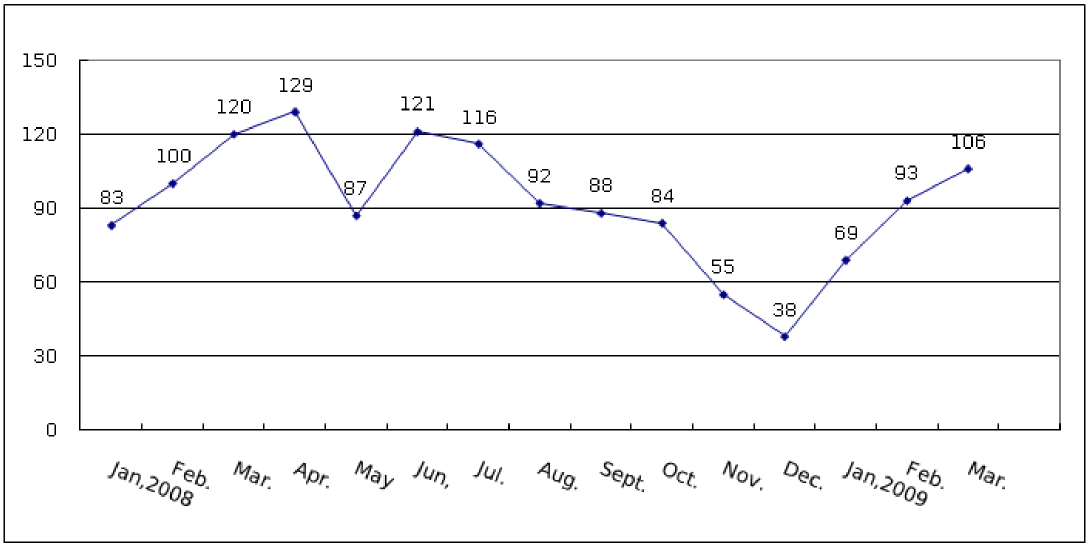
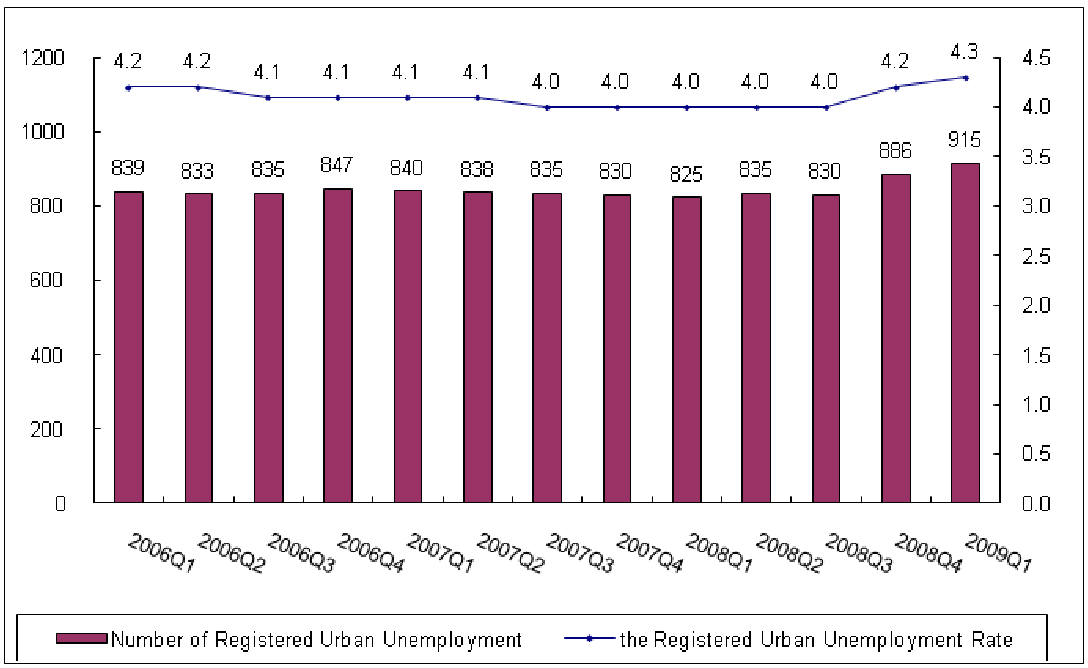


Figure 3-6

China: Number of Registered Urban Unemployed and the Registered Urban Unemployment Rate (by quarter)



Notes: Unit: 10,000 people, %

Table 3-1

China: Registered Urban Unemployment Rate Since 2001

2001	2002	2003	2004	2005	2006	2007	2008	2009
3.6	4.0	4.3	4.2	4.2	4.1	4.0	4.2	4.3

Rural Migrant Workers Hit Hard

Given the economy's heavy reliance on exports, rural migrant workers in manufacturing and export-oriented and foreign-funded enterprises suffered catastrophically in this recession. According to one survey of rural migrant employment by the National Bureau of Statistics, the Ministry of Agriculture, and the Ministry of Human Resources and Social Security, there were 140 million such workers across China. Before the Spring Festival in mid-February of 2009, more than 50 percent returned to their home villages. More than 11 million set off again to seek jobs after the vacation period but to no avail. In addition, there were about 7 million idle former migrant workers, 10 percent of the total.

Rising Youth Unemployment

Rising for nearly a decade, the supply of college and university graduates reached 6.11 million in 2009, representing more than half of all new entrants to the urban labor market for the year (see Table 3-2). At the same time, demand for labor declined because of the recession. As a result, vacancies for labor force entrants have been further reduced. According to the Ministry of Education, the number of enterprises offering on-campus recruiting as well as jobs dropped in 2009. The employment rate of graduates in 2009 was lower than in 2008, resulting in more than 3 million jobless graduates in 2009. The situation for female graduates was even worse. In March 2009, among 37 graduates who had majored in oil and gas storage and transportation technology at Lanzhou City College, Gansu Province, all of the men (20) obtained employment contracts while none of the women did.

Table 3-2

China: Number of Graduates by Year (million)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1.06	1.01	1.06	1.17	1.45	2.12	2.52	3.38	4.13	4.95	5.59	6.11

Hard-to-Place Workers

The hard-to-place—the 4050 cohort (males laid-offs in their 50s and females laid-offs in their 40s), the long-term unemployed, the disabled, and many other vulnerable groups—have found it difficult to secure jobs. From January 2009, laid-off workers experienced 110,000 fewer re-employments over the same period in 2008; the number for the hard-to-place was 20,000.

Slowing Wage Growth

As the recession reduced purchase orders for some enterprises and sectors and enterprises began to run below capacity, workers underwent work shifts, job-sharing, and pay cuts or were laid off. Average monthly wages increased by 12.9 percent in the first half of 2009 over the same period of 2008, a 5.1 percent decline and the lowest since 2001. According to the National Bureau of Statistics, the per capita household income of urban residents was 9,667 yuan in the first half of 2009, of which per capita disposable income was 8,856 yuan, an increase of 9.8 percent over the same period in 2008. The growth rate fell by 4.6 percentage points, the lowest over the same period of past 6 years (see Table 3-3).

Table 3-3

China: Per Capita Disposable Income and Nominal Growth Rate (2004 to first half of 2009)

Year	Per capita Annual Disposable income (Yuan)	Nominal Growth Rate （%）
2004	4813	11.9
2005	5374	11.7
2006	5997	11.6
2007	7052	17.6
2008	8065	14.4
2009 (first half)	8856	9.8

Interventions in Response to Labor Market Impacts

In response to the challenges posed by the global financial crisis, the Government of China has applied a series of measures promptly and decisively, implementing aggressive policies to secure people's well-being and promote employment. There are seven categories of measures, as described below.

1. Boost Domestic Demand

The government adjusted macroeconomic policies quickly and implemented a stimulus package to promote sound and relatively rapid economic development and to create jobs. Employment expansion was prominent in the framework of socioeconomic development, and the stimulus package, from design to implementation, was clearly intended to facilitate employment and positive interaction between economic growth and employment expansion. The ¥4 trillion stimulus package, together with proactive fiscal policies, monetary easing, etc. created an enabling framework for job creation.

2. Help Firms Protect Jobs

First, enterprises facing business difficulties have been allowed to delay their social insurance contribution by six months, and employers' rates of contribution for medical, unemployment, work injury, and maternity insurance were reduced. Second, troubled firms were provided social insurance, job, and on-the-job training subsidies if they minimized layoffs by means of on-the-job training, work-sharing, and flexible wage arrangements. Unemployment insurance funds have been used to subsidize social insurance contributions and job preservation. Third, troubled firms were encouraged to consult with trade unions and employees on flexible employment, on-the-job training, work-sharing, and leave. Fourth, state-owned enterprises were required to avoid layoffs and to report massive layoffs (more than 20 workers at one time) to local governments.

3. Scale up the Active Employment Policy: Encourage Employment through Multiple Channels and Forms

In 2009, 42 billion yuan of the central budget was invested in the active employment policy. First, workers were encouraged to be self-employed or start their own businesses. Entrepreneurs were granted an 8,000 yuan tax reduction and exemption and a 50,000 yuan micro-credit a year and exempted from administrative charges. Second, firms hiring laid-off workers could claim a 4,800 yuan tax waiver per year per hire and subsidies for social insurance contributions. Third, vulnerable workers participating in public sector job schemes or in flexible forms of employment may receive a social insurance subsidy.

4. Improve Employment Services and Assist Vulnerable Groups

The government collected and publicized job vacancy information and provided free services such as job placement, occupational guidance and policy consulting with a focus on university graduates, migrant workers, and the hard-to-place. Graduates were encouraged to find jobs in community-level posts, SMEs, the private sector, and the western part of China. Incentives were also provided to scientific institutions to recruit the graduates. A national internship program was initiated to equip 1 million graduates per year with work experience from 2009 to 2011. Free public employment service and training were also provided to migrant workers, encouraging them to start up their own businesses and participate in "work for relief" programs. Job searching services were highlighted between labor-sending and labor-receiving areas. Services for the hard-to-place were strengthened, with emphasis on placing them on welfare service posts purchased or subsidized by government. The government set out to help 1 million of them to be employed per year.

5. Provide Vocational Training for Employability

The government launched a two-year program to upgrade the skills of employees of troubled firms and train them in job transference. Rural migrant workers who had lost their jobs and returned home were offered vocational training or business start-up training. Other training includes a 3- to 6-month skill upgrade program to promote reemployment and a 6- to 12-month program that helps new entrants become more employable.

6. Promote Tripartite Dialogue and Consultation

The government assumed primary responsibility for employment promotion, encouraged the solidarity of employers and trade unions, and safeguarded stable and harmonious labor relations. Employers and unions were encouraged to share goals and make well informed decisions about job cuts, on-the-job training, flexible wage arrangements, and job-sharing.

7. Improve Social Security and Extend Social Protection

First, social insurance schemes were expanded to cover more private sector employees, rural migrant workers, people with flexible employment, and the self-employed. Second, increases were continued for basic pensions for enterprise retirees, and for unemployment insurance benefits, work-related injury insurance benefits, and minimum living allowances in rural and urban areas. The retiree pension increased by 10 percent in 2009. Third, health care reforms were implemented and development of a basic medical benefits system was expedited. From 2009 to 2011, governments at all levels will invest 850 billion yuan to improve medical insurance and the medical service system. Fourth, the UI fund will assume a big role in employment promotion by providing training to the unemployed. Fifth, pilot programs for a rural old-age insurance scheme will be carried out in order to extend coverage to 10 percent of counties (municipalities and districts). In this regard, government expenditure from the central budget amounted to 293 billion yuan in 2009, a 17.6 percent increase over 2008.

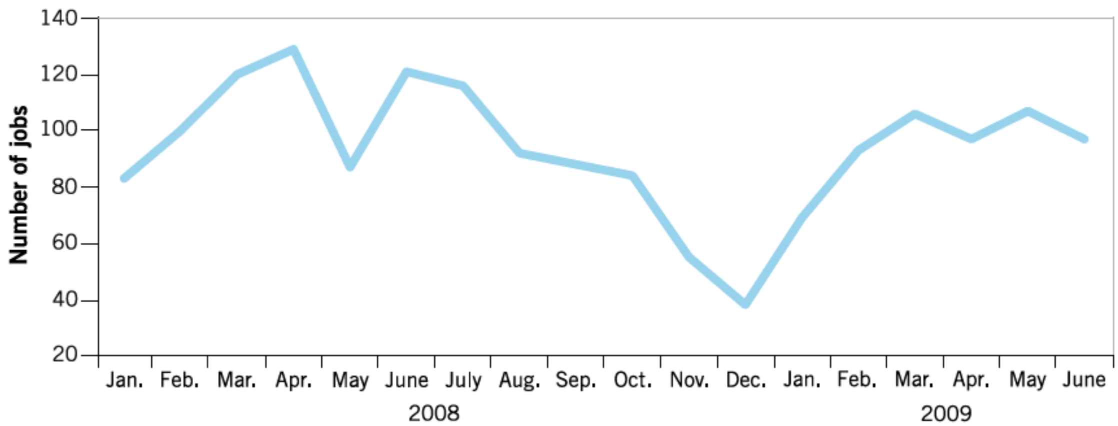
Key Assessments

With a population of 1.3 billion and a labor force of more than 700 million, China has been facing a long-term and arduous task of generating and expanding employment. In urban areas about 24 million seek jobs every year while only 12 million jobs are available. In rural areas, the labor surplus stands at 100 million; of these 8 to 9 million need to transfer to nonagricultural jobs every year. This level of employment pressure is seen only in China.

The employment-expanding policy package played an important role in economic recovery and employment preservation. By the end of 2009, prompted by the 42 billion central employment support fund (67 percent higher than in 2008), employment had risen from the downturn, with 11.02 million new jobs created, in the vicinity of the pre-crisis level. About 5.14 million laid-off workers and unemployed had regained jobs and 1.64 million of the most vulnerable had been assisted back to work. The placement rate for college and university graduates reached 87.4 percent, slightly higher than in 2008. In addition, employment of rural migrant workers increased by 4.92 million over the year 2008. The urban unemployment rate was 4.3 percent, a mere 0.1 percent rise over 2008. The overall employment situation has become stable (see Figures 3-7, 3-8, and 3-9).

Figure 3-7

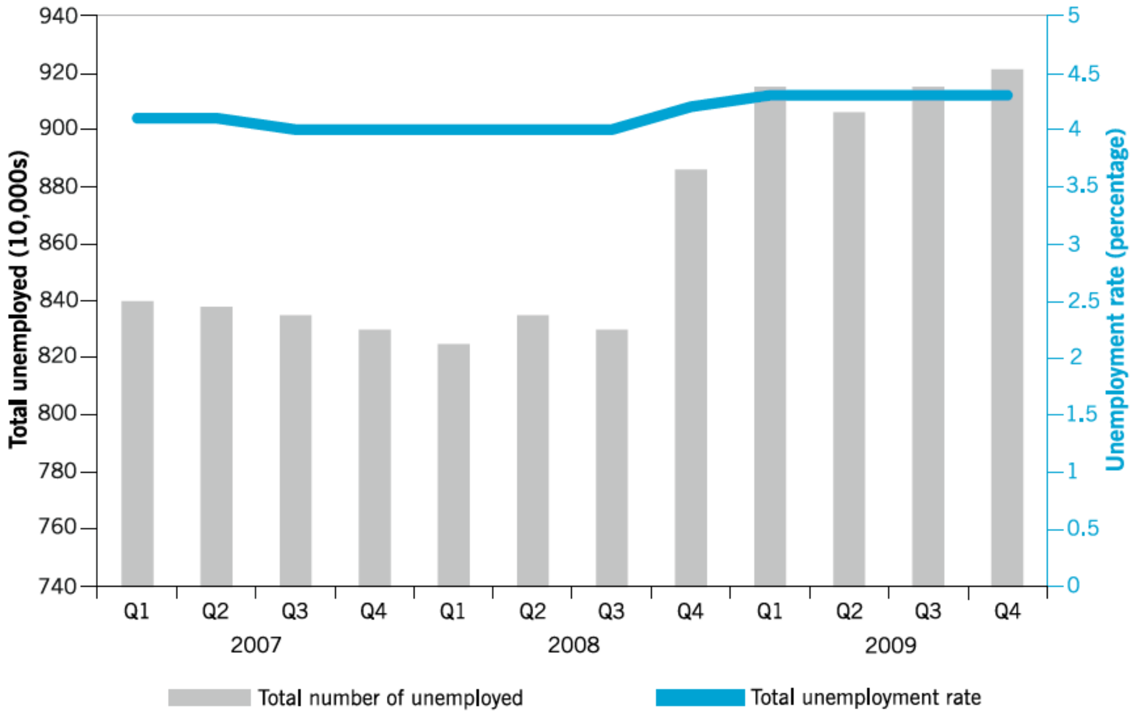
China: New Jobs Created By Month, January 2008–June 2009 (10,000s)



SOURCE: Ministry of Human Resources and Social Security.

Figure 3-8

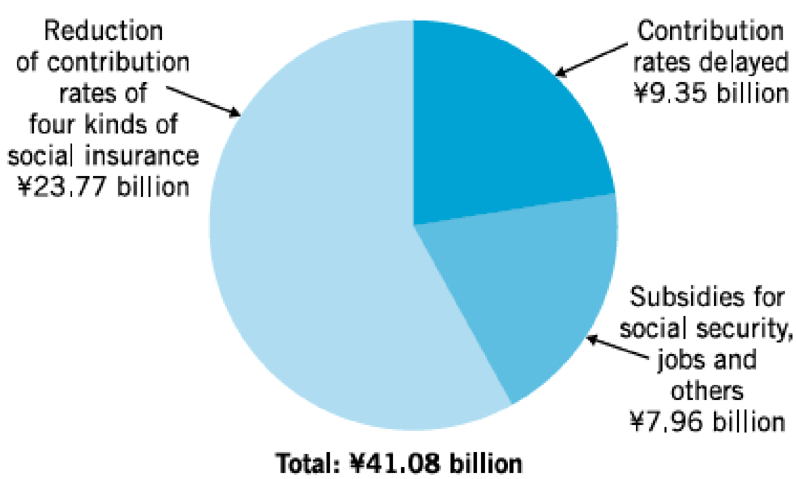
China: Total Registered Unemployed and Unemployment Rate in Urban Areas, By Quarter, 2007–2008



SOURCE: *Ministry of Human Resources and Social Security.*

Figure 3-9

China: Implications of Policies and Measures to Assist Enterprises and Protect Jobs (January–October 2009)



SOURCE: *Ministry of Human Resources and Social Security, Regular Statistics.*

These achievements are attributed to the principles and strategic approaches exercised by the Chinese government in tackling the recession, as follows:

- Put in place an employment-oriented development strategy.
- Implement a mix of policies, including policies to stimulate labor demand and improve labor supply.

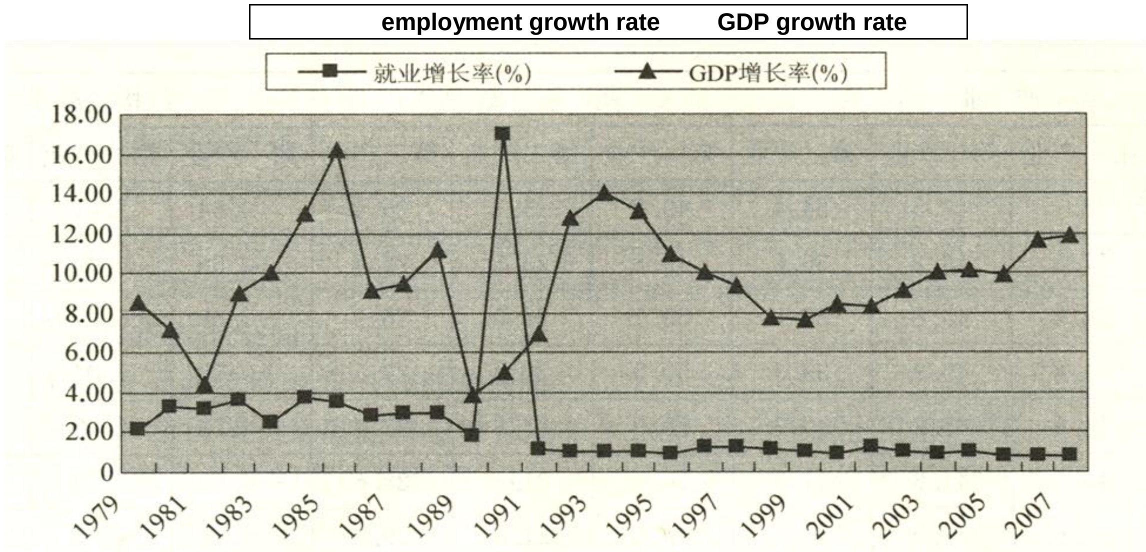
- Upgrade public employment services to create an efficient, convenient, and equitable environment for recruiters and job seekers.
- Increase public and private inputs for vocational training, turning periods of unemployment into periods of training that are of benefit in the short run and that cater to future job requirements in the long run.
- Establish programs for troubled enterprises and vulnerable groups.
- Improve social safety net, emphasizing the linkage between employment and social security policies, etc.

The global financial crisis, however, continues to affect China. The momentum of recovery is still somewhat fragile, structural challenges persist, and employment distress lingers. The government will maintain consistent and stable macroeconomic policies through continual implementation of an active fiscal policy and moderately light monetary policy, and by formulating policies flexibly in response to emerging conditions. Employment will be prioritized in social and economic development, and more jobs created through stable and good economic growth. A mechanism will be sought to ensure greater balance between economic growth and employment growth.

Historically, China has been on a development path characterized by high economic growth and low employment creation. GDP grew 9.9 percent in 2005, 11.6 percent in 2006, and 11.9 percent in 2007, while the employment growth rate for those same years was 0.83 percent, 0.76 percent, and 0.775 percent. That is to say, employment elasticity for those three years was merely 0.083, 0.065, and 0.064 (see Figure 3-10). In contrast, elasticity in OECD countries was 0.63 in 2006 and 0.48 in 2007, and in G7 countries averaged 0.58 and 0.51 for the same period. Elasticity in Norway was 10 times higher than in China, and even lower end countries such as Japan and Korea had figures more than twice China's. In comparison with major developing countries, such as Brazil, India, and Russia, China also had the lowest elasticity. Low elasticity has greatly diluted the effectiveness of and job-creation confidence for the huge amount of capital investment. There are three primary reasons for this, all of them deeply rooted in China's industrial structure and growth strategies:

Figure 3-10

China: Employment Elasticity of China Since 1980



SOURCE: Report on China's Economic Operational Risks, 2008.

First, the pace of transformation in economic structure and sector layout over the past 10 years has been very slow. Local authorities were enamored with GDP growth and a large proportion of capital has been poured into infrastructure, petroleum and chemicals, mining and metal production, general-purpose equipment, transportation, and electric mechanicals. Contributions of tertiary industry and the service sector, therefore, have stagnated at about 40 percent of GDP and 30 percent of employment creation.

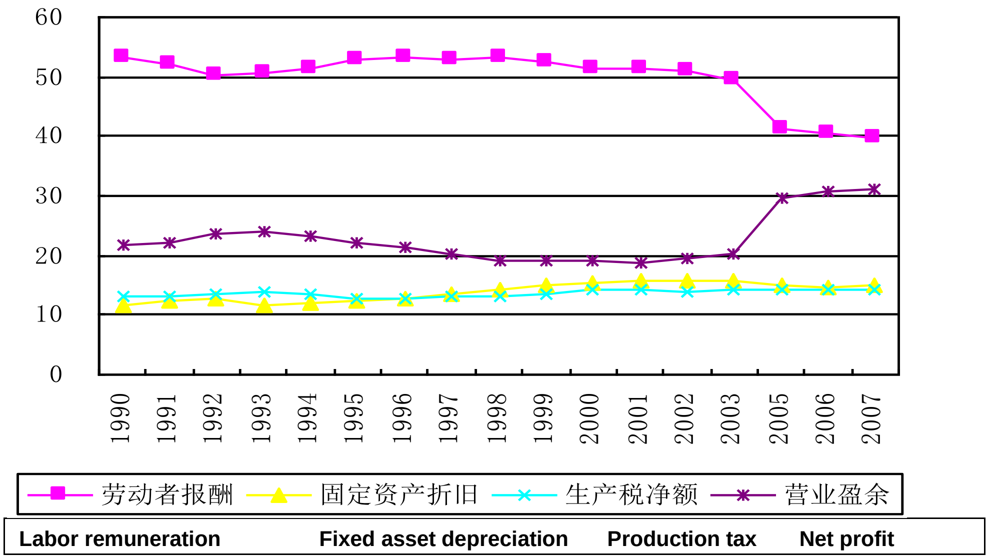
Second, the proportion of wage/labor remuneration versus GDP has fallen consistently since the mid-1980s. At the same time, return on capital investment has risen considerably. It is safe to say that greatest number of employees have received a smaller share of wealth whereas more monies have been used to generate capital increments for interested groups instead of creating more jobs. See Figure 3-11.

Third, the easily earned profits of monopolized industries dissuade them from hiring and retaining highly competent personnel in order to boost competitiveness. Moreover, the wages for workers in such industries are much higher than wages for regular workers in competitive industries; if their wages were lower many more employment opportunities could have been produced.

In addition, the concepts of market-oriented employability and respect for entrepreneurship have long been lacking. Only 15 years ago, graduates were allocated to posts and did not search for jobs; and starting a business on one's own was little esteemed and inadequately supported by government and social partners. Less than 7 percent have considered starting a business and less than one percent bring such a task to fruition.

Figure 3-11

China: Share of Labor Remuneration in GDP



This brief analysis of China's economic structure and growth strategy as well as social awareness explains, to some extent, that the effectiveness of capital investment should be more dependent on economic restructuring and rational redistribution of social wealth. In addition, any business start-up initiatives will not bear fruit until the appropriate culture takes hold and supportive regimes are in place and functional.

Confronting these challenges, the government will continue with policies and measures to tackle employment distress as follows:

- Implement fiscal and financial policies to promote economic development, and try every possible means to increase employment opportunities.
- Promote implementation of various policy measures, and focus on stabilizing employment.
- Continue to focus on the employment of rural migrants, youth, and the hard-to-place, with more emphasis on policies that promote employment of college graduates.
- Optimize education and training to enlarge human capital treasury.
- Strengthen public employment services to cover laborers from urban and rural areas, and improve service capacity and quality.
- Take steps to guarantee and improve people's livelihoods.

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4. Japan

Performance of the Economy and Labor Market up to the Global Recession

After the period of postwar reconstruction, Japan entered a period of extraordinary growth, averaging around 10 percent growth in the 1960s and 1970s, and by the late 1960s establishing itself as the second largest economy and a world leader in several areas of technology. The reasons behind this successful re-emergence onto the world scene were manifold. Internally, the economy had a considerable stock of human capital, entrepreneurs were adept and skilful in adapting foreign technologies, and savings were at high levels. Externally, the economy benefited from an expanding international trade and from the flourishing of the electronics industry, most notably the new industries created by the information, telecommunications, and computer revolution.

Large productivity increases, together with an exchange rate inherited from the immediate postwar period, led to large trade surpluses and eventually to pressure from trade partners for a reevaluation of the Japanese yen. The September 1985 Plaza Agreement produced a significant currency realignment and, in retrospect, signaled the end of the period of high growth and Japan's consolidation as a mature developed economy. It also initiated a frenetic period of speculation and financial wealth creation, the so-called "bubble economy." By the end of 1990 the national wealth of Japan had peaked at 8 times its GDP, a level to be compared to that of 5.6 times GDP prevailing a decade earlier. As is well known, the bubble burst in the early 1990s and the consequences of that financial crisis marked an entire decade.

Policy response to the crisis was inconsistent and, initially, largely ineffective. The crisis developed in a vicious circle running from the financial sector to the productive sector, with a perverse decrease in credit, a reduction in investment by firms, and a deterioration in the balance sheets of financial institutions. The rate of growth during that decade was on average about 0.5 percent and per capita income stagnated: at 3.8 million yen it had practically the same value in 1992 as in 2002. In the process, firms reduced labor costs by a variety of mechanisms, including limitations in new hiring, wage containment or reduction, increased use of temporary workers, and a redeployment of production abroad. Unemployment, which was very low during the period of high growth, rose from a low of 2.1 percent in 1992 to a high of 5.2 percent in 2002. The labor market, until then characterized by a strong association between workers and enterprises, initiated a process of "flexibilization," whereby the proportion of regular employees in the labor force decreased from 81.7 percent in 1988 to 70.6 percent in 2002.

In addition to the changes in labor market, other structural changes in the Japanese economy, such as a reform of its financial markets, an opening to foreign investment, and innovations in retail and distribution systems, eventually helped bring about the beginning of a recovery in the second quarter of 2002. That recovery was also facilitated by a positive international economic environment and by a weak yen. The role of China, as a dynamic host to Japanese investment and a conduit for its exports to Europe and the United States, cannot be overstated. The recovery lasted until the third quarter of 2007 with an average annual growth rate of 2.1 percent over those five years.

General Impact of the Global Recession on the Japanese Economy

The 2002-2007 recovery was led by the corporate sector and depended heavily on exports of cars, other consumer durables, and machinery to markets in Europe and the United States. The contribution of consumer demand was small, in part because the recovery took place in a deflationary environment so that, despite significant real growth in GDP, the growth of nominal GDP was quite low and barely noticeable to the public. Soon after the magnitude of the looming crisis became apparent in mid-2007 enterprises began to incorporate expectations of lower world demand into their investment and production plans. This explains why the Japanese economy started to contract even earlier than the US economy in response to the shocks originating in the financial sector and why the extent of this contraction was the largest among the G7 economies. The decline, from the fourth quarter of 2007, was initially measured but accelerated greatly after Lehman Brothers defaulted in September 2008. GDP fell by about 10 percent both in the last quarter of 2008 and the first quarter of 2009, the biggest decline in the postwar period. Overall, GDP fell by 1.2 percent in 2008 and 5.2 percent in 2009.

The effect of the crisis on international trade was even more drastic and sudden. Japanese exports and imports started to decline in September 2008 and by February 2009 were at about half the level of a year earlier. Overall, Japanese exports to the world decreased by 25.7 percent in 2009 from a year earlier, from US$782 billion to US$581 billion (constant prices). Most of this drop was due to the precipitous fall in exports of cars and machinery. Exports of passenger cars to the United States fell from 2.2 million units (JPY 4.2 trillion) in 2008 to just over 1.2 million units (JPY 2.2 trillion) in 2009.

The fiscal balance of Japan has been negative since the end of the bubble economy in the early 1990s and, accordingly, government debt kept increasing. A series of extraordinary spending measures taken by successive governments to revive the economy took government debt to nearly 190 percent of GDP by 2006. The effects of the global crisis swiftly overrode a timid corrective trend initiated in 2007. The fiscal balance went from -2.5 percent in 2007 to -5.6 percent in 2008 and is projected to reach almost -10 percent in 2009. As a result, the government debt is well above 200 percent of GDP.

The unemployment rate, which had been decreasing during the recovery, increased from 4.1 percent in 2008 to 5.1 percent in 2009, reaching a high of 5.6 percent in August 2009. Most affected were temporary workers, in particular youngsters and seniors, and foreign guest workers, including Brazilian and Peruvian workers of Japanese ancestry. The absence of adequate safety nets for these groups of workers renders their situation quite precarious.

General Policy Responses to the Impacts of the Recession

The Bank of Japan, as the main institution in charge of monetary policy and of safeguarding the stability of Japan's financial system, reacted quickly to the deteriorating business and financial environment. The benchmark interest rate set by the Bank of Japan had already been quite low, at 0.5 percent, for a long time. In the wake of the 2002–2007 recovery there had been talk about bringing it to a higher value. The first reaction of the Bank was to announce in February 2007 that the rate would stay at that level. As the situation deteriorated the rate was lowered to 0.3 percent in October 2008 and then again to 0.1 percent in December of the same year.

The Bank of Japan also took several measures to reduce the risk exposure of commercial banks and to strengthen their balance sheets. In February 2009 it decided to purchase corporate stock held by these banks up to a maximum of JPY 1 trillion and in April of the same year it set up a fund to provide subordinated loans to banks up to a maximum of JPY 1 trillion. Finally, the Bank also acted to directly increase the liquidity available to corporations. Between October 2008 and October 2009 it took a series of measures enabling it to acquire commercial paper issued by private enterprises as well as corporate bonds. As a result the amount of corporate debt accepted as collateral by the Bank of Japan rose from about JPY 3.1 trillion at the beginning of 2007 to about JPY 11.2 trillion by the end of 2009.

From a political perspective, the impact of the financial crisis encompassed at least three administrations, those of Prime Ministers Yasuo Fukuda (September 2007 to September 2008), Taro Aso (September 2008 to September 2009), and Yukio Hatoyama (September 2009 to June 2010), the first two as leaders of the Liberal Democratic Party of Japan (LDP), the latter as leader of the Democratic Party of Japan (DPJ). Two packages of measures were launched to respond to the global crisis, one in April 2009 (Aso administration), the other in December 2009 (Hatoyama administration). Both contemplated emergency and long-term measures.

The emergency measures in the April 2009 package, valued at about JPY 44 trillion, in addition to a series of actions addressing the labor market (discussed below), were aimed at increasing credit to the corporate sector through a variety of existing institutions such as the Small and Medium Enterprise Agency, the Development Bank of Japan, and the Shoko Shukin Bank. The December 2010 package strengthened these measures and linked them to the new vision of the DPJ government about ways to overcome the malaise that has permeated Japanese society since the end of the bubble economy. In that context, the incoming Hatoyama administration launched a "New Growth Strategy" at the same time as the second package of countermeasures that, looking ahead to 2020, aims to improve citizen's lifestyles and to generate more than JPY 100 trillion in new demand for freshly developed environmental, health and tourism industries. The approach of the DPJ administration is, in essence, to make of the global crisis an opportunity for Japan to reinvent itself.

Specific Labor Market Impacts of the Recession

The traditional characteristics of the Japanese labor system, such as lifetime employment and seniority wages, although much less marked than in the immediate postwar period, have retained a presence as an ideal to be pursued. Those characteristics are consistent with other features of Japanese society and are associated with a view of the firm as an alliance of multiple agents with compatible interests. Consequences of the Japanese system have included an extremely low rate of unemployment, fluctuating until the 1980s between 2 and 3 percent; a high proportion of firm employees consisting of regular workers, more than 80 percent until the 1980s; and a relatively low rate of female participation in the labor force.

Since the 1990s this system has experienced significant pressure and has been evolving in response to a variety of factors. The end of the bubble economy forced firms to review their production systems, in particular the modalities of employment. In addition, the structure of the Japanese economy has been changing rapidly, with an increase in the size of the tertiary sector at the expense of the primary and secondary sectors (see Table 4-1). Demographic factors are also in play, as the Japanese population has attained its limit and is aging rapidly. Finally, changes that affect the social behavior of particular groups, such as young people, females, and older people, in particular their attitude toward working practices, are having a significant effect on the labor system.

Table 4-1

Japan: Distribution of Labor Force by Sector and Year, 1994-2008 (percent)

Year	1994	1996	1998	2000	2002	2004	2006	2008
Primary Sector	5.8	5.5	5.3	5.1	4.7	4.5	4.3	4.2
Secondary Sector	33.4	32.7	31.5	30.7	29.1	27.5	27.0	26.4
Tertiary Sector	60.3	61.3	62.7	63.7	65.3	66.9	67.7	68.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: *Statistics Bureau, Ministry of Internal Affairs and Communications, Labor Force Survey*.

Several trends have emerged as a consequence of this combination of factors, and the global recession has contributed to their consolidation. First among them is a steady progression in the structural or frictional rate of unemployment, which climbed from about 2 percent in the 1980s to about 3 percent in the 1990s and about 4 percent in this decade. A second important trend is a reduction in the share of regular workers among employees, which fell from more than 80 percent in 1988 to about 66 percent in 2008 (see Table 4-2).

This trend is partly explained by the increased weight of the services sector, where the use of nonregular employees is more common. Thus, for instance, the share of nonregular employees stands at about 69 percent in the food, beverage, and hotel industries; 47 percent in the wholesale and retail industries; and 36 percent in the medical and welfare industries, as compared to just about 27 percent in manufacturing. A third trend is a consistent increase in the rate of female participation in the labor force, which went from 35.9 percent in 1985 to 41.9 percent in 2008. A fourth and relatively recent trend is a reduction in the size of the labor force. The population of Japan is starting a process of secular decline and the ratio of the labor force to the population aged

15 and above (the “labor force population ratio”) is falling. In 1960 it stood at 69.2 percent, falling to 62.9 percent in 1976 and to 60.4 percent by 2004.

Table 4-2

Japan: Labor Force Composition According to Modality, 1985–2008 (percent)

Year	1988	1993	1998	2003	2008
Regular staff	81.7	79.2	76.4	69.6	65.9
Part-time workers	10.7	11.9	13.2	15.1	15.9
Temporary workers	3.8	5.0	6.6	6.9	6.4
Contract employees	3.8	3.9	3.8	4.8	6.2
Other	--	--	--	3.6	5.6
Total	100.0	100.0	100.0	100.0	100.0

SOURCE: *Japan Institute for Labor Policy and Training 2009.*

Some major issues have arisen in the wake of these trends. First, a worrying wage gap has developed. Wage inequalities, traditionally small in Japan, were originally due to the seniority-based wage system, whereby wages and hierarchy are mostly defined by age (see, for instance, Uni 2008). Starting from the Koizumi administration, under the influence of neo-liberal thinking, labor law was relaxed to accommodate the demands from enterprises to facilitate their use of nonregular workers. It thus became possible and indeed rather common that people in the same age group would perform the same job and receive different remuneration for their work. Currently most of the inequality in wages arises from the increased use of nonregular workers, such as part-time workers, temporary workers (*arbeit*), and workers dispatched from manpower agencies. The phenomenon became important enough to be raised as an issue in the general elections of October 2009 and appeared prominently in the Manifesto of the Democratic Party of Japan, which emerged victorious from those elections.

A second issue is the appearance of an underclass of “working poor”—workers whose earnings are insufficient to enable them to take care of their basic expenses, much less those of a family. For a long time, Japan has been a prosperous and equitable society. Although poverty appeared following the end of the bubble economy, it was largely ignored (Sekine 2008). As a matter of fact the economy does not even have an official poverty line and it has become common practice to use for such purposes the “minimum standard of living” below which subsistence benefits can be claimed and which is defined as half the median income of the population. Most of the working poor are young adults who move from one temporary job to another (sometimes called *freeters*); some cannot afford stable housing and spend their nights in cybercafés or in “capsule” hotels.

A third and related issue is the increase in youth unemployment. Traditionally, university graduates and high-school graduates who wanted to join the labor force were hired by enterprises and a large proportion of them would remain working there for a long time. This situation has changed for two reasons. First, firms are much more selective about hiring regular employees as they expect to hire nonregular workers as well; and fresh graduates put a higher value on their own flexibility. As a result the rate of employee turnover has markedly increased, many fresh graduates join the ranks of nonregular workers, and a significant number of graduates remain unemployed. The situation is aggravated because the safety net for the unemployed was designed for the traditional labor system and does little for nonregular workers who become unemployed.

Interventions in Response to Labor Market Impacts

The policy response of the Government of Japan to deteriorating labor market conditions started in the second half of 2008 and has involved five sets of measures:

- Comprehensive Immediate Policy Package to Ease Public Anxiety involving public outlays of JPY 9.94 billion was announced on August 29, 2008.
- Measures to Support Daily Lives, involving a much higher outlay of JPY 250.5 billion, was announced in October 30, 2008.
- Immediate Policy Package to Safeguard People's Daily Lives involving public outlays of JPY 284.2 billion was announced.
- As part of the Policy Package to Address the Economic Crisis launched in April 2009 a set of employment measures involving public outlays of JPY 2.5 trillion was announced.
- In December 2009, under the new Hatoyama administration of the DPJ, a set of employment measures involving public outlays of JPY 680 billion was announced as part of Emergency Economic Countermeasures for Future Growth and Security.

Table 4-3 outlines these policies. For ease of reference we will call them Policy Sets and number them from 1 to 5. The issues addressed by these policy sets correspond closely to those identified in the previous section and include job creation; employment security; vocational training; the situation of nonregular workers; the situation of special groups, such as women, older people, and people with disabilities; and the situation of depressed regions.

Table 4-3

Japan: Overview of the Five Policy Sets (August 2008-October 2009)

POLICY SET 1
1. Promotion of policies for nonregular workers (JPY 2.8 billion)
2. Support for employment security in Small and Medium Enterprises (JPY 6.9 billion)
3. Employment support for women (JPY 0.08 billion)
4. Employment support for older people (JPY 0.04 billion)
5. Employment support for people with disabilities (JPY 0.11 billion)
6. Ensuring long-term care services
POLICY SET 2
1. Support to family budgets
2. Strengthening employment safety nets (JPY 276.6 billion)
3. Reassuring daily life (JPY 7.5 billion)
POLICY SET 3
1. Housing and daily life support (JPY 29.3 billion)
2. Employment security programs (JPY 50.4 billion)
3. Reemployment support programs (JPY 207.5 billion)
4. Addressing corporate employment offer withdrawals (JPY 0.33 billion)
5. Reinforcing functions of the employment insurance system

POLICY SET 4
1. Increasing the subsidies for employment adjustment (JPY 606.6 billion)
2. Measures to support reemployment and development of vocational skills (JPY 741.6 billion)
3. Measures to create new jobs (JPY 300 billion)
4. Measures to protect dispatched workers, prevent job offer withdrawals, and provide support to foreign workers
5. Measures to support housing and daily life (JPY 170.4 billion)
POLICY SET 5
1. Emergency measures for employment (JPY 0.43 billion)
2. Preparation for a new growth strategy (JPY 0.25 billion)

Note: values in parentheses are those assigned to the particular policies and are provided when available.
SOURCES: Japan 2009a, b, c.

Next we examine in more detail the issues addressed by these policies and the tools used.

Nonregular Workers

The term "nonregular workers" refers mainly to dispatched workers (from job agencies) and so-called "freeters" (from *free* and *arbeiter*), the latter being workers who move by themselves from one temporary occupation to another. Although some of them engage willingly in this modality of work surveys have shown that a large and increasing proportion of them work in this way because they are unable to find a stable job. For both types of workers the government will use the system of Employment Service Centers (commonly called "Hello Work") established in 1990 and which is being expanded to accommodate new programs. The system covers most of the economy and some centers offer services in a variety of foreign languages, including English, Mandarin, Spanish, and Portuguese. Daily dispatch workers will receive placement assistance and other types of career counseling at the Hello Work centers. In addition, some areas such as Tokyo, Osaka, Aichi, Hokkaido and Fukuoka, will establish "Nonregular Worker Employment Support Centers" to provide one-stop services to support steady employment.

For *freeters,* Hello Work offices will provide support for youngsters who could not find full-time positions during the previous years. To achieve this it will use grants for trial employment and subsidies for companies that give these workers full-time positions after the trial period. Support measures include providing one-on-one counseling with counselors in charge, securing jobs suited for *freeters*, offering placement services, and giving post-placement guidance for job retention.

Nonregular worker measures also seek to better protect dispatched workers by tightening supervision and regulation of job dispatching agencies and by securing compensation for losses caused by the premature termination of temporary work contracts. The measures also address welfare issues of unemployed nonregular workers or those with very low earnings (the working poor). Thus, it creates programs to help homeless workers (such as those sleeping in cybercafés) to find steady jobs. In this connection, the government will strengthen its capacity to provide career counseling and placement services and lend money to these people to cover initial costs to rent a dwelling.

Employment Security

The Employment Adjustment Subsidy Program, which provides subsidies to firms to cover a fraction of wages or fringe benefits, was expanded to include nonregular workers serving for less than six months. The program was also revised to raise the subsidy rate and to ease its requirements. In addition, a new program was created to subsidize firms that hire dispatched workers as regular workers. The subsidy per worker ranges from JPY 250 thousand (for large firms offering fixed-term employment) to JPY 1 million (for small and medium firms offering permanent jobs). In December 2008, a program aimed at small and medium enterprises ("Immediate Employment Security Subsidy for SMEs") was created to support employment security in enterprises coping with the impact of surging raw material prices on business activities.

Job Creation

The Emergency Job Creation Program was created in December 2008 and endowed with JPY 150 billion to promote, through prefectural governments, temporary jobs (employment contracts of less than 6 months) for nonregular workers or middle-aged and older people who have lost their jobs. The program was expanded in April 2009 with an additional endowment of JPY 300 billion. The government has also addressed unemployment in depressed areas. To this end a "Hometown Employment Revitalization Special Grant" was established, whereby local governments will support job creation (one-year employment contracts) among private enterprises. Examples would be programs to develop new local products, provide meal distribution services, or provide child-care services.

Younger Workers

The economic environment of the past years has made it difficult for new graduates to find jobs, and the impact of the global recession caused many job offers to be suddenly withdrawn. In addition, when hiring regular employees, firms usually limit their search to fresh graduates, thus seriously affecting those who graduated a few years earlier and were unsuccessful in their job-seeking at that time. The government has taken steps to address this situation. One measure is the public disclosure of the names of companies that withdrew job offers. Another is to provide incentives to employers hiring as regular workers graduates who had been unsuccessful in finding jobs. In such cases, the government will pay the employer JPY 500 thousand (JPY 1 million for small and medium enterprises). A similar incentive is offered for regular employment given to older *freeters* (aged 25 to 39).

Vocational Training

Several steps have been taken to address the lack of skills among the unemployed. Vocational training facilities have been extended to those not receiving employment insurance benefits and during training they will be supported through a new "Training and Daily-Life Support Benefit" program and have access to child-care services. In addition, the scale of training programs entrusted to private education and training institutions will be expanded.

Looking particularly at the situation of *freeters*, a new "job card" system was established in April 2008 to systemize the acquisition of work skills by nonregular workers. The system provides for a combination of lecture and hands-on training while information on the cardholder's work experience, vocational training, and capability evaluation are used to facilitate job search. The system will be expanded to pay living assistance during the training period and to substantially increase support to participating companies. As of September 2009, about 139,000 job cards had been issued.

An even more problematic category of workers, the *NEET* (Not in Education, Employment or Training), is also the object of some measures. The government will increase the number of Regional Support Stations, and foster cooperation and information sharing with regional youth support organizations. The Young People Self-Support School will provide a wide variety of training courses.

Safety Nets

Several measures were adopted to strengthen safety nets and to expand their coverage to nonregular workers. Among them are the establishment of a special grant program to support older *freeters*; the construction of more Non-Regular Employment Support Centers; the expansion of life security benefits during training; the expansion of several employment security facilities; and the establishment of the Hometown Employment Revitalization Special Grant. The employment insurance system is also under review to expand its eligibility. In addition, programs have been established to support those who have lost jobs and homes, providing them with assistance in finding a home and loans for daily living, along with continuous life counseling/assistance. This kind of assistance includes emergency funds up to JPY 100 thousand, loans for daily living up to 200 thousand per month (maximum of one year), and housing allowances for up to six months.

Special Groups

Women

It is common for women in Japan to leave the labor force to rear children and their return to work is not always easy. To address this situation, the government decided to create "Mothers' Corners" at selected Hello Work centers and allocated JPY 80 million yen for that purpose.

Foreign Workers

The number of foreign workers has increased markedly over the past two decades; in 2008, more than 330,000 foreigners worked legally in Japan. A significant number are migrants of Japanese ancestry from South America (primarily Brazil and Peru), and many others have been admitted through special internship or trainee programs for foreigners. As a result of the global recession foreigners were one of the most affected groups. The April 2009 package partly addressed this situation through a series of measures. Perhaps the most notable was a program to provide incentives to unemployed foreigners of Japanese ancestry to return to their home countries. This provides JPY 300 thousand to the unemployed foreigner and JPY 200 thousand for each dependent upon the condition that they not return to Japan for five years. Similar incentives are offered to trainees and technical interns who wish to return to their countries. Other programs target those who wish to stay in Japan, providing training in Japanese language skills and improving counseling and assistance capacity. This also includes the upgrading of the capabilities of selected Hello Work centers, and hiring more counselors and interpreters.

Older People

For people aged 65 or older the government included JPY 40 million in the August 2008 policy set to support employees that hire older people on a trial basis. In addition, the government is trying to persuade more firms to increase the retirement age to a maximum of 70 years.

The Disabled

Finally, the government included JPY 110 million to support employment and job retention among people with disabilities. This is to be achieved by enhancing the capabilities of Hello Work centers. These measures were strengthened in the April 2009 policy set. That package included incentives addressed both to the private and public sectors to hire people with disabilities. In the case of private firms, the Employment Adjustment Subsidy is to be raised for people with disabilities. In the case of public agencies, the Challenge Employment program, which provides job trial opportunities for people with disabilities, will be expanded.

Key Assessments

The global recession hit Japan at a delicate moment. It came with full force as the economy seemed to be successfully maneuvering into a new regime following nearly two decades of frustrating policy turns and stagnation after the end of the bubble economy of the early 1990s. The Japan of the 1960s to 1980s at which the world marveled was built on a unique foundation of traditional social and cultural values. Efficient coordination and cooperation within groups, respect for (functioning) hierarchies, and a general sense of social equity combined with a large stock of human capital and a determination to equal and surpass the developed West in the aftermath of the destruction caused by the Second World War. Adhering to these general principles, the labor system helped generate wealth and prosperity for the entire society. The system worked well for many years in no small measure because of its perceived fairness. A particularly desirable feature was that it produced extraordinarily low unemployment although the system could be criticized for its lack of flexibility and the high stress it caused among weaker participants.

As with any social system this could not last forever. That growth was fueled largely by exports and that international partners viewed the yen as well below its equilibrium value led to the Plaza Agreement of 1985 and a large reevaluation of the yen. In itself the reevaluation was not fatal; however the period of “irrational exuberance” that immediately followed it, with lightly thought out foreign acquisitions and financial and real estate speculation, undermined the foundations of the Japanese economy. The end of the “bubble economy” exposed its weaknesses and challenged the capacity of Japanese society and institutions to adapt. Even though Japan was one of the main beneficiaries of the waves of globalization that have swept the world since the second half of the past century, it could be said that its system did not cope well with the unavoidable opening to the world that its success implied.

The past two decades have seen the economy responding in uncertain ways to its profound structural crisis. No less than 14 prime ministers have led the economy from 1990 to the present. By one interpretation, this economic and intellectual stagnation is the result of an unresolved confrontation between two conflicting views of the future, one based on assimilation of modernity and globalization into Japanese values, the other on a much more open embrace of Western values and of neo-liberal economic policies. This kind of confrontation, with variations according to historical period, is not new to Japan and at various times throughout the centuries it has made choices that defined its future for generations. In that sense this seemingly long period of uncertainty is not exceptional in Japanese history. What makes solutions to the current crisis difficult to envisage is the rather surprising state of denial regarding important problems that arose as a result of it. Two notable examples are the increase in social and economic inequalities in the Japanese society and the rise of poverty. Successive governments have ignored these issues, going so far as to question reports on poverty levels in Japan by the Organization for Economic Cooperation and Development (OECD); and academics have engaged in lengthy debates about whether inequality is on the rise or not. All of these elements have helped create a malaise among the public and political apathy and cynicism. Voter turnout has been decreasing steadily for the past two decades, especially among the young.

In this general environment and despite its otherwise negative economic effects, it could be said that the global recession has had the salutary effect of opening the public's eyes to pressing issues and raising the public's spirit to confront those issues. The feeble recovery that had been taking place since late 2002 was easily shattered by the global crises; Japan suffered more than the United States, the origin of the crisis, and more than other developed economies. In that sense the reaction was as much a response to the global recession as to the deeper crisis of the Japanese system, although this was not fully acknowledged initially. This lack of full recognition partly explains the gradual and repetitive character of the several policy sets enacted by the government from late 2008 onwards. The campaign for general elections in August 2009 and its outcome helped to change this situation. The Manifesto of the Democratic Party of Japan (2009) openly recognizes and discusses issues that had been ignored or downplayed by successive governments, and the initial proposals from the Hatoyama administration have been consistent in this stance. The New Growth Strategy unveiled in December 2009 (Japan 2009d) is a good example of this fresh approach. In a similar way the Emergency Economic Countermeasures (Japan 2009c) announced earlier that month, conveying the new administration's perspective on the response to the crisis, combined immediate measures with long-term measures addressing some of the deeper problems of the Japanese economy.

It is of course too early to say that Japan has found a way of resolving its problems. Other elements interact in subtle ways with the economy and the labor markets and render the overall situation quite complex. One element is the geopolitical position of the economy in one of the most delicate regions of the world, further complicated by the historical ambiguity of Japan about its Asian or Western character. Another is the contraction and ageing of Japan's population, which is bound to have powerful and mostly negative economic and social implications. Combined, these elements may produce unexpected outcomes as the recent resignation of Prime Minister Hatoyama, in early June 2010 after barely eight months in office, illustrates.

In conclusion, it is too early to offer a complete assessment of the response of the Japanese government to the global recession. As we have seen, the response has not been entirely consistent, and this is easy to understand given that three Prime Ministers and two political parties with distinct ideological stances have taken turns leading the economy. The policy responses and measures adopted were aimed at real problems and had immediate positive effects, but the fact that those problems have deeper roots that were not initially acknowledged nor dealt with raises doubts about the long-term effectiveness of mitigating measures. There is some reason for optimism about the future as the public is becoming more politically active and the fundamental problems confronting the economy are being more openly discussed. But clearly this is an unresolved situation and we will have to wait for further developments to be able to fully assess it.

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5. New Zealand

Introduction

New Zealand has a population of approximately 4.2 million and a mixed economy that operates on free market principles. It has sizeable manufacturing and service sectors complementing a highly efficient agricultural sector. Exports of goods and services account for about one-third of real expenditure GDP (New Zealand Treasury 2009, 3).

In the decade prior to the recession, particularly from 1999 onwards, New Zealand experienced strong economic growth and a tightening of the labor market, with unemployment dropping to a low of 3.5 percent in December 2007. New Zealand Government external debt during this period fell below 5 percent of GDP.

During early 2008, the New Zealand economy moved into recession because of domestic conditions. This domestic recession was then further compounded by the global financial crisis of 2008. The resulting economic downturn lasted five quarters (early 2008 to March 2009). Over this period real GDP fell by 3.4 percent.[1] As a result of the recession, unemployment increased to 7.3 percent (by December 2009), with males and youth being particularly affected.

In response to the impact of the recession, the New Zealand Government rolled out a number of initiatives, including the following:

- Increased spending (NZ$500 million) on infrastructure
- Wholesale funding and retail deposit guarantees
- A package of support for small and medium enterprises
- A job support scheme
- Youth opportunity package
- A medium-term agenda to lift New Zealand's long-term economic growth rate and reduce economic vulnerability.

New Zealand's approach to the economy has been to maintain sound microeconomic conditions, while its approach to the labor market has been to implement policies and programmes that

[1] New Zealand's GDP did not contract as much as the GDP of a number of other countries, as New Zealand did not have the underlying financial problems of other countries and is not as dependent on exports of high-value, manufactured products (e.g., cars), and discretionary consumer items (e.g., electronic goods).

prevent the loss of skills, work habits, and motivation in order to prevent the unemployed from becoming long-term unemployed.

Although the New Zealand economy is beginning to recover, with employment forecast to grow later in 2010, it is too early to assess specific interventions implemented during the current downturn. Instead, this paper considers some lessons learnt by New Zealand during previous recessions with regard to “what works” in reducing unemployment.

Performance of the Economy and Labor Market up to the Global Recession

This section considers the state of the New Zealand economy and labor market during the period 1997 to 2007. This was a period marked, particularly from 1999 onwards, by strong economic growth and an increasingly tight labor market.

Economy

After weathering the twin shocks of the Asian economic downturn and consecutive summer droughts in 1997/98, the New Zealand economy experienced its strongest period of growth in three decades. The years 2001 and 2002 saw two good agricultural seasons, relatively high world prices for New Zealand’s export commodities, a low exchange rate, and a robust labor market. These factors boosted annual average GDP growth from 1.9 percent in June 2001 to 5.2 percent in December 2002 (New Zealand Treasury 2008, 3).

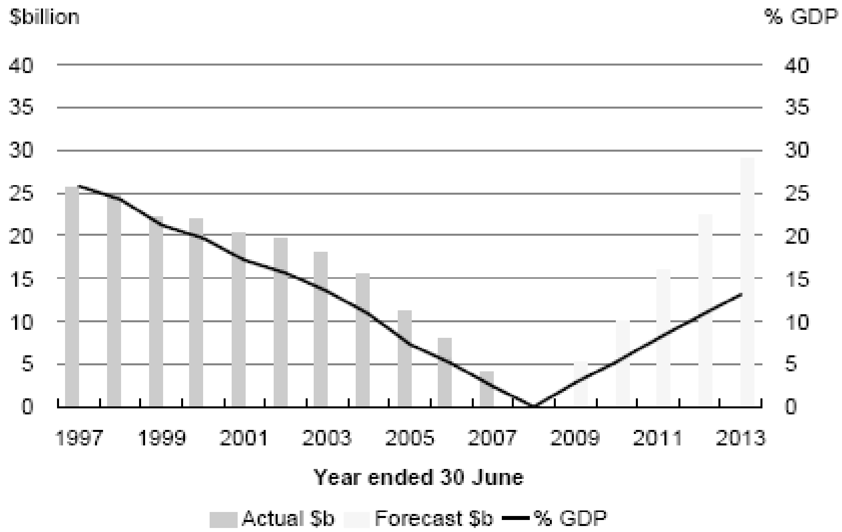
Over the period 2002 to 2004, annual average growth in GDP was higher than the historical trend—in the range of 3.4 percent to 5.2 percent. This period of strong growth was despite the economy experiencing several temporary negative events. These included travel disruptions and uncertainty due to the conflict in Iraq, the outbreak of Severe Acute Respiratory Syndrome (SARS) in Asia, and the effects of dry weather on hydroelectricity production and farm output (New Zealand Treasury 2008, 3).

Output in the economy was flat in the second half of 2005, but growth recovered slightly during 2006, helped by a rebound in domestic demand and dairy exports. The resurgence in growth on the back of domestic demand continued into the first half of 2007, with quarterly growth of 1.2 percent and 0.8 percent in the March and June quarters of 2007, respectively. Slowing domestic activity meant quarterly growth in the September quarter fell to 0.5 percent, taking annual average growth to 2.7 percent in the year to September 30, 2007 (New Zealand Treasury 2008, 3).

Between 1997 and 2007, New Zealand’s total tax to GDP ratio—central plus local government—fluctuated between 30 percent and 35 percent. By the end of 2007, net core Crown debt was below 5 percent of GDP (New Zealand Treasury 2009a, 18) (Figure 5-1).

Figure 5-1

New Zealand: Net Debt, 1997–2013

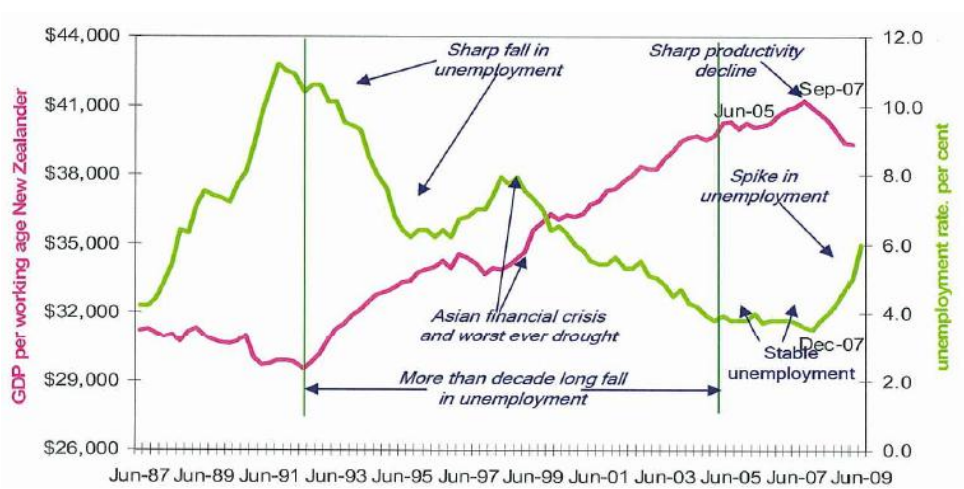


Employment

Employment grew strongly on the back of robust economic growth—by an average of 2.6 percent per annum between 1998 and 2007 (Figure 5-2 shows unemployment and GDP from June 1987 to June 2009). Above-average employment growth was achieved by high net migration and large increases in the labor force participation rate. Strong employment growth saw the unemployment rate fall to historical lows. In December 2007, the unemployment rate fell to 3.5 percent, the lowest rate recorded since the early 1980s. This was down strongly from 7.9 percent in 1998.

Figure 5-2

New Zealand: Total Unemployment and GDP, 1987–2009



At the time of this historically low rate of unemployment, the European ethnic group had the highest participation rate at 69.6 percent, followed by Mäori (67.2 percent), the "Other" ethnic group (64.2 percent), and Pacific peoples (62.5 percent). As of December 2007, the female labour force participation rate hit a record high of 62.4 percent.

Between 1997 and 2007, older age groups proportionally increased their contribution to the labor force, while younger age groups reduced theirs. Over the 10 year period there was an 18.4 percent increase in the number of 15 to 24-year olds who were not in the labor force. The increase in nonparticipation for this age group was driven mainly by the number of people whose main activity was "studying." Studying accounted for 18.3 percent of the people not in the labor force for the March 2007 year, but it accounted for 72.5 percent of the people in the 15 to 24-age group who were not in the labor force (Statistics New Zealand, Labor Market Statistics 2007, 19).

By December 2007, 81.1 percent of jobs were in the private sector compared to 18.9 percent in the public sector. In the five years from 2002, filled jobs in the private sector increased by 15.7 percent, while in the public sector they increased by 12.5 percent. A larger proportion of females were working in the public sector (23.1 percent) than males (14.8 percent) in the year to December 2007 (Statistics New Zealand, Linked Employer-Employee Data: December 2007 quarter, 2).

Unemployment

An important social and economic indicator is the number of people who have been unemployed long term (more than six months). The number of long-term unemployed declined between 1999 and 2007. In the year ending March 2007, long-term unemployment decreased by 12.3 percent to 12,800, while total unemployment increased slightly.

The low unemployment rate combined with falling long-term unemployment reflected the relatively tight state of the New Zealand labor market in 2007. The regions with the highest unemployment rates over the March 2007 year were Northland and Wellington, at 4.7 percent. The Northland region has consistently recorded the highest unemployment rate since the March 1994 year. Conversely, the lowest unemployment rate in New Zealand over the March 2007 year was recorded in the Tasman/Nelson-Marlborough/West Coast region, at 2.7 percent (Department of Labour, Household Labour Force Survey 2007).

The Mäori unemployment rate dropped 0.7 percentage points over the March 2007 year to 7.9 percent. The Mäori ethnic group continued to have the highest unemployment rate of all ethnic groups. The Pacific peoples unemployment rate increased 0.1 percentage points over the March 2007 year, reaching 6.5 percent. The "Other" ethnic group recorded an unemployment rate of 6.1 percent which was a decrease of 1.3 percentage points over the year. The European ethnic group unemployment rate remained around 2.7 percent during the year (Department of Labour, Household Labour Force Survey 2007).

Postcompulsory Education

Between 2000 and 2007, there was a general downward trend in the unemployment rate for 15 to 19 year olds. As one might expect, participation in secondary school fell from 50 percent in 2000 to 47 percent in 2002. However, participation in secondary school then rose steadily to reach 50 percent in 2008 (Ministry of Education 2009, 10).

Between 1998 and 2005, there was a rapid increase in tertiary education enrolments: the age-standardized participation rate rose from 8.4 percent in 1998 to a peak of 14.0 percent in 2005.

Enrolments for certificate-level qualifications have largely driven trends in tertiary participation over the last decade. Participation increased from 2.5 percent in 1998 to 6.4 percent in 2005 for Levels 1–3 certificate courses and from 0.5 percent to 2.2 percent for Level 4 certificate courses (Ministry of Social Development 2009, 38).

During 2007, 444,000 people aged 15 years and over were enrolled in formal tertiary education. The age-standardized tertiary education participation rate was 13.3 per cent (ibid).

Recession Impact and Policy Responses

The New Zealand economy entered 2007 in a strong position, with increasing GDP and low public sector debt. However, the combination of a domestic recession and the global financial crisis had a number of significant impacts on the economy in early 2008.

The recession in New Zealand lasted five quarters (early 2008 to March 2009). Over this period real GDP fell by 3.4 percent. This made it the longest recession in New Zealand of the past 30 years and the deepest since the early 1990s. In the June 2009 quarter, New Zealand exited recession with growth of 0.1 percent. This was followed by growth of 0.3 percent in September 2008 and 0.8 percent in December 2009 (New Zealand Treasury, Monthly Economic Indicators March 2010).

The global recession has had a significant impact on the New Zealand Government’s budget. New Zealand’s economic growth has been affected by contractions in investment, private consumption and trade volumes, leading to rising unemployment. Tax revenues fell, while the cost of social welfare and debt servicing increased.

General Impact of the Recession on the Economy

The New Zealand economy experienced a downturn (driven by domestic factors) over the first three quarters of 2008, during which real GDP fell by 1.6 percent. Declines in agriculture and forestry and fishing were due to drought conditions, while declines in residential construction were due to a number of factors, including high interest rates, high fuel prices, a fall in net migration inflows, and falling house prices. And reduced consumer spending resulting from some these factors drove declines in wholesale and retail trade and in hospitality.

The domestic recession then intensified due to global conditions, and real GDP fell another 1.0 percent in the December 2008 quarter and 0.8 percent in the March 2009 quarter. When the global financial crisis hit in September 2008 the availability of credit was limited, the world economy slowed, commodity prices fell sharply, confidence decreased, and asset prices weakened.

Weak demand, global and domestic, had a negative impact on exports, which fell 8.2 percent between December 2007 and March 2009, and on manufacturing activity, down 15 percent in the same period. Reduced consumer spending drove further declines in wholesale and retail trade and hospitality. This also negatively affected downstream industries such as business services and transport. Construction activity continued to fall and at the end of 2009 was 19 percent lower than in the previous two years, before the recession.

Investment fell heavily, down 17 percent between December 2007 and March 2009. In particular, residential investment fell 30 percent while the key areas of business investment, plant and machinery and transport equipment fell 10 percent and 58 percent, respectively.

Between December 2007 and 2009, employment fell significantly in manufacturing (down 34,100), retail trade and hospitality (down 24,500) and construction (down 11,000). The recovery in employment is expected to be weak compared to previous recoveries. Hours worked per worker dropped to a record low.

Unemployment rose from 3.5 percent in December 2007 to 7.3 percent in December 2009 with most of the increase occurring over 2009. Despite 7.3 percent being the highest rate for 10 years, it remains lower than the OECD average of 8.6 percent and is the 12th lowest of the 30 OECD nations. The number of working age individuals receiving unemployment benefits increased 117.4 percent (from 30,508 to 66,328) between December 2008 and December 2009.

Demand for tertiary education increased from 2007 onwards, both in new enrolments and existing students increasing their study load or enrolling in further study. As firms put off growth or downsized to cope with the impact of the recession, more people sought education and training to improve their skills and prepare themselves to take advantage of opportunities when economic conditions improve.

The government's operating balance for the year ending June 30, 2009, was a $10.5 billion deficit, compared with the $2.4 billion surplus of the previous year. This deficit was $1.2 billion larger than forecast in the 2009 budget.

The recession had a significant impact on the Crown's fiscal position, reducing revenue and increasing expenses compared to the previous year. Policy decisions also had an impact. Some of these are highlighted below.

General Policy Response

Immediate Response

The Reserve Bank of New Zealand lowered the Official Cash Rate from its peak of 8.25 percent in mid-2008 to a low of 2.5 percent at the end of April 2009. It also instituted several measures to increase cash flow, including a facility for banks to access funding for periods of up to one year in exchange for mortgage-backed securities.

The New Zealand Government's immediate response to the downturn was to maintain sound macroeconomic conditions. The OECD noted the following steps taken by the government:

> Fiscal measures can increase employment and demand fairly quickly by way of infrastructure projects and the like, provided they can be implemented in a timely fashion. Tax cuts are less potent as demand boosters but could bolster confidence and assist balance sheet adjustments. Already, recent and planned tax cuts and accelerated infrastructure spending will provide a fiscal expansion equal to approximately 5% of GDP over the two financial years ending June 2010 (OECD 2009, 4).

After taking office in November 2008, the government announced a number of initiatives aimed at mitigating the effects of the recession and the global credit crisis. These included the following:

- An accelerated package of "ready-to-roll" infrastructure projects spanning the housing, transport, education, and energy sectors at an estimated cost of nearly $500 million. About $100 million in projects started in the 2008/2009 financial year.
- A relief package to assist small and medium-sized businesses (which make up the largest share of New Zealand businesses), to reduce compliance costs and improve the business environment. The package includes the following elements:
    - A suite of 11 tax changes costing $480 million over four years, with about $270 million in extra cash flow remaining in businesses in the current financial year ending June 30, 2009.
    - An expansion of the export credit scheme.
    - Extended jurisdiction for the Disputes Tribunal (small claims) to reduce the number of disputes going through lengthy court processes.
    - Expansion of business advisory services.
    - A prompt-payment requirement for government agencies.
    - Wholesale funding and retail deposit guarantees.

The objective of the two-year opt-in retail deposit guarantee scheme was to ensure public confidence in New Zealand's financial system given the turbulence in international financial markets. Bank and nonbank deposit-takers had to apply to the Treasury for approval to participate in the scheme and, in certain cases, pay fees to the government based on the amount of deposits guaranteed, growth in deposits, and deposit-taker rating.

The objective of the opt-in wholesale funding guarantee facility was to facilitate access to international markets by New Zealand's financial institutions in a global environment where international investors remain risk averse and where many other governments have offered guarantees on domestic banks' wholesale debt. The New Zealand Government receives a fee from each participating institution based on the institution's credit rating and the term and amount of guaranteed debt issued (New Zealand Treasury 2008, 14).

To avoid worsening the downturn, the government accepted that rising benefit expenditure and falling tax revenues would result in financial deficits and rising public debt. However, restraining new fiscal expenditures has also been necessary because of concern over public debt. The government announced a number of measures in the budget to manage expenditure growth and control net debt. The government reduced its allowance for new operating spending to a maximum of $1.1 billion in 2010/11, increasing by 2 percent per annum, down from $1.75 billion previously. With these changes, gross government debt is projected to peak at 43 percent of GDP in 2016/17 and to decline after that as the government's accounts return to surplus.

Government departments were asked to undertake value for money reviews of all current spending to ensure they are efficient and that their work is aligned with government priorities.

Medium and Long Term

Raising productivity has been a focus of New Zealand in recent years. The OECD has noted the importance of productivity to economic and labour market health—and the unique challenges that face New Zealand in that regard:

> New Zealand is paradoxically at the forefront of the OECD in adopting policies in many areas that have been shown to lead to high per capita income, and yet it still ranks towards the bottom end of the OECD's productivity league. This performance has many natural and hence unavoidable causes, such as the economy's small size and geographical isolation. But the root of the problem is structural deficiency in the capacity to produce tradable goods and services. Raising productivity growth therefore remains the greatest medium-term challenge. The new government has recognised this issue and pledged to catch up with Australian living standards by 2025. This would imply raising average annual per capita income growth to 3.3% from only 2.1% over the past decade, which in turn would require a much higher rate of productivity growth, given that labour input is already at very impressive levels by OECD standards. This crisis should thus be seized as an opportunity to push forward the nation's productivity agenda (OECD 2009, 3-4).

To achieve these objectives, the government developed a medium-term agenda to lift New Zealand's long-term economic growth rate and reduce economic vulnerability. The economic agenda is built around six structural policy "pillars":

1. ***Regulatory reform.*** To address the regulatory environment under which New Zealand firms operate, the government introduced a 90-day probationary for employees in small businesses; is overhauling the Resource Management Act, introduced in 1991; and is reviewing and reforming regulations including those in the Building Act, electricity and telecommunications rules, and emissions trading legislation.

2. ***Investment in infrastructure.*** The government is to invest $7.5 billion over the next five years to build and upgrade schools, roads, housing, hospitals, and telecommunications. It was announced in February 2009 that nearly $500 million was being fast-tracked for infrastructure spending.

3. ***Better public services.*** The government is committed to improving the quality of public spending by delivering better services within a limited increase in funding.

4. ***Education and skills.*** The government is focused on literacy and numeracy, driven by National Standards, at the primary school level.

5. ***Innovation and business assistance.*** This policy driver focuses on the investments of government and business in research and development, innovation, and market and product development.

6. ***A world-class tax system.*** The government is seeking to ensure that New Zealand maintains a world-class tax system that doesn't get in the way of people working hard, saving, and investing in productive enterprises.

International Response

New Zealand's international response to the recession has been driven by an interest in ensuring that trade protectionism does not become widespread—with both systemic and real economy reasons for concern. New Zealand's view is that a strong political commitment against protectionism is necessary, and it supports creating the necessary peer pressure against protectionist moves through appropriate international bodies. New Zealand has

- Kept a watchful eye on any trade protectionist moves;
- Endorsed the view that trade liberalization through a successful conclusion of the WTO Doha Round is the best solution to the global economic crisis—not protectionism; and
- Supported an enhanced role for the WTO in monitoring and discouraging protectionist measures (as well as encouraging a complementary role for other international organizations, such as the OECD and APEC).

Specific Labor Market Impacts of the Recession

In general, when there is a downturn in New Zealand, people with low or no qualifications, those who are young with little or no work experience, and those in low income and low skill occupations are most affected. The current downturn has particularly affected males, youth, Pacific peoples, and the Auckland region in large part because of the decline in manufacturing. Specific labor market impacts of the recession are as follows (statistics are from the Department of Labour's Market Update for November 2009):

- ***Males.*** The male unemployment rate rose from 5.7 percent to 6.6 percent between November 2008 and November 2009, and is now similar to the unemployment rate for females, which rose from 6.2 percent to 6.5 percent.
- ***Long-term Unemployment.*** Long-term unemployment (more than 26 weeks) also rose between November 2008 and November 2009, from 13,600 to 35,500. This reflects the number of people who lost their jobs early in the recession and have not been able to find employment.
- ***Young People.*** Most of the jobs lost in the downturn were held by young people. Between December 2007 and December 2009, employment of 15-19 and 20-24-year-olds declined by 34,400 and 11,300, respectively. Employment for the rest of the population (25 years and older) *increased* by 13,200. This pattern was seen for all ethnicities except for the Asian/Middle Eastern/Latin American and African (MELAA) ethnic group. Maori youth employment fell by 17 percent between December 2007 and December 2009, followed by Europeans (down 14 percent) and Pacific peoples (down 12 percent). Youth are over-represented in five of the economy's 16 industries (hospitality, retail trade, cultural and recreational services, communication services, and construction). These five industries accounted for just over 50 percent of youth employment in December 2007. Four of them have experienced disproportionate job losses over the course of the downturn (hospitality, retail trade, communication services, and construction).
- ***Maori and Pacific Peoples.*** Unemployment among Māori and Pacific peoples has also risen significantly. The Māori unemployment rate rose to 13.0 percent in September 2009, up from 8.2 percent in September 2008, while the Pacific rate rose to 13.2 percent, up from 7.3 percent a year ago.
- ***Regions.*** Between November 2008 and November 2009, the largest increases in the unemployment rate occurred in Bay of Plenty (4.2 percent to 7.9 percent) and

Gisborne/Hawkes Bay (6.7 percent to 10.0 percent). In general, the South Island has lower rates of unemployment, but both Canterbury and Otago have experienced above-average increases over the past year.

- ***Labor Force Participation Rate.*** The labor force participation rate fell from 68.4 percent to 68.0 percent in the September 2009 quarter. This was driven entirely by a fall in the male participation rate, down 1.0 percentage point to 74.1 percent, while female participation rose slightly from 62.1 percent to 62.3 percent. The overall decline in the participation rate was slightly more than expected and prevented the unemployment rate from rising further. The decline may have been partly driven by people opting out of the labour force to study given limited job opportunities. The number of people participating in formal study rose by 9.3 percent over the year to September 2009.
- ***Wage Growth.*** Wage growth eased further in the September 2009 quarter as the labor market continued to soften. The Labor Cost Index showed that annual wage growth fell to 2.1 percent in September 2009, down sharply from 4.0 percent a year ago. With wages typically lagging changes in economic and labor market conditions by 1-2 years, wage growth is expected to remain weak over the short term as unemployment continues to rise.
- ***Hours Worked.*** Hours worked fell by 3.7 percent between December 2007 and November 2009. Hours worked per worker are also at a record low and about one-quarter of part-timers want to work more hours. There is a significant amount of spare capacity in the workforce. During the recovery, businesses should be able to increase production by getting more hours out of current employees rather than hiring new ones.

Interventions in Response to Labor Market Impacts

Restart

The ReStart assistance package was introduced on January 1, 2009. It provides job search services and financial assistance for people who have been made redundant. Assistance is provided for up to 16 weeks, or until the person finds another full-time job (whichever occurs first). ReStart has three elements:

- ReCover—allows families previously receiving a work child tax credit to receive an equivalent payment.
- RePlace—Additional accommodation assistance above the standard accommodation support.
- ReConnect—Help in finding new employment.

Applicants are assessed individually for eligibility for ReCover and RePlace, and may qualify for one or both payments. ReConnect is part of the state-provided job search service available to all New Zealand jobseekers.

Job Summit

In late February 2009, the Prime Minister hosted the Summit on Employment to test ideas and agree on how best to maintain the highest possible levels of employment during the economic downturn. About 200 business and industry leaders and representatives of trade unions, training providers, Maori groups, and local and central government agencies attended. Participants agreed on a list of 20 initiatives to alleviate the effects of the downturn. These included measures such as the Job Support Scheme (a nine-day fortnight scheme) to help employers retain employees who could be facing redundancy. More details and a list of all proposed initiatives are given at http://beehive.govt.nz/feature/summit.

Job Support Scheme

The Job Support Scheme assists businesses facing temporary difficulties due to the recession in order to reduce the number of employees facing redundancy. Employees can agree to reduce their working hours by up to ten hours a fortnight, for a maximum of six months. A government-funded allowance is paid directly to the employer to supplement the income of employees who accept reduced working hours. The employer agrees not to make redundancies in the areas covered by the scheme. The scheme was initially made available to firms with more than 100 employees, but was extended in April 2009 to cover firms with 50-100 employees. Since the scheme (nine-day fortnight) was introduced in March 2009, 50 employers have participated; resulting agreements have covered 4,092 employees and saved 623 jobs. At the end of March 2010, 13 employers were still participating.

Youth Opportunities Package

Announced in August 2009, the Youth Opportunities package is a $152 million initiative that targets young people at risk of long-term unemployment because of the recession. A suite of initiatives provides employment and training opportunities for 16-24 year olds up to the end of 2010. The Job Ops and Community Max initiatives (described below) subsidise the employment of low skilled young people. Many of the initiatives in this package aim to foster confidence and discipline, connect young people with their communities, provide appropriate training, and develop work skills.

Job Ops . Job Ops provides a $5,000 subsidy to employers who employ 16-24 yr olds for six months in entry-level jobs. The scheme is aimed at the most disadvantaged young people (those with the lowest levels of skills and qualifications). Employers do not have to guarantee that they will provide employment beyond the six months. The Youth Opportunities package initially included funding for 4,000 Job Ops. To meet employer demand, the Cabinet agreed in November 2009 to fund an additional 2,000 places.

As of March 12, 2010, 4,728 places had been listed and 3,990 young people had been placed with employers. As of March 5, 2010, of the 131 people who finished a placement, 108 had secured a full or part-time job and 9 had gone into further training. Another 6,000 places were announced on May 20 under the 2010 budget. These additional places will be available from July 1, 2010 to the end of December 2011.

Community Max. Community Max provides full wage subsidies and covers training, and supervision expenses for disadvantaged young people to participate in six-month community and environmental projects. The Youth Opportunities package included funding for 3,000 Community Max places. As of March 12, 2010, 3,273 places had been listed and 3,077 young people had been placed in community projects. Community Max has had a particularly high uptake among Māori; as of March 12 close to 60 percent of Community Max participants were Māori.

Job Connect

Changes have also been made to the job search services of Work and Income to better reflect the abilities of some jobseekers. Job Connect (1) allows self-motivated job seekers to maintain contact with Work and Income through the contact centre, rather than face to face appointments; and (2) provides enhanced job matching, screening, and referral services for employers and job seekers.

Other

As noted earlier, to stimulate demand, the government announced in February 2009 that almost $500 million worth of publicly funded building projects would be accelerated. The expectation is that this economic stimulus package programme will create work for businesses in regions, with the benefits flowing through to communities. Other activities to stimulate demand for goods and services in New Zealand emerged from the Jobs Summit; these include tourism promotion in Australia and creating a national cycle way.

Comment

The government's general response to the recession is based on its recognition of the importance of keeping people in jobs or in training so that businesses have the quality of staff they need when the economy revives, and of avoiding the social and economic costs of high unemployment. Services and assistance for the unemployed have targeted the most vulnerable: youth, low-skilled, and temporary workers. Through its Youth Guarantee program, the new government is committed to raising the number of young people achieving school-level qualifications. The program will deliver a range of alternative educational pathways for 16 and 17 year olds in tertiary education. Facilitating the employment of older workers by supporting employers will likely become more important in the changing labour market circumstances. The government has closely monitored the impact of the recession on older workers.

Key Assessments

At this relatively early stage of implementation, it is difficult to assess the short-, medium-, and long-term impact of specific interventions. Only with the passage of time will it become clear which interventions work and which do not. It is possible, however, to note some trends in the economy and the labour market:

- The economy has stabilised. Treasury is now expecting a stronger recovery over the next couple of years than it had forecast in the 2009 budget. The economy, however, will still not return to pre-recession levels until the end of 2010 (New Zealand Treasury 2010).

- Unemployment rates and beneficiary numbers are not increasing for Maori to anything near the levels seen during previous recessions although there are pockets of high unemployment, such as in South Auckland. The gap between the unemployment rates for Maori and Europeans is much smaller than in the past.
- The long-term unemployed were a significant concern during the last recession but this group is much smaller at this stage of the downturn.
- The employment of older workers is holding up better than in previous recessions. The high levels of unemployment in the late 1980s and early 1990s saw large numbers of older workers “retiring” on benefits.
- The 9.6 percentage point increase in youth unemployment is less than that seen in the early 1990s recession (13.1 percentage points). But, because youth are a sizeable portion of the unemployment there are many of them: 72,700 (up 60,300 since December 2007). This is slightly less that the December 1991 figure of 77,400.
- The proportion of job vacancies reported through the Ministry of Social Development for client referral is now much higher than in previous recessions, with employers actively being targeted.

In considering these trends, it is important to note that the New Zealand labour market was less affected by the global financial crisis than some other countries for a number of reasons. First, the fiscal stimulus in New Zealand over 2009 and 2010 is expected to be about 5 percent of GDP, which internationally is at the more expansionary end. Second, the Reserve Bank was able to significantly decrease the Official Cash Rate. Third, New Zealand’s banking sector was less exposed to the global financial crisis thanks to tighter lending criteria than prevailed in many foreign banks. Finally, the labour market was in a strong position when the downturn began. The rise in unemployment is from a historical low in late 2007.

Rather than attempting to assess the success of specific interventions implemented since 2008, we present below some lessons that New Zealand has learned over a longer period about what works in tackling unemployment.

What New Zealand Knows About What Works in Tackling Unemployment

New Zealand learned some valuable lessons from the current and previous recessions. During economic downturns, policies and programmes that prevent the loss of skills, work habits, and motivation protect the unemployed from becoming long-term unemployed, which has negative effects for the individual, for the economy, and for the community. These policies and programmes ensure people are ready to return to work when vacancy numbers increase in the eventual recovery.

What works in tackling unemployment includes:

Work-first Activation. Once the unemployed of any age are in the benefit system, they must remain focused on the job search and be given some help with transition back to work. This strategy prevents a “no jobs” mentality and low motivation, and ensures that people receiving unemployment benefits compete for jobs as they become available and particularly when economic recovery generates more jobs. Our experience of previous high levels of unemployment is that there is a considerable lag between employment growth and movement off benefits. Effective activation measures are timely, brief, low cost, and frequent.

Work-based Training. This training supports work-first activation. Even if trainees subsequently become unemployed, they are more employable and have experience to cite when job opportunities arise. Work-based training through the Industry Partnerships of the Ministry of Social Development ensures that employers are better placed to respond to an economic upturn. The Ministry helps train unemployed people to meet partner firms' needs and then places them with firms, which then provide on-the-job training as necessary.

Retention in School. In previous recessions the numbers of people remaining in school has increased, along with their qualifications and life-long earning potential. While remaining in school will not suit all young people, it has been of benefit to many.

Infrastructure Investments. There is a large volume of literature on the link between infrastructure and productivity/growth. Infrastructure Canada (2007) recently reviewed this literature, examining the methods used to investigate this link. It found evidence that the link is typically positive but that estimates of the magnitude of the effect depend on the estimation method, the economy and time period being investigated and, in particular, the existing level of infrastructure provision. One conclusion was that "most authors agree that core infrastructure, such as roads and railways, tends to exert the most influence on productivity."

What New Zealand Knows Does Not Work in Tackling Unemployment

During downturns in the 1980s and 1990s, a number of approaches were taken to help people find jobs. While some programmes, such as make-work public schemes, did not generate improved employment outcomes, they may have produced worthwhile social outcomes. What did not work in tackling unemployment included the following:

Long-term general training for the unemployed. This tends to disadvantage participants who are detached from workforce by enforcing disengagement from the labour market and increasing time on benefit. Internationally, the best returns from this type of training may take 2-3 years to accrue; there is no indication, for example, that the current Training Opportunities fund increases participants' employment outcomes for the longer term.

Brief and generic work confidence programmes. The evidence on the effectiveness of these programmes can be best described as weak internationally and in New Zealand.

A one-size-fits-all approach to case management. Treating all unemployed as the same means that everyone receives the same service regardless of need. This wastes resources and does not help people stay engaged in the labour force.

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6. Papua New Guinea

Introduction

The global economic crisis has had minimal impact on the economy of Papua New Guinea compared to neighboring economies, such as Australia and New Zealand, with which Papua New Guinea has strong historical, diplomatic and trade relationships. This minimal impact can be attributed to Papua New Guinea's stable banking and financial regime, low levels of formal employment, and the large proportion of the population living in rural areas depending almost entirely on subsistence agricultural, hunting, and fishing economies. Furthermore, traditional social support provided by the "wantok" system of extended family networks in urban and rural areas would have buffered and cushioned the indirect economic shocks of this crisis. In fact, Papua New Guinea enjoyed strong economic growth in 2009 and this trend is set to continue in 2010.

Papua New Guinea is rich in natural resources, including major gold and copper deposits, large oil and natural gas reserves, vast expanses of agricultural land, and extensive forests and maritime fisheries. These resources provide the foundation for a markedly dualistic economy dominated by a dynamic, capital-intensive enclave minerals sector (Subba Rao, Mellam and Manohar 2007). Eighty-five percent of the economy's 6.3 million people (2007 estimates) derive their livelihood from agriculture, mainly low-productivity labor-intensive farming—and half the population is under 19 years of age (Department of Education 2005, 3).

Between 1981 and 1988, Papua New Guinea's real gross domestic product (GDP) grew at 2.4 percent per annum, just above the population growth rate of 1.9 percent. Real GDP growth rates were negative in 1989, 1990, 1995, and 1997 (Bank of Papua New Guinea Statistics). Economic stability was hindered by the closure of the Bougainville Copper Mine in 1989, which had contributed something on the order of 51 percent of export earnings between 1972 and 1989. (Bougainville Copper Limited).

During the 1991-2002 period, when the population was growing about 2.5 percent, average real GDP growth was 4 percent and real per capita GDP a mere 0.9 percent. As a consequence, poverty rates began to rise. A national survey conducted in 2001 revealed that about 37 per cent of the population lived below the poverty line (Bank of Papua New Guinea 2003). Real GDP grew at a rate of 2.70 percent in 2004, 3.60 percent in 2005, and 2.60 percent in 2006, then took an impressive turn, reaching record highs of 6.50 percent in 2007 and then 7.2 percent in 2008. This dramatic rise was attributed to increases in the international prices of goods exported by

Papua New Guinea, particularly mineral, oil, agricultural, forestry, and fishery products. Increased output in the electricity, water, construction, communication, transportation, and storage sectors all contributed as well to this spectacular increase in real GDP growth rates. The share of government consumption in GDP declined from 24.4 percent in 1989 to 18.08 percent in 1998 and then to 16.56 percent in 2000 and 16.79 percent in 2006. Thus the growth rate of GDP is more than that of government consumption. Despite the growth in GDP and decline in government consumption as a percentage of GDP, real per capita GDP was approximately US$685 in 2004, US$906 in 2007, and US$1,184 in 2008 (ADB Country Partnership Strategy).

Between 1990 and 2000, the labor force grew more or less at the same rate as the population, 3 percent versus 2.89 percent. The female labor force, however, grew at more than double the rate of the male labor force. Male employment in the subsistence sector increased by 8.4 percent, but decreased in cash farming. The male labor force participation rate in urban areas also declined, from 72.4 percent to 58.7 percent, while the female rate increased marginally from 34.8 percent to 36.2 percent. Male and female employment participation rates in rural areas declined in the same period.

The unemployed as a proportion of all employable persons declined from 9.1 percent in 1990 to 4.3 percent in 2000. Female unemployment declined from 5.9 percent in 1990 to 1.4 percent in 2000, indicating that many women were joining the labor force. This increase in female employment is attributed to growing awareness of gender equality and rising economic activity, for example, in services and construction (National Statistical Office 2002).

General Impact of Global Recession on Papua New Guinea

The global recession had minimal impact on the economy of Papua New Guinea in 2007 and 2008 as the GDP at current prices rose steadily from K 17,132.20 in 2006 to K 18,715.6 million in 2007 to K 21, 554.30 million in 2008. The real GDP growth rate rose from 2.60 percent in 2006 to 6.50 percent in 2007 and 7.20 percent in 2008 (see Table 6-1). This increase was due to the growing contributions of various sectors: agriculture, forestry and fishing, construction, mineral and gas, manufacturing, electricity, transportation, and storage and communication. The transport and storage and communication sectors’ contribution to GDP grew at an annual rate of 41.3 percent in 2007 and 39.8 percent in 2008, followed by construction (16 percent in 2007 and 15 percent in 2008); wholesale and retail trade (7 percent in 2008); electricity, gas, and water (6.8 percent in 2008); and manufacturing (6 percent in 2007) (Department of Commerce and Industry 2008, 68).

GDP forecasts for Papua New Guinea indicate a growth rate of 4.5 percent in 2009 and 3.9 percent in 2010. Forecasts of world GDP indicate negative growth: -1.1 percent in 2009 and -3.1 percent in 2010; and forecasts for Pacific island economies indicate a growth rate of 2.8 percent in 2009 and 3.1 percent in 2010 (Asian Development Bank 2009). Thus, global recession did not affect growth in Papua New Guinea in 2007 or 2008, but has affected it in 2009 and is expected to affect it in 2010. The impact, however, will be of lesser degree than the world average.

Table 6-1

Papua New Guinea: GDP Growth Rate (Percentage per year)

	2006	2007	2008	ADO2009	Update	2010
Cook Islands	0.7	1.3	-1.2	1.0	-1.0	0.8
Fiji Islands	3.4	-6.6	1.2	-0.5	-1.0	0.2
Kiribati	3.2	-0.5	3.4	1.0	1.0	0.9
Marshall Islands, Republic of	2.4	3.3	-2.0	0.5	0.5	0.8
Micronesia, Federated States of	-0.4	-0.1	-2.9	-0.1	0.5	0.8
Nauru	6.3	-27.3	1.0	1.5	1.0	1.5
Palau, Republic of	4.8	2.1	-1.0	-2.0	-3.0	-0.2
Papua New Guinea	**2.6**	**6.5**	**7.2**	**4.0**	**4.5**	**3.5**
Samoa	6.2	6.4	-3.4	-1.0	-0.8	-0.1
Solomon Islands	6.1	10.3	6.4	2.2	0.0	1.7
Timor Leste, Dem. Republic of	-5.8	8.0	13.0	10.0	8.0	8.0
Tonga	3.7	0.5	0.8	-2.0	-0.5	-0.6
Tuvalu	1.0	2.0	1.5	1.0	1.0	0.9
Vanuatu	7.4	6.8	6.3	3.5	4.0	0.8
Average	8.9	9.5	6.1	3.4	3.9	6.0

SOURCE: ADB 2009a.

Government revenue, including tax revenue, increased from K 4944.8 million in 2006 to K5756.1 million in 2008, but declined to K 4614.3 million in 2009 (Bank of Papua New Guinea Statistics. Nontax revenue increased from K428.8 million in 2006 toK487.5 million in 2008. Total revenue and grants increased from K 6311.6 million in 2006 to K 7201.7 million in 2007 (Papua New Guinea Year Book 2008, 98).

The weighted average interest rate on deposits increased from 1.0 percent in 2006 to 1.6 percent in December 2008 to 2.6 percent in December 2009, while the weighted average interest on loans and advances declined from 10.2 percent in 2006 to 8.8 percent in December 2008, but increased to 10.5 percent in December 2009. Total advances of commercial banks to government increased from K 18.4 million in 2007 to K 23.8 million in 2008 and declined to 10.53 million in 2009.

Government investment abroad increased from K 5 million to K 1071 million in 2009. Outstanding overseas debt of the government decelerated from K 4409.5 million in 2004 to 2818.6 in 2008 and to K2802.6 million in 2009. Total advances of commercial banks to business increased from K 10,106.6 million in 2007 to K 13,922.1 million in 2008 and to K17,530 in 2009. Merchandise exports increased from K 10,147.5 million in 2004 to K15,665.2 million in 2008, but declined to K 11,081.4 million in 2009.

Investment in Papua New Guinea has been on the rise. As many as 1,433 investors invested in the economy's economic activities during 2003 to 2008. The number of investors during the period varied: going from 323 in 2005 to 376 in 2006, to 343 in 2007, then to 573 in 2008 (Investment Promotion Authority 2009, 5).

Table 6-2 presents data on export trends. From 2004 to 2008, the volume of nonmineral exports increased by 32.5 percent, while the volume of mineral exports declined by 6.8 percent. In 2009, the volume of nonmineral exports declined. Similarly, the total value of exports increased by 90.7 percent between 2004 and 2008, but declined in 2009. Growth in the value of total exports was mostly due to a 67.1 percent price hike for nonmineral products and of 122.4 percent for mineral products (2004-2008).

Table 6-2

Papua New Guinea: Export Trends, 2004–2009

Year	Export Volumes			Export Prices			Total Value
	Non-mineral	Mineral	Total Merchandise	Non-mineral	Mineral	Total	
2004	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2005	104.6	108.4	107.2	91.7	122.3	119.6	123.6
2006	98.4	93.1	96.7	91.6	190.8	186.5	155.1
2007	108.4	92.8	94.5	131.5	200.9	198.2	168.4
2008	132.5	93.2	101.7	167.1	222.4	218.7	190.7
2009 (to Sep.)	118.1	95.5	100.1	141.6	142.54	143.3	134.9

SOURCE: *Bank of Papua New Guinea Statistics.*

Trade taxes made up 7.3 percent of total government revenue in 2007 (Bank of Papua New Guinea Statistics). The decline in total export prices in 2009 was due mainly to the global recession, illustrating that the recession did affect the value of Papua New Guinea's exports through the global prices of its commodity exports.

General Policy Responses to the Impact of the Recession

It is evident from the analysis presented above that the global economic crisis affected Papua New Guinea, but minimally when compared to the average recorded impact in other economies. The impact of the increase in food prices, however, is significant as most people in Papua New Guinea spend 50 percent of their income on imported food. While this increased the government's burden in providing subsidies and tax concessions, inflation decelerated in step with a subsequent fall in global food and fuel prices, and the 2009 forecast was maintained at 7.0 percent (ADB 2009b).

Policy responses developed in other economies are not appropriate for Papua New Guinea because the impact of the recession has been minimal and indirect. The traditional economy responded appropriately to rising food prices and house rents in certain pockets of the economy through the culture's inherent social safety net. For example, families are obligated to support relatives who can no longer afford rent, mainly in urban areas. This cultural practice existed well before the impact of the recession and will continue for generations.

The Government of Papua New Guinea has been taking steps to enhance the growth rate of the economy and to improve the human development index since 2005. Significant measures include the government's commitment to Millennium Development Goals and to its own Medium-Term Development Strategy (MTDS), over and above fiscal measures. These initiatives enabled the government to largely avoid the impact of the global recession.

The following development goals were formulated in response to the United Nation's Millennium Declaration to which Papua New Guinea is a signatory:

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empowerment of women
4. Reduce child mortality
5. Improve mental health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development.

These goals are to be reached between 1990 and 2015; however, a 2004 progress review by the Millennium Development Goals Technical Working Group in Papua New Guinea concluded that it would be very difficult to achieve most of them by the deadline. Hence, the Department of National Planning and Rural Development began customizing the goals to the national context in conjunction with the National Poverty Reduction Strategy and the MTDS of 2005-2010 (Government of Papua New Guinea and United Nations 2004, 2). The goals review also distinguished between the ability to achieve the global goals and the national goals in the MTDS (Government of Papua New Guinea, 41).

In fact, legislative reforms focused on the integrity of political parties and candidates have enabled political stability and continuation of government for the full five-year term of parliament. For the first time since independence in 1975, the government has remained in office for five years after national elections (2005 and 2007), and is poised to remain in office for the full term of parliament until 2012. Earlier, votes of no confidence were common. The reforms have enabled the political stability necessary for the government to execute its long-term development plans, including plans for economic and resource development, and have contributed to a surge in investor confidence, especially in the oil and gas industries.

Fiscal outcomes of the Medium Term Fiscal Strategy for 2002-2007 were much better than the targets set in the strategy. High global commodity prices and unusual levels of mineral revenue called for a different strategy. The Treasury therefore prepared a new strategy for 2008-2012. Highlights include the following requirements:

- Ongoing spending will not exceed the amount of revenue that can be relied on in the absence of commodity price boom.
- Additional revenue will be allocated flexibly between public investment and debt/ liability payment, depending on implementation capacity, and the requirements of demand management.

- The government will not increase the overall public debt during its term, applying the principles in the Fiscal Responsibility Act, 2006.

Because it is desirable to end the period with the state's finances stronger than they are now, the fiscal strategy provides guidelines on apportioning additional mineral revenue to public investment (60 percent) and debt repayment (40 percent). Thus, two features of the 2008 budget reflect the strategy. First, to fund ongoing spending, it relies on expected mineral revenue only up to an amount equal to 4 percent of GDP. Second, it forecasts an overall budget surplus of K 202.3 million, or 1 percent of GDP, resulting from the allocation of additional mineral revenue to public investments and two kinds of debt/liability repayment (Papua New Guinea Year Book 2008, 98).

FY2008 was the fourth consecutive year that high international commodity prices led to unusually high mineral revenue. The government chose to use the windfall to improve the delivery of goods and services, and empower the people of Papua New Guinea economically. At the same time, the government maintained its commitment to prudent fiscal management by (1) limiting spending increases to what can be sustained for the rest of the five years ahead; (2) ensuring that allocation of additional revenue does not result in undesirable additions to future years' recurrent and development spending; and (3) including a further large reduction in the state's liability for public servants' superannuation, and a substantial safety margin of planned debt repayment (Papua New Guinea Year Book 2008, 98).

Specific Labor Market Impacts of the Recession

Labor Force Participation Rates

From 1990 to 2000, labor force participation rates declined from 56.2 percent to 48.4 percent in urban areas and from 71.1 percent to 70.4 percent in rural areas. Male participation rates declined from 76.7 percent to 68.4 percent while female participation rates increased from 60.1 percent to 66.7 percent (National Statistical Office 2003, 62). Male labor force participation declined from 59.2 percent in 1990 to 29.7 percent in 2000 in all monetary activities. Female participation in monetary activities also declined, from 54.2 percent in 1990 to 18.3 percent in 2000 (National Statistical Office 2002, Table D1). Until 1992, rural-to-urban labor migration was attributable to the urban minimum wage being three times as high as the rural wage. The wage-setting system was reformed under pressure from the World Bank, and a single national wage was established by reducing the urban minimum wage to the level of the rural wage (Yala and Duncan 2006).

Unemployment Rates

From 1990 to 2000, unemployment declined from 30.1 percent to 16.2 percent in urban areas and from 4.5 percent to 1.5 percent in rural areas. Unemployment among males in urban areas declined from 28.6 percent to 19.4 percent and among females from 34.3 percent to 10.2 percent. In 2000, unemployment among urban dwellers under the age of 25 was 18.3 percent and in rural areas 34.8 percent (National Statistical Office 2002, Table D2).

Employment by Region

Table 6-3 presents employment indices by regions between 2001 and 2009. Indices of employment with March 2002 as the base have increased most significantly and consistently since 2005 in the Momase region, followed by the Islands region. Overall employment increased steadily between 2001 and 2009. Growth was more pronounced between 2006 and 2009. The global recession could not have significant or direct effect on the growth of employment in different regions and sectors in Papua New Guinea because of employment growth in the building and construction, wholesale, and manufacturing sectors.

Table 6-3

Papua New Guinea: Employment Classified by Region (March 2002=100,00)

Year	National Capital District	Southern	Highlands	Morobe	Momase	Islands	Total
2001	100.3	104.6	114.9	95.5	98.3	96.7	100.6
2002	102.0	100.9	97.7	103.4	105.0	102.3	101.9
2003	102.1	102.6	102.7	112.4	117.7	111.0	107.6
2004	100.4	98.9	98.0	113.5	128.5	115.8	108.1
2005	100.4	97.9	100.3	116.1	140.3	118.5	110.2
2006	106.6	106.7	109.6	125.7	143.2	128.5	118.3
2007	116.6	113.8	115.3	148.6	156.9	145.4	130.6
2008	124.1	112.0	122.5	166.9	182.3	158.8	140.9
2009[a]	135.1	116.8	111.6	186.1	210.1	162.5	148.9

[a]to September
SOURCE: Compiled from www.bankpng.gov.pg

Employment by Industrial Sector

In 1990, as much as 80.2 percent of the labor force was employed in the agriculture sector; 16.1 percent was employed in services, 1.9 percent in construction, 1.2 percent in manufacturing, and 0.3 percent in mining and the same in utilities. By 2000, this had changed: agriculture employed 72.3 percent, services 24 percent, construction 2.1 percent, manufacturing 1.1 percent, mining 0.3 percent, and utilities 0.1 percent (UNDP/ILO and National Statistical Office, Table 4).

Table 6-4 shows employment by industry. Indices with March 2002 as the baseline have increased in all sectors. During the 2001–2009 period, employment growth in the building and construction, wholesale, and manufacturing sectors was significant. The combined rate of growth in employment in all industries was 48.9 percent between March 2002 and 2009.

Table 6-4

Industry-based Employment Trends (March 2002=100,00)

Year	Retail	Wholesale	Manufacturing	Building & Construction	Transportation	Agriculture, Forestry, Fishing	Financial, Business Other Services	Mineral	Total
2001	100.6	102.7	99.5	92.9	99.4	102.2	100.5	96.9	100.6
2002	97.9	103.3	104.1	99.0	106.3	103.9	99.1	98.8	102.2
2003	96.9	113.3	110.9	124.1	106.1	114.1	100.8	97.6	108.5
2004	93.1	123.8	117.7	107.9	106.8	112.9	104.7	95.6	109.2
2005	93.7	130.7	127.5	98.4	106.1	112.9	105.7	101.5	111.0
2006	97.8	145.7	132.7	119.2	108.2	123.3	112.5	111.1	119.1
2007	115.1	158.0	142.4	135.4	115.2	139.1	114.4	128.5	131.2
2008	123.6	160.9	156.6	163.2	125.2	147.3	122.7	137.8	141.9
2009 (to Sep.)	125.0	168.5	168.5	172	127.6	153.2	137.0	142.0	148.9

SOURCE: Compiled from www.bankpng.gov.pg

Interventions in Response to Labor Market Impacts

As discussed above, the global recession affected the Papua New Guinea economy in 2009 to a lesser degree than many other economies because of the decline in the global prices of commodities exported from Papua New Guinea. The recession did not affect the growth of employment so no labor-specific polices or interventions were designed; however, interventions in response to the recession's impact on other economic variables did have an effect on the labor market.

The Papua New Guinea economy is expected to grow at fast rate because of land reforms and the Liquefied Natural Gas (LNG) project: an additional 1.2 percent in real terms each year if 3 percent more of customary land is brought under production in the formal sector. This will bring an additional K 3.0 billion to K 4.5 billion to the GDP by 2020. Consequently, per capita GDP is expected to increase to K 2,420.50 by 2020 (Papua New Guinea Vision 2050, 26). Furthermore, it is estimated that real GDP will be K 18.2 billion, which is approximately K 9 billion more than the current annual GDP with the inclusion of proceedings from the LNG project into the economy (Papua New Guinea Vision 2050, 26). It is estimated that real GDP will reach K20.1 billion by 2020. Given the scenario of land reforms and proceeds from the LNG project, it is estimated that real GDP will increase to K 23.5 billion and per capita income will increase to K 2820.90 by 2020.

Medium-term Development Strategy 2005–2010

The Medium Term Development Strategy (MTDS) for 1997–2002 attempted to promote economic growth and social development. Though the strategy seemed sound, it was not implemented successfully because of political instability, votes of no confidence on the floor of parliament, and poor fiscal management.

The strategy for 2005-2010 is grounded in the government's program for recovery and development, and aims to achieve export-driven economic growth, rural development, poverty reduction, and empowerment through human resource development and good governance. The promotion of agriculture, forestry, fisheries, and tourism on a sustainable basis are pillars of the strategy.

Papua New Guinea's forestry resources will benefit both the general economy and local communities over the long term if developed and managed sustainably. To strengthen the fisheries sector—vital in earning foreign exchange, creating jobs, and meeting food security requirements—the government is promoting local participation. Given Papua New Guinea's high potential for tourism, the government considered special tax concessions for the tourism industry. Benefits would be transparent and accountable and would require only foregoing tax revenue. The government has not yet provided tax concessions. If implemented, this measure would be positive for the labor market as the tourism industry has high job potential.

In addition, the government has invested in and supported development of the mining, petroleum, and gas industries, as well as manufacturing industries, through legislative reforms to encourage foreign direct investment in the economy. The strategy also concentrates on empowering citizens, especially those in rural areas, to mobilize resources to improve their livelihoods.

It was estimated that the economy would grow by 5 percent annually in real terms by the end of 2010. The MTDS for 2005-2010 focused on expanding the small business sector through an enabling environment that would deliver higher rewards for productive effort. To encourage exports, special tax incentives are provided to new businesses engaged in downstream processing and export-oriented manufacturing. The operating environment for manufacturing could be improved by clustering business activities in industrial parks in key economic regions (e.g., marine parks for processing and export of fisheries products, especially tuna products for Asian markets). In addition, the government is considering economic corridor planning to encourage regional economic growth and to develop the primary industries of the different regions (e.g., the island provinces for marine resources; the interior for timber and agricultural products such as large-scale cultivation of rice and coffee; the coastal regions for copra, cocoa, and low-land coffee).

Petroleum and Gas Sector

Given the potential of the petroleum and gas sector to transform Papua New Guinea's economy and society, the government has put special emphasis on the sector through the reform of the *Oil and Gas Act.* The Liquefied Natural Gas project (PNG-LNG) presents a case in point. The vision for the "trickle-down" benefits of the project will not be automatic because the project is in its construction phase. What is needed is sound policy strictly implemented by stakeholders—the government, development partners, and local governments and landowner groups.

The key objective of the MTDS 2005-2010 is to transform the nonrenewable income stream from mining and petroleum into a sustainable stream by investing in people, infrastructure, and renewable resources because income from the mines will dwindle. In fact, some mines in Papua New Guinea have closed and others are in their sunset phase of production. One policy initiative is to create a sovereign or future generation wealth fund from the proceeds of the mining, petroleum, and gas industries. This marks a positive turn in government thinking and planning; if invested properly and used as intended, such a fund would provide a buffer of sustainable financial security for the economy.

Manufacturing Sector

Recognizing the importance of manufacturing and downstream processing, the government has proposed that the value of manufactured products be increased so the sector's contribution to GDP can rise from 5.93 percent (2008) to 9.0 percent (2012). The strategy for doing so will be commercially driven and will target Papua New Guinea's areas of emerging competitive strength. Papua New Guinea is strategically located in the fast growing Australasian region and new opportunities are continuously emerging for it to leverage its competitive advantage in agriculture, tourism, and extractive industries. Papua New Guinea has strengths in minerals, fisheries, forest products, and agricultural products; it is therefore investing in downstream processing to enhance the share and value of its manufacturing sector. The government has considered the following strategies to enhance the sector.

Conglomerated Joint Manufacturing Centers. In view of the size of the South Pacific Island nations and the size of their raw material base, large-scale production is not viable in the entire 21- economy region. Conglomerated manufacturing centers would allow Papua New Guinea and other Pacific economies to produce at an optimum scale. Smaller economies would locate the centers jointly in a few places (like Papua New Guinea) and transport common resources for manufacturing final products. Higher transportation costs would be offset by economies of scale to a considerable extent. Centers would allow smaller economies to add value to their products before they are exported rather than exporting only raw material, as is done now.

Supply Chain Strategy. Under this strategy, other South Pacific Island economies will process raw materials up to a certain level and then transport them to Papua New Guinea for final processing, wherever possible. This would allow manufacturing units to obtain economies of scale and better terms of trade in international business. Coordination and collaboration in multiple stages of manufacturing will enable South Pacific Island economies to minimize transaction, transport, and manufacturing costs and produce on a large scale.

Strategic Alliances with Nonmember Nations' Business. Papua New Guinea can also develop alliances with the nonmember countries, especially the growing economies of South East Asia, to develop supply chain arrangements as large-scale production in the South Pacific island region is impossible.

The government has recognized its role in providing an environment conducive to manufacturing growth and investment. Under the MTDS, the operating environment will be enhanced through credible policies, macroeconomic stability, and prioritization of expenditures on law and justice, education, health, and transport infrastructure. The government has also recognized the economic potential of the informal sector, and has committed to removing obstacles to sector development. The informal sector legislation passed in 2003 is a milestone. To encourage small manufacturing and business sector growth, incentives include providing infrastructure, tax breaks, and marketing services and facilities. Microfinance banks are intended to support small-to-medium enterprises with start-up capital, which would otherwise be beyond the reach of 80 percent of the population through commercial banks.

Human Resource Policies

The government has recognized that human resources must be developed to meet the needs of a fast-growing economy. For example, Papua New Guinea is facing a shortage of certain categories of skilled labor (e.g., engineers, accountants, and medical doctors) that will become acute when the PNG-LNG project begins operations. In response, the government is undertaking policy reforms to encourage importation of foreign skilled labor; and ExxonMobil, the firm developing the project, is establishing a training college that will help it meet present labor needs and function as a long-term investment for the postconstruction phase of the LNG project. In addition, the Government of Australia and the government of Papua New Guinea have established a technical college to help meet demand for skilled labor in other industries.

Labor productivity across most sectors in Papua New Guinea is relatively low compared to global productivity levels. An effective human resource strategy is essential for the economy to meet the growing need for specialized labor. Papua New Guinea's educational and training institutions will gear up to meet needs for basic types of labor while specialists will largely be imported through the work permit system as this will be most cost-effective for the immediate future.

Education

The government's education policy will ensure that Papua New Guinea's brightest and most talented have an opportunity to benefit from higher education. "Schools of excellence" will be established in the four regions to provide tertiary education to the top 1 percent of academically gifted students. The human resources plan will help identify the disciplines and subjects that the tertiary, vocational, and technical schools should supply to meet labor demand in the economy's emerging global industries, such as fisheries, agriculture, and the petroleum and gas industries (MDTS, 24).

The government's "Education for All" initiative recognizes the value of compulsory education that achieves international benchmarks for quality and relevance as well as the value of community-based informal education covering early childhood and adult education. The government has been contemplating measures to improve skills in the agricultural, informal business, and small manufacturing sectors. To meet Millennium Development Goals, such as raising functional literacy rates and enhancing capacity for formal education, the government is expanding education through what it calls "top-up" systems by which institutions enrolling grades 1-6 and 7-10 now handle grades 7-8 and 11-12. One setback has been the "bottleneck" in higher education; failure to invest in the sector has resulted in a lot good students not attaining or getting an opportunity to attain an advanced education.

A human resources plan was drafted in 2005 and stakeholders were briefed on the range of work to be done to modernize, build the capacity of, and establish institutions and to encourage private-public partnership in educational training and research. One result of this effort is an increase in the number of private institutions, including universities, established for students who cannot secure a place in publicly funded institutions.

Health Care

Recognizing the value of physical and mental health in the workforce, the government has focused on improving access to primary health care and curbing the incidence of high-mortality diseases: malaria, pneumonia, measles, tuberculosis, diarrhea, anemia, and HIV/AIDS. The government is encouraging public-private partnership in providing health care facilities. One massive initiative is addressing HIV/AIDs. The government of Papua New Guinea must give special attention this epidemic lest it create a labor shortage as in some African countries.

Poverty, Population Growth, Urbanization, Transportation, and Telecommunication Policies

The government continues to give special attention to poverty, population growth, urbanization, transportation, and telecommunications. To help reduce poverty, the government is investing in education and health and promoting broad-based economic growth. Population growth has put downward pressure on per capita income and burdened the government's service delivery budget. The MTDS aims to strengthen the National Population Policy, for example, by addressing rural-to-urban migration, the unplanned expansion of shanty towns, and the degradation of the urban environment by squatters.

Through its National Urbanization Policy and the MTDS, the government aims to raise living standards in rural areas by improving basic services, such as water and electricity, and by providing adult education. This task is being facilitated by a fresh service delivery model (e.g., private-public partnership in the form of mini-banking facilities through District Treasury rollout programs in rural areas). A number of rural banks have been established in rural areas through this initiative to support micro-finance institutions in the community.

The government has put special emphasis on road and bridge construction and transport system rehabilitation and maintenance to facilitate the movement of agricultural produce and the provision of goods and services in rural areas. A Swiss firm was recently awarded a billion dollar project to rehabilitate the road network linking the interior regions to the coastal regions. The District Roads Improvement Program (DRIP) has been introduced to develop transportation facilities in rural areas.

The government has also put special emphasis on improving the telecommunications network and bridging the "digital divide." Improving and expanding telecommunications will have a positive impact on other sectors (e.g., large industries, small and medium enterprises, education, health). The introduction of competition in the telecommunication industry has ensured coverage in many more rural areas over the past two years.

Expenditure Policies

The following expenditure priorities have been set for 2005–2010:

- Rehabilitation and maintenance of transport infrastructure
- Promotion of income-earning opportunities
- Basic education
- Development-oriented informal adult education
- Primary health care

- HIV/AIDS prevention
- Law and justice.

Supporting Policies

The government has also provided a framework for policies that will promote recovery and development. In broad terms, these policies should contribute to the following:

- Political and policy stability
- The rule of law
- Macroeconomic stability
- An outward-looking, market-friendly and transparent trade and investment regime
- International competitiveness
- Land reform
- Protection of the vulnerable and disadvantaged
- Gender equality
- Protection of the natural environment.

To ensure efficient implementation of the MTDS 2005-2010, the government undertook extensive consultation with all stakeholders, including private sector and foreign investors. The Consultative Implementation and Monitoring Council facilitates dialogue between the government and the private sector and advances MTDS objectives. Special efforts were taken to strengthen alliances with churches, community organizations, and nongovernmental organizations. For example, the government ensures the coordination of all organizations as well as ordinary Papua New Guineans who can assist in service delivery by contributing labor and land for school construction and rural road maintenance.

With a view to providing adequate resources to implement and run development programs, the government's Medium Term Resource Framework integrates the "top-down" resource envelope with "bottom-up" sector programs. The resource envelope is determined by the Medium Term Fiscal Strategy. Strategies were crafted to increase funding for MTDS priorities by identifying savings from other activities and by achieving cost-efficiencies through the Public Sector Reform Program and the Public Expenditure Review and Rationalization Program.

Key Assessments

Papua New Guinea's growth is a result of the global boom and price-rise in some of its key economic resources. The positive economic transformations are evident in GDP, per capita GDP, exchange rates, urbanization, new gas projects (i.e., LNG-PNG), and political stability. These, in turn, have all contributed to the expansion of the labor market. The sectors that employ large numbers of people are agriculture, trade, investment, telecommunications, and small-to-medium enterprises.

The 2009 GDP growth rate for Papua New Guinea was 4.5 percent while the average GDP growth rate for world economies was 3.9 percent (est.) and for Pacific economies a mere 2.8 percent (see Table 5-1). The decline in global prices of commodities resulted in the decline in the value of exports in 2009 compared to 2008. From 2008 to September 2009, the prices of Papua

New Guinea's mineral exports declined by 35.9 percent while the prices of nonmineral commodity exports declined by 34.5 percent. There was no notable decline in the total volume of exports. This trend resulted in a 30.3 percent decline in the total value of exports during the period.

Conclusion

The global economic crisis and recession have had minimal impact on human resources and social safety nets, as well as supporting structures, in Papua New Guinea for three reasons. First, nearly 60 percent of Papua New Guinea's GDP derives from natural resources and only 6 percent from manufacturing. Second, as the recession took hold elsewhere, Papua New Guinea experienced a flow of revenue from the expansion of its communication and construction industries associated with preliminary work on a liquefied natural gas project expected to begin production in 2013, and an increase in government expenditure (2009) from trust accounts. Third, windfall revenue in 2008 due to rising global prices for natural resource exports supported government spending in 2009 and 2010.

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7. Peru

Performance of the Economy and Labor Market up to the Global Recession

In this paper we assess the economic and social performance of Peru during the first decade of this century. In particular, we examine to what extent Peru was able to "decouple" from the recent global financial crisis and preserve its progress in economic, labor, and social indicators. We also discuss the main policy responses to the crisis, how some potential major labor market reforms were overlooked, and suggest some avenues to address those reforms in the near future.

In the last quarter of the 20th century, Peru was known as a textbook case of poor macroeconomic management and pervasive economic and social crisis. Summary evidence of that reality is given in Table 7-1. First, Peruvian GDP shrank in real terms four times during the 1980s.[2] Double-digit fiscal deficits (as percentage of GDP) and current account gaps of about 10 percent of GDP indicated unsustainable economic policies. Such policies included government direct intervention in almost all economic sectors and an inward-looking development strategy. Inflation acceleration was another sign of economic mismanagement, reaching hyperinflation standards (four-digit annual rates) in 1988, 1989, and 1990.

A drastic stabilization plan and economywide market reforms during the early 1990s improved Peru´s economic performance rapidly.[3] For instance, fiscal deficits in that decade fluctuated between 1 and 3 percent of GDP. Nevertheless, the Peruvian economy still experienced negative growth rates in some of those years. The 1990 recession could be attributed to the unavoidable adjustment package needed to abate the hyperinflation inherited from the 1980s. Still, Peru was not able to "decouple" from the Asian financial crisis in 1998, and its GDP declined for the first time in five years, by 0.7 percent. A sign of the vulnerability of the Peruvian economy was its still-high current account deficits of more than 5 percent of GDP for most of the decade.

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[2] Under the Administrations of President Fernando Belaunde (1980-1985) and President Alan García (1985-1990).

[3] Under the administration of President Alberto Fujimori (1990-2000).

Table 7-1

Peru: Main Macroeconomic Indicators 1980-2009 (percentages)

Year	Real GDP Growth	Fiscal Balance	Current Account Balance	Inflation Rate
1980	7.7	-4.5	-2.2	60.8
1981	5.5	-8.0	-10.3	72.7
1982	-0.3	-8.7	-9.5	72.9
1983	-9.3	-11.3	-6.2	125.1
1984	3.8	-7.6	-1.6	111.5
1985	2.1	-3.6	-0.5	158.3
1986	12.1	-7.4	-6.9	62.9
1987	7.7	-10.0	-7.4	114.5
1988	-9.4	-11.8	-8	1,722.3
1989	-13.4	-10.9	-2.3	2,775.0
1990	-5.1	-8.7	-4.9	7,649.6
1991	2.1	-2.9	-4.5	139.2
1992	-0.4	-3.9	-5.3	56.7
1993	4.8	-3.1	-7.1	39.5
1994	12.8	-2.8	-6.1	15.4
1995	8.6	-3.2	-8.6	10.2
1996	2.5	-1.1	-6.5	11.8
1997	6.9	0.1	-5.7	6.5
1998	-0.7	-1.0	-5.9	6.0
1999	0.9	-3.2	-2.7	3.7
2000	3.0	-3.3	-2.9	3.7
2001	0.2	-2.5	-2.2	-0.1
2002	5.0	-2.3	-2	1.5
2003	4.0	-1.7	-1.5	2.5
2004	5.0	-1.0	0.0	3.5
2005	6.8	-0.3	1.4	1.5
2006	7.7	2.1	3.1	1.1
2007	8.9	3.1	1.3	3.9
2008	9.8	2.1	-3.7	6.7
2009	0.9	-1.9	0.2	0.3

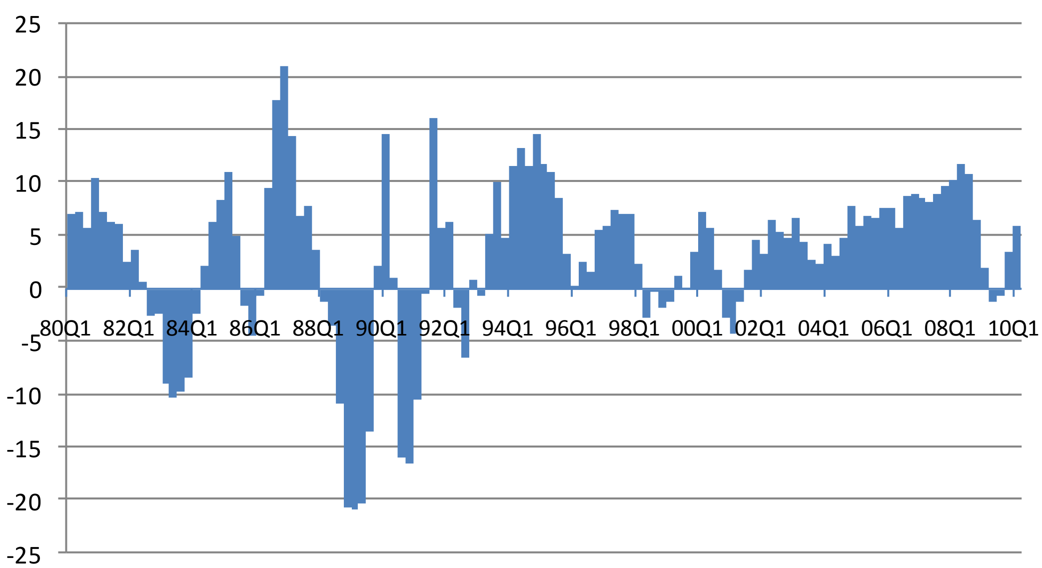
Note: Fiscal and current account balances as a percentage of GDP.
SOURCE: Banco Central de Reserva del Perú (BCRP).

There were two government administrations in the 2000s, Alejandro Toledo´s (2001–2006) and Alan Garcia's (2006–2011), but the market-oriented and prudent macroeconomic policies have continued, enhancing their power to deliver positive economic outcomes.[4] Average growth rates have moved up to above 6 percent a year, and the 2000s were the first decade since the 1960s without a single year of negative growth. On an annual basis, the 2000s could be declared a recession-free decade. The global financial crisis sharply reduced the growth rate from 9.8 percent in 2008 to 0.9 percent in 2009, but did not take it to the negative side. This is one sense in which Peru could be a case for relative "decoupling" from the global crisis.

However, when we zoom out recent production figures and look at quarterly data, a more precise picture emerges, and there are clear signs of a soft recession that lasted two quarters. Figure 7-1 shows that GDP declined, on a year-to-year basis, in the second and third quarters of 2009 (by 1.2 percent and 0.6 percent respectively). This performance fits the most common definition of a recession (two consecutive quarters of negative growth). Nevertheless, positive growth was back by the fourth quarter of 2009, with a 3.4 percent rise over the same period of 2008. Moreover, government officials and market analysts are forecasting a 5–6 percent real growth rate in 2010. Initial estimates for the first quarter show that the economy grew 6.0 percent on a year-to-year basis.

Figure 7-1

Peru: Real GDP Growth by Quarters 1980–2010 (%)



SOURCE: BCRP

Quarterly data is also useful to revisit the comparative performance of the Peruvian economy in the past three decades. During the 2000s, quarterly GDP fell only five times out of 40, compared to 11 times during the 1990s and 17 times during the 1980s.

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[4] After Fujimori's resignation, there was also the nine-month transition term of President Valentin Paniagua (2000-2001).

In what follows, we account for the performance of the labor market during the first decade of this century and until the global recession.

Official employment figures in Peru are estimated with a monthly employment survey (*Encuesta Permanente de Empleo*) undertaken in the Metropolitan Area of Lima, the capital city, which accounts for about 30 percent of the total Peruvian population. Table 7-2 shows Lima's labor force broken down into unemployment rate, underemployment rate, and as a residual, the properly employed rate, for 2003 and 2008.

Table 7-2

Peru: Metropolitan Lima, Structure of the Labor Market, Total and by Gender

	Total		Men		Women	
	2003	2008	2003	2008	2003	2008
Unemployment	9.4	7.8	8.6	6.3	10.3	9.6
Underemployment by hours	15.9	13.8	13.0	10.2	19.4	18.2
Underemployment by income	39.9	32.6	35.5	27.3	45.4	39.1
Properly Employed	34.8	45.9	42.9	56.2	24.9	33.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Labor force participation	66.4	66.7	76.0	76.7	57.4	57.3
Inactive population	33.6	33.3	24.0	23.3	42.6	42.7
Total working population	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

SOURCE: *INEI. Encuesta Permanente de Empleo de Lima Metropolitana - EPE (2003, 2008).*

As a consequence of the economic expansion, both unemployment and underemployment shrank between 2003 and 2008. The most significant reduction occurred in the proportion of workers underemployed by income standards, which fell about 7.5 percentage points between those years. The official unemployment rate for Lima also fell to below 8 percent, especially for males (6.3 percent of unemployment). The recent expansionary phase implied better labor market conditions but did not raise employment participation rates, which remained close to two-thirds of the total working population.

Unemployment rates fell in the adult population but remained constant for youngsters (see Table 7-3). Nevertheless, the proportion of properly employed youngsters did increase by 10 percentage points mainly because of transitions from underemployment.

Table 7-3

Peru: Metropolitan Lima, Structure of the Labor Market by Age

	14 to 24 Years		25 to 44 Years		More than 45 Years	
	2003	2008	2003	2008	2003	2008
Unemployment	15.7	15.7	7.2	5.8	7.7	4.0
Underemployment by Hours	14.5	13.1	15.7	13.2	17.7	15.7
Underemployment by Income	52.0	42.5	35.1	28.7	38.1	30.8
Properly Employed	17.7	28.7	42.0	52.3	36.6	49.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Labor Force Participation	52.3	52.0	82.9	82.9	56.7	57.9
Inactive Population	47.7	48.0	17.1	17.1	43.3	42.1
Total Working Population	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

SOURCE: INEI. Encuesta Permanente de Empleo de Lima Metropolitana - EPE (2003, 2008).

The main effect of the economic expansion in terms of employment composition by skills (Table 7-4) was a large increase in the share of properly employed population for all types of workers (between 8 and 11 percentage points). The source of these improvements, however, differed according to skills: reduced unemployment rates for low-skill workers against better incomes for the more-skilled labor force.

Table 7-4

Peru: Metropolitan Lima, Structure of the Labor Market by Education Level

	Primary Education		Secondary Education		Higher Education	
	2003	2008	2003	2008	2002	2008
Unemployment	9.0	4.8	9.7	8.4	9.1	7.7
Underemployment by hours	17.0	14.3	15.3	12.8	16.4	14.9
Underemployment by income	55.8	52.7	46.1	38.8	23.9	18.7
Properly employed	18.3	28.2	29.0	40.0	50.6	58.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Labor force participation	54.1	51.0	64.7	64.0	76.4	77.4
Inactive population	45.9	49.0	35.3	36.0	23.6	22.6
Total working population	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

SOURCE: INEI. Encuesta Permanente de Empleo de Lima Metropolitana, EPE (2003, 2008).

Five years of continued economic growth (from 2003 to 2008) produced a shift from urban, low-productivity commerce jobs to higher-productivity jobs in manufacturing and construction (Table 7-5). Still, the majority of jobs in urban areas are held in the heterogeneous services sector.

Table 7-5

Peru: Metropolitan Lima, Structure of the Labor Market by Sector

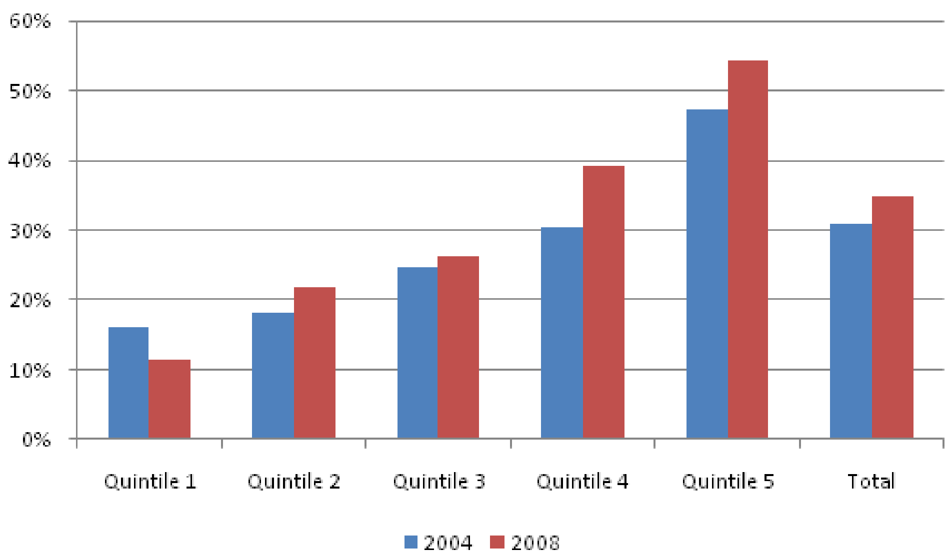
	2003	2008
Manufacture	15.3	17.4
Construction	5.3	6.3
Commerce	25.3	21.9
Services	54.2	54.4
Total	**100.0**	**100.0**

SOURCE: INEI. Encuesta Permanente de Empleo de Lima Metropolitana - EPE (2003, 2008).

Figure 7-2 shows that larger incomes did imply an expansion in post-compulsory (higher) education assistance (from 31 percent to 35 percent among 17–22 year olds), but with a strong anti-poor bias. Indeed, youngsters from high-income families (quintile 5) increased their enrollment rates from 47 percent to 54 percent. Regrettably, the young population from low-income families (quintile 1) reduced their assistance rates to higher education institutions from 16 percent to 11 percent. An opportunity cost effect appears to have prevailed over the income effect[5] in this somewhat perverse result of the Peruvian economic boom.

Figure 7-2

Peru: Post–Compulsory Education Assistance among 17–22 year-olds



SOURCE: INEIN ENAHO

[5] The final section of this paper brings evidence of sustainable poverty reduction along all these years. This trend is consistent with an increase in earnings and spending in lower income families.

General Impact of the Global Recession on the Peruvian Economy

After achieving a 9.8 percent annual growth rate in 2008, Peruvian real GDP grew only 0.9 percent in 2009. Figure 7-3 shows that the sudden deceleration in per capita GDP occurred between the first quarter and the third quarter of 2009. The decline was rapidly reverted, however, and by the beginning of this year, per capita GDP (after controlling for seasonal effects) was again at precrisis levels.

Figure 7-3

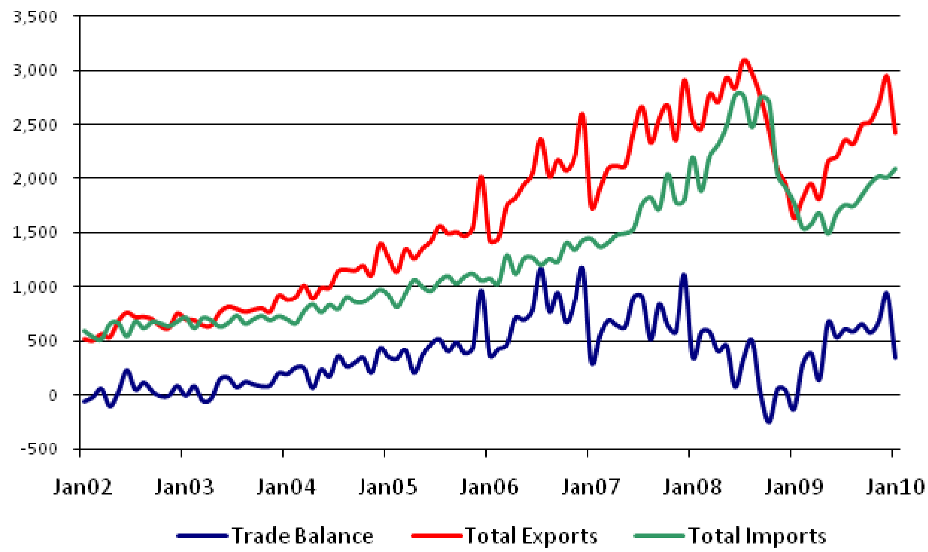
Peru: Real per capita GDP (MM 1994Soles, Seasonally Adjusted)

SOURCE: BCRP

This crisis hit the Peruvian economy mainly through the commercial channel. As consumption and investment flows plunged in the rest of the world, external aggregate demand for tradable Peruvian goods declined, and this translated into a reduction in prices. Total exports in dollar terms fell 32 percent from the first quarter of 2008 to the first quarter of 2009. As a consequence, and despite the fact that total imports also experienced a sharp decline, during the last quarter of 2008 Peruvian trade balance exhibited negative results for the first time in more than five years (see Figure 7-4).

Figure 7-4

Peru: Trade Balance, Exports and Imports (US$ million)

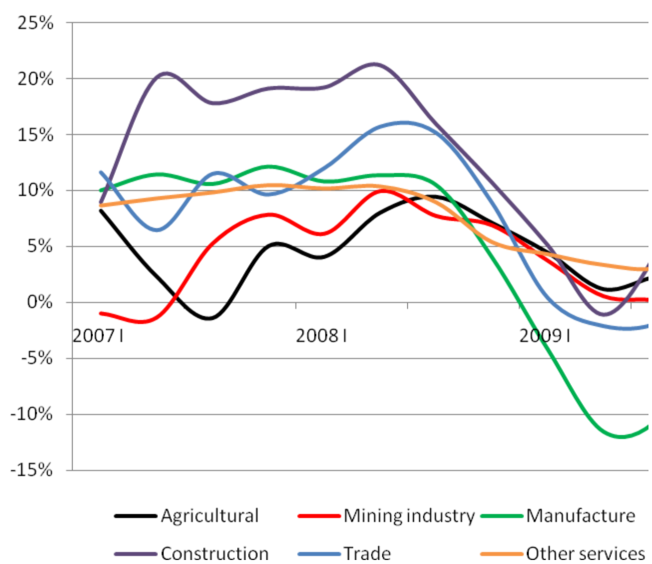


SOURCE: BCRP

Given the results discussed above, it is not hard to anticipate that the effects of the crisis concentrated on sectors with stronger links to external demand: manufacturing, trade, and mining. Other sectors concentrating non-tradable activities such as construction and services suffered a slowdown but not a contraction (see Figure 7-5). Tradable activities are typically formal and, thus their decline had a negative effect on fiscal revenue, which exhibited negative growth rates for as long as 12 months after the onset of the crisis (see Figure 7-6).

Figure 7-5

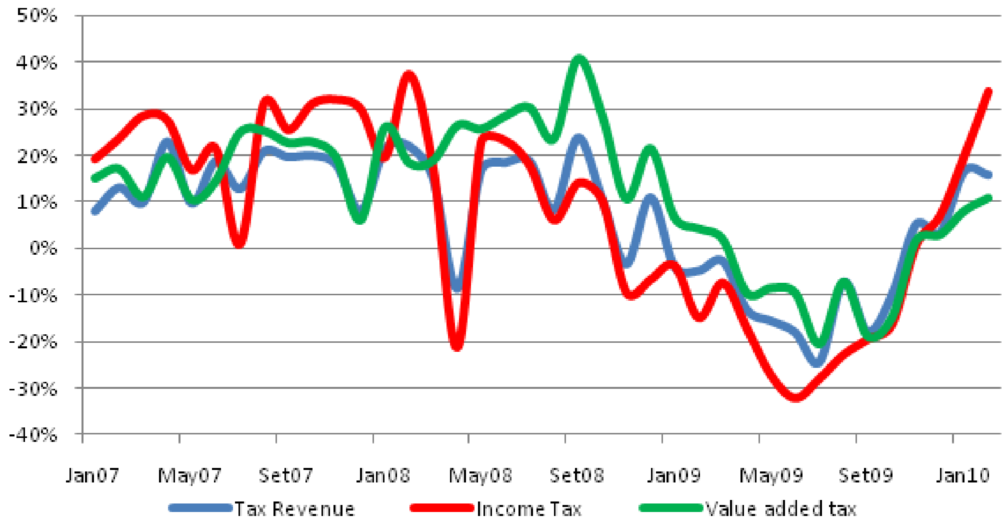
Peru: Sectoral GDP Indexes, Annual Growth %)



SOURCE: BCRP

Figure 7-6

Peru: Tax Revenue Real Annual Growth (%)



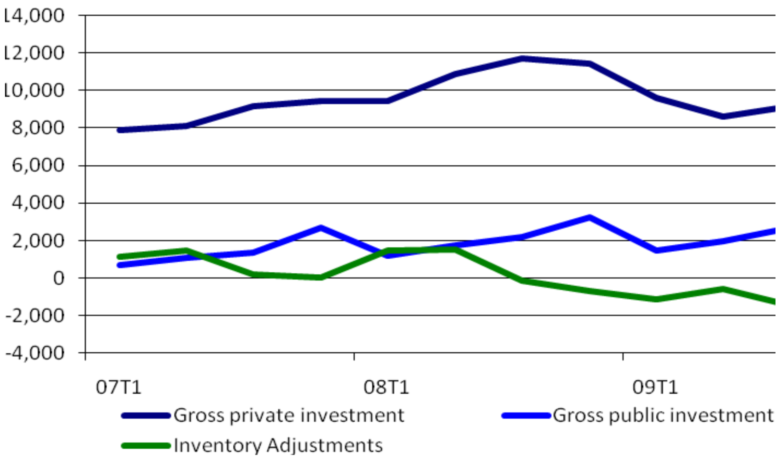
SOURCE: BCRP

The previous crisis (1998/99) hit the Peruvian economy mainly through the financial channel. The domestic financial market was heavily dependent on external capital flows, so a credit crunch followed their withdrawal. Real effects were exacerbated by high liability dollarization ratios, which activated balance sheet effects on the nontradable side of the economy when the exchange rate depreciated. Investment flows experienced a sharp decline, and this magnified the real effect of the external shock and made it more persistent.

The above scenario, however, does not correspond to the effects observed during the last financial turmoil. At the onset of the crisis, local investment was less dependent on short-term foreign capital flows, there was a positive balance of payments result for several years, and the central bank had enough resources to smooth out exchange rate pressure. Total credit to the private sector kept growing (although at a slower pace) and, thus investment flows experienced only a temporary decline due to inventory adjustments (see Figure 7-7). Shifts in local interest rates, however, have been a reflection of the central bank's expansionary stance rather than a consequence of credit constraints caused by a contraction in foreign capital flows (see Figure 7-8).

Figure 7-7

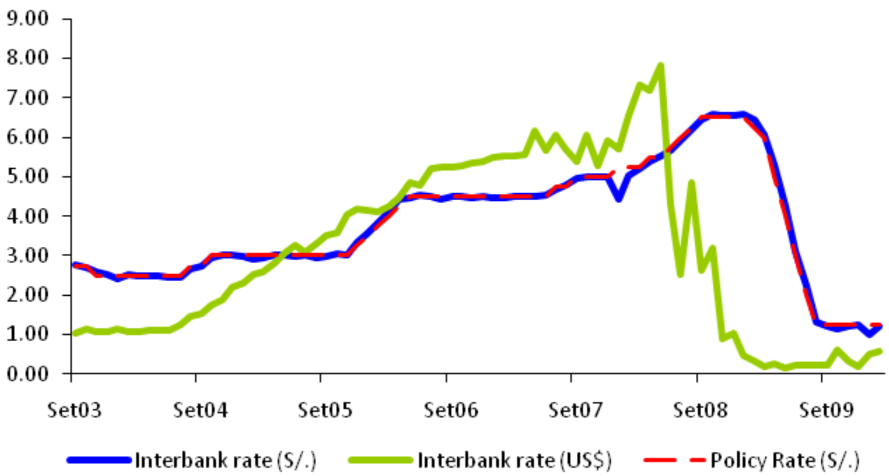
Peru: Investment Flows (billion 1994 soles)



SOURCE: Banco Central de Reserva del Perú.

Figure 7-8

Peru: Interbank and Policy Interest Rates (%)

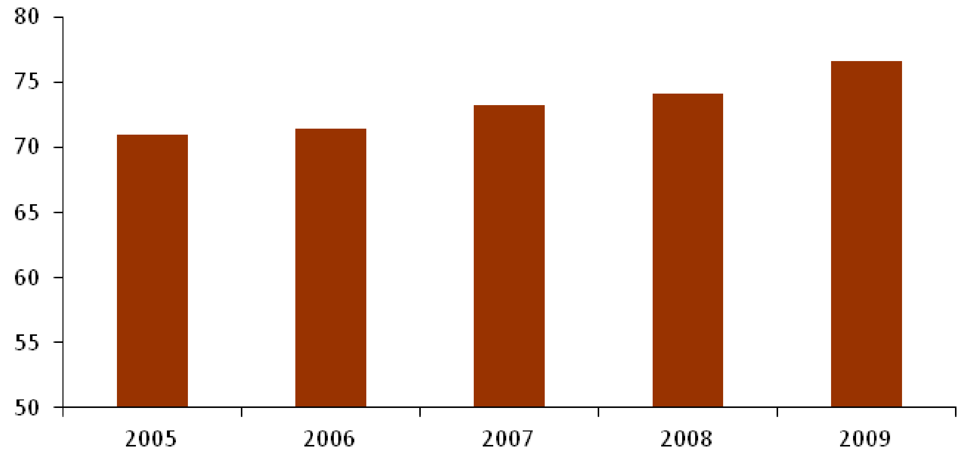


SOURCE: Banco Central de Reserva del Perú.

On the social front, most indicators show that the recent global financial crisis has not stopped progress toward achievement of national and international goals. For instance, secondary education enrolment rates (Figure 7-9) increased from 74.2 percent in 2008 to 76.6 percent in 2009. Regarding higher education assistance (Figure 7-10), there was a small average gain from 35 percent to 36 percent between 2007 and 2009, but the same figure for the poorest population remained stagnant, at about 13 percent.

Figure 7-9

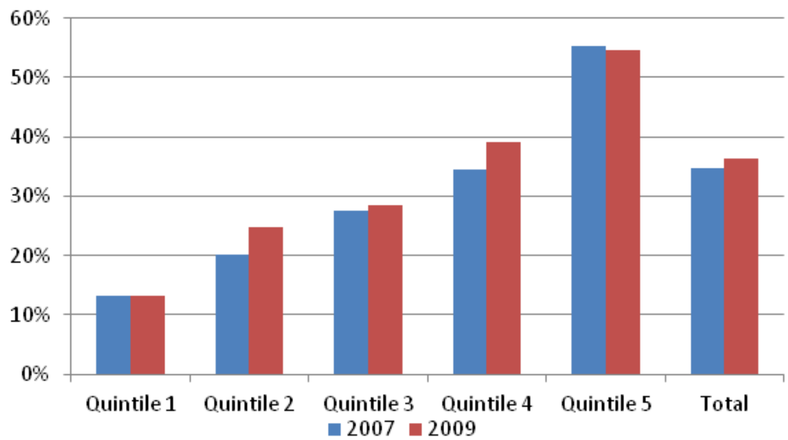
Peru: Assistance Rate to Secondary Education (%)



SOURCE: *INEI ENAHO.*

Figure 7-10

Peru: Assistance to Higher Education (17–22 years)

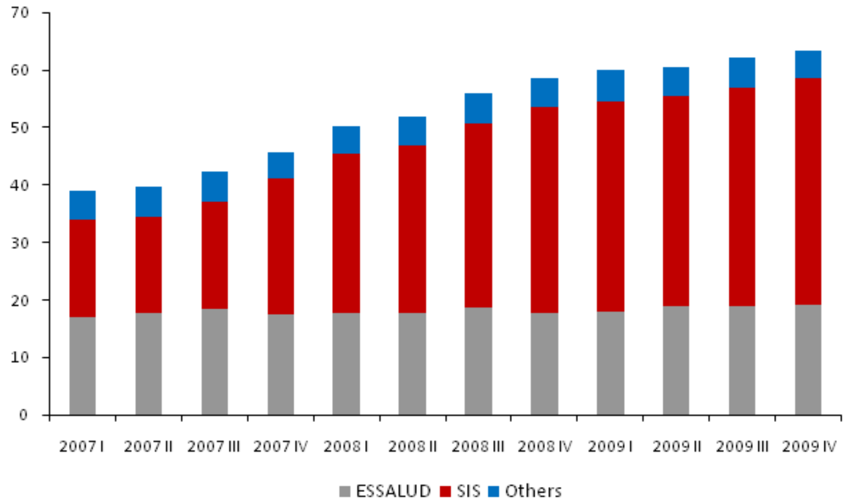


SOURCE: *INEI ENAHO.*

As shown in Figure 7-11, health insurance coverage flattened in 2009. The solid increases registered during previous years was followed by a sudden stop in 2009, especially in the case of SIS (Seguro Integral de Salud: Comprehensive Health Insurance), which is targeted at poor families. Finally, there was no noticeable change in the pattern of access to government food programs during 2009 (Figure 7-12).

Figure 7-11

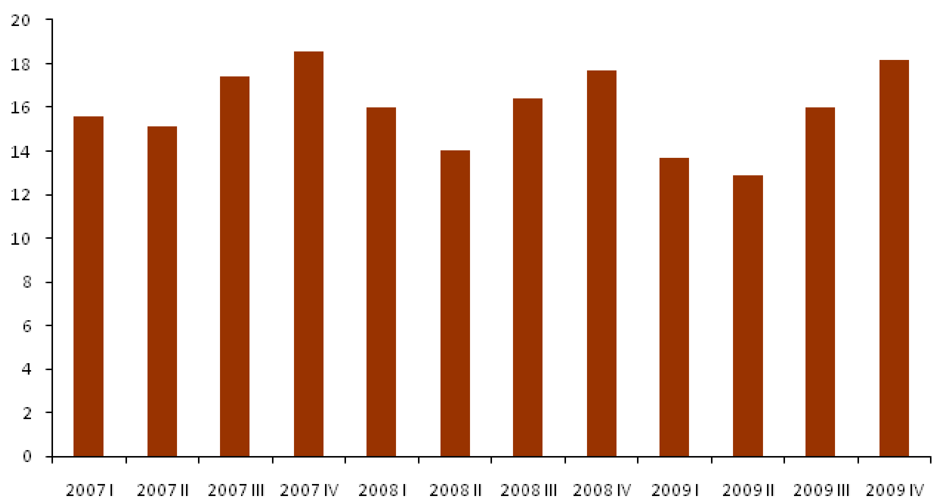
Peru: Health Insurance Coverage (%)



SOURCE: INEI, ENAHO

Figure 7-12

Peru: Population Benefiting from Government Food Programs (%)



SOURCE: INEI ENAHO.

General Policy Response to Impacts of the Recession

On the fiscal front, the bulk of the countercyclical response was organized under a biannual stimulus package put together by the Finance Ministry. The Peruvian *Plan de Estimulo Económico* for 2009–2010 (Table 7-6) has a budget of S/.12,561 million (3.2 percent of GDP) and has three components: economic activity incentives (16 percent), infrastructure development (69 percent), and social protection (10 percent). This plan is financed primarily with fiscal surpluses generated in previous years deposited in the Fiscal Stabilization Fund.

Table 7-6

Peruvian Economic Stimulus Plan

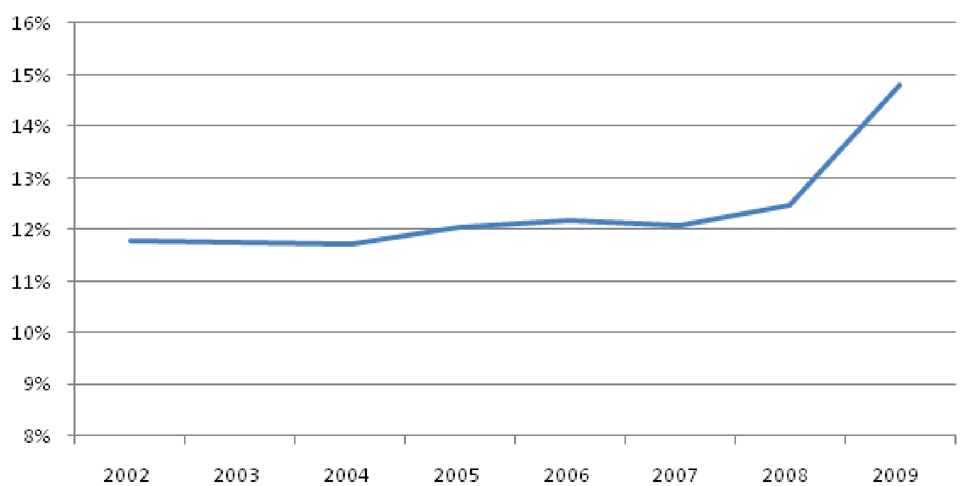
Component	Million S/.	%
Economic Activity Incentives	1,986	16
Fuel prices stabilization fund	1,000	8.0
Purchases from SMEs	150	1.2
Retraining Program	100	0.8
Construyendo Peru - Projoven	76	0.6
Credit warrant fund for SMEs	300	2.4
Tax relief for exports	360	2.9
Infrastructure development	8,609	69
Prioritized public investment projects	1,967	16
Regional trust funds	2,600	21
Infrastructure fund and programmed investment	2,145	17
Other	1,897	15
Social Protection	1,241	10
Education and health infrastructure (maintenance and equipment)	455	4
Maintenance of productive infrastructure (agriculture)	471	4
Other	315	3
Other	725	6

SOURCE: *Finance Ministry*

All together, the Peruvian stimulus package is not particularly small when compared to others in the Latin American region (e.g., Mexico's and Brazil's stimulus packages represent 1.5 percent and 0.6 percent of GDP, respectively). In fact, Figure 7-13 shows an increase of 2.5 percentage points of GDP in the size of government (current plus capital expenditures) only in the first year of the crisis.

Figure 7-13

Peru: Size of Government (% of GDP)



SOURCE: *BCRP*

The Peruvian fiscal effort, however, did not concentrate on specific measures to prevent a slowdown or job separations in particularly vulnerable sectors, but on financing ongoing public investment projects. Although the infrastructure gap in Peru should be a major policy concern, more attention and resources could have been devoted to specific reform areas in the labor market, as will be discussed later.

On the monetary front, the Peruvian Central Bank engaged, after September 2008, in a series of policy measures to mitigate liquidity constraints and prevent sharp exchange rate fluctuations. During the first five months after the onset of the crisis, the Central Bank injected liquidity worth S/.35,000 million (9 percent of GDP) by reducing compulsory reserve requirements, offering medium-term foreign currency liquidity loans, and purchasing Central Bank Certificates (bonds). In addition, it sold foreign currency in the amount of US$6.8 billion to alleviate depreciatory pressure. The latter was possible thanks to external surpluses that allowed the central bank to accumulate foreign reserves worth US$23 billion since 2006.

In February 2009, and when the initial financial turmoil calmed, the central bank started cutting its policy rate. Between February and August 2009, the policy rate was reduced seven times for a total cut down of 525 basis points (from 6.5 percent down to 1.25 percent). Central bank authorities claimed that this policy response had to wait until exchange rate pressure was under control in order to avoid sharp currency depreciation. As discussed, exchange rate increases that followed the 1998/99 financial turmoil, combined with high liability dollarization ratios, provoked massive credit defaults and an internal financial crisis. This time, an external financial account less dependent on short-term liabilities and the quick response of the Peruvian monetary authority prevented strong depreciation. Between September and October 2008, the exchange rate rose only about 4 percent, and this, combined with much smaller dollarization ratios (which declined from 80 percent to 55 percent in the past 10 years), had almost no additional effect on the real side of the economy.

The reference interest rate remained at that historically low level until May 2010, when the central bank approved an increase of 50 basis points following optimistic growth projections for this year.

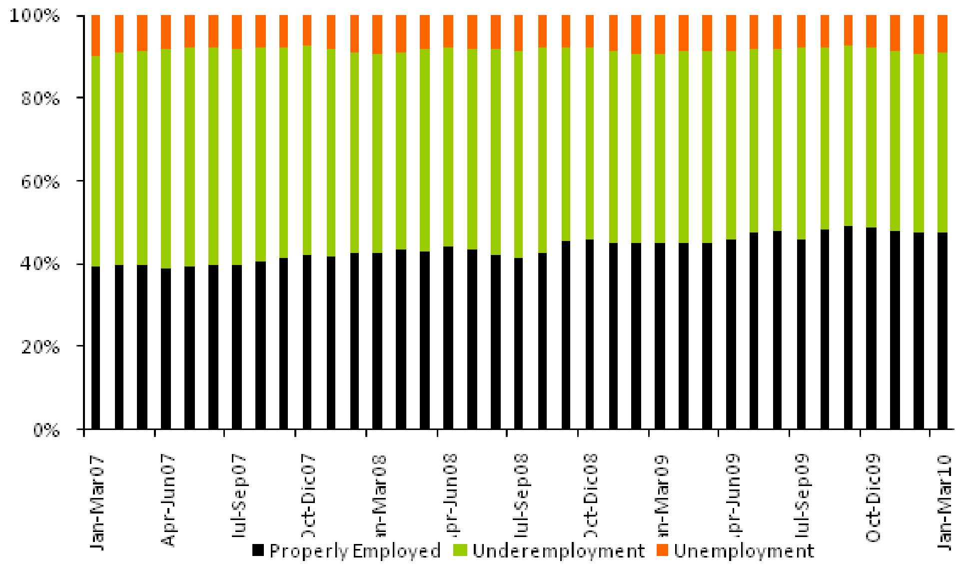
Specific Labor Market Impacts of the Recession

Figure 7-14 shows that the official unemployment rate has not experienced an upward trend as a consequence of the crisis, remaining at about 8 percent until the first quarter of 2010. Moreover, underemployment continued falling at a rate similar to the rate in the boom years (3 percentage points in 2009 compared to 4 percentage points in 2008). Therefore, the properly employed population[6] has risen continuously, giving no clear sign of crisis (42.3 percent at end- 2007, 45.9 percent at end-2008, and 48.6 percent at end- 2009).

[6] This variable refers to full time jobs with earnings above the poverty line. Hence, it is quite related to the concept of poverty incidence which will be analyzed at the end of this paper.

Figure 7-14

Peru: Metropolitan Lima Unemployment, Underemployment, and Proper Employment Rates, January 2007–March 2010 (%)

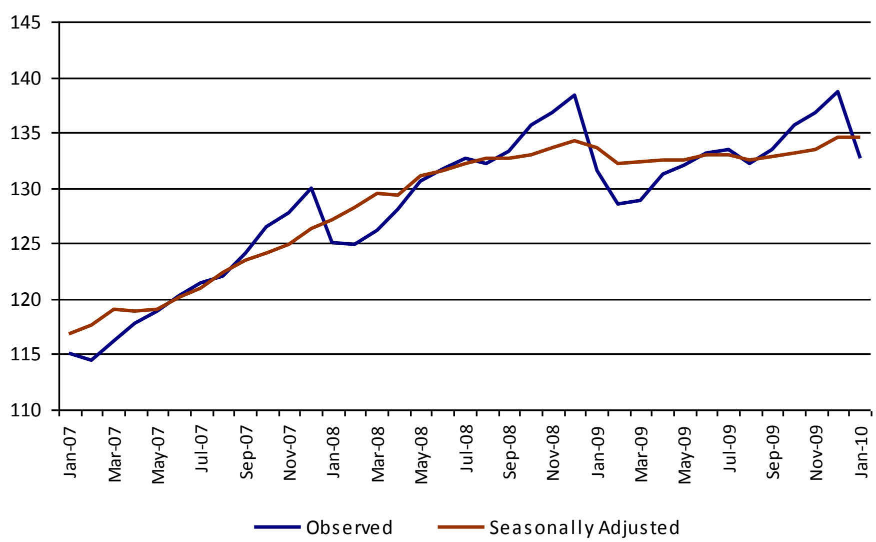


SOURCE: *INEI. Encuesta Permanente de Empleo de Lima Metropolitana – EPE.*

Another source of labor data in Peru is the monthly, self-reported employment records of firms with 10 or more workers in urban areas (*Encuesta de Variación Mensual de Empleo*). It is considered to reflect the most formal type of jobs in the economy. The red line in Figure 7-15 shows the seasonally adjusted index of these jobs. After growing at a pace similar to the GDP's rate between 2005 and 2007 (7 percent per year), it slowed in 2008 and experienced a short decline in the first quarter of 2009, remaining relatively flat for the rest of that year.

Figure 7-15

Peru: Urban Employment Index for Firms with 10 or More Workers (May 2004=100)

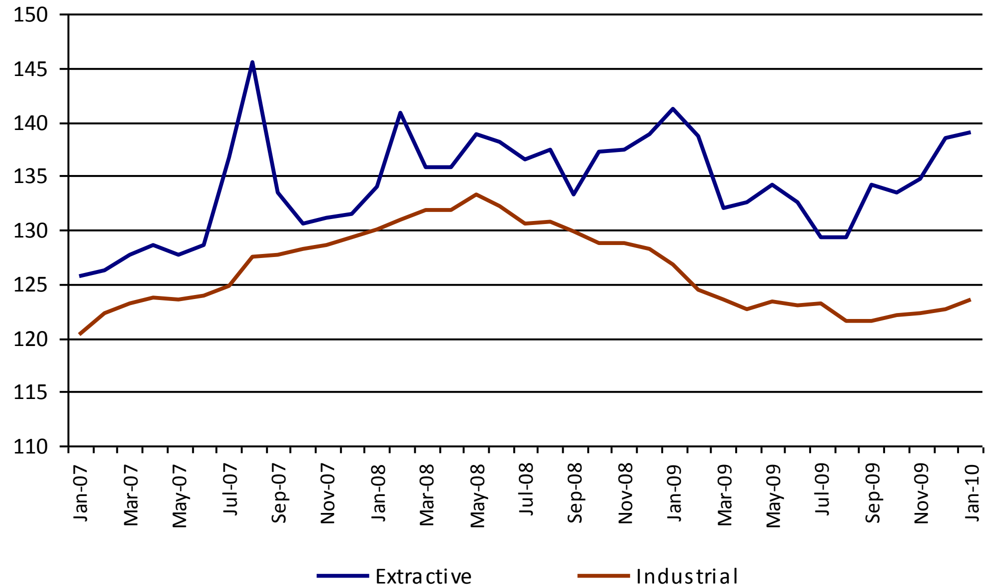


SOURCE: *MINTRA. Encuesta Nacional de Variación Mensual del Empleo (ENVME).*

Figures 7-16 and 7-17 show the diversity of responses at the sector level for the same variable. The extractive sector (agriculture, fishing, and mining) and manufacturing sector had sharper and longer declines than the economy as a whole. The industrial formal employment index reached its peak in May 2008 and then fell continuously until August 2009. In comparison, the commerce and services formal employment sectors never stopped growing. They just experienced a slowdown in growth from 8 percent during 2006/07 to 3 percent in 2009.

Figure 7-16

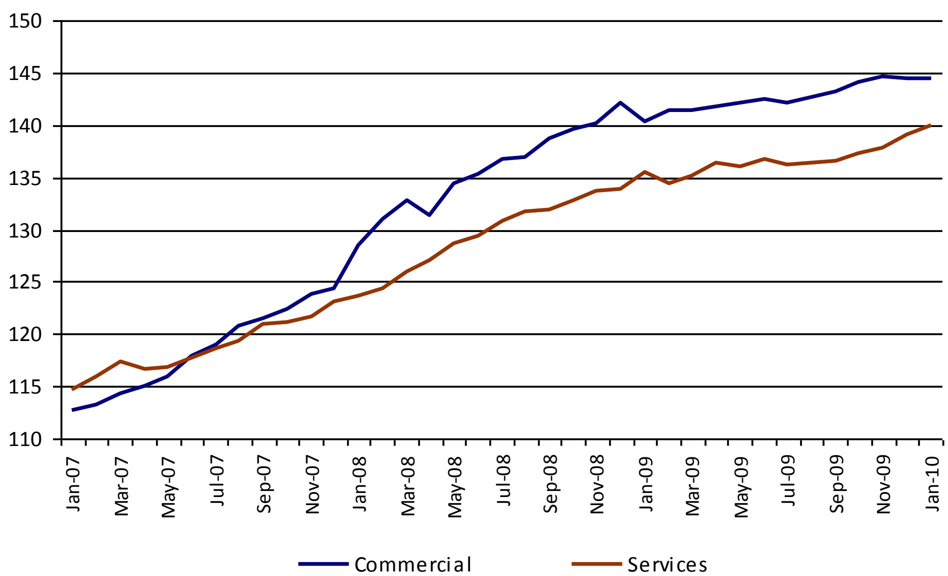
Peru: Extractive and Industrial Sectors, Urban Employment Index for Firms with 10 or More Workers (May 2004=100)



SOURCE: *MINTRA. Encuesta Nacional de Variación Mensual del Empleo (ENVME).*

Figure 7-17

Peru: Commercial and Services Sectors, Urban Employment Index for Firms with 10 or More Workers (May 2004=100)



SOURCE: *MINTRA, ENVME.*

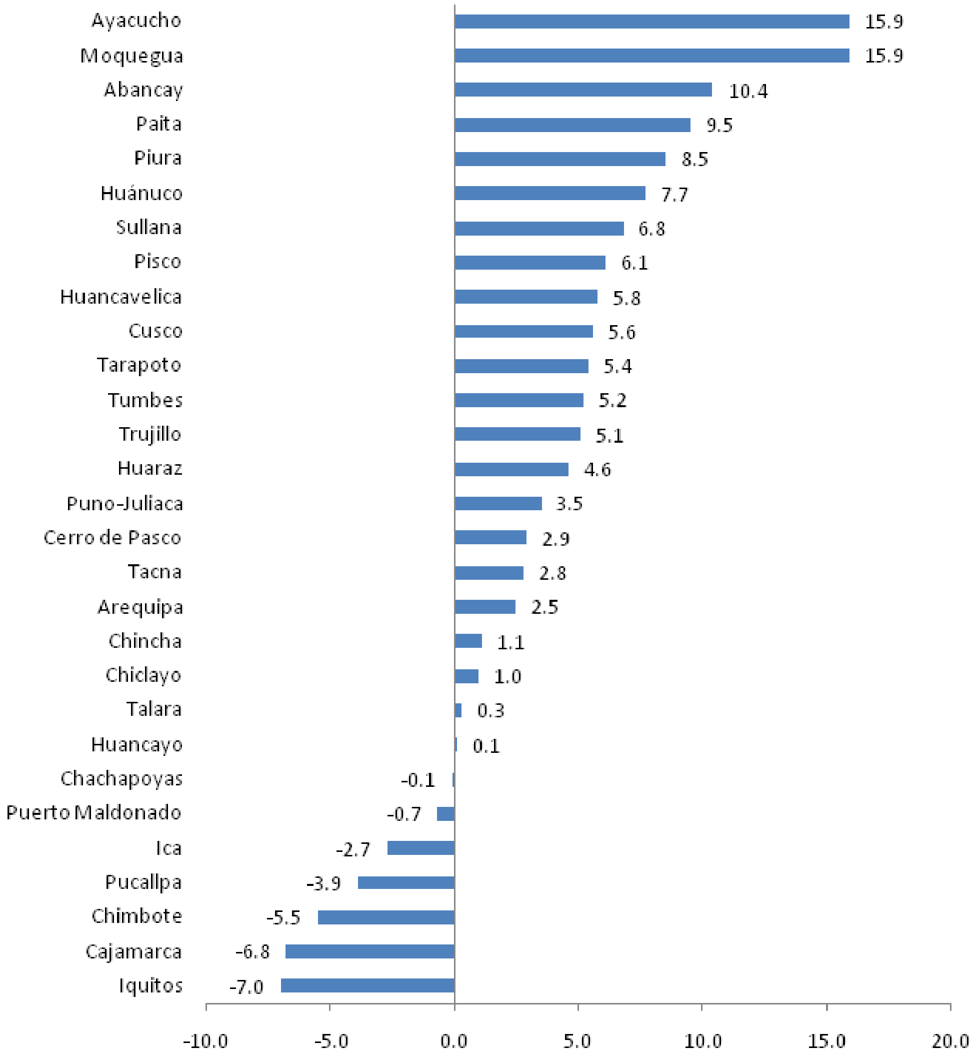
During the crisis year, formal employment did better outside the capital. The employment index for firms with 10 or more workers grew 1.8 percent from December 2008 to December 2009 outside Lima. In the capital, however, this variable shrank 0.2 percent in the same period. Figure 7-18 shows that employment reduction was more concentrated in the Jungle Region of Peru. Three cities in that region registered payroll cuts. Iquitos suffered a reduction of 7.0 percent in formal employment from December 2008 to December 2009 while Pucallpa and Puerto Maldonado had formal payroll cuts of 3.9 percent and 0.7 percent, respectively. In other regions, one case in the Highlands declined (Cajamarca, down 6.8 percent) as did two cases in the Coast (Chimbote and Ica, with 5.5 percent and 2.7 percent declines, respectively). But 22 of 30 Peruvian cities recorded a raise in formal employment even in the most difficult year for the world economy in the past decade.

Smaller formal enterprises suffered the impact of the crisis more. Formal employment in firms with payrolls from 10 to 50 workers diminished 1.1 percent from December 2008 to December 2009 (more heavily in manufacturing, which had a 9.2 percent reduction, and in transportation, with a 7.3 percent cut). In contrast, formal employment in firms with more than 50 workers grew 1 percent in the same period (especially in services, with a 4 percent growth rate).

Figures 7-19 and 7-20 show the disaggregation of Lima’s unemployment rate by population group. Unemployment rates differ by 2 percentage points, with a disadvantage for women in the labor market. But there is no sign of adverse impacts from the crisis for either sex, besides the usual peak of unemployment in the first quarter of every year due to seasonal factors. With respect to age, differences are more pronounced. Youngsters have an unemployment rate that is three times as high as the adult unemployment rate. Moreover, there seems to be an upward trend in the youth unemployment rate, which began as early as 2007, before the global financial crisis erupted.

Figure 7-18

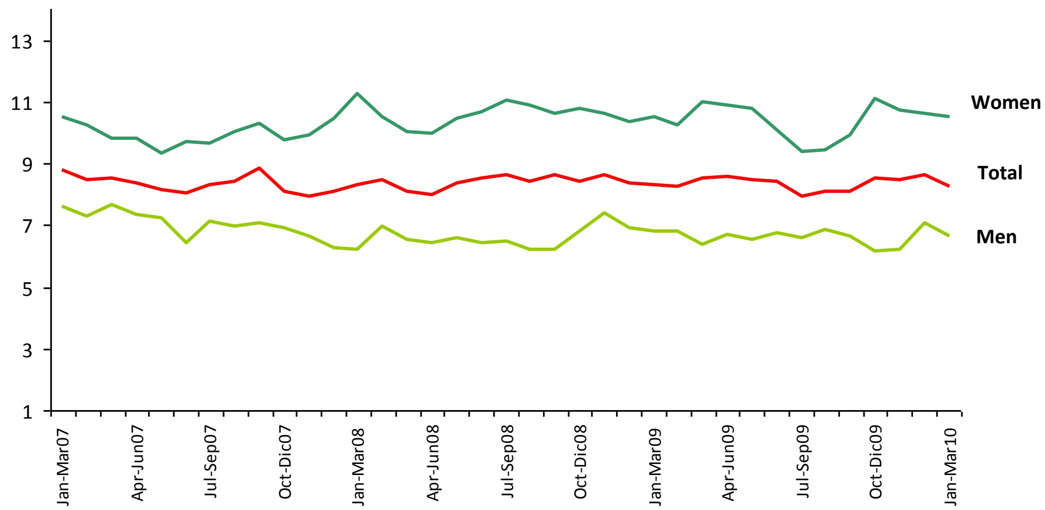
Peruvian Cities, Changes in Urban Employment Index for Firms with 10 or More Workers (December 2008-December 2009)



SOURCE: MINTRA. Encuesta Nacional de Variación Mensual del Empleo (ENVME).

Figure 7-19

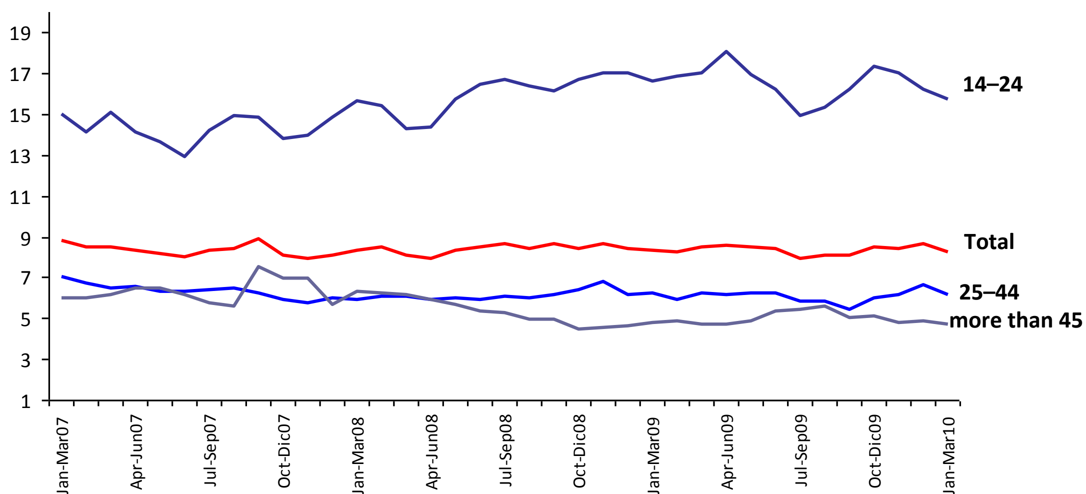
Peru: Metropolitan Lima, Unemployment Rates by Sex (Seasonally Adjusted), January 2007–March 2010 (%)



SOURCE: INEI. Encuesta Permanente de Empleo de Lima Metropolitana - EPE.

Figure 7-20

Peru: Metropolitan Lima, Unemployment Rates by Age (Seasonally Adjusted), January 2007-March 2010 (%)

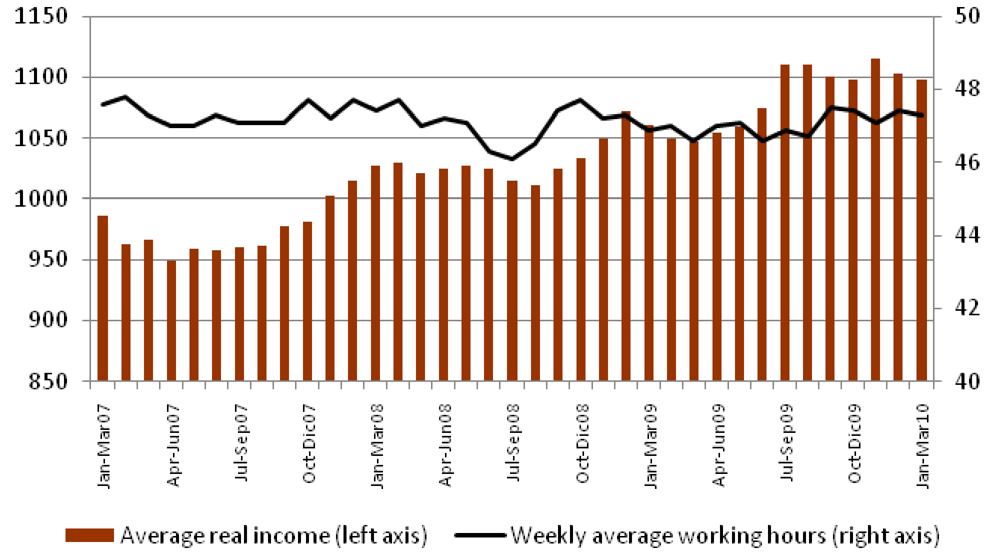


Source: INEI. Encuesta Permanente de Empleo de Lima Metropolitana - EPE.

Another potential negative impact of the financial crisis could have been cuts on real incomes. Perhaps unemployment did not rise because of rigidity in the Peruvian labor market for layoffs, and all the adjustment was left to real wages. The trend in the average real income is shown in Figure 6-21—it increased from 950 soles per month in 2007 to 1,000 soles in 2008, 1,050 soles in the first half of 2009, and 1,100 soles in the second half of 2009. Finally, working hours have remained constant, at about 47 hours per week throughout the whole period. In short, adverse effects in the labor markets were focused on sectors related to export activities such as extractive industry and industrial manufacturing. But continued dynamism of the commerce and service sectors made up for those potential negative effects in the aggregate labor variables.

Figure 7-21

Peru, Metropolitan Lima, Monthly Average Real Income, and Weekly Average Working Hours



SOURCE: *INEI. Encuesta Permanente de Empleo de Lima Metropolitana - EPE.*

Interventions in Response to Labor Market Impacts

Labor market interventions can aim at short-term countercyclical objectives or long-term structural objectives. On the countercyclical side, the literature distinguishes two subsets of policies: (1) those aimed directly at the labor market; and (2) those that seek to provide income support for the unemployed. The first subset, in turn, can be divided into worker protection and job protection programs (Morón et al. 2009).

Regarding job protection programs, protecting failing firms has the potential of generating moral-hazard problems and unclear redistributive effects. Other job protection mechanisms such as wage subsidies or temporary payroll tax holidays, however, can effectively alleviate firms' labor cost and dampen job separations.

Policy activism to deal with the international crisis happened not only in the Finance Ministry and the Central Bank. The Peruvian Congress itself created for the first time ever the High Level Commission to Monitor and Respond to the International Crisis, headed by a former prime minister, composed of congressmen from all political parties and advised by myriad economists coming from policy think tanks and academia.

Under this framework, and in explicit response to the international crisis, Peru's Congress exempted from social security and pension contributions Independence Day (July) and Christmas wage bonuses in 2009 and 2010. [7] For workers, this extra money was equivalent to a 3.7 percent

[7] According to Peruvian legislation, social security contributions are paid by the employer and are equivalent to 9 percent of workers' salary. Employees must pay between 12 percent and 13 percent to their pension fund administrator and between 10 percent and 30 percent to the government as income tax. In addition, firms are required to pay midyear and end-of-year bonuses, each equivalent to a complete

increase in annual pretax income. For firms, this exemption provided relief from paying social security contributions for those days. According to *Reflexión Democratica* (2009), the cost of this policy decision was US$150 million less each year for the social security administration (EsSalud), and about US$62 million less each year for the public pension system (ONP).

Among worker-protection alternatives, the government launched a free retraining program (*Revalora Peru*) for workers who had lost their job since the beginning of 2008. The fields in which training were offered are construction; gastronomy, hospitality, and tourism; electricity; computation and information systems; business administration; retail banking; auto repairing; metal mechanics; machinery maintenance, among others.

Training was provided by large universities and technological institutes, such as San Marcos National University, National University of Engineering, National University of Education, National University of the Center (providing services in Center Highlands), National University of Piura (in the Northern Coast), National University of San Agustin in Arequipa (the second-largest city in Peru in the Southern Sierra), National University of San Antonio Abad in Cuzco (the largest tourist center in Peru), Sencico (a public-private partnership in construction training), Senati (a public-private partnership in manufacturing training) and Cenfotur (a public-private partnership in tourism training), INICTEL (a public institute for training in telecommunications), and Training Institute for Banking (a private center established by the Bank Association). Unemployed workers in 13 regions could register in Labor Ministry branches and regional government offices to access this program.

Revalora spent its entire 2009 public budget of 30 million soles (approximately US$10 million), benefiting 15,000 workers with free training in recognized institutions. But average spending per beneficiary (about US$640) actually implies only short-term technical education of about three months. This type of investment seems unlikely to produce a complete retraining of workers to a new market-demanded technical occupation.

Revalora resembles *Projoven*, the decade-old youth training program aimed at providing very basic labor competency to high school graduates and dropouts, youngsters living in poverty, facing significant constraints on getting a first salaried job because of low-quality basic education and household vulnerability. *Projoven* provides about the same duration of classroom training plus a guaranteed internship in formal enterprises previously contacted by the training centers (which bid in an open competition for state financing based on instruction quality, relevance, and costs). What employers have wanted the most out of this program has always been basic workplace competency (teamwork, organization, punctuality, and capacity to understand and follow instructions). In short: more low-budget soft skills and less high-budget technical skills.

Nevertheless, longer-term training programs with higher levels of technical instruction (which seems to be needed for retraining specialized workers) tend to be more expensive. This was the case of *Propoli´s* training program financed by the European Union to benefit young people living on the outskirts of Metropolitan Lima. Because this program's maximum benefit per

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monthly wage. These bonuses are part of the salary base used to calculate social security and pension contributions as well as income taxes.

beneficiary was US$1,800, it was able to buy technical training of nine to 12 months per youngster. An impact evaluation of this program showed a higher effect on wage increase and job quality compared than for *Projoven* (Yamada 2008a).

On the basis of this evidence, a partial scholarship combined with a loan for a longer training program (and cofinancing of a share by the potential beneficiary) would be more reasonable for getting more sustainable labor retraining, which is the overarching goal of this type of intervention.[8]

Theoretically, the list of income support programs is headed by unemployment insurance schemes, because unemployment insurance benefits could be expanded readily to face a crisis by extending duration or coverage. Peru, however, lacks a proper unemployment insurance mechanism. The closest scheme—a contingent transfer in the event of unemployment—is the *Compensacion por Tiempo de Servicios* (CTS). It consists of an annual payment equivalent to one monthly wage that the employer deposits in two installments in May and December in the employee's bank account and, in principle, these funds are withdrawn when the job relationship is terminated.

The CTS has two features that make it unsuitable as a policy instrument (Morón et al. 2009). First, it was not designed as standard unemployment insurance that works as an automatic stabilizer of business cycles. In fact, access to this benefit is limited only to formal dependant workers.[9] Second, and more important, its nature as insurance has been repeatedly distorted, and empirical evidence (Yamada 2008b) suggests that its limited funds are not enough to finance a job search long enough for the worker to avoid an underpaid new post.[10]

Congress acted on this front with a highly debatable initiative. It enacted the free disposal of the May 2009 and December 2009 deposits on the CTS account with the aim of increasing aggregate demand and boosting production, but it clearly diminished the social protection objective of the CTS as a fund for an eventual period of unemployment.[11]

The traditional public works program Construyendo Peru received an increase in its 2009 budget as part of the countercyclical fiscal plan. Construyendo Peru and Projoven received 76 million soles (US$25 million) in the Economic Stimulus Plan.

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[8] On April 1, 2010, a new law (no. 29516) extended the scope of *Revalora* intervention to workers affected not only by the international crisis but also by any future modernization process in Peru. This means the transformation of a temporary intervention into a permanent program. Because all sectors are experiencing constant modernization processes anywhere in the world, it will be necessary to specify more precisely which types of situations and workers deserve the training subsidy.

[9] A formal unemployment insurance scheme does not seem financially viable yet in Peru because of the degree of informality in the labor market (about 60 percent). This is the conclusion reached by several national and international studies commissioned by ILO and the Labor Ministry.

[10] The average duration of an unemployment spell in urban areas in Peru is 22 weeks or about 5.5 months.

[11] A similar action was decreed in 1998-1999 as a response to the Asian crisis but failed to avoid the internal recession of those years in Peru. The 2009 act foresees a progressive return to the intangibility of CTS funds beginning in 2010.

Assessment of Interventions and Proposed Avenues for Reform

Before assessing the interventions discussed above, we devote a couple of lines to clarifying potential policy objectives. In this regard, Morón et al. (2009) propose three policy priorities based on the characteristics of the Peruvian labor market and the way it has responded to previous external crises: (1) preventing employment loss in the aggregate economy (i.e. movements towards underemployment); (2) preventing real income loss in particularly vulnerable groups (young, unskilled workers, women); and (3) extending formal job benefits to a larger proportion of the employed population.

Important, the first two objectives call for transitory interventions of countercyclical nature, while the third objective requires addressing the determinants of equilibrium labor market outcomes (labor productivity and labor market regulations). With these three objectives in mind, we briefly assess the effectiveness of interventions undertaken.

In principle, the 2009-2010 partial tax holiday on bonuses was correctly focused because it aimed at reducing formal labor costs—and the Peruvian tradable sector (hit harder by the crisis than the nontradable sector) concentrates formal jobs. Access to a formal job, in turn, most likely implies access to an adequate job. The final effect of this intervention in terms of extra take-home pay and job protection, however, cannot be expected to be large because of its limited scale.

Reemployment services have the potential of addressing our second policy priority. The retraining program *Revalora Peru*, however, lacked the scale and focus to halt income loss in vulnerable groups. Only 0.8 percent of the Economic Stimulus Plan was devoted to the retraining program. In addition, a tighter focus on vulnerable groups such as women could have helped enhance the impact of the program. Yamada (2008b) found that, even in normal times, relocation comes with larger wage cuts for female workers,[12] while specialization has conspired against female relocation in the recent crisis. Male workers in the mining sector (one of the tradable activities hit hardest by the crisis) already have skills similar to those required by construction and heavy industry. Female workers in other vulnerable sectors (such as textiles), however, are more specialized and could be harder to train and relocate in those activities.

Public works require a minimum set of conditions to create the proper incentives and improve cost-effectiveness, such as setting wages below the market average, choosing projects with a demand-driven approach, and minimizing nonlabor costs. Evidence regarding the impact of this type of programs in Peru is mixed. On one hand, Chacaltana (2003) found positive effects related to the emergency social productive program *A Trabajar-Urbano* (ATU).[13] During its first year, participating workers experienced a real income increase of S/.73 per month (25 percent) with

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[12] While average real wage downgrades for those who have found a new job after an episode of unemployment can be as high as 20%, this figure rises to 41% for women.

[13] Now called *Construyendo Peru.* ATU was launched in 2001 to provide temporal employment to poor people affected by the economic downturn through simple, highly labor-intensive public works. Wage expenses were about 55 percent of the total budget and the program generated 112,000 four-month jobs or 37,000 yearly jobs. The program paid a monthly wage of S/.300 to every worker.

respect to incomes of the control group. In addition, benefits related to the projects developed were estimated to be about 54 percent of total wage expenses. The author argues that part of this positive effect was because the program financed demand-driven projects that were highly anticipated by the population. In addition, Chacaltana suggests that the monthly wage was probably too high, as workers in the first and second income quintiles had lower average incomes. This probably lured workers with higher opportunity costs and conspired against the program's impact.

On the negative side, Yamada (2008b) found that people who participated had problems finding well-paid jobs after leaving the program, facing wage cuts when compared to the job before ATU. The author suggested that this was the result of a stigma effect that signaled ATU beneficiaries as unproductive because they required government assistance.

On the more structural side of policy intervention, our claim is that reform opportunities created by the crisis were not fully exploited. As discussed by several authors (Jaramillo 2004, Yamada 2008c), large nonwage labor costs and severance payments combined with a low average productivity in the labor force, have deterred formal job creation and still fuel an informal rate that is about 60 percent of total employment.

In terms of raising labor productivity, of course, the solution has to do with improving basic education quality and raising higher education coverage (Morón, Castro and Sanborn 2009).[14] On a short-term basis, however, training programs are required. In fact, if truly successful, a comprehensive training program could not only serve as a countercyclical measure but could also provide a permanent increase in labor productivity, thus increasing the benefits of formal job creation. For this to happen, demand-driven programs (where firms are responsible for on-the-job training) have better prospects of succeeding because they have better prospects of transferring useful skills to individuals that would otherwise be unemployed or hired in low-productivity jobs.

In this regard, Díaz and Jaramillo (2006) found that the Peruvian youth labor training program *Projoven* can increase the probability of accessing a paid job between 5 and 17 percentage points. This training can also increase the probability of accessing a formal job by 9 to 18 percentage points and raise real hourly earnings between 30 percent and 69 percent. Part of the success of *Projoven* is that it is demand driven. Before public funds are transferred, training institutions must ensure that a firm is willing to offer the beneficiary a paid internship when classroom training is over (through a "letter of intent").

Yamada (2008a) found even larger impacts for the training program financed by the European Union as part of *Propoli*. This program's estimated impact on expected real wages is about 65 percent, and almost 100 percent if the sample is restricted to those who finished the program at least six months before. *Propoli's* training costs are about three times as much as *Projoven's* costs

[14] These issues are beyond the scope of this paper. However, in response to a comment made in the Jakarta Meeting, we explained that Peru did very poorly in the 2001 PISA math and reading assessment test, placing last out of the 41countries participating. Since those shocking news, education policies and programs have started to move forward in Peru. A medium term 2021 Education National Plan has been agreed by all political parties, and more stress has been placed in a merit-based teacher career. Among APEC countries, Peru sees Korea as an educational success benchmark.

because of longer training periods (6 to 12 months) and more selective training institutions. Additionally, *Propoli* restricted access to the program through an IQ test, training only young people who scored "normal" or "above normal." Although *Propoli* did not require firms' commitment through "letters of intent," training institutions selected for the program were among the most prestigious and offered training in highly demanded fields.

Another mechanism that has helped improve labor market efficiency is the *Red de Colocacion e Informacion Laboral (CIL) Proempleo*, which is a public employment service. Although private employment services exist in the market, they target high-profile workers that can afford paying for the service. Thus, private and public services tend to complement each other rather than compete. The *Red CIL* aims at reducing search costs for both employers and employees by improving the match between labor supply and demand. Chacaltana and Sulmont (2004) found that, as a result of the service, users increased their total earnings by 27 percent and their hourly earnings by 37 percent. The program, however, had limited coverage.

The above represent three interventions that have proven successful in dealing with specific labor market requirements of a structural nature. Therefore Yamada (2008a and 2009b) suggests integrating them into a single, extended[15] public effort. *Red CIL* can focus on facilitating demand-supply match for public programs like *Projoven, Construyendo Peru,* and even *Revalora*. As discussed in the previous section, the characteristics of *Propoli* could be incorporated into *Projoven* as a second-layer training for the most promising students. To promote sustainability and efficiency, this second layer could have a student-loan nature, and repayment could start after graduation.

Regarding labor market regulations, nonwage costs in Peru are higher than the regional average, mainly because of lengthy paid vacations and large mandatory bonuses. According to Jaramillo (2004), in Peru, nonwage costs represent nearly 60 percent of gross salary, a figure surpassed only by the size of such costs in Argentina (mainly because of Argentina's large pension contributions). The World Bank's 2009 Doing Business Report ranked Peru 149 out of 181 economies in the Ease of Employing Workers index,[16] making it the weakest indicator of the Peruvian economy.

Although there is consensus about the fact that labor costs in Peru are high according to international standards, the literature offers mixed approaches for tackling the problem. On one hand, Jaramillo (2004) reasons that the current labor code (or general regime) is too rigid. He favors revision of the code so that it ensures only a minimum set of conditions, similar to those included in the special regime for small and microenterprises.[17] He argues that extended benefits

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[15] Broadening the scope of training programs is also important. Yamada (2009) shows that Peruvian training and labor allocation programs only represent 0.04% of GDP. Mexico more than doubles our figure (0.09%) while countries like Spain and France have figures close to 1% of GDP.

[16] This index is composed by 19 indicators grouped in four categories: Difficulty of Hiring, Rigidity of Hours, Difficulty of Firing and Firing Costs.

[17] The special regime for small and microenterprises (re-launched in June 2008), contemplates, among other incentives, halving vacations (from 30 to 15 days) and halving mid and end-year bonuses, each originally equivalent to a complete month salary.

should be the result of negotiation between firms and workers and that the main problem with the special regime is, precisely, that it is special. This not only implies limited coverage but also that it can end up creating incentives for larger firms to split up to enjoy its benefits.[18]

Chacaltana (2008), on the other hand, reasons that small firms have very low productivity and argues in favor of a special regime. He favors a graduated approach and suggests that transition to the general regime should be progressive: it should start around the sixth year after the microenterprise begins operating and finish around the tenth. On the middle ground, Yamada (2008c), prioritizes a general reduction in severance payments but also favors progressive access to labor benefits for small and microenterprises.

When talking about labor costs, we would also like to stand on the middle ground and suggest avoiding extensive labor code revisions that would end up being unfeasible because of their high political costs. According to the World Bank (2007), Peruvian labor markets exhibit high firing and hiring costs compared to regional averages, so we suggest selecting specific adjustments instead of choosing a single recipe.

Currently, firms are required to pay a month-and-a-half of salary for each year of work, to a maximum of 12 months. A relatively straightforward way to reduce severance payments is by reducing them to a single month of salary while keeping the 12-month upper bound, as originally established in the labor reform of the early 1990s. Another way to promote formality and enhance the effects of the special regime for small and microenterprises is to approve —for new contracts—two minimum wages in Peruvian labor legislation, one for large firms and a lower for smaller firms. The current minimum wage of about US$200 a month is the main deterrent for low-productivity firms to switch fully to formality.

Concluding Remarks

For the first time in contemporary history, the Peruvian economy was relatively resilient to an international financial crisis, thanks to two decades of prudent macroeconomic policies that allowed the application of novel (albeit initially slow) countercyclical fiscal and monetary policies. In turn, labor and social indicators have not shown significant setbacks in the past two years.

Possibly the best summary measure for assessing the internal social impact of these turbulent times is the poverty incidence trend. As Figure 6-22 shows, the share of Peruvians living in poverty[19] declined 14 percentage points between 2004 and 2009 (from 48.6 percent to 34.8

[18] IDB (2010) has forcefully argued that the spread of these special regimes for small firms in Latin America is responsible for the stagnant trends in total factor productivity growth in the region.

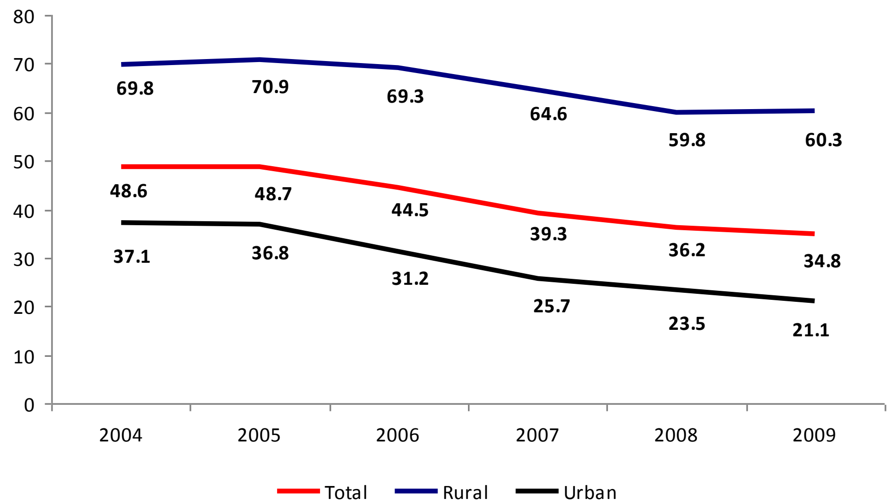
[19] National poverty incidence is calculated as the share of Peruvians whose per capita expenditure is below the cost of a consumption basket that meets adequate nutrient intake and other basic items such as clothing, housing, transportation, education and health. An independent commission composed of international organizations, academia, and local stakeholders oversees the estimation process by the National Statistical Institute, based on an annual national household survey, and ensures its comparability over time.

percent)—including a small reduction of 1.4 percentage points even at the highest crisis point of 2009 (the poverty incidence in 2008 was 36.2 percent). In short, the 2000s was for Peruvians a fortunate decade without setbacks in real GDP growth, and with continuous progress in poverty reduction.[20]

Further achievements in economic and social development in the coming years require sustainable gains in productivity growth through unfinished reforms in many sectors, including education and labor. Unfortunately, labor reforms needed to improve the international competitiveness of the Peruvian economy and the formality and equity of its labor market were missed during the crisis period despite their large countercyclical potential. We expect that reform opportunities are no longer overlooked and structural policy interventions like the ones discussed throughout this document become part of the debate in the upcoming presidential elections.

Figure 7-22

Peru: Poverty Incidence 2004–2009 (%)



SOURCE: *INEI ENAHO*

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[20] Some regions in the Highlands still have more than 70 percent of the population living in poverty (Huancavelica, with 77.2 percent and Apurimac, with 70.3 percent), and some regions in the Jungle have 60 percent of poverty incidence (Huanuco, with 64.5 percent, and Amazonas with 59.8 percent). Meanwhile, Metropolitan Lima in the Coast has only 15.3 percent of poverty and neighboring Ica has only 13.7 percent.

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8. The Philippines

Performance of the Economy and Labor Market Up to the Global Recession

Introduction

The Philippine economy has been growing at a much slower pace than other middle-income economies in East Asia. In the 1990s until early 2000, while ASEAN economies were experiencing growth of 4–7 percent as a result of increasing regional integration, liberalized trade and investment regimes, and improved trade and investment facilitation, the Philippine economy grew much more slowly, at 3 percent (Table 8-1).

Table 8-1

Philippines: Annual Percentage Change in Real GDP

	Average 1991–2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Projections 2010	Projections 2011
EMERGING ASIA[A]								9.8	7.0	5.6	8.2	8.2
Newly industrialized Asian economies[b]	6.1	1.2	5.8	3.2	5.9	4.8	5.8	5.7	1.8	-0.9	5.2	4.9
Developing Asia [c]	7.4	5.8	6.9	8.2	8.6	9.0	9.8	10.6	7.9	6.6	8.7	8.7
ASEAN 5								6.3	4.7	1.7	5.4	5.6
Indonesia	4.0	3.6	4.5	4.8	5.0	5.7	5.5	6.3	6.0	4.5	6.0	6.2
Malaysia	7.1	0.5	5.4	5.8	6.8	5.3	5.8	6.2	4.6	-1.7	4.7	5.0
Philippines	3.0	1.8	4.4	4.9	6.4	5.0	5.3	7.1	3.8	0.9	3.6	4.0
Thailand	4.4	2.2	5.3	7.1	6.3	4.6	5.1	4.9	2.5	-2.3	5.5	5.5
Viet Nam	7.6	6.9	7.1	7.3	7.8	8.4	8.2	8.5	6.2	5.3	6.0	6.5
NORTH EAST ASIA												
China	10.4	8.3	9.1	10.0	10.1	10.4	11.6	13.0	9.6	8.7	10.0	9.9
Japan	1.3	0.2	0.3	1.4	2.7	1.9	2.0	2.4	-1.2	-5.2	1.9	2.0
Korea	6.1	4.0	7.2	2.8	4.6	4.0	5.2	5.1	2.3	0.2	4.5	5.0

Table 8-1 continued

	Average 1991–2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Projections 2010	2011
OTHER ADVANCED ECONOMIES IN ASIA												
Singapore	7.6	-2.4	4.2	3.8	9.2	7.6	8.7	8.2	1.4	-2.0	5.7	5.3
Australia	3.4	2.1	3.9	3.2	3.6	3.2	2.6	4.7	2.4	1.3	3.0	3.5
New Zealand	2.9	2.6	4.9	4.1	4.4	3.2	1.0	2.8	-0.1	-1.6	2.9	3.2
United States	3.3	0.8	1.8	2.5	3.6	3.1	2.7	2.1	0.4	-2.4	3.1	2.6
World	3.1	2.2	2.9	3.6	4.9	4.5	5.1	5.2	3.0	-0.6	4.2	4.3

a. *All economies in developing Asia and the newly industrialized Asian economies*
b *Newly industrialized Asian economies: Hong Kong, China; Korea; Singapore; Chinese Taipei*
. *Developing Asia: Bangladesh, Bhutan, Cambodia, China, Fiji, India, Indonesia, Kiribati, Lao People's Democratic Republic, Malaysia, Maldives, Myanmar, Nepal, Pakistan, Papua New Guinea, Philippines,Samoa, Solomon Islands, Sri Lanka, Thailand, Tonga, Vanuatu, Viet Nam*
SOURCE: *World Economic Outlook (WEO), April 2009 and April 2010*

The economy experienced boom and bust cycles as a result of political crises and natural and manmade disasters. Several studies also attribute the economy's failure to achieve sustainable economic growth to deep structural constraints on the economy, such as political instability, lack of investment in infrastructure and social services, lack of a coherent industrialization policy, and an indecisive population management program.

Economic growth fell to 1.8 percent in 2001, following a period of political instability and a people power uprising that led to the ouster of Estrada. The economy started to pick up in 2002 with a growth rate of 4.4 percent and enjoyed much more robust growth by the mid-2000s, peaking in 2007 at 7.1 percent. Per capita GDP increased as well, at 5 percent during this period. Remittances from overseas Filipino workers (OFWs) helped drive economic growth in 2007 by driving consumption and ensuring a steady inflow of foreign exchange. Remittances have consistently increased and could be considered the economy's lifesaver (DevPulse 2008).

The services sector has the biggest share among sectors in total GDP; its share has been increasing for years and now makes up almost half of total GDP. Industry and agriculture represent 30 percent and 20 percent of GDP, respectively, but overall shares in GDP have declined in the past decades as the services sector continues to grow (Table 8-2).

Partly as a response to lack of employment opportunities in the Philippines, many Filipinos work abroad. As of 2008, an estimated 8.2 million Filipinos were working abroad: 3.6 million were temporary workers, 3.9 million were permanent residents, and 0.7 million were irregular workers (Figure 8-1). Remittances from overseas workers have also risen rapidly; they reached US$14 billion in 2007 (Aldaba and Hermoso 2010) (Figure 8-2).

Table 8-2

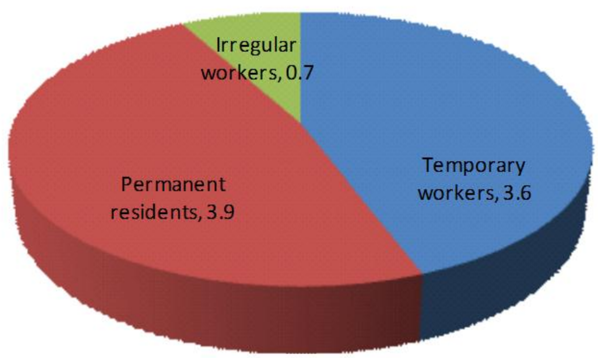
Philippines: GDP by Industrial Origin at Constant 1985 Prices

	Ave. 1990–2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Real GDP	2.9	1.8	4.4	4.9	6.4	5.0	5.3	7.1	3.8	0.9
SECTOR GROWTH										
Agriculture	1.7	3.7	4.0	3.8	5.2	2.0	3.8	4.8	3.2	0.1
Industry	2.7	-2.5	3.9	4.0	5.2	3.8	4.5	6.8	5.0	-2.0
Services	3.8	4.3	5.1	6.1	7.7	7.0	6.5	8.1	3.3	3.2
SECTOR SHARE TO REAL GDP										
Agriculture	21.4	20.2	20.1	19.8	19.6	19.1	18.8	18.4	18.3	18.1
Industry	29.4	34.0	33.8	33.5	33.1	32.8	32.5	32.4	32.8	31.8
Services	49.2	45.9	46.1	46.7	47.3	48.2	48.7	49.2	48.9	50.0

SOURCE: ADB Key Economic Indicators 2009, updates from ADO 2010

Figure 8-1

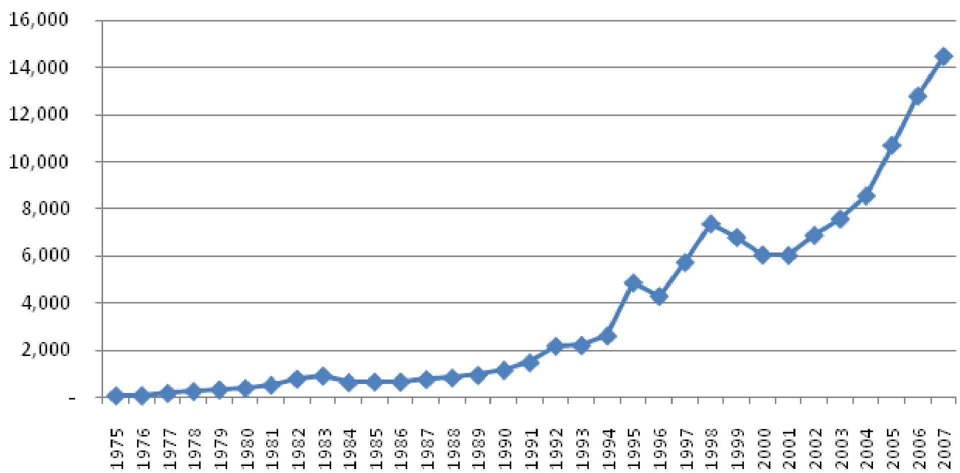
Stock Estimate of Overseas Filipinos, 2008 (million)



SOURCE: Commission on Filipinos Overseas:http://www.cfo.gov.ph/pdf/statistics/Stock%202008.pdf *(accessed August 10, 2010)*

Figure 8-2

Remittances to Philippines 1975–2007, US$ million



SOURCE: Aldaba and Hermoso (2010), citing Philippine Migration and Development Statistical Almanac (2009)

The economy is driven largely by private consumption expenditures (PCE), which make up almost 70 percent of GDP. The large PCE is attributable to increasing remittances from overseas workers. Meanwhile, total government consumption declined in the early 2000, falling below 10 percent of GDP from 2005 to 2008, to increase again in 2009 as a result of fiscal stimulus measures implemented by the government to respond to the crisis. Gross capital formation had also declined since 2001 as a result of declining investments in the economy. Exports of goods and services continue to make up the largest chunk of GDP, but also showed a decline in the past decade. From 49.2 percent of GDP in 2001, exports dropped to 42 percent by 2007. The crisis years further weakened growth of exports as demand from top export destinations, the United States and Japan, declined (Table 8-3).

Table 8-3

Philippines: GDP by Expenditure Shares at Current Market Prices (billion pesos)

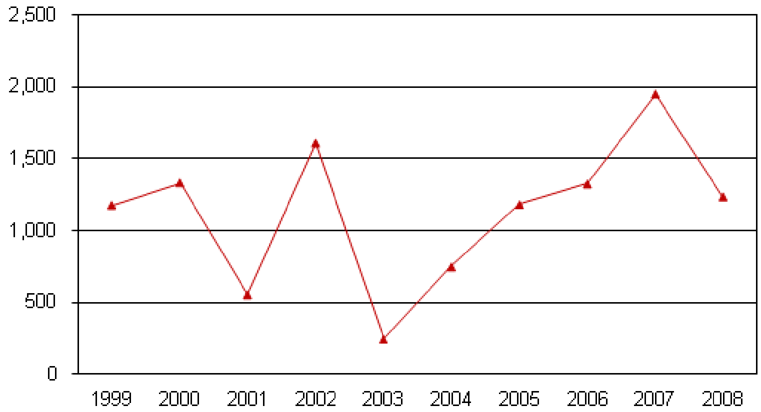
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Expenditure on GDP	3631.5	3963.9	4316.4	4871.6	5444.0	6031.2	6647.3	7423.2	7669.1
Private consumption	2565.0	2751.0	2988.2	3346.7	3772.2	4229.5	4611.9	5281.1	5,675
Government consumption	444.8	456.9	477.4	492.1	527.0	589.9	653.8	716.5	814
Gross fixed capital formation	651.3	698.1	726.9	784.1	783.4	846.7	977.2	1089.7	1099.9
Increase in stocks	37.8	2.1	-0.3	31.9	10.6	28.7	45.2	41.8	-29.1
Exports of goods and services	1785.2	1991.3	2142.0	2481.0	2589.7	2850.9	2826.6	2736.3	2401.6
Less: Imports of goods and services	1899.4	2010.5	2398.4	2659.0	2816.2	2893.2	2810.2	2872.6	2341.6
Statistical discrepancy	46.7	74.9	380.5	394.8	577.3	378.7	342.8	430.4	49.5
STRUCTURE OF DEMAND PERCENT OF GDP AT CURRENT MARKET PRICES									
Private consumption	70.6	69.4	69.2	68.7	69.3	70.1	69.4	71.1	74.0
Government consumption	12.2	11.5	11.1	10.1	9.7	9.8	9.8	9.7	10.6
Gross domestic capital formation	19.0	17.7	16.8	16.7	14.6	14.5	15.4	15.2	14.3
Exports of goods and services	49.2	50.2	49.6	50.9	47.6	47.3	42.5	36.9	-0.4
Imports of goods and services	52.3	50.7	55.6	54.6	51.7	48.0	42.3	38.7	31.3
Statistical discrepancy	1.3	1.9	8.8	8.1	10.6	6.3	5.2	5.8	30.5

SOURCE: *ADB Key Economic Indicators 2009, updates from ADO 2010*

FDI inflow to the Philippines has had a mixed performance. It plummeted in 2001 and 2003 following the ouster of Estrada but climbed steadily after 2004, peaking in 2007, only to fall again in 2008 (Figure 8-3).

Figure 8-3

Philippines: Net FDI Inflow, 1999–2008

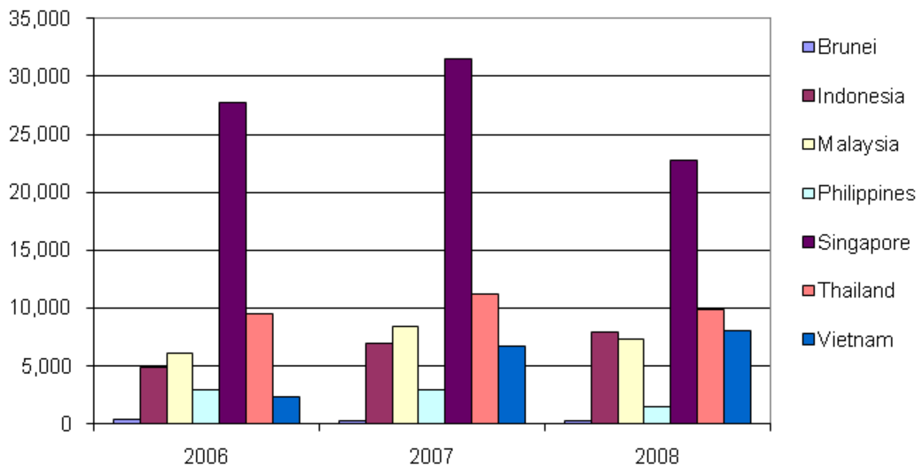


SOURCE: Bangko Sentral ng Pilipinas

Comparing Philippine FDI performance with those of other middle-income countries in ASEAN, Philippine performance pales in comparison, except to that of Indonesia. Most recently, Viet Nam overtook the Philippines in terms of FDI inflows (Figure 8-4).

Figure 8-4

Foreign Direct Investment, ASEAN Countries



SOURCE: ASEAN

Structure of Employment

The employment rate increased in 2005 and 2006. The growth rate is higher than those of other countries in the region but has not been sufficient to quell the high unemployment rate. Studies attribute this to the increasing population and the rise in the labor force participation rate. Labor force participation declined slightly in 2005 but increased again in 2006 (Table 8-4). Men have a higher employment-to-population ratio, at 72 percent, than women's 45 percent. Among men, the age group 35–44 reported the highest employment-to-population ratio, while the age group 45–54 has the highest ratio among women. For both sexes combined, the age group 45–54 has the highest employment ratio, followed by the age group 35-44. (Table 8-5)

Table 8-4

Philippine Labor Force Survey

	Oct-02	Oct-03	Oct-04	Oct-05	Oct-06
Total 15 yrs old and over (in 000)	51,280	52,299	53,562	54,797	55,989
Labor Force (in 000)	33,678	35,078	35,619	35,496	35,806
Labor Force Participation Rate (%)	65.7	67.1	66.5	64.8	64.0
Employment (in '000)	30,119	31,524	31,733	32,876	33,185
Employment Rate (%)	89.4	89.9	89.1	92.6	92.7

Notes: Estimates are preliminary and may change.
SOURCE: National Statistics Office

Table 8-5

Philippines Employment-to-Population Ratio by Age Group and Sex, 2002–2008(percent)

Age Group and Sex	2002	2003	2004	2005	2006	2007	2008
Both sexes	**59.7**	**59.1**	**59.5**	**59.4**	**59.1**	**59.3**	**58.9**
15–19 years	29.5	28.2	29.2	28.8	28.6	28.3	27.2
20–24 years	53.1	52.9	52.6	52.8	51.9	52.3	51.7
25–34 years	68.5	67.7	67.5	67.6	67.5	67.9	67.6
35–44 years	75.6	75.1	75.1	75.3	75.6	75.8	75.9
45–54 years	75.8	75.7	75.7	75.4	75.9	76.3	76.3
55–64 years	67.1	66.0	66.3	65.7	65.5	65.9	65.5
65 years and Over	39.0	38.4	38.3	38.8	37.74	38.14	37.2
Not Reported	**	38.1	41.7	20.0	20.0	18.2	15.0
Men	**72.9**	**73.2**	**74.2**	**73.4**	**72.7**	**72.9**	**72.8**
15–19 years	36.7	35.3	37.0	36.0	35.7	35.3	34.2
20–24 years	63.5	64.9	65.7	64.9	63.9	64.0	64.0
25–34 years	86.2	86.5	87.4	86.8	85.9	86.1	86.5
35–44 years	92.4	92.8	92.6	92.0	91.8	92.0	92.5
45–54 years	90.4	90.7	90.2	89.6	89.1	89.6	90.1
55–64 years	80.4	79.7	79.4	78.3	77.5	78.0	77.7
65 years and Over	51.7	51.1	50.4	50.7	49.4	49.8	48.9
Not Reported	**	42.9	50.0	33.3	25.0	20.0	16.7
Women	**46.6**	**45.2**	**44.9**	**45.5**	**45.6**	**45.9**	**45.2**
15–19 years	21.5	20.7	21.1	21.4	21.4	21.2	20.1
20–24 years	41.3	39.9	38.9	40.1	39.6	40.0	38.8
25–34 years	50.7	48.8	47.7	48.4	49.1	49.6	48.9
35–44 years	59.2	57.9	57.9	58.9	59.2	59.5	59.3
45–54 years	62.0	61.3	61.5	61.5	62.5	63.0	62.4
55–64 years	54.9	53.3	53.6	53.6	53.9	54.2	53.8
65 years and Over	28.8	28.3	28.1	28.6	28.4	28.9	27.9
Not Reported	-	26.7	18.8	33.3	**	14.3	8.3

Notes: The ratio was computed by dividing total employed to total household population 15 years old over and multiplied by 10 on the basis of averages of four survey rounds (January, April, July and October).Data for 2002–2005 were calculated using population projections based on the 1995 Census of Population;. 2006–2008 data were calculated using population projections based on the 2000 Census of Population.
*** Less than 0.05 percent.*
Source of basic data: National Statistics Office, Labor Force Survey.

Agriculture remains the main source of employment among men, followed by wholesale and retail trade and transport, storage and communication. Among women, wholesale and retail trade is the main source of employment, followed by agriculture, hunting and forestry and private households with employed persons (Table 8-6).

Table 8-6

Philippines Employed Persons by Major Industry Group and Sex, 2002–2008, thousands

Major Industry Group and Sex	2002	2003	2004	2005	2006	2007	2008
BOTH SEXES							
All Industries	30,062	30,635	31,613	32,313	32,636	33,560	34,089
Agriculture, hunting and forestry	9,963	9,956	10,013	10,234	10,254	10,342	10,604
Fishing	1,159	1,264	1,368	1,394	1,428	1,444	1,426
Mining and quarrying	113	104	118	123	139	149	158
Manufacturing	2,869	2,941	3,061	3,077	3,053	3,059	2,926
Electricity, gas and water supply	117	112	120	117	128	135	130
Construction	1,596	1,683	1,700	1,708	1,677	1,778	1,834
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	5,613	5,601	5,872	6,147	6,202	6,354	6,446
Hotels and restaurants	693	750	806	861	887	907	953
Transport, storage and communications	2,162	2,310	2,427	2,451	2,483	2,599	2,590
Financial intermediation	312	303	328	341	344	359	368
Real estate, renting and business activities	544	639	690	734	783	885	953
Public administration and defense; compulsory social security	1,442	1,415	1,491	1,481	1,485	1,551	1,676
Education	935	926	938	978	999	1,035	1,071
Health and social work	348	371	361	375	359	373	392
Other community, social and personal service activities	881	861	835	775	801	849	833
Private households with employed persons	1,313	1,399	1,487	1,517	1,612	1,740	1,729
Extraterritorial organizations and bodies	3	2	2	1	2	2	1
MEN							
All Industries	18,306	18,873	19,646	19,910	20,013	20,542	20,959
Agriculture, hunting and forestry	7,114	7,182	7,316	7,393	7,382	7,437	7,667
Fishing	1,091	1,175	1,272	1,294	1,327	1,327	1,317
Mining and quarrying	100	96	107	109	125	135	146
Manufacturing	1,541	1,593	1,692	1,660	1,653	1,684	1,623
Electricity, gas and water supply	98	93	99	98	108	112	110
Construction	1,570	1,649	1,670	1,672	1,648	1,742	1,798
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	2,115	2,165	2,306	2,452	2,465	2,526	2,566
Hotels and restaurants	306	332	358	395	402	409	436
Transport, storage and communications	2,062	2,198	2,307	2,318	2,329	2,428	2,426
Financial intermediation	133	133	147	143	148	156	156

Table 8-6, continued

Major Industry Group and Sex	2002	2003	2004	2005	2006	2007	2008
Real Estate, renting and business activities	348	439	478	501	508	578	624
Public administration and defense; compulsory social security	893	884	943	934	927	950	1,023
Education	231	226	231	236	249	259	269
Health and social work	102	91	96	97	99	101	114
Other community, social and personal service activities	415	420	418	381	406	435	426
Private households with employed persons	186	199	209	228	239	262	262
Extraterritorial organizations and bodies	1	1	1	1	1	2	1
WOMEN							
All Industries	11,756	11,762	11,968	12,403	12,622	13,018	13,130
Agriculture, hunting and forestry	2,849	2,774	2,697	2,842	2,872	2,905	2,937
Fishing	67	89	95	100	101	117	110
Mining and quarrying	13	8	11	14	14	14	12
Manufacturing	1,328	1,348	1,369	1,417	1,400	1,375	1,304
Electricity, gas and water supply	18	19	21	19	21	23	20
Construction	26	35	30	36	29	36	37
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	3,498	3,436	3,567	3,695	3,738	3,828	3,881
Hotels and Restaurants	387	419	449	466	484	498	518
Transport, Storage and Communications	100	113	120	132	154	170	165
Financial Intermediation	178	171	181	198	196	203	212
Real estate, renting and business activities	196	200	212	234	275	307	329
Public administration and defense; compulsory social security	549	531	548	548	558	601	653
Education	704	700	707	742	750	776	802
Health and social work	246	280	266	279	260	272	277
Other community, social and personal service activities	466	441	417	394	397	415	407
Private households with employed persons	1,127	1,200	1,278	1,289	1,374	1,478	1,467
Extraterritorial organizations and bodies	2	2	1	1	*	1	1

Notes:. Details may not add up to totals because of rounding.
Data were averages of four survey rounds (January, April, July and October); 2002–2005 data were calculated using population projections based on the 1995 Census and 2006–2008 data were calculated using population projections based on the 2000 Census
** Less than 500.*
SOURCE: National Statistics Office, Labor Force Survey.

The unemployment rate increased in the early 2000 years while the economy was experiencing a slump as a result of political instability and accountability issues in the government, and also partly as a result of a slowing down of the economy in the aftermath of the Asian Financial Crisis. Unemployment dropped as the economy recovered in 2007, but increased in 2008 with the onset of the global financial crisis (Figure 8-5).

Figure 8-5

Philippine GDP and Unemployment Rate

SOURCE: ADB (www.adb.org/stat)

High unemployment is a problem that has haunted the economy for decades. The Philippine unemployment rate at 11 percent is the highest in East Asia from 2003-2005. Unemployment somehow declined in 2006 and 2007 (Table 8-7). A feature of the local labor structure is higher unemployment among college graduates than among those who finished only elementary and high school education or those who did not go to formal schools. Unemployment among college graduates is consistently at the double-digit level, with a slight improvement in 2007. Unemployment is higher among male college graduates than among women college graduates (Table 8-8).

Table 8-7

Unemployment Rates in East Asia, 2003–2007

Economy	2003	2004	2005	2006	2007
China	4.3	4.2	4.2	4.1	4.0
Hong Hong	7.9	6.8	5.6	4.8	4.0
Indonesia	9.5	9.9	11.2	10.3	9.1
Malaysia	3.6	3.5	3.5	3.4	3.1
Philippines*	11.3	11.8	11.5	8.0	7.3
Singapore	4.0	3.4	3.1	2.7	2.1
Korea	3.6	3.7	3.7	3.5	3.2
Chinese Taipei	5.0	4.4	4.1	3.9	3.9
Thailand	2.2	2.1	1.8	1.5	1.4

SOURCE: Aldaba and Hermoso, 2010, citing ADB Outlook 2008

Table 8-8

Philippines Unemployment Rate by Highest Grade Completed and Sex, 2002–2008, percent

	2002	2003	2004	2005a Jan	2005a Apr.	2005a Jul.	2005a Oct.	2006	2007	2008
BOTH SEXES	**11.4**	**11.4**	**11.8**	**11.3**	**8.3**	**7.7**	**7.4**	**8.0**	**7.3**	**7.38**
No grade completed	9.3	10.3	12.2	12.5	3.5	2.1	2.5	2.8	2.6	2.16
Elementary	6.7	7.0	7.4	7.3	4.1	3.4	3.4	3.8	3.5	3.32
Undergraduate	6.3	6.7	7.0	7.2	3.5	3.1	2.9	3.3	3.2	3.10
Graduate	7.1	7.2	7.8	7.4	4.7	3.7	3.9	4.3	3.8	3.53
High school	13.2	12.9	13.4	12.7	9.6	9.1	8.8	9.4	8.7	8.56
Undergraduate	12.3	12.2	12.7	11.2	8.3	7	7.4	7.6	7.1	6.86
Graduate	13.7	13.4	13.9	13.5	10.4	10.3	9.5	10.4	9.5	9.43
College	15.4	15.0	15.2	14.2	11.7	11.3	10.5	11.2	10.1	10.58
Undergraduate	16.7	15.9	16.1	15.1	12.7	11.6	10.9	12.2	11.1	11.74
Graduate & higher	14.2	14.1	14.3	13.4	10.7	11	10.2	10.3	9.2	9.51
Not reported	**	**	-	-	-	-	-	-	-	-
MEN	**11.1**	**11.0**	**11.5**	**11.2**	**8.3**	**7.6**	**7.4**	**8.2**	**7.5**	**7.56**
No grade completed	7.3	8.6	9.9	10.2	2.9	1.8	2	2.6	2.8	2.49
Elementary	6.6	6.8	7.3	7.1	4.4	3.5	3.7	4.2	3.9	3.72
Undergraduate	6.1	6.4	6.7	7.2	3.7	3.1	3.1	3.7	3.5	3.38
Graduate	7.2	7.1	7.8	7.1	5.2	3.9	4.3	4.8	4.3	4.07
High school	13.1	12.6	12.9	12.3	9.6	9	8.8	9.6	8.8	8.67
Undergraduate	12.8	12.3	12.5	11.4	8.9	7.3	7.6	8.2	7.7	7.46
Graduate	13.3	12.8	13.2	12.9	10	9.9	9.4	10.4	9.4	9.35
College	15.7	15.5	15.9	15.7	12.5	12.1	11.2	12.4	11.1	11.49

Table 8-8 continued

	2002	2003	2004	2005a				2006	2007	2008
Undergraduate	15.7	15.2	15.9	15.4	12.9	11.6	10.9	12.5	11.4	11.73
Graduate & higher	15.6	16.0	16.0	16.0	11.8	12.7	11.5	12.2	10.8	11.17
Not reported	**	-	-	-	-	-	-	-	-	-
WOMEN	**11.8**	**11.9**	**12.4**	**11.4**	**8.2**	**7.8**	**7.3**	**7.6**	**7.0**	**7.09**
No grade completed	12.6	13.2	16.1	16.6	4.6	2.5	3.5	2.8	2.8	1.57
Elementary	6.9	7.4	7.6	7.5	3.6	3.3	2.9	2.9	2.8	2.54
Undergraduate	6.9	7.3	7.6	7.2	3	3.2	2.5	2.5	2.6	2.45
Graduate	6.9	7.4	7.7	7.8	4.1	3.3	3.2	3.3	3.0	2.58
High school	13.4	13.6	14.3	13.3	9.5	9.4	8.8	9.2	8.5	8.34
Undergraduate	11.3	12.1	12.9	10.7	7.1	6.5	7	6.5	6.0	5.68
Graduate	14.6	14.3	15.0	14.6	10.9	10.9	9.7	10.5	9.7	9.57
College	15.1	14.4	14.2	12.6	10.8	10.4	9.8	9.9	9.0	9.57
Undergraduate	18.2	17.1	16.2	14.7	12.2	11.6	11	11.7	10.6	11.76
Graduate & higher	13.1	12.7	13.0	11.3	9.8	9.6	9.1	8.7	8.0	8.18
Not reported	-	-	-	-	-	-	-	-	-	-

[a]*The NSO adopted the new (ILO) definition of unemployment in the LFS questionnaire starting with April 2005.*

http://www.bles.dole.gov.ph/2009%20Publications/2009%20Gender%20Stat/statistical%20tables/Chapter%205%20-%20Unemployment/Table%205.7.xls

Notes: Details may not add up to totals because of rounding.

Labor force is the sum of all employed and unemployed persons.

Data were averages of four survey rounds (January, April, July and October)..

Unemployment rate is the ratio of the total unemployed persons to the total labor force multiplied by 100.

Data for 2002–2005 were calculated using projections based on the 1995 census; data for 2006; data for 2008 were calculated using projections based on the 2000 census.

To upgrade the skills of the labor force, the government provides training conducted by the Technical Education and Skills Development Agency (TESDA). TESDA receives about 2 percent of its total budget for education to support programs aimed at enhancing technical and vocational skills of the workers. TESDA even gets higher support than the Commission on Higher Education, which is the agency that oversees state colleges. The bulk of the education budget goes to basic education (Table 8-9).

Table 8-9

Philippines: Budget Appropriations for Education by Level and Agency, Fiscal 2002–2006 (000 pesos)

Level and Agency	2002	2003	2004	2005	2006
Basic education: DECS	103,134,128	106,708,873	105,295,032	110,995,428	118,038,047
Higher education: Commission on Higher Education	754,573	664,364	1,052,856	1,073,653	1,140,670
Technical, vocational education: TESDA	2,161,324	2,614,536	2,085,384	2,411,206	2,421,613
Total	106,050,025	109,987,773	108,433,272	114,480,287	121,600,330

Note: Years are fiscal years. Programs for 2002–2005 are actual and for 2006 proposed. Only selected agencies were covered to represent each level of education.

SOURCE: Department of Budget and Management.

Another feature of the labor structure is the high underemployment rate (Table 8-10). Underemployment accounts for the increasing informal sector operators in the member economy, with almost 90 percent self-employed. Citing Hasan and Jandoc (2009), Aldaba and Hermoso (2010) noted that the share of employment in manufacturing has remained low for many years. The shift in employment away from agriculture has been absorbed by the services sector, usually in low-skilled, low-value jobs that are not considered permanent wage employment.

Table 8-10

Philippines: Underemployment

	Oct 2002	Oct 2003	Oct 2004	Oct 2005	Oct 2006
Underemployment (in 000)	4,849	4,964	5,357	6,970	6,761
Underemployment rate (%)	16.1	15.7	16.9	21.2	20.4

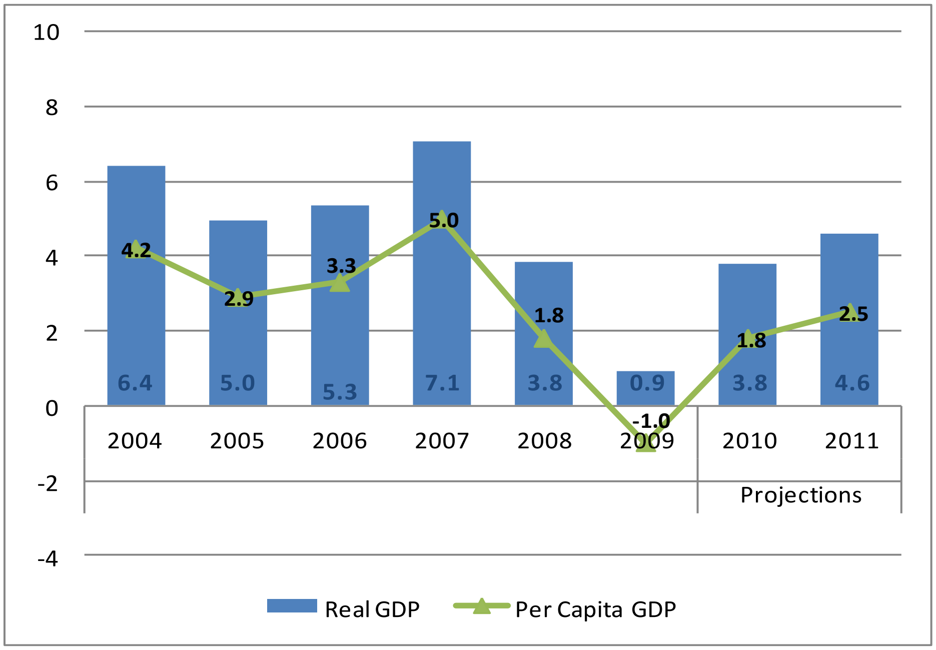
Note: Estimates are preliminary and may change

SOURCE: National Statistics Office

General Impact of the Global Recession

The impact of the financial crisis was visible in the GDP movement in 2008 and 2009. From a growth rate of 7.1 percent in 2007, GDP growth declined to 3.8 percent in 2008 and to 0.9 percent in 2009. Per capita GDP also declined from 5.0 percent in 2007 to -1.0 percent in 2009. GDP per capita is projected to improve in 2010 to 1.8 percent and to improve further in 2011 as the economy recovers from the crisis (Figure 8-6).

Figure 8-6
Philippines: Real GDP and Per Capita GDP (Annual Percentage Change)



SOURCE: *World Economic Outlook (WEO), April 2009 and April 2010*

Yap et al. (2009) argued that the economic slow-down was not directly a result of the crisis, but rather was brought about by a sharp increase in inflation in 2008. From a rate of 2.8 percent in 2007, inflation increased to 9.3 percent in 2008. High inflation in 2008 was attributable to many factors, foremost of which were households that postponed consumption expenditures, particularly durable goods; the high cost of fuel that scaled back services in the transportation sector; and higher prices caused by an increase in the cost of production. The global increases in food and fuel prices, and to a lesser extent, the U.S. recession, aggravated the situation. Inflation was kept at bay in 2009 and was brought down to 3.2 percent but is expected to rise to 4 percent in 2010 and 2011. The relatively stable exchange rate in 2007 up to the present also helped curb inflation. The exchange rate for the Philippine peso, which is pegged to the U.S. dollar in the global market, ranges from ₱44 to ₱ 47.

Two successive disastrous typhoons that ravaged Metro Manila and Luzon in the last quarter of 2009 also worsened the situation for the Philippines and slowed economic growth further. Economic damage, particularly infrastructure and agriculture damage, of these two typhoons is estimated at ₱9.76 billion.

A study conducted by Yap and Majuca (2010) argued that the Philippines initially felt the impact of the crisis through the trade channel. At the height of the crisis, merchandise exports declined sharply, from a 6.4 percent growth rate in 2007 to -2.5 percent in 2008, and to -22.3 percent in 2009. The contraction is partly attributable to weaker demand for electronics and garments in the international market. Electronic products, particularly semiconductors, which account for 60 percent of the member economy's merchandise exports, were badly hurt as demand from the United States and Japan declined. FDI also slowed after high growth in middle of 2000. FDI declined to 47 percent in 2008, but improved by 26 percent in 2009. Domestic investments declined in 2008 as several firms cut back on investments (Table 8-11).

Table 8-11

Philippines: Select Indicators for the Economy

	2004	2005	2006	2007	2008	2009	2010	2011
Inflation (%)	6.0	7.6	6.2	2.8	9.3	3.2	4.7	4.5
Exchange rate to U.S. dollar (annual average)	56.1	55.1	51.3	46.1	44.5	47.6		
Growth in merchandise exports (%)	9.8	3.8	15.6	6.4	-2.5	-22.3	15.2	12.7
Growth in merchandise imports (%)	8.0	8.0	10.9	8.7	5.6	24.1	16.0	10.6
Trade balance (US$ million)	-5684.0	-7773.0	-6732.0	-8391.0	-12885.0	-8878.0	-10599.0	-10815.0
Current account balance (US$ million)	1628.0	1984.0	5347.0	7119.0	3633.0	8552.0	5940.0	6240.0
Current account balance (% of GDP)	1.9	2.0	4.5	4.9	2.2	5.3	3.3	3.2
FDI (US$ million)	688.0	1854.0	2921.0	2916.0	1544.0	1948.0		
Growth rate (%)	40.12	169.48	57.55	-0.17	-47.05	26.17		
Gross domestic investment (% of GDP)	16.7	14.6	14.5	15.4	15.2	14.0		

SOURCE: *Asian Development Outlook 2010*

The Philippines has been operating on deficit for decades. Fortunately for the Philippines, the government’s fiscal position improved two years before the crisis, with the deficit narrowing since 2003 and substantially trimmed in 2006 and 2007 as a result of improvements in government revenue efforts, which enjoyed growth of 20 percent and 16 percent in 2006 and 2007, respectively. This has mitigated the possible adverse impacts of the crisis.

Nontax revenue doubled in 2007, which improved overall revenue collection. But in 2008 revenue growth declined to 5.8 percent despite a slight improvement in tax effort, with nontax revenue declining by 25 percent. The deficit widened in 2008 and again in 2009 up to almost 4 percent of GDP. The bigger budget gap in 2009 is an offshoot of the implementation of measures to counter the impact of the crisis, at a period when revenue decreased with declining tax and nontax revenue (Table 8-12). Social service expenditure—for education, health, social security, welfare and employment—increased in 2009 to alleviate the condition of the poor and vulnerable. The proposed budget for 2010, however, is lower than the previous year’s budget, which may have an impact on sustaining the social service programs to counter the impact of the crisis (Table 8-13).

Table 8-12

Philippines: National Government Cash Operations, Million Pesos

	2003	2004	2005	2006	2007	2008	2009	2010 a		Jan–Feb	
								Jan	Feb	2009	2010 a
I. Revenue	**639,737**	**706,718**	**816,159**	**979,638**	**1,136,560**	**1,202,905**	**1,123,211**	**92,265**	**76,699**	**159,431**	**168,964**
Ratio to GDP	*14.8*	*14.5*	*15.0*	*16.2*	*17.1*	*16.2*	*14.6*				
Annual Growth Rate (%)	*10.6*	*10.5*	*15.5*	*20.0*	*16.0*	*5.8*	*(6.6)*	*17.6*	*(5.3)*	*(5.5)*	*6.0*
A. Tax Revenue	550,468	604,964	705,615	859,857	932,937	1,049,179	981,631	83,054	70,386	132,587	153,440
Tax Effort [b]	*12.8*	*12.4*	*13*	*14.3*	*14*	*14.1*	*12.8*			*n.a.*	*n.a.*
B. Nontax Revenue	89,269	101,754	110,544	119,781	203,623	153,726	141,580	9,211	6,313	26,844	15,524
II. Expenditures	**839,605**	**893,775**	**962,937**	**1,044,429**	**1,149,001**	**1,271,022**	**1,421,743**	**129,390**	**109,887**	**226,478**	**239,277**
Ratio to GDP	*19.5*	*18.3*	*17.7*	*17.3*	*17.3*	*17.1*	*18.5*				
Annual Growth Rate (%) of which:	*6.4*	*6.5*	*7.7*	*8.5*	*10.0*	*10.6*	*11.9*	*11.0*	*(0.1)*	*12.3*	*5.7*
A. Interest Payments	226,408	260,901	299,807	310,108	267,800	272,218	278,866	37,602	31,399	71,044	69,001
1 Domestic	147,565	169,997	190,352	197,263	157,220	170,474	164,703	19,356	15,723	37,492	35,079
2 Foreign	78,843	90,904	109,455	112,845	110,580	101,744	114,163	18,246	15,676	33,552	33,922
B. Net Lending and Equity	8,243	5,720	1,897	3,692	13,479	16,084	6,423	401	840	1,436	1,241
III. Surplus/Deficit (-)	**-199,868**	**-187,057**	**-146,778**	**-64,791**	**-12,441**	**-68,117**	**-298,532**	**-37,125**	**-33,188**	**-67,047**	**-70,313**
Ratio to GDP	*-4.6*	*-3.8*	*-2.7*	*-1.1*	*-0.2*	*-0.9*	*-3.9*			*n.a.*	*n.a.*
IV. Financing	**286,823**	**242,542**	**235,992**	**110,121**	**99,108**	**160,108**	**229,843**	**-10,751**	**-58,608**	**23,444**	**-69,359**
A. Net Domestic Borrowing	142,961	161,375	143,327	-10,633	42,946	169,310	77,366	-81,409	-10,994	-56,812	-92,403
Gross Domestic Borrowing	290,283	383,780	396,819	370,306	326,963	429,261	321,898	-27,200	37,096	26,058	9,896
Less: Amortizations	147,322	222,405	253,492	380,939	284,017	259,951	244,532	54,209	48,090	82,870	102,299
B. Net External Borrowing	143,862	81,167	92,665	120,754	56,162	-9,202	152,477	70,658	-47,614	80,256	23,044
Gross External Borrowing	240,122	199,533	218,317	284,081	118,414	71,311	251,366	72,955	380	89,387	73,335
Less: Amortizations	96,260	118,366	125,652	163,327	62,252	80,513	98,889	2,297	47,994	9,131	50,291
V. Change in Cash: Deposit/Withdrawal (-)	**25,767**	**-19,412**	**22,329**	**6,063**	**106,951**	**47,477**	**-66,027**	**44,608**	**-106,554**	**-94,996**	**-61,946**
A. Budgetary	86,955	55,485	89,214	45,330	86,667	91,991	-68,689	-47,876	-91,796	-43,603	-139,672
B. Nonbudgetary accounts[c]	-61,188	-74,897	-66,885	-39,267	20,284	-44,514	2,662	92,484	-14,758	-51,393	77,726

a *Preliminary figures*

b *Revised series to compute tax effort as percent of GDP (instead of GNP in the old series); to be consistent with international practice adopted by the Department of Finance*

c *Refers to accounts not in the NG budget, e.g., sale, purchase of government securities, but in the cash operations report to show the complete relations in the movement of the cash accounts.*

Table 8-13

Philippines: Expenditure Program by Social Services Sector, Fiscal 2008–2010 (Million Pesos)

	Level			Percent Distribution		
	2008	2009	2010[a]	2008	2009	2010[a]
Social Services	**368,342**	**452,221**	**479,936**	**28.02**	**31.71**	**31.14**
Education, culture and manpower development	186,620	222,291	235,210	14.20	15.59	15.26
Health	18,641	38,442	37,897	1.42	2.70	2.46
Social security, welfare and employment	70,300	90,212	100,988	5.35	6.33	6.55
Housing and community development	9,418	5,334	5,368	0.72	0.37	0.35
Land distribution	4,167	1,279	-	0.32	0.09	0.00
Other social services	1,226	2,168	2,126	0.09	0.15	0.14
Subsidy to local government units	77,970	92,496	98,347	5.93	6.49	6.38

Note: Years are fiscal years.
[a] *Proposed*
SOURCE: *Department of Budget and Management:* http://www.dbm.gov.ph/data/Image/TableB.7.pdf

General Policy Response to the Impacts of the Recession

To offset the impact of the crisis, the Philippine government, through the Department of Finance and National Economic Development Authority (NEDA) developed the Economic Resiliency Plan (ERP), which is funded by a ₱330 billion fiscal package. [21] The ERP aims to battle the recession by increasing government spending. It also involves other policy measures such as tax cuts, public-private partnerships, and increases in compulsory social and health insurance. The plan has the following objectives:

- Ensure sustainable growth
- Save and create as many jobs as possible
- Protect the most vulnerable sectors, particularly the poorest sectors, returning OFWs, and workers in export industries
- Ensure low and stable prices to support consumer spending; and
- Enhance competitiveness in preparation for the global rebound.

The package is broken down into the following allotments (Diokno 2010):

- ₱160 billion in incremental government allocations (to fund small, community-level infrastructure)
- ₱100 billion for government corporations, financial institutions, and the private sector (to be used for large infrastructure)
- ₱40 billion for corporate and individual income tax breaks

[21] This section is based on Yap, Reyes, and Cuenca (2009).

- ₱30 billion for temporary additional benefits from social security institutions, particularly the Government Service Insurance System, Social Security System, and Philhealth.

The ERP emphasizes job generation and gives top priority to easy-to-implement projects such as repair and rehabilitation of roads, hospitals, bridges, and irrigation facilities, school and government buildings. Two packages, for 2009 and 2010, were prepared. The infrastructure package for 2009, worth ₱160 billion, was used to fund 4,000–5,000 small projects in the BESF (Budget of Expenditures and Sources of Financing). The projects included small-scale community project such as construction, repair or rehabilitation of irrigation systems, and rural roads to pump up job creation. The second package, worth ₱100 billion, involves bigger projects and is to be used to fund more complex and long-term projects under the public-private partnership scheme.

Fiscal stimulus measures were also developed to address the impact of the crisis. The policy response included a package that address issues related to bank insurance, monetary policy, exchange rate and fiscal and administrative measures. The Asian Development Bank (ADB) made the following inventory of measures implemented by the Philippines to address the impact of the global financial crisis (ADB 2008, as cited in Yap (2010):

- ***Deposit guarantee.*** Announced plans to raise deposit guarantee from ₱250,000 to ₱1 million, pending Congress approval on 21 Oct 08.
- ***Government stakes in banks***
- ***Regulatory forbearance.*** Allowed financial institutions to reclassify their investments in debt and equity securities from October 23 until December 31, 2008. Eased FCDU asset cover requirements on October 31, 2008.
- ***Monetary policy (policy rate and reserve ratio)***
  - Policy rates kept at 6 percent since June 2008
  - reduced regular reserve requirement on bank deposits and substitutes by 2 percentage points effective November 14, 2008
  - increased central bank budget for the peso rediscounting facility from ₱20 billion to ₱40 billion on November 7, 2008
  - Opened a U,S, dollar repurchase agreement or $facility on October 20, 2008, to ensure dollar liquidity with the bank’s dollar-denominated Philippine sovereign bonds as underlying collateral.
- ***Exchange rate (new arrangement and government intervention).*** Massive intervention in the foreign exchange market in July 2008.
- ***Stock market intervention***
- ***Fiscal and administrative measures.*** In March 2008, postponed planned 2008 budget balance to 2010. Imposed domestic petrol price rollbacks in the third quarter of the year.

An inventory of the programs implemented by the government showed that a comprehensive strategy which targets macro-level impacts as well as protection of affected sectors had been crafted and are being implemented or planned to be implemented. Some of these programs had existed before the crisis but were reorganized to meet the demands of sectors affected. The programs covered issues relating to monetary policy, emergency employment, social protection programs, training for work scholarship program, assistance to displaced OFWs, housing programs, multistakeholder conferences and consultations, export support fund, and local government assistance (Aldaba and Hermoso, 2010; Reyes, Sobrevinas and de Jesus, 2010; Yap, Reyes and Cuenca, 2009).

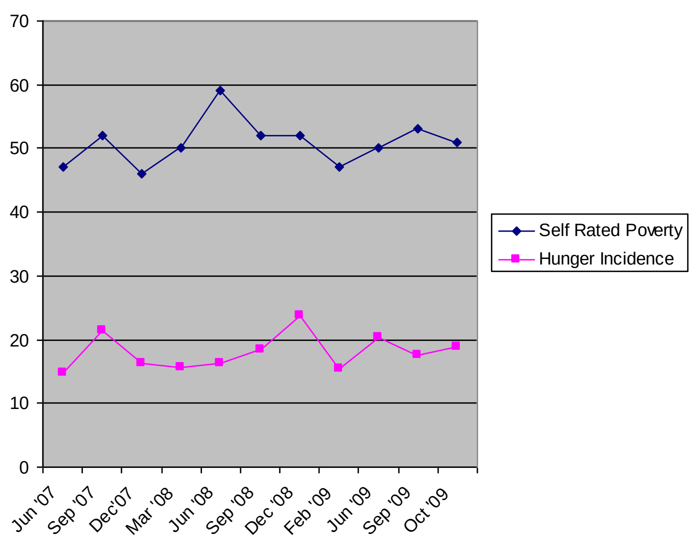
Impacts on the Labor Market and Interventions in Response to the Crisis

Impacts of the Recession on the Labor Market

Despite the limited direct channel of transmission of the global financial crisis to the Philippines, the crisis took a toll in the form of losses in employment, wages and take- home pay, particularly in the manufacturing sector. [22] There was also a reported higher poverty incidence and hunger in the member economy at the peak of the impact of the crisis in 2008, with self-rated poverty increasing at the start of the year and hunger incidence increasing by the last quarter of 2008 (Figure 8-7). The World Bank estimates that 1.4 million Filipinos will be poorer in 2010 as a result of the crisis.

Figure 8-7

Philippines: Social Weather Station Self Rated Poverty and Hunger Incidence, June 2007 to October 2009



SOURCE: Aldaba and Hermoso (2010) , citing National Statistics Office data

According to Department of Labor and Employment (DOLE) reports, displaced workers came mostly from the manufacturing sector, accounting for 69.4 percent of total displacement. Among the subsectors in this industry, electronics suffered most, with close to 9,000 displaced workers in 55 establishments. This figure makes up 2.1 percent of total employment in the electronics

[22] This section is mostly drawn from Dejardin (2010)

industry. The second-largest number of displaced workers is found in the mining industry, with 5,359, followed by Garments with 4,117 displaced workers. More than half (56.5 percent) of locally displaced workers were concentrated in Region IV-A, where the export processing zones are located and where the semiconductor manufacturing industry, which is the hardest hit of all the export industries, is located. Displacements in Region III and Region VII were also due to production declines in electronics and semiconductors and the automotive and support industry. Worker displacement in CARAGA, which is the biggest displacement, was due to the contraction in mining as a result of the decline in the prices of mineral products in the world market (Table 8-14).

Table 8-14

Philippines: Number of Affected Workers by Region, October 2008 to February 16, 2009

Region	No. of Establishments Affected	No. of Workers Affected	No. of Workers Displaced
ALL REGIONS	**435**	**84,615**	**39,309**
NCR*	48	3,906	3,773
CAR	8	672	567
Region I	1	14	14
Region II	4	417	417
Region II *	29	6,212	2,628
Region IV-A *	215	49,613	22,230
Region IV-B	16	1,334	1,334
Region V	9	730	338
Region VI	15	505	494
Region VII	23	8,529	2,377
Region VIII	1	22	-
Region IX	5	243	243
Region X	5	987	87
region XI	2	179	179
Region XII	17	1,027	352
CARAGA	37	10,225	4,276

*Note : * incomplete database*
SOURCE: DOLE Regional Offices
Source of data: Labor Market Updates Vol1 No.1 (March 2009);
www.ble.dole.gov.ph/publication/LMU_vol1_no1_09.pdf

There was a noticeable increase in labor force participation between 2008 and 2009, in contrast to a downward trend in labor force participation rate in years immediately preceding the crisis. The rising rates were driven by increasing participation of women in the workforce, as well as by 15–29-year-old workers and 55-64-year-old workers, who usually do not have a college education. Dejardin (2010) argued that this phenomenon is part of the “added worker effect,” wherein during periods of crisis and economic downturn, when breadwinners, who are usually men, lose their jobs, families encourage other members such as women and young members to compensate for the loss to maintain the living standard (Table 8-15).

The already high unemployment rate was aggravated during the crisis, when people wanted to work additional hours to augment their income or take another job with better pay, but opportunities were scarce.

While jobs increased in 2009, these jobs were found to be not full-time work. The number of full-time jobs (jobs requiring 40 hours of work per week) between 2008 and 2009 actually decreased. For the Filipino worker, working in a non-full-time job can result in two things: lesser take-home pay, and loss of social security benefits that usually accompany work in a full-time setting (Dejardin 2010).

Table 8-17 shows that an increase in employment level in 2009 was largely part-time work (less than 40 hours per week). A significant number of part-time workers were former full-time workers who lost their jobs or new entrants to the labor market. The increase in the number of part-time workers has been attributed to austerity measures implemented by companies to cope with falling demand for products in both the domestic and international markets. Dejardin referred to the employment gains in 2009 as "distress employment" in low-income, low-productivity activities.

For those who lost their jobs or were pushed to give up part of their wage, the services sector was a harbor. The shift of employment to the services sector resulted in more people being employed in sales and services jobs and microbusinesses. Within this sector, the biggest source of employment is wholesale and retail trade, followed by transport, storage and communication. Closely following is real estate, renting and business activities. A negative consequence of more people joining these sectors is that, unlike formal sector employment or production sector employment, these jobs are least covered by labor and social protection programs.

Agriculture employment increased slightly in 2009 but is projected to contract in 2010. Meanwhile, the industry sector contracted by 2 percent in 2009 but is expected to gain by 10 percent in 2010, with a projected 26 percent increase in the mining industry; 17 percent increase in electricity, gas, and water sector; 14 percent increase in the construction sector; and 8 percent increase in the manufacturing sector (Table 8-18).

Table 8-15

Summary Statistics on Unemployment Philippines: 2008, 2009 and 2010 (in thousands except rates)

	Total Unemployed Persons			Percent Share (%)			Unemployment Rate (%)			Increment	
	2008	2009	2010p	2008	2009	2010p	2008	2009	2010p	2008–2009	2009–2010
Both Sexes	**2675**	**2854**	**2829**	**100**	**100**	**100**	**7.2**	**7.7**	**7.3**	**179**	**-25**
Male	1741	1829	1828	65.1	64.1	64.6	7.6	8.2	7.8	88	-1
Female	935	1026	1000	35	35.9	35.3	6.6	7.2	6.5	91	-26
AGE GROUP											
15-24 yrs old	1328	1405	1457	49.6	49.2	51.5	16.7	17.8	17.8	77	52
25-54 yrs old	1245	1331	1256	46.5	49.6	44.4	5.1	5.4	4.9	86	-75
56 yrs old and over	102	119	117	3.8	4.2	4.1	2.1	2.5	2.3	17	-2
HIGHEST GRADE COMPLETED											
No Grade Completed	10	11	19	0.4	0.4	0.7				1	8
Elementary	396	411	420	14.8	14.4	14.8				15	9
Undergraduate	180	183	208	6.7	6.4	7.4				3	25
Graduate	215	228	212	8	8	7.5				13	-16
High school	1238	1276	1321	46.3	44.7	46.7				38	45
Undergraduate	343	343	386	12.8	12	13.6				0	43
Graduate	895	932	935	33.5	32.7	33.1				37	3
College	1032	1156	1069	38.6	40.5	37.8				124	-87
Undergraduate	551	634	547	20.6	22.2	19.3				83	-87
Graduate	481	522	522	18	18.3	18.5				41	0

Note: Based on the new official unemployment definition (NSCB Resolution No. 15 s 2004).

p *Preliminary.*

Table 8-16

Philippines Key Employment Indicators: January 2008–2010 (thousands)

Indicator	Jan. 2008	Jan. 2009	Jan. 2010	Increment		Growth rate	
				2008–2009	2009–2010	2008–2009	2009–2010
Household population 15 years old and over	57,390	58,657	60,208	1,267	1,551	2.2	2.6
Labor force	36,368	37,116	38,820	748	1,704	2.1	4.6
Employed persons	33,693	34,262	35,992	569	1,730	1.7	5
Unemployed persons	2,675	2,854	2,029	179	-25	6.7	-0.9
Underemployed persons	6,368	6,238	7,102	-130	864	-2	13.9
Visibly underemployed	4,024	3,985	4,172	-39	187	-1	4.7
Not in the labor force	21,022	21,541	21,388	519	-153	2.5	-0.7
LFPR (%)	63.4	63.3	65				
Employment rate (%)	92.6	92.3	92.7				
Unemployment rate (%)	7.4	7.7	7.3				
Underemployment rate (%)	18.9	18.2	20				
Visibly underemployment rate (%)	11.9	11.6	11.6				

[p] – *preliminary*

SOURCE: *National Statistics Office, Labor Force Survey: http://www.bles.dole.gov.ph/LABSTAT/Vol14_22.pdf*

Table 8-17

Summary Statistics on Underemployment in Philippines: January 2007 and 2010 (thousands)

Indicator	2007	2008	2009	2010[a]
Underemployed	**7,214**	**6,368**	**6,238**	**7,102**
Worked less than 40 hours/week[b]	4,165	3,896	3,985	4,172
Worked more than 40 hours/week	2,894	2,344	2,253	2,931
Industry				
Agriculture	3,301	3,138	2,931	3,315
Industry	1,084	952	942	1,014
Services	2,829	2,278	2,365	2,773
Underemployment rate (%)			18.2	19.7
Visible underemployment rate (%)1			11.6	11.6

SOURCE: National Statistics Office, Labor Force Survey
Note: Details may not add to totals because of rounding of figures
[a]*Preliminary*
[b] *Includes number of underemployed persons who were with jobs but did not work during the reference period*

Table 8-18

Summary Statistics on Philippines Employment: January 2008, 2009 and 2010 (thousands)

Indicator	Jan. 2008	Jan. 2009	Jan. 2010[p]	Increment		Growth rate	
				2008–2009	2009–2010	2008–2009	2009–2010
Employed persons	**33,693**	**34,262**	**35,992**	**569**	**1,730**	**1.7**	**5**
SECTOR							
Agriculture, fishery and forestry	11,793	11,847	11,799	54	-48	0.5	-0.4
Agriculture, hunting and forestry	10,409	10,446	10,340	37	-106	0.4	-1
Fishing	1,383	1,400	1,459	17	59	1.2	4.2
Industry	4,981	4,856	5,320	-125	464	-2.5	9.6
Mining	152	152	192	0	40	0	26.3
Manufacturing	2,963	2,849	3,011	-114	162	-3.8	5.7
Electricity, gas and water	126	134	157	8	23	6.3	17.2
Construction	1,740	1,721	1,960	-19	239	-1.1	13.9
Services	16,919	17,559	18,873	640	1,314	3.8	7.5
Wholesale and retail trade	6,333	6,635	7,066	302	431	4.8	6.5
Hotels and restaurants	964	988	1,103	24	115	2.5	11.6
Transport, storage & communication	2,674	2,660	2,733	-14	73	-0.5	2.7
Financial intermediation	364	337	384	-27	47	-7.4	13.9
Real Estate, renting & business activities	904	1,044	1,120	140	76	15.5	7.3
Public administration & defense,	1,612	1,659	1,822	47	163	2.9	9.8

Table 8-18 continued

Indicator	Jan. 2008	Jan. 2009	Jan. 2010p	Increment		Growth rate	
				2008–2009	2009–2010	2008–2009	2009–2010
COMPULSORY SOCIAL SECURITY							
Education	1,083	1,157	1,147	74	-10	6.8	-0.9
Health and social work	390	435	432	45	-3	11.5	-0.7
Other community, social & personal	846	857	949	11	92	1.3	10.7
SERVICE ACTIVITIES							
Private households with employed persons	1,747	1,785	2,115	38	330	2.2	18.5
Extra-territorial organizations	2	3	2	0	0	0	0
STATUS OF EMPLOYMENT							
Wage and salary workers	17,421	17,911	20,068	490	2,157	2.8	12
Self-employed workers	10,880	10,725	10,576	-155	-149	-1.4	-1.4
Employers	1,281	1,412	1,526	131	114	10.2	8.1
Unpaid family workers	4,110	4,214	3,822	104	-392	2.5	-9.3
HOURS OF WORK							
Less than 40 hours (part-time)	11,877	12,453	12,307	576	-146	4.8	-1.2
40 hours and over (full-time)	21,407	21,234	23,245	-173	2,011	-0.8	9.5
Did not Work	410	575	439	165	-136	40.2	-23.7
REGION							
NCR	4,096	4,059	4,397	-37	338	-0.9	8.3
CAR	678	677	701	-1	24	-0.1	3.5
Region I	1,793	1,866	1,881	73	15	4.1	0.8
Region II	1,343	1,367	1,401	24	34	1.8	2.5
Region II	3,447	3,512	3,729	65	217	1.9	6.2
Region IV-A	4,171	4,222	4,488	51	266	1.2	6.3
Region IV-B	1,121	1,169	1,173	48	4	4.3	0.3
Region V	1,921	1,978	2,073	57	95	3	4.8
Region VI	2,788	2,842	3,025	54	183	1.9	6.4
Region VII	2,581	2,611	2,728	30	117	1.2	4.5
Region VIII	1,568	1,573	1,651	5	78	0.3	5
Region IX	1,241	1,323	1,397	82	74	6.6	5.6
Region X	1,719	1,763	1,837	44	74	2.6	4.2
region XI	1,691	1,643	1,721	-48	78	-2.8	4.7
Region XII	1,504	1,579	1,625	75	46	5	2.9
CARAGA	952	979	958	27	-21	2.8	-2.1
ARMM	1,078	1,094	1,207	16	113	1.5	10.3

Note: Details may not add to totals because of rounding of figures.
p – preliminary
SOURCE: National Statistics Office, Labor Force Survey: http://www.bles.dole.gov.ph/LABSTAT/Vol14_22.pdf

Elementary occupations (requiring few or no skills) in agriculture and industry also increased between 2008 and 2009. The bulk of these increase went to 15–19-year-old workers with primary or secondary educations. The share of low-skilled jobs in services and sales declined slightly in 2009 relative to 2008 but continued to be an important primary occupation for workers aged 15–19 years, mostly female, and with primary and secondary educations (Dejardin 2010).

The expansion of sales, services, farming, and elementary occupations has negative implications on wages. These occupations have the highest concentrations of workers whose real hourly pay fell in the bottom quintile of the national hourly wage distribution in 2004, 2007, and 2008. This was aggravated by a decline in the real value of wages and earnings as food and fuel prices increased in 2008. With the reduction in working hours, lower hourly wages mean deeper cuts in weekly earnings (Dejardin 2010).

Among those working overseas, a reported 5,332 OFWs were reported to be affected and displaced because of the crisis. More than 4,000 workers, or close to 80 percent, were OFWs in Chinese Taipei working in the electronics, metal, works and semiconductor industry. Displaced workers in Korea were mostly from the electronics sector. Fifteen seafarers were displaced in the United States as a result of the bankruptcy of the company. A number of construction workers were also retrenched because of the suspension of construction projects in Saudi Arabia, Macau, and Russia (Table 8-19).

Table 8-19

N umber of OFWs Displaced by the Global Crisis by Country and Industry (as of February 2009)

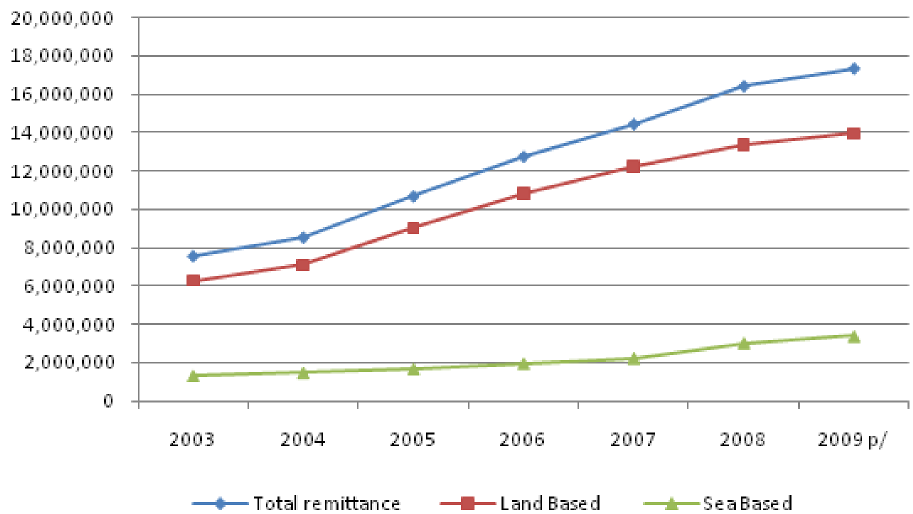
Economy	No. of Companies Affected	No. of Displaced Workers	Industry
Chinese Taipei	83	4,197	Electronics, metal works, semiconductor
Australia	2	81	Shipbuilding, construction
Brunei	4	112	Garments
UK	1	16	Electrical/telecom
UAE	7	300	Service
Macau**	6	155	Construction; hotel
Greece	2	31	Service, cruise vessel
KSA	2	53	Construction
Korea	24	104	Electronics
Poland *	1	11	Metalwork
Canada	1	180	Oil and gas
Japan	1	14	Information tech.
Malaysia	3	17	Garments
USA	1	15	Sea based
Russia*	1	19	Building, construction
Singapore*	1	19	Metalwork
Qatar	1	8	Various
Total	141	5,332	

** Based on recruitment agency report*
*** 40 hotel workers were promised to be rehired in company's projects in Singapore*
Source of data: Labor Market Updates Vol1 No.1 (March 2009): www.ble.dole.gov.ph/publication/LMU_vol1_no1_09.pdf

Nonetheless, remittances remained robust and continue to increase, cushioning the member economy from the impact of the crisis. Remittances increased by US$2 million in 2008 and by US$900,000 in 2009 (Figure 8-8), despite the displacement of some workers abroad. New workers were also deployed in 2007, 2008, and 2009, albeit at much smaller numbers than in previous years (Figure 8-9). In February 2009, Production and Related Workers and Transport Equipment Workers comprise the biggest job order, followed by Professional, Technical and Related Workers (Table 8-20).

Figure 8-8

Remittances of OFWs



SOURCE: Bangko Sentral ng Pilipinas

Figure 8-9

Number of Deployed OFWs

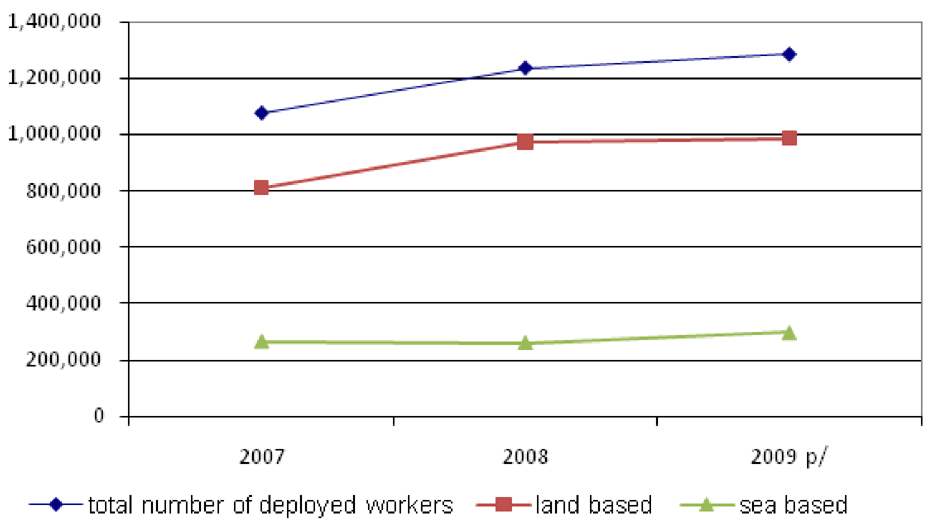


Table 8-20

Active Job Orders by Major Skills as of February 12, 2009

Major Skill	Total Active	
	Approved	Balance
Professional, Technical and Related Workers	152,906	119,569
Administrative and Managerial Workers	6,118	5,393
Clerical and Related Workers	38,738	22,424
Sales Workers	21,195	11,035
Service Workers	232,725	119,121
Agricultural, Animal Husbandry and Forestry Workers	2,695	1,594
Production and Related Workers, Transport Equipment Workers	299,215	195,718
Others (N.E.C.)	3,468	2,800
Total	757,060	477,654

SOURCE: Philippine Overseas Employment Administration (POEA)
Source of data: Labor Market Updates Vol1 No.1 (March 2009): ***www.ble.dole.gov.ph/publication/LMU_vol1_no1_09.pdf***

Labor Market Interventions

The Economic Resiliency Plan embodies the Philippine government's response to the global financial crisis As specified in the Economic Resiliency Plan Frequently Asked Questions or ERP-FAQ, the plan seeks to ensure stable growth, save and create jobs, provide assistance to the most vulnerable sectors (i.e., the poorest of the poor, returning OFWs, and workers in export industries), ensure low and stable prices, and improve competitiveness in preparation for the global economic rebound. To attain these objectives, the following strategies were adopted:

- Implement budget interventions
- Accelerate spending for small infrastructure projects
- Expand social protection programs
- Save and create jobs
- Implement off-budget interventions.

Various projects and programs were implemented to preserve jobs and expand social protection programs. To save and create jobs, the ERP's response was the Comprehensive Livelihood and Emergency Employment Program (CLEEP). The CLEEP is a national government effort to protect the most vulnerable sectors, including the poor, returning expatriates, workers in the export industry, and out-of-school youths, from the effects of reduced or lost income resulting from global economic crisis by providing emergency employment and funding and supervising livelihood projects (ERP-FAQ).

Under CLEEP, the livelihood and public works projects have been aligned and coordinated with the priorities of the super regions, the needs of the 12 poorest provinces, and the most food-poor areas.

This program also aims to create green-collar jobs for upland workers and more jobs in farm-to-market road construction and irrigation projects. Among the projects it has been developing are fertilizer production, goat raising, and other productive home-based activities. It is expected that 400,000 jobs will be created through this effort.

Programs were created for displaced overseas workers and those in the merchandise export sector. DOLE and the Overseas Workers Welfare Administration (OWWA) carried out the following interventions for returning overseas Filipinos (also indicated in the ERP-FAQ):

- Monitor overseas labor market displacements
- Monitor job order contracts to determine any decrease in overseas labor demand
- Establish worker registration services
- Redeploy workers to other emerging markets
- Identify and develop new market niches
- Assist in repatriation services
- Expand livelihood/business formation programs
- Strengthen reintegration and business counseling services
- Establish skills upgrading and retooling services.

DOLE created quick-response teams in its regional offices for workers in the export industries and returning OFWs. These teams, in coordination with local companies, established an early-warning system to determine which firms are likely to shut down or lay off workers. DOLE also provides assistance to affected workers in claiming unpaid salaries, job placement, and livelihood programs. Furthermore, DOLE is pushing for alternatives to laying off workers, including shortened work shifts, maximized vacation leaves, and rotating forced leaves (DevPulse 2009).

Meanwhile, the ERP's social protection program expansion[23] focused on the following:

- ***Conditional cash transfers.*** Known as the 4Ps (Pantawid Pamilyang Pilipino Program) was initiated by the Department of Social Welfare and Development (DSWD) to help the poor weather the impact of high prices of oil and commodities. The program is in partnership with local governments, which provide support by providing facilities and supplies for health such as vaccines and family planning services and education. The program is a conditional cash transfer scheme that provides a specific amount to poor families for nutrition, health, and education expenses. In return, parents ensure their children's 85 percent school attendance and vaccination and health care. Beneficiary areas were selected from the 100 poorest municipalities from the poorest provinces based on 2003 small area estimates of the National Statistical and Coordination Board.

- ***PhilHealth Indigent Program.*** Additional ₱1 billion (US$21.3 million) to PhilHealth representing the full contribution of the national government to the national insurance program

- ***Training for Work Scholarships program.*** The allocation for TESDA increased by ₱2 billion to help equip more Filipinos with skills that can help them take advantage of opportunities for income generation.

[23]Drawn from ERP-FAQ and Aldaba and Hermoso (2010)

- ***Program for primary and secondary hospitals.*** Additional ₱1.97 billion (US$42 million) to the Department of Health's budget to improve the facilities and manpower of primary and secondary hospitals
- ***National Food Authority (NFA) Rice Access Program.*** The program offers subsidized prices for rice which can be bought through NFA rolling stores and government-run stores. In 2008, 14 million families have taken advantage of the subsidized NFA rice. As of November 2009, NFA had distributed 32, 217, 942 bags of 50 kg of rice with daily average sales of 146,445 bags nationwide.
- ***Self Employment Assistance-Kaunlaran (SEA-K).*** SEA-K is designed to enhance the socioeconomic skills of poor families to establish and manage a sustainable community-based micro-credit organization for entrepreneurial development. The target beneficiaries of this program are unemployed and underemployed families.
- ***Other programs.*** Expanding social protection also involves the NARS program (where nurses are deployed to underserved areas in pursuit of the Millennium Development Goals); and matching grants to local government units and student loans.

An eight-point emergency plan[24] was drafted during the Multi-Sectoral Job Summit on February 9, 2009. It lays out specific measures and actions to help displaced and retrenched workers as well as companies affected by the global economic meltdown. The eight-point emergency plan is summarized as follows:

1. Social Security System (SSS)' to disregard penalties and surcharges on loans of affected workers (for a period of one year);
2. Establishment of standby fund by DOLE and OWWA for displaced seafarers and land-based OFWs as workers being laid off in export-oriented industries.

   The first component of this program is an Expatriate and Export Workers' Livelihood Support Fund in the amount of ₱1 billion financed by OWWA and supported by government lending institutions such as the Development Bank of the Philippines, the Land Bank and the SB Corporation. Displaced expatriate and export-oriented workers can access the fund to help capitalize start-up businesses or finance studies and training.
3. Implementation of training programs targeting workers displaced as a result of the global financial crisis. TESDA conducted the training in CALABARZON, Subic, Clark, and Mactan—regions where export processing zones are located and where many workers were displaced.
4. Reduction in the cost of doing business by providing fuel subsidy to firms operating in export processing zones that transport their workers to and from the zones by Philippine Export Zone Authority (PEZA); lowering the costs of business licenses and permits; and standardization of the city business registration and permit process in Metro Manila.

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[24] As announced by former President Gloria Macapagal Arroyo (PGMA) during her speech at the Multi-Sectoral Jobs Summit "Joining Hands Against the Global Crisis"

5. Provision of loan facilities, such as for working capital, to creditworthy firms, by government financial institutions. The Bangko Sentral ng Pilipinas, through the national government's representative in the Monetary Board, provides liberal terms for rediscounting facilities [25] and allows banks flexibility in regulatory financial ratio compliance.
6. DOLE is studying the possibility of imposing a moratorium on wages and other economic benefits for a limited period.
7. Expand training partnerships between government and private companies thru TESDA; and
8. Sharing of information between the government and industries on industry employment, number of companies affected, number of workers affected either through retrenchment or flexible work arrangements, and other related information in order to come up with an accurate and reliable picture of the actual impact of the global financial crisis on employment and business and allow both government and industry to develop appropriate responses and interventions.

President Arroyo further gave details to an important component of the ERP's Emergency Employment Program which is the creation of "green collar" jobs, which are the highlight of the job creation program from the various projects emanating from infrastructure and social projects. The following comprise the Green collar jobs program:

- The ₱2 billion reforestation fund, in the regreening of logged-over uplands like the mountains of Bukidnon, Cagayan de Oro, Lanao del Sur and in the regeneration of mangrove areas;
- Under the GREET program of tourism, coastal cleanup and Baywatch groups;
- Jatropha planting and the replanting of coconut farms to ensure stable and sustainable biofuel feedstock;
- LPG retrofitting of tricycles and PUVs;
- Barangay electrification using solar panels or connecting them to hydroelectric powered grids;
- Designating bike lanes using out-of-school youth; and
- Installation of solar-powered street lights, and other clean energy initiatives that the newly signed Renewable Energy Act can unleash.

In addition, some 6,000 short-term jobs have been opened in the government's ₱ 650 million poverty mapping project which the DSWD will undertake. This project is a major component of the government's Youth Employment in Summer program .

[25] A rediscounting window is a standing credit facility provided by the BSP to help banks liquefy their position by refinancing the loans they extend to their clients (BSP Rediscounting Manual, June 2010)

Key Assessments[26]

The government was able to respond immediately to the crisis and identify sectors likely to be affected. The impact on export firms and their workers, as well as OFWs, was already anticipated and prompted the government to take the necessary action. Concerned agencies were convened quickly and a special task force—first called Global Recession Impact Monitor, or GRIM, and then Global Recession Impact News, or GRIN—was created to monitor developments at the international and domestic levels and craft the appropriate policy response.

Concerned agencies were instructed to keep track of the impact of the crisis on the economy. DOLE and Philippine Overseas Employment Administration (POEA) monitored workers that are vulnerable to displacement, while the Department of Trade and Industry kept track of affected exporters. The Department of Social Welfare and Development monitored poor households and extended the 4Ps to households affected by the global financial crisis.

The NEDA, along with the Bangko Sentral ng Pilipinas, the Department of Finance, and the Department of Budget and Management, tuned up the economy in preparation for the fiscal stimulus package. The initial meetings focused on monetary and fiscal issues and devising a feasible strategy to keep the economy afloat, as well as provide safety nets to affected sectors. In early 2009, the ERP emerged, which aims to address the impact of the crisis.

Although the government was keen to respond and develop the appropriate strategy, the fragile fiscal situation was a constraint on creating a strong and sustainable fiscal stimulus package. The government eventually committed to a ₱330 billion package (US$6.3 billion), but critics of the plan said that the government did not have the funds for a package of that size—that there was only between ₱7 billion and ₱70 billion of new funds for the programs. The P100 billion private-public partnership never took off, and there was no cash outlay for the tax relief of P40 billion. According to World Bank figures, however, in 2009, the Philippines was able to reach and even surpass its target, and many large-scale projects were implemented during the crisis months (Aldaba and Hermoso 2010).

On the bright side, programs aimed at job creation and social protection yielded modest results. CLEEP and similar programs created 375,000 jobs by the last quarter of 2009. Although these are mostly short-term, low-income jobs, this is compensated by an increase in the percentage wage of workers from 51 percent to 55 percent. Moreover, the government provided assistance to displaced workers through legal assistance, emergency employment, livelihood, skills training, job referral, and job placement (Table 8-21).

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[26] Aldaba and Hermoso (2010) provided an excellent assessment of the government's policy response to the global financial crisis. Discussions from this section are mostly drawn from this article.

Table 8-21

No. of Philippines Workers Assisted, by Type of Assistance, October 2008 to February 16 ,2009

Type of Assistance	Workers Assisted
Legal assistance	1,627
Emergency employment	3,350
Livelihood	2,114
Skills training	577
Job referral	995
Job placement	48
Total workers assisted	7,725

Note: Details may not add up to total because multiple forms of assistance were provided.
SOURCE: DOLE Regional Offices

The skills training program of TESDA under DOLE, and microfinance and livelihood programs of DSWD such as SEA-K also showed success in terms of providing assistance to laid-off employees and households (Table 8-22). But an awareness campaign might have allowed other affected workers to take advantage of the programs.

Table 8-22

TESDA Assistance for Economically Displaced Workers

Region	Number
Cordillera Administrative Region	51
National Capital Region	
Ilocos	79
Cagayan Valley	34
Central Luzon	152
CALABARZON (IV-A))	179
MIMAROPA (IV-B)	2
Bicol	39
Western Visayas	
Central Visayas	189
Eastern Visayas	15
Western Mindanao	55
Northern Mindanao	2
Central Mindanao	150
Southern Mindanao	81
CARAGA	...
Autonomous Region of Muslim Mindanao	3
Assisted at the National Reintegration for OFWs	1171
Total	2,334

SOURCE: Report from the Overseas Workers Welfare Administration (as of 31 December 2009): http://www.ofwjournalism.net/latestories2.P

The OWWA has its own training program for displaced OFW workers. As of December 31, 2009, about 700 people took advantage of the OWWA training program (Table 8-23). OWWA also has a program called SESP (Skills for Employment Scholarship Program) offered in cooperation with TESDA, through which OFWs or their children and beneficiaries can take a one-year technical course or a six-month vocational course. The grantee could enroll in any TESDA-registered program. Financial assistance for a one-year or a six-month program was paid directly to the training institution. The courses offered were in agriculture and fishery; processed food and beverages; tourism (hotel and restaurant); decorative crafts and ceramics; gifts, toys and housewares; jewelry; metals and engineering; furniture and fixtures; garments; construction; communication, electronics, information technology; maritime; land transport; health, social services; and other community, social and personal services.

Table 8-23

Economically Displaced Workers Receiving Assistance from OWWA as of Dec. 31, 2009

Region	Skill for Employment Scholarship Program	Microsoft Tulay Program
Cordillera Administrative Region	16	9
National Capital Region	--	--
Ilocos	13	5
Cagayan Valley	--	10
Central Luzon	8	52
CALABARZON (IV-A))	30	23
MIMAROPA (IV-B)	--	--
Bicol	--	40
Western Visayas	--	--
Central Visayas	121	148
Eastern Visayas	2	7
Western Mindanao	29	13
Northern Mindanao	7	16
Central Mindanao	61	21
Southern Mindanao	--	2
CARAGA	44	29
Autonomous Region of Muslim Mindanao	--	--
Total	331	374

Source : OWWA: http://www.ofwjournalism.net/latestories2.₱

The primary social protection program, the Pantawid Pamilyang Pilipino Program or 4Ps was implemented in 28 provinces—148 municipalities and 12 key cities—in 2008 and in 28 provinces—107 municipalities and 3 key cities—in 2009. In 2008, 375,829 households received cash grants amounting to ₱2.6 billion. In 2009, 324,171 households received cash grants amounting to ₱4.7 million. According to the National Household Targeting System for Poverty Reduction, 489,870 households were identified as poor. The program achieved modest results but fell short of meeting 100 percent of its target. Studies showed that the program could have had wider coverage if it had been better targeted and coordinated with appropriate agencies.

Implementation of some of these programs was delegated to local government units, under the guidance of the national agency concerned. The Department of the Interior and Local Government functions as national coordinating agency of local government units and supervises implementation of the Local Economic Assistance Program, which aims to assist select local government units in mitigating the impact of the crisis on local economies. Some local government units initiated creative programs to mitigate the impact of the crisis, but some were in need of more technical and financial support to implement and sustain the program. Continuous support to local government units is therefore critical to ensure success of these programs.

Overall, the programs to ease the impact of the global financial crisis achieved some success. The strength of the government lies in its institutional mechanisms to respond to the crisis that could be convened and activated easily to develop policies and provide guidance to line agencies and local governments, which would implement the programs. Data was also easily available and accessible to identify sectors and regions that would likely be hit even before the crisis actually reached Philippine shores. Moreover, the government's multipronged response for job creation and social protection was on the right track to address the unemployment problems and high incidence of poverty. The challenge however, was how to sustain the programs given the government's weak fiscal position. Considering the problems in the revenue generation system of the government, it should be able to find creative ways to mobilize other sources of funds.

The crisis drew attention to deep structural problems of the member economy and exposed the areas where the government has failed to push the right policy direction, such as an industrialization policy to create quality jobs and support for small and medium enterprises to provide jobs for the poor; a population management strategy to curb the growing population; and adequate investments in human resource development to create a more competitive labor force.

Lessons for the Philippine Labor Market

The crisis highlighted the weakness of the manufacturing sector, which was in the eye of the storm and pushed the most number of people to unemployment. Therefore, there is a need to help this sector and formulate policies that will improve employment generation without compromising the sector's efficiency and productivity.

The economy needs to focus not just on the numbers of jobs created, but on the quality of jobs created. There is a need to implement policies that encourage the generation of more stable and better-paying employment opportunities. A responsive jobs creation program should address five sets of unemployed and underemployed workers: those who are currently unemployed, those who are underemployed, those entering the workforce, those who will lose their jobs at home, and finally overseas workers who lost or will lose their jobs abroad (Diokno 2010).

The high unemployment rate is attributed to the high supply of labor and insufficiency of jobs. Keeping the youth in school would help suppress the excess labor supply, while at the same time, keen attention should be given to an effective population management program.

The Philippine experience showed that tertiary education does not guarantee a job with a decent wage, as shown by unemployment figures where the highest unemployment rates are among college graduates. This could be attributable to a number of reasons— there are simply not enough jobs, or students take courses unaware of the demands of the market, or the quality of tertiary education is not competitive enough to help students land a job (Senate Economic Planning Office, 2004). It is important that the government take the necessary steps to improve the quality of education. It is also important to put a program that will allow retraining and upgrading of skills, particularly of the unemployed, to make the workforce more responsive to the needs of the labor market. The government could also facilitate the exchange of labor market information and reduce costs between job seekers and employers.

High and sustainable growth performance and a stable investment environment will encourage job generation. Moreover, investments in quality education and training will make individuals more productive and more competitive in the labor market. The government should also continue to pursue policies that narrow disparities in employment across regions and access to productive resources and social services. Growth that creates employment and reduces poverty is should be pursued.

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9. Thailand

In 1997 Thailand was hit hard by a financial crisis that originated in the center of her homeland. A decade later, Thailand was again hit by economic crisis, this time caused by sub-prime mortgage and financial institution failure in the United States. Though many lessons about recovery were learned under International Monetary Fund (IMF) packages, Thailand's response to this new wave of trouble has been based on the naïve assumption that this crisis would have little impact on the local economy because links to failed U.S financial institutions are minimal.

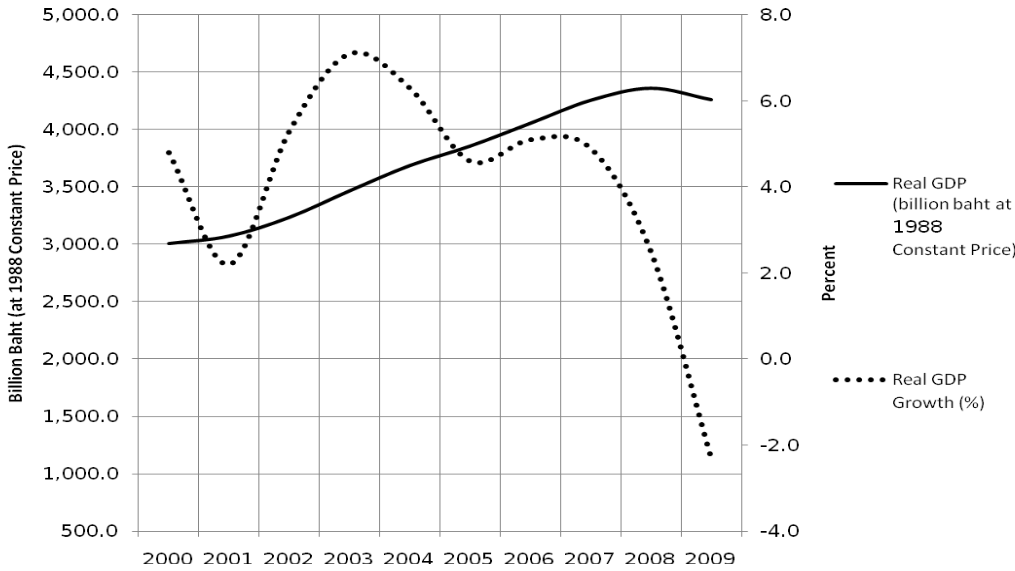
Performance of the Economy and Labor Market up to the Global Recession

Before the onset of the global financial crisis in 2007, Thailand's economic performance was reasonably sound. GDP growth rates ranged from 2.2 percent to 7.1 percent per annum (at 1988 constant prices, or from 4.3 percent to 10.7 percent per annum nominal) during recovery from the *tomyumkung* crisis of 1997 (see Figure 9-1), and GDP per capita continued to increase even into the period of the recent crisis. Government expenditures had not changed since 1995, hovering around 18 percent of GDP. Traditionally, the government has used balanced-budget expenditure but implemented deficit-budget policies during the 1997 crisis. The balanced-budget tradition was reintroduced in 2002.

In 2007, Thailand had a population of approximately 65.2 million, with a labor force of 55.8 percent of the population. Of this labor force, 39 percent worked in the agricultural sector and 59 percent in other sectors. A total of 22.6 percent of the population was aged 15 years or younger. The structure of the Thai labor force by educational level is as follows: 36 percent have less than an elementary education; 20 percent have an elementary education; 18 percent have a secondary education; 13 percent have a high school education or vocational training; and 12 percent have higher education. In 2002, Thailand made nine years of education compulsory, meaning that the majority of the Thai population will eventually finish secondary school. Before that, education was compulsory only for elementary school and for six years.

Figure 9-1

Thailand: Real GDP Growth, 2000-2009



SOURCE: Bank of Thailand (2010).

During the last crisis, the unemployment rate was considerably high—more than 4 percent. Along the way to recovery, that rate fell and then dropped below 2 percent from 2005 onward. A similar story emerges after 2005, when unemployment fell below 700,000. A similar pattern can be observed in the ratio of seasonal unemployment to total labor force. There was no significant shift in the pattern of employment across economic sectors from 1998 to 2009.

This provides a snapshot of the Thai economy before the current global economic and financial crisis. In the rest of this paper, we assess the impact of the crisis on Thailand's human resources and how the Royal Thai government has intervened.

Impact of the Global Recession on the Thai Economy

It was believed that Thailand would be affected only modestly by the global economic crisis because it had only weak financial linkages to failed U.S. financial institutions and a diversified external economy—but it was indeed affected as the Thai economy is very open, with a more than 120 percent degree of openness since 2005 (Swindi 2009). In fact, through indirect channels, the Thai economy slowed considerably after mid-2008. Real GDP growth fell from 4.9 percent per annum in 2007 to 2.5 percent per annum in 2008 (at 1988 constant prices). This negative growth of -2.3 percent per annum was realized in 2009 (see Figure 9-1). Nominal GDP growth, on the other hand, did not decline significantly nor did GDP per capita. Thus, the impact of the recent crisis is of lesser magnitude than the *tomyumkung* crisis of 1997.

Fiscal and Monetary Policy

The government has maintained an 18 percent share of nominal GDP since 1995, although expenditures have shifted slightly upward since FY2007 (see Figure 9-2). A similar shift toward current expenditures in the budget is consistently apparent. Nonetheless, since FY2007, the government has reacted to the crisis by running a budget deficit. For FY2009, the deficit amounted to 360 billion baht (see Figure 9-3) with effects on government revenue apparent. The share of revenue to GDP was reduced from more than 17 percent of GDP during 2005-2007 to 16 percent in 2008 and 16.2 percent in 2009. Most of this reduction was the result of decreasing Customs Department revenue; other tax collecting agencies continue to have increasing revenues.

Interest rates have been cut successively and significantly since the recent crisis began. The Monetary Policy Committee's decision on interest rates resulted in a rate decrease as early as 2007, from 5 percent per annum to 3.5 percent per annum within 6 months. The rate reached 3.25 percent in July 2007, then rose to 3.75 percent in mid-2008, and was then cut drastically to 2.75 percent in late 2008. The rate has been stabilized at 1.25 percent since April 2009.

Thailand's Economic Sectors

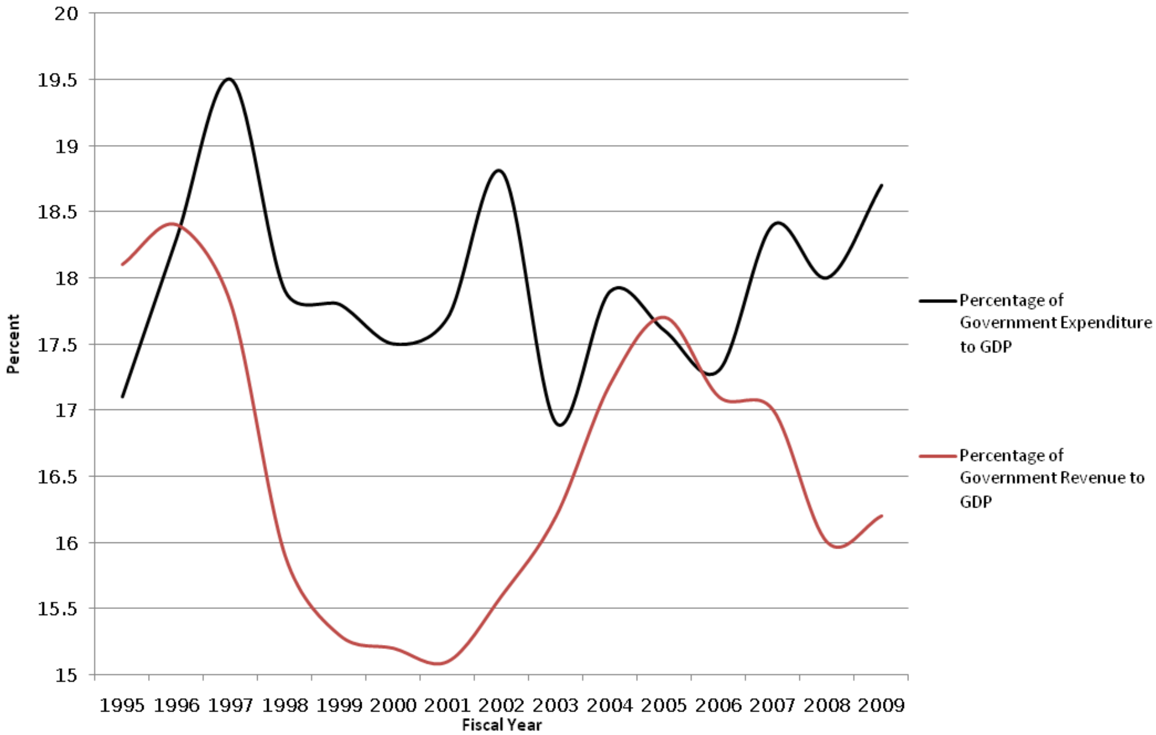
Given the reduction in Customs revenue, one can infer that Thailand's external economy is most affected by the recent crisis. Exports from all sectors dropped sharply in the third quarter of 2008; the average rate of decline was 21 percent quarter-on-quarter (Figure 9-4). The decline, however, lasted only two consecutive quarters, with the agricultural and mining sectors suffering in the first quarter and forestry and fishery in the second. Exports from the manufacturing sector declined 19 percent and then 11 percent, quarter-on-quarter. Within that sector, the impact of the crisis was most severe for high-technology industrial products (21 percent average decline in two quarters) while labor-intensive products suffered only a 3 percent decline in the first quarter. Recovery was observed in the second quarter of 2009 (see Figure 9-5).

Imports also declined in the third quarter of 2008, at an average rate of 19 percent quarter on quarter (see Figures 9-6 and 9-7). Declines occurred in the last two consecutive quarters, as with exports, except for declines in capital goods and nondurable consumer goods that lasted another quarter. Intermediate goods and raw materials suffered the highest rate of reduction (31 percent). Durable consumer goods also faced a 17 percent reduction, quarter on quarter. Meanwhile, nondurable consumer goods and capital goods were less affected and recovered in the next second and third quarters.

The private investment index, calculated by the Bank of Thailand, shows drastic decreases in private investment in the last quarter of 2006. However, the index rebounded continually in the third quarter of 2007. Until late 2008, there was another considerable and consistent drop in private investment. The first sign of recovery was noticed in the middle of 2009.

Figure 9-2

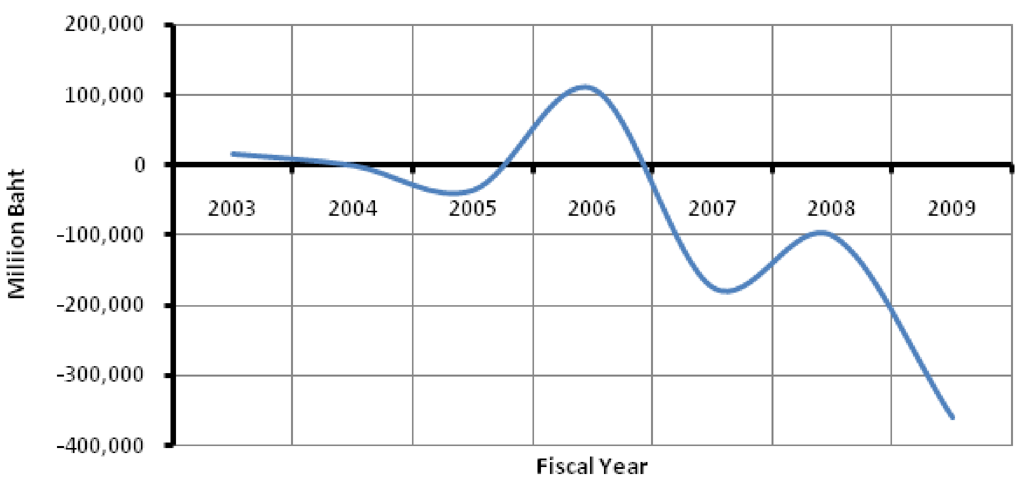
Thailand: Shares of Government Expenditure and Revenue to GDP



SOURCE: The Budget Bureau (2009).

Figure 9-3

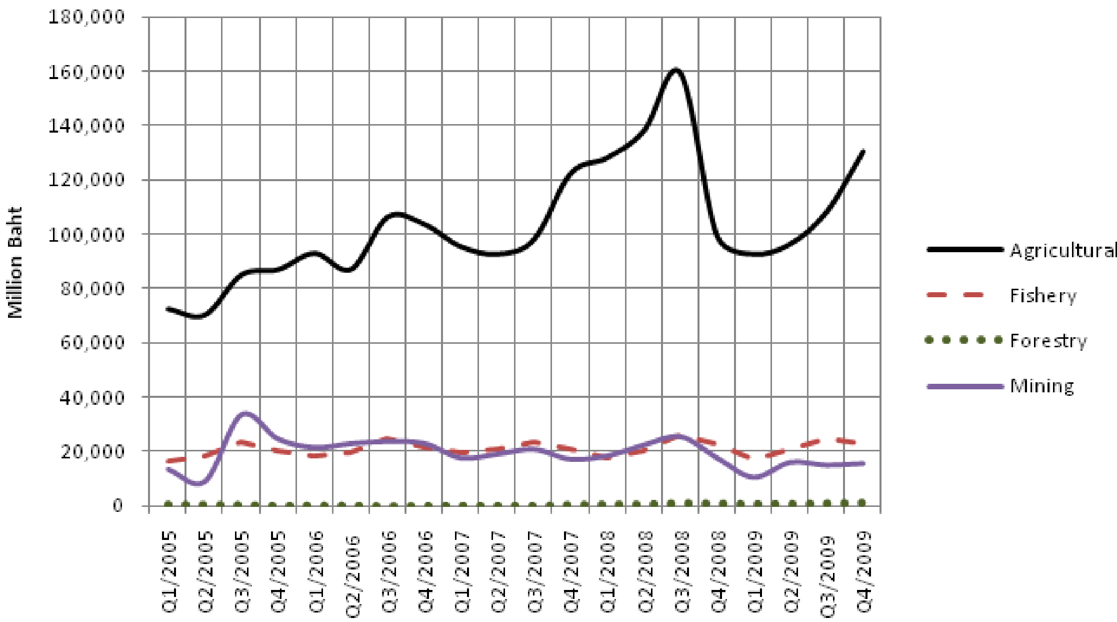
Thailand: Budget Balance, 2003–2009



SOURCE: Bank of Thailand (2010).

Figure 9-4

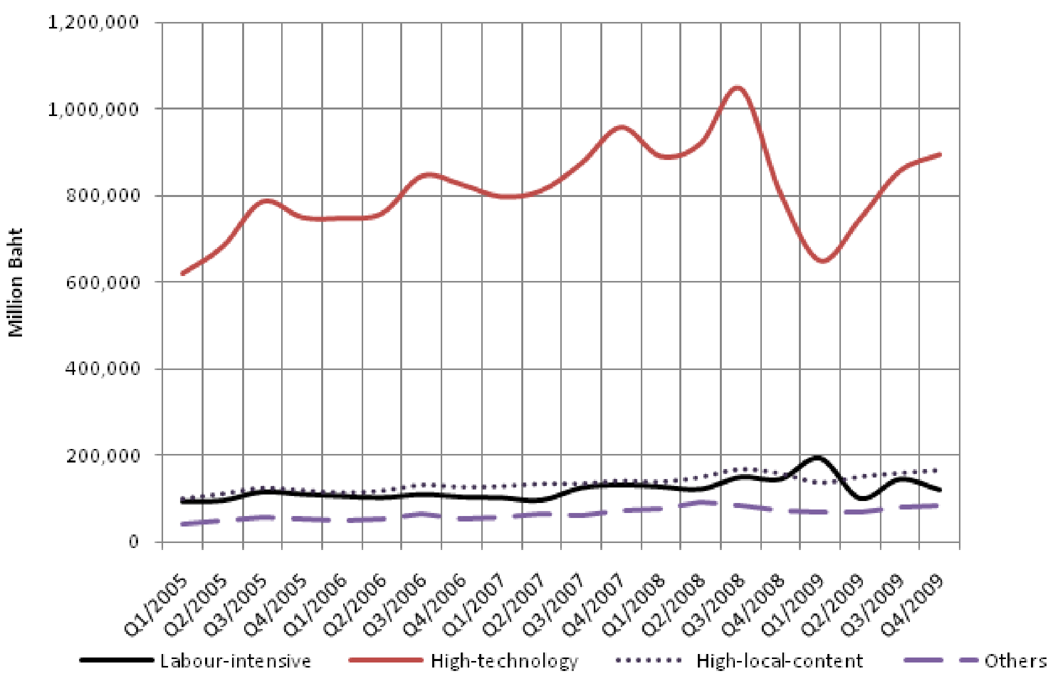
Quarterly Exports of Nonindustrial Products from Thailand, 2005-2009



SOURCE: Bank of Thailand (2010).

Figure 9-5

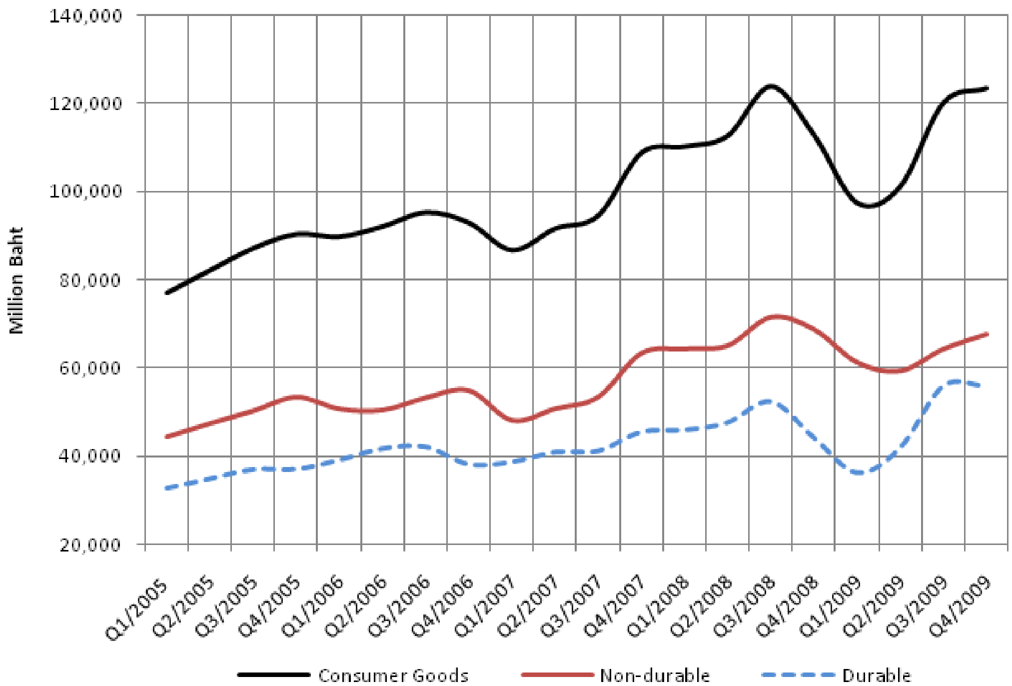
Quarterly Exports of Industrial Products from Thailand, by Type, 2005-2009



SOURCE: Bank of Thailand (2010).

Figure 9-6

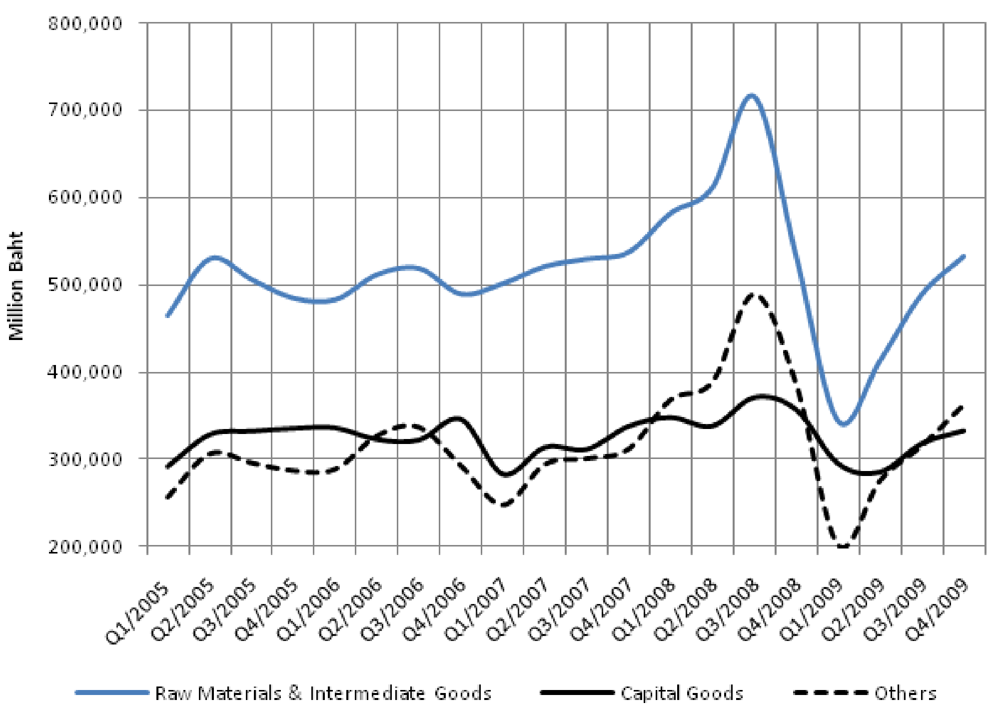
Thailand's Quarterly Imports of Durable and Nondurable Consumer Goods, 2005-2009



SOURCE: Bank of Thailand (2010).

Figure 9-7

Thailand's Quarterly Imports of Raw Materials and Intermediate Goods, Capital Goods and Others



SOURCE: Bank of Thailand (2010).

The industrial production index illustrates the effect of the crisis quite clearly with a drastic drop in the last quarter of 2008. The recovery is evident in mid-2009. The pattern of effects on private investment and industrial production are similar.

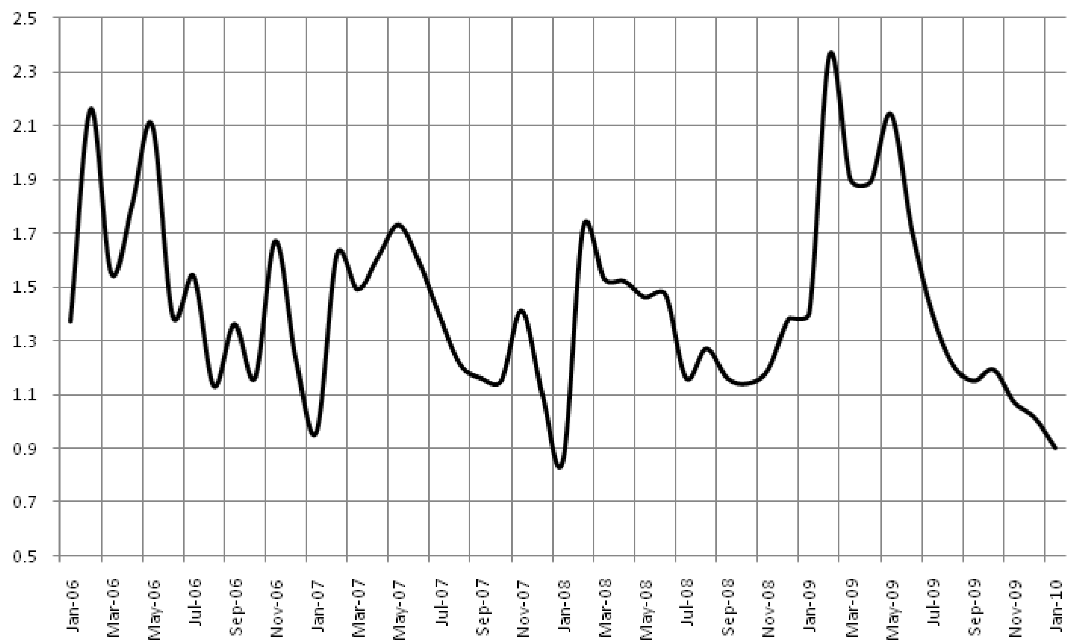
In general, Thailand's economy has been troubled by the global economic crisis, albeit briefly. The initial impact was realized in the third quarter or later in 2008 with recovery evident during mid-2009. The most severe impact of the crisis lasted about 6 to 9 months.

State of Human Resources

Thailand has a population of approximately 66 million persons (2009), 57 percent of whom are part of the labor force. Of that 57 percent, 38 percent work in the agricultural sector and nearly 60 percent in other sectors. Twenty-one percent of the population is aged 15 years or younger. The recent economic crisis has not changed the structure of Thailand's human resources but employment has been moderately affected (see Figure 9-8). The number of new jobseekers is increasing, up 15.76 percent in 2007 (453,750 persons), 12.58 percent in 2008 (510,840 persons), and 46.46 percent in 2009 (748,170 persons). Meanwhile, job availability has fallen consistently since 2005 and dropped sharply in 2007, indicating a certain level of unemployment. Fortunately, job placement, employment termination, and unemployment rates have been largely unaffected by the current crisis. Underemployment remains unchanged at about 1.3 percent to 1.6 percent of the labor force.

Figure 9-8

Thailand's Monthly Unemployment Rate, January 2006- January 2010



SOURCE: Bank of Thailand (2010)

Because the economic crisis has had only a slight impact and the period of negative shock was relatively brief, Thailand's human resource base has not changed significantly. That the export of labor-intensive products has not been much affected implies that Thai labor acts as buffer, softening and dissipating the adverse effects of the crisis.

General Policy Responses to the Impact of the Recession

The Royal Thai Government responded to the recession rather slowly—almost one and a half years after the first incidence of the crisis or about a year after the collapse of Bear Stearns's hedge funds (Guillén 2009). The slow response was due to the belief that linkages between the Thai economy and the U.S. financial sector were weak. Responses include corrective and stimulating measures to counter the adverse effects of the crisis and deficit budgeting since FY2008 to inject expenditures into the economy. The first policy responses were introduced in mid-2008 and many are ongoing. This section describes those policies chronologically.

Six Measures—Six Months

Approved in July 2008, the following measures aim to lower out-of-pocket expenses in the private sector, especially among low-income households:

1. Taxes, particularly on gasohol and biodiesel, reduced to increase price differences between conventional and bio-fuels.
2. LPG price increase delayed for households.
3. Households consuming less than 50 cubic meters per month exempt from water fees.
4. Households consuming 80 units/month or less in electricity exempt from fees; those consuming between 80-150 units/month get a 50 percent discount.
5. Free public bus service in Bangkok Metropolitan area, covering 73 routes and 800 vehicles.
6. Free train service nationwide: people who travel on ordinary trains (with frequent stops; excluding rapid and express trains) and using third-class service do not pay fares.

Initially, the government estimated the budget for these measures (in terms of revenue forgone) to be 49.4 billion baht. Later, it was integrated into Stimulus Package 1.

Stimulus Package 1

In January 2009, when the government realized that the effects of the crisis would be considerable, it launched Stimulus Package 1 (SP1) worth 116.7 billion baht and covering four areas: economic and confidence recovery; income creation, quality of life improvement, and social security; emergency funding; and replenishment of the treasury account balance. From an economic point of view, the package targets consumption, government expenditure and investment, private investment, and exports and tourism. The following stimulant actions were taken for each economic area in SP1 (www.chuaichart.com):

- Private Consumption Stimulation
    - 2,000 baht cash handout

- — Six Measures—Six Months burden relief
- — Blue flag for discounted consumer products
- — Promoting village health volunteers
- — Elderly stipend
- — Agricultural produces guarantee

- 2. Increases in Government Expenditure and Investment
    - — 15-year free education program
    - — Tonkla-archeep: Training for unemployed
    - — Sufficient Economy Communities
    - — Development of agricultural water sources
    - — Dust-free roads
    - — Residence for policemen
    - — Improvement of local health centers

- 3. Promotion of Private Investment
    - — Development of small and medium enterprises (SMEs)
    - — Tax exemption for real estate transaction
    - — Securitizing SME loans
    - — Tax reduction for SMEs and communal enterprises
    - — Tax exemption for debt restructuring

- 4. Supporting Export Sector and Tourism
    - — Insurance against risk for exporters
    - — Rehabilitation of confidence
    - — Supporting tourism
    - — Exemption of visa and landing fees
    - — Tax deduction on expenditures on training and seminars

Altogether, SP1 is composed of 18 projects (see Table 9-1). Four SP1projects are especially popular. Mentioned often by the media, one project distributes a one-time check for 2,000 baht to anyone enrolled in the social security system or to civil servants with monthly salaries of less than 15,000 baht. Similarly, the elderly (over age 60) and village health volunteers receive a monthly allowance of 500 baht. Another project, *Tonkla-Archeep* or "budding professionals," aims to train up to 500,000 persons—the unemployed and new graduates—to create independent jobs and equip them with a professional foundation for further skill development. The 15-year free education program is intended to encourage students to continue studies beyond the compulsory 12 years by reducing the financial burden of books, uniforms, educational equipment, and student development activities. For uniforms and stationary, students receive cash to make their own purchases.

Table 9-1

Summary of Fiscal Stimulus Measures under Thailand's Stimulus Package 1

Projects	Beneficiaries	Budget (million baht)	Progress (percentage of budget used)
1. ECONOMIC AND CONFIDENCE RECOVERY AND REINFORCEMENT			
Cost of living reduction (2,000 baht check)	Low salary	18,970	94.5
Six Measures—Six Months (reducing utility bills)	Low income	11,409	99.0
Development of water sources for agriculture	Agriculturalists	2,000	89.4
Road construction (dust free road)	Rural communities	1,500	96.4
Commercial assistance (Blue flag: discounted consumer products)	Low income	1,000	64.2
Supporting tourism	Tourism personnel	1,000	64.2
Small water source development for management	Agriculturalists	760	55.3
Promotion of food industry and SMEs	Business	500	88.9
Rehabilitation of economic confidence and national image	Public perception	325	19.8
2. INCOME CREATION, QUALITY OF LIFE IMPROVEMENT AND SOCIAL SECURITY			
15 year free education	Students/parents	19,001	100.0
Sufficient Economy for Community Upgrade	Communities	15,200	32.9
Income security for elderly (500 baht/month stipend)	Elderly	9,000	100.0
Tonkla-archeep: Training for unemployed	Unemployed, new graduates, persons wishing to change jobs	6,900	39.2
Village Health Volunteer Promotion	Health volunteers	3,000	100.0
Construction of Police Residence	Policemen and families	1,809	82.3
Improvement of local health center	Rural communities	1,096	70.8
3. EMERGENCY FUND		4,090	
4. REPLENISHMENT OF TREASURY ACCOUNT BALANCE		19,139	

SOURCES: FPO (2009) and Chatameena (2009).

Stimulus Package 2

In April 2009, the government decided to launch Stimulus Package 2 (SP2), a more extensive and expansive package that will be in force until 2012. Also known as *Thai Khem Khaeng* (or Strong Thai), this package has an earmarked budget of 1,431.3 billion baht and covers 13 areas: water management for agriculture; logistics and transportation; energy and renewable energy; telecommunications; tourism infrastructure; tourism development; educational infrastructure and development of educational personnel; health care infrastructure and development of health personnel; public welfare infrastructure; science and technology infrastructure; natural resources and environment infrastructure; creative economy; and community investment. Under this package, 40,987 projects have been approved. Table 9-2 shows the details of SP2. This package is to be financed largely by borrowing.

Table 9-2

Summary of Thailand's Fiscal Stimulus Measures under Stimulus Package 2, by Sector

Sector	Number of Projects	Budget (Million Baht)	Progress (percentage of budget used)
Communal investment	19,858	106,542.07	33.36
Water resources and agriculture	5,123	59,503.26	17.61
Education	8,417	51,981.45	8.82
Transportation	3,569	46,586.54	42.56
Income guarantee and related	3	40,000.00	76.37
Medical care and public health development (infrastructure)	1,564	14,691.51	0.30
Medical care and public health development (personnel)	254	1,927.66	3.35
Public welfare	339	9,172.93	6.09
Development of tourism	1,274	5,394.26	9.43
Tourism infrastructure	39	3,281.67	14.11
Creative economy	205	1,330.60	8.98
Environment	226	689.20	36.50
Science and technology	3	185.00	5.70
Energy	3	174.30	0.00

SOURCES: FPO (2009) and www.tkk2555.com

Progress of Recovery

Statistically speaking, the Thai economy showed signs of recovery in mid-2009 in many sectors, although it has not returned to pre-crisis levels. Thailand's economic performance has been hampered somewhat by political unrest and instability since the 2006 coup d'état. The progress of recovery measures in countering the recession induced by the global economic crisis has been sluggish, largely as a result of Thai bureaucracy and political instability.

According to the official report, none of the SP1 projects has been fully accomplished. For the 2,000 baht check handout project—which was supposed to be completed quickly—only 67 percent of those eligible have received checks. The *Tonkla-archeep* project has been much criticized. Because it has been unable to find trainers it has used only 39 percent of its budget despite having more than 300,000 participants (the budget target was 50 percent for the first six months). After a year, progress on SP2 projects is also sluggish: 5.5 percent of approved projects have been completed; 32.3 percent have been paid for; and 61.5 percent are committed. SP2 is also poorly distributed, with projects concentrated in the central areas and Bangkok Metropolitan. Most projects are in construction of various kinds of infrastructure, implying that the recovery plan is aiming to provide jobs for laborers.

In general, the Six Measures—Six Months project seems to have been the most effective because it has relatively low transaction costs, involves no contact with bureaucracy, and can be executed with minimal adjustment to existing infrastructure. Because most other projects involve direct contact with government agencies progress has been hampered by accusations of corruption.

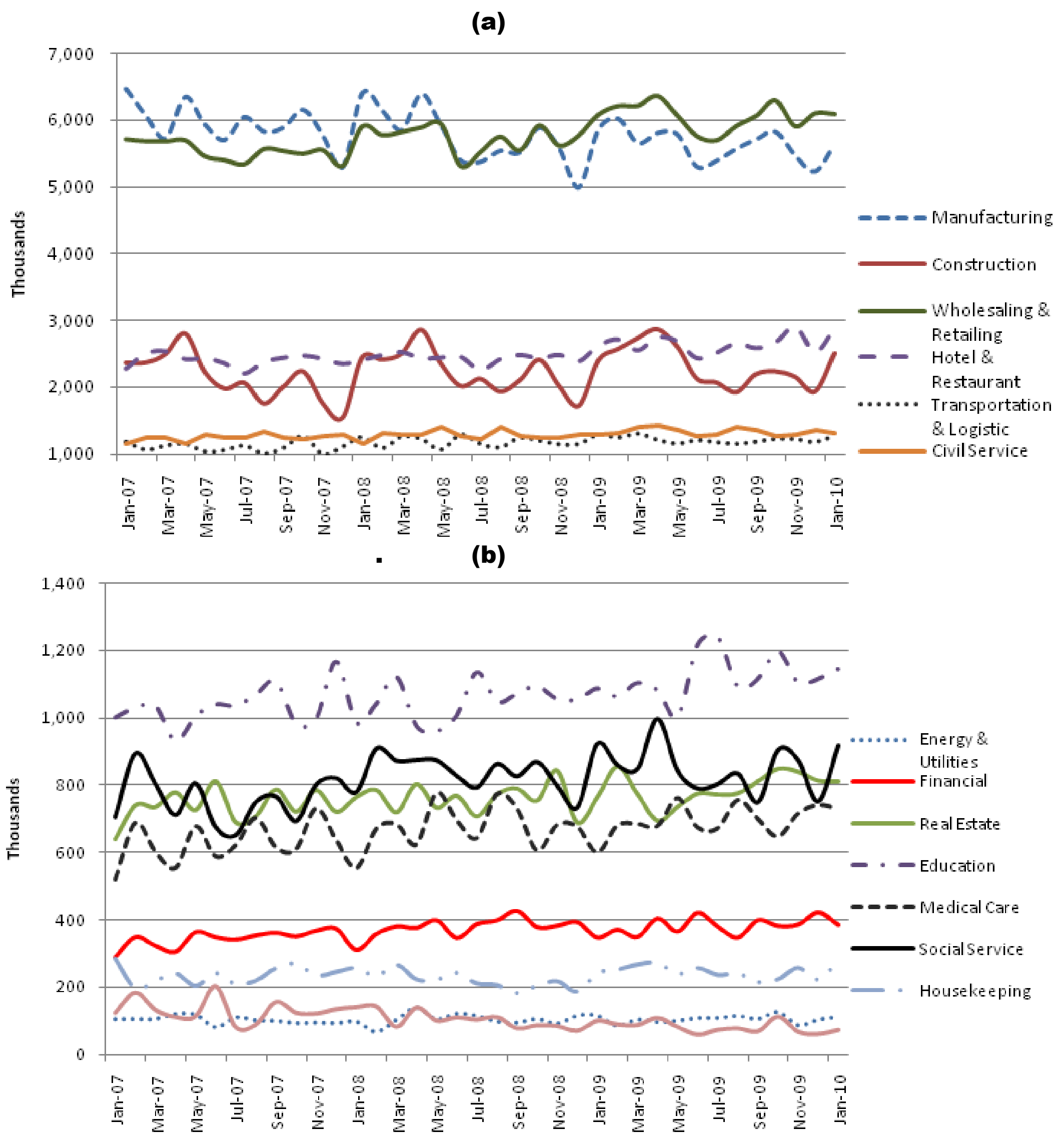
Labor Market Impacts of the Recession

Overall, the Thai labor market has not been significantly affected by the crisis. Perhaps the least affected is labor-intensive manufacturing. Even though the labor market has tightened, unemployment has not reached serious levels. It increased abruptly in late 2008 and reached a record high of 2.36 percent in January 2009 (878,900 were without a job), as shown in Figure 9-8 (above). This started to improve steadily as of May 2009.

Labor in manufacturing, construction, and wholesaling and retailing has been more affected. Figure 9-9 (a) shows a downward shift in manufacturing employment in late 2008. An upward shift in the wholesale and the retail sector occurred in the same period. The construction sector showed significant reduction in employment in mid-2009 and signs of recovery earlier this year. Other sectors do not show any substantial shift in employment, except that employment in real estate increased after mid-2009 (Figure 9-9b).

Figure 9-9

Monthly Employment in Thailand, by Sector, January 2007–January 2010



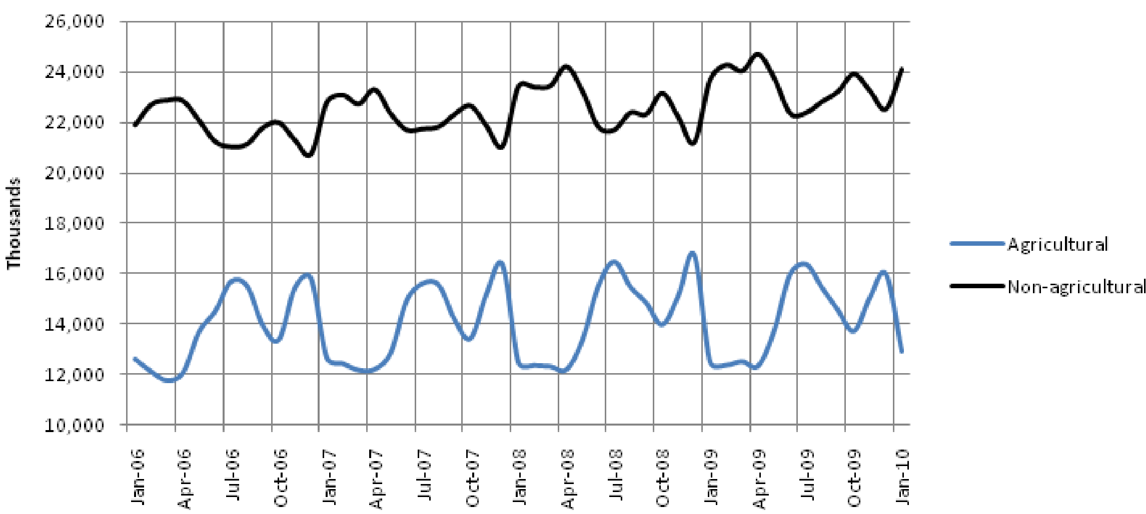
SOURCE: Bank of Thailand (2010).

Notably, the agricultural sector absorbed excess labor from other sectors, more than 500,000 workers (see below). The near mirror-image of employment in the agricultural and other sectors shown in Figure 9-10 is a testament to the Thai tradition of adherence to and focus on agriculture in the labor sector.

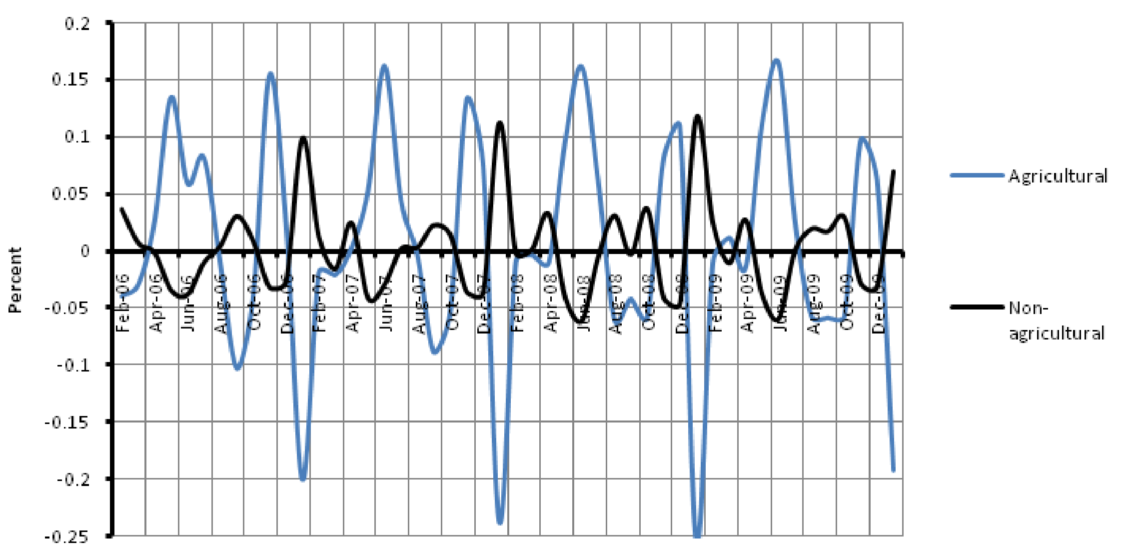
Figure 9-10

Monthly Employment in Thailand's Agricultural and Nonagricultural Sectors, January 2006–January 2010

(a)



(b)



SOURCE: Bank of Thailand (2010).

Effects on employment conditions, especially the reduction in working hours, are worth noting. Employers were more likely to ask employees to voluntarily reduce hours than to lay off employees. This was perhaps due to their belief that the impact of crisis would not last long, a belief that proved to be correct. The Bank of Thailand (2008) also reported a rise in claims for unemployment benefits in mid-2008. The number of participants in the *Tonkla-archeep* project exceeded 300,000, indicating that a significant number of people are unemployed or planning to change jobs. The rest of the unemployed are believed to have been absorbed into the agricultural sector.

Interventions in Response to Labor Market Impacts

Though they cover many economic sectors, SP1 and SP2 measures lean toward construction and procurement. The most effective measures have been in the Six Measures–Six Months project. Designed to help people by reducing utility bills and transportation costs, this project requires no extra administration and low-income earners benefit directly.

The SP1 budget totaled 93,470 million baht (see Table 9-3), with projects related to labor or human resources worth 68,514.54 million baht, or 73.3 percent. Progress in those projects, however, has been slow. For example, the *Tonkla-archeep* project, which should be highly beneficial for Thai labor, has used only 39.2 percent of its budget and the Sufficient Economy for Community Upgrade has used only 32.9 percent.

Table 9-3

Summary of Labor Measures under Thailand's Stimulus Package 1

Types/Projects	No. of Projects	Budget (million baht)	Progress (% of Budget)
MAINTAINING EMPLOYMENT			
Productive efficiency improvement for SMEs	1	128.92	45.00
SMEs and communal enterprises promotion	1	146.00	n/a
Sufficient economy for community upgrade	80,000 villages	15,200.00	39.48
RELOCATING UNEMPLOYED AND NEW GRADUATES AND TRAINING			
Tonkla-Archeep – Training for Unemployed	1	6,900.00	39.20
INDUSTRY SPECIFIC			
Small water source development for management	1	760.00	0.07
Halal food producers development	2	164.98	87.23
Commercialization of Products from goats and sheep	1	5.00	n/a
Support, development and rehabilitation of tourism	4	673.00	95.39
Development of water sources for agriculture	1	2,000.00	89.40
REGION SPECIFIC			
Development of special industries in the south	1	28.55	n/a
Support of cold storage cooperative, fruit market in Pattani	1	8.55	n/a
Development and promotion of chicken and broiler industry in the south	1	18.00	95.73
Promotion of tourism and sports in the south	1	300.00	n/a
TARGETING IDENTIFIED GROUPS			
Village health volunteer promotion	1	3,000.00	100.00
15 year free education program	1	11,011.54	100.00
Income Security for Elderly (500 baht/month stipend)	1	9,000.00	100.00

Table 9-3 continued

Types/Projects	No. of Projects	Budget (million baht)	Progress (% of Budget)
WELFARE AND TAX BENEFITS			
Tax measures for economic stimulation (reduction and exemption for SMEs and communal enterprises; debt restructuring in financial institutions; real estate purchase for individuals; income tax calculation)	n/a	n/a	90 (of planned activities)
Blue Flag: discounted consumer products	7	1,000.00	64.20
2,000 Baht check handout	1	18,170.00	94.50

SOURCE: www.chuaichart.com, FPO (2009) and complied by authors.

Similarly, the SP2 budget was a staggering 341,415.45 million baht (see Table 9-4). Only 22.63 percent of that was earmarked for labor. Furthermore, distribution of SP2 to the Ministry of Labor is a miniscule 0.0135 percent of the budget, or 47.24 million baht. Most of the budget is allocated to the Ministry of Education (15.66 percent), the Ministry of Agriculture and Cooperative (13.80 percent), and the Ministry of Transport (13.25 percent).

Table 9-4

Summary of Labor Measures under Thailand's Stimulus Package 2

Types/Projects	No. of Projects	Budget (million baht)	Progress (% of Budget)
MAINTAINING EMPLOYMENT			
Communal occupation rehabilitation and development	1	10.00	11.20
RELOCATING UNEMPLOYED AND NEW GRADUATES AND TRAINING			
Potential enhancement for unemployed for value creation in community	1	7,239.60	3.11
Skill improvement training	1	15.31	26.13
Employment of graduate volunteers	1	6.83	34.85
Employment of temporary workers	1	9.56	14.85
Promotion and support for independent jobs	1	1.09	18.06
INDUSTRY SPECIFIC			
Increase of registered capital for Islamic Bank of Thailand	1	2,912.40	100.00
Increase of registered capital for specific financial institutions	1	14,500.00	100.00
Promotion of fishery and renewal of fishing equipment	4	130.28	4.00
Promotion and development of livestock	5	645.74	0.00
Land development for agriculture	2	39.75	1.36
Development of water sources for agriculture	2	276.00	7.30
Productivity improvement for crops	5	305.65	1.82

Table 9-4 continued

Types/Projects	No. of Projects	Budget (million baht)	Progress (% of Budget)
REGION SPECIFIC			
One-Tambon-One Product (community product)	1	300.00	46.63
Sufficient economy village in the south	1	105.53	100.00
Quality of life improvement in the south	1	899.00	85.08
Sufficient economy village and model farm project	1	3.41	6.74
Poverty relief in the south	1	157.98	5.02
Provincial development (unknown purposes)	93	14,687.95	0.93
TARGETING IDENTIFIED GROUPS			
Medical and healthcare personnel development	25	1,927.66	5.27
School teacher and educational personnel development	12	7,673.81	19.32
Potential development for women and youth	3	44.01	27.08
Student scholarships	2	139.00	14.45
Working skills and job guidance for students	3	5.85	43.25
Development of science, technology and research in education	5	6,818.30	16.64
Modernization of vocational education	1	6,585.05	1.65
WELFARE AND TAX BENEFITS			
Communal solutions for problems on residential, commercial land	2	4,228	25.28
Residences for civil servants	33	7,590.70	10.82

SOURCE: www.tkk2555.com and compiled by authors.

Tonkla-Archeep or Training for Unemployed

Tonkla-archeep is “a project to train and create jobs for 500,000 unemployed, soon-to- be unemployed and new graduates to reduce unemployment. Furthermore, it will promote independent occupation which will help to drive the economy at grass root level in the future.” (www.chuaichart.com, 2010)

The recent economic crisis caused unemployment from redundant labor, new graduates, and natural unemployment. In 2008, there were approximately 500,000 unemployed persons. In response, the government formulated a policy to promote independent occupations at the grassroots level, encourage worker re-entry into the industrial sector, and encourage entrepreneurship. The objectives of the *Tonkla-archeep* project are (1) to increase the efficiency of the unemployed, laid off workers, and new graduates in acquiring knowledge, skills, and specializations so they can return development to their hometowns; and (2) to help the same earn a living, have an occupation, and relieve their families of financial burdens.

This project organizes beneficiaries into four groups: (1) unemployed and persons interested in training in Sufficiency Economy Theory; (2) persons prone to unemployment or who are very likely to lose their jobs; (3) persons laid-off from industrial jobs who want to acquire skills to raise their standard of labor, and (4) new graduates.

The project approach involves three service providers:

1. Universities or educational institutions,
2. Civil society networks such as the Community Organizations Development Institute, foundations, associations, private companies, or private sectors.
3. Other government agencies providing training (e.g., the Department of Skill Development, Ministry of Labor, and the Department of Agricultural Expansion, Ministry of Agriculture).

The training has two parts:

1. General workplace knowledge (e.g., responsibility, attitude, work discipline, Sufficiency Economy theory, social sustainability).
2. Occupation-specific knowledge and skills (e.g., agriculture for living, use of alternative energy, trade, accounting software).

Total project expenses are equal to 14,300 million baht. The budget for the first six months (April to September 2009) was to train 240,000 unemployed persons; the budget of 6,900 million baht (from SP1) was divided as follows:

- Training: 5,000 baht per person, per month
- Allowance: 4,800 baht per person, per month
- Travel: 1,000 baht per person for first time trip and 720 baht per person, per month subsequently
- Career and travel support (for trainees who return to work in their hometowns): 4,800 baht per person per month for a maximum of three months and 1,000 baht per person to cover travel expenses.

In the second phase (October 2009 to March 2010), 260,000 persons received training and the budget was 7,400 million baht (from SP2).

Project progress, however, was slow. Only 39.20 percent of the budget was used and only 309,201 persons were reached (61.84 percent of the target). With evidence of a significant reduction in unemployment, came rumors of a lack of transparency (Thansettakij 2009), and thus, the project was prematurely terminated in March 2010.

Sufficient Economy Fund and Sufficient Community

Under SP1, the government sets up the Sufficient Economy Fund to help 80,000 villages, particularly in rural areas, to be competitive, create jobs, and increase income at the grassroots level. The ultimate purpose is to keep employment within particular rural communities, to dissuade excessive migration to cities in the short run, and to develop rural communities in the long run. To receive funds, villages or communities propose projects in accordance with the sufficient economy philosophy to the Sufficiency Economy Office for Community Development to consider. The Office allocates a budget of 100,000-700,000 baht per village in accordance with the size of the village.

The budget allocation for this project was 15,200 million baht. As of October 2009, 31,582 villages or 39.48 percent received the fund of 8,432 million baht. At present, 5,000 million baht has been disbursed.

Sufficient Economy Village and Model Farm Project

Implemented under SP2 by the Royal Thai Navy, this project aims to (1) provide assistance to the families of officials and to villagers affected by unrest in the three southern border provinces—Pattani, Naratiwat, and Yala; (2) to generate jobs and income for the villagers and to develop their quality of life; and (3) to guarantee security for the lives and assets of families of those deceased as a result of the unrest. Only 7 percent of the 3,413,000 baht budgeted has been disbursed so far.

Check Handouts, Pensions, and Support for Volunteers

Part of SP1, these projects are intended to defray costs of living for low-income earners, the elderly, and village health volunteers. The 2,000 baht check handout was described earlier under the discussion of SP1. Pension stipends for those over age 60—500 baht per month—is budgeted at 9,000 million baht and the disbursement request was 8,998 million baht. About 3.5 million have received the pension. To support volunteers and stimulate private spending, the government is giving 500 baht per person, per month to 833,334 village health volunteers nationwide. The project's budget for FY2009 was 3,000 million baht.

Ministry of Labor Policies

In addition to SP1 and SP2, the Ministry of Labor has taken steps to help the employed keep their jobs, to help persons who change jobs or help new entrants acquire jobs, and to provide for labor welfare. To reduce unemployment and to ease employment termination, the Ministry has been implementing "3-downs-3-ups" measures (reducing termination, reducing labor migration, reducing cost of living, increasing employment, increasing career opportunity, and increasing labor skill) as follows.

Reducing Employment Termination

The Ministry of Labor strongly encouraged organizations and firms not to terminate employees. Where termination is necessary, firms are encouraged to delay it as long as possible by acquiring a low-interest loan provided by the government to ease liquidity. The Ministry also promotes worker training under the assumption that workers with enhanced skills will benefit firms once demand revives and the economy recovers. In addition, the Ministry helps the unemployed receive compensation in accordance with the Labor Protection Law and allows them to contribute less than 3 percent of their wage on the Social Security Fund.

Proactive and reactive measures by the Ministry's Department of Labor Protection and Welfare include

- Providing 2,315,419 million baht to the unemployed in accordance with the Labor Protection Act B.E. 2551 (A.D. 2008) and the Labor Protection (Amendment) Act B.E. 2551 (A.D. 2008);

- Providing 33.23 million baht in FY2008 to 4,355 unemployed persons through the Employees Welfare Fund.

In cooperation with the Small and Medium Enterprise Development Bank of Thailand, the Ministry of Labor provided low-interest loans amounting to 6,000 million baht to assist employers in delaying employment termination. Firms that received loans are required to retain their employment levels. The scheme is to run from January 2009 to December 2010. As of September 2009, 700 firms had applied for a loan and had their eligibility verified. So far, loan applications have amounted to 16,990.97 million baht and 403 loan contracts have been established. Loans totaling 5,079.71 million baht have been approved for 273 firms. This scheme is believed to have delayed employment termination for 7,825 persons.

A working group has been set up in every province to advise employers about measures, schemes, and guidelines for alleviating termination problems and to promote proper industrial relations between employers and employees with regard to rights and duties in times of crisis. A special working group on crisis-related employment termination devises measures to resolve termination problems and finds ways to keep vulnerable employees employed as long as possible.

Reducing Labor Migration

The Ministry of Labor encourages unemployed persons to stay in their current localities and not to migrate to big cities. Unemployed persons who wish to return to work in their hometowns or go elsewhere to establish businesses are supported with loans (4,000 million baht). Immediate employment opportunities and training are available for those who wish to join the public works, a scheme worth 300 million baht.

The Ministry of Labor and the Bank for Agriculture and Agricultural Co-operatives offer low-interest loans for laid off or unemployed persons to start their own businesses. This scheme is targeting 100,000 persons from January 2009 to December 2010. As of September 2009, 20 loans amounting to 837,000 baht had been approved.

The Ministry of Labor and the Ministry of Agriculture and Cooperatives established an agricultural training program and a two-year trial land access program for eligible workers. If trainees find the work suitable or if they are serious about being farmers, land is allocated to them. There are 2,617 *rai* (654.25 hectares) available economywide. To be eligible, an applicant must have been laid off and must want to work in agriculture. Other terms and conditions are as follows:

- An applicant must receive training to develop agricultural knowledge and skills for a period of 3 or 6 months. During training, he or she will get a 100 baht per day allowance, accommodation, food, and equipment for training.
- A trainee who demonstrates willingness to work diligently in agriculture will be given access to a piece of land for a two-year trial period.
- After the trial period, trainees who express commitment to work in agriculture are granted land access and utilization under the land reform program.

Currently, 274 unemployed persons have applied to this program.

Increasing Employment and Job Placement

To help the unemployed and new graduates find jobs, the Ministry of Labor works with groups and firms to organize career fairs and to set up mobile job recruiting centers. The centers provide news and information on the labor market and help workers being made redundant enroll in the social security system for compensation.

As of October 1, 2009, firms had reported 121,056 job vacancies and 268,905 unemployed had registered at career fairs. So far, there have been 11 fairs at which 7,063 persons applied for a job: 5,133 unemployed, 785 persons wanting to change jobs, and 1,870 persons who immediately got jobs.

The Ministry of Labor itself employed temporary workers during the period of employment termination. As of September 2009, it had filled 92 temporary positions. New graduates, government employees, and government officers were hired to fill 23 positions (under bachelor's degree) as of September 30, 2009. Persons from the private sector with bachelor's degrees were also employed to increase the ministry's workforce.

The Graduate Volunteer Program was established to lower the unemployment rate, curb labor migration, and sustain employment at the local level. In FY2007, 294 graduate volunteers from three southern provinces (Pattani, Yala, and Narathiwat) and four districts in Songkhla were participating in the program. They were hired continuously in 2009, with a budget of 39,417,300 baht, to work in labor relations and with the Southern Border Provinces Administrative Center. They (1) provided information, (2) planned and organized projects with communities and other organizations, (3) arranged activities and coordinated with the Center, (4) engaged in public relations, and (5) developed social networks.

Key Assessments

In general, Thailand has not been much affected by the global economic crisis, particularly its labor markets, despite a significant economic slowdown. However, it cannot be denied that government interventions have helped dissipate the impact of the crisis. Many measures have been successful, especially the Six Measures—Six Months scheme that lowered utility and transport fees. This scheme worked because it used the existing administrative structures of electricity and water suppliers, bus and train operators, and tax authorities. No extra administration was required, operational transaction costs were low, and public access was easy.

Chatameena (2009) and the Fiscal Policy Office (FPO) (2009) assessed the positive effect of SP1 and SP2 on economic growth. Positive fiscal impulse was found for SP2 although it will last only a year (Chatameena 2009). This coincides with the FPO study, which used macroeconomic modeling to estimate the effectiveness of the stimulus packages. SP1 did help the economy to expand at 0.8 percent per annum (compared to the base case without SP1 at -3.0 percent). SP2 is estimated to have a positive impact on the economy in the medium term by at least sustaining the growth rate of 2.5, 4.0, and 4.5 percent per annum in 2010, 2011, and 2012, respectively (FPO 2009). Again, estimates are sensitive to and depend on the progress of projects in the package. If budget utilization were on target, the contribution to economic growth could be up to 1.7 percent higher in 2010 (1.2 percent and 1 percent in the following years) (FPO 2009). Without any structural change in the Thai economy, the effectiveness of fiscal stimulus will last only a few years and thus, rebalancing the growth path through fundamental restructuring is also needed (Jitsuchon and Sussangkarn 2009). The sustainability and effectiveness of fiscal stimulus programs like these are questionable.

Many stimulus projects did not unfold as expected. The 2,000 baht check handout and the 500 baht monthly stipend for the elderly are good examples. Both require that beneficiaries register and be approved, necessitating certain procedures and working against time. Beneficiaries were put off by inadequate procedures. Some did not even bother to register. Many retain the “check” as a souvenir without claiming money. Most recipients use the check to purchase consumer goods and pay off debts (Thansettakij 2009).

The *Tonkla-archeep* or Training for Unemployed project is also perceived to be a failure, even though its objectives are sound and related directly to labor. Registration for trainees proved to be difficult and time-consuming, and the organizer could not recruit or allocate appropriate trainers or instructors. Inadequate project governance and administration also gave rise to accusations of corruption.

Many projects involve long-term expenditures, particularly in education. The immediate advantage of countering the negative impact of the crisis is therefore not available, even if such projects are considered worthy investments.

While there have been efforts to expand the Thai economy as a whole, most projects have concentrated on construction, renovation, and procurement. Although this helps the economy to expand, there is no structural change in the economy, particularly with regard to labor. Delayed package administration also costs the Thai economy considerably by stunting the stimulus effect.

Agriculture as Buffer for Redundant Labor

The agricultural sector is vital in dissipating the impact of the crisis on Thai labor. It acts as a cushion absorbing redundant labor from other sectors, even though it contributes relatively little to GDP. Government stimulus packages, however, failed to realize the importance of agriculture. SP1 allocated only 2,760 million baht (2.95 percent) to agriculturalists (see Table 9-2). SP2 seems to improve by allocating 59,503.26 million baht (17 percent) to the sector, or 48,228.63 million baht (13.80 percent) via the Ministry of Agriculture and Cooperatives. Regrettably, only 16 projects are related to agriculture and only 5 of those directly benefit the sector (Table 9-5). They are worth 43,323.47 million baht or 12.38 percent of SP2’s budget. The rest are construction projects.

Table 9-5

Agriculture Projects under Thailand's Stimulus Package 2

Projects	Allocated Budget (million baht)	Progress (percent of budget)
1. Increases of water sources and irrigated area[a]	20,232.92	25.04
2. Flooding prevention and relief	8,652.84	17.53
3. Water management in irrigated areas[a]	17,224.90	35.52
4. Water source conservation[a]	4,796.65	32.30
5. Refurbishment of water-related structures	2,552.00	3.02
6. Water source conservation (large catchment areas) [a]	1,049.00	0.00
7. Early warning system for landslide	70.00	30.96
8. Exploration and development of underground water for supporting school drinking water system	415.95	31.48
9. Construction of communal flood prevention	4,279.00	13.09
10. Electricity-powered water pumping station	50.00	0.92
11. Improvement of reservoir	30.00	0.33
12. Construction of flood barrier	35.00	0.00
13. Construction of water spillage	15.00	0.13
14. Construction of water reservoir	20.00	0.00
15. Registration of 3 main cash crop farmers	60.00	46.05
16. Water source conservation[a]	20.00	0.00

[a]*Of direct benefit to the agriculture sector.*
SOURCE: www.tkk2555.com

Accusations of Corruption: Leakages and Delays

During implementation of SP1 and SP2, there have been numerous accusations of a lack of transparency, of scandal and corruption (*Matichon*, various issues). Though all accusations are being investigated, they undoubtedly influence the effectiveness of the stimulus packages.

Sufficiency Economy Fund for Community Upgrade or Sufficient Community, in particular, has been plagued with accusations. The preliminary findings of the Senate's Commission for Budget Monitoring reveal many anomalies including low public participation in the community (a requirement), a significant amount of the budget allocated for procurement of products of certain types and brands at higher prices (8-10 times higher than market prices), incomplete presentation of project requirements, and expedited approvals without proper checks (*Matichon* 2010, February 8).

The purchase of medical equipment under SP2, a part of a project to develop medical and public health personnel, is another scandal. The Club of Rural Doctors claims that prices paid for medical equipment and infrastructure are too high by at least 30 percent and that specifications favor particular suppliers (*Matichon* 2009, October 2; *Post Today*, 2009, December 26). Special committee investigations have uncovered evidence of irregularities with regard to allocation of unsuitable or unrequested medical equipment (*Matichon* 2009, October 14).

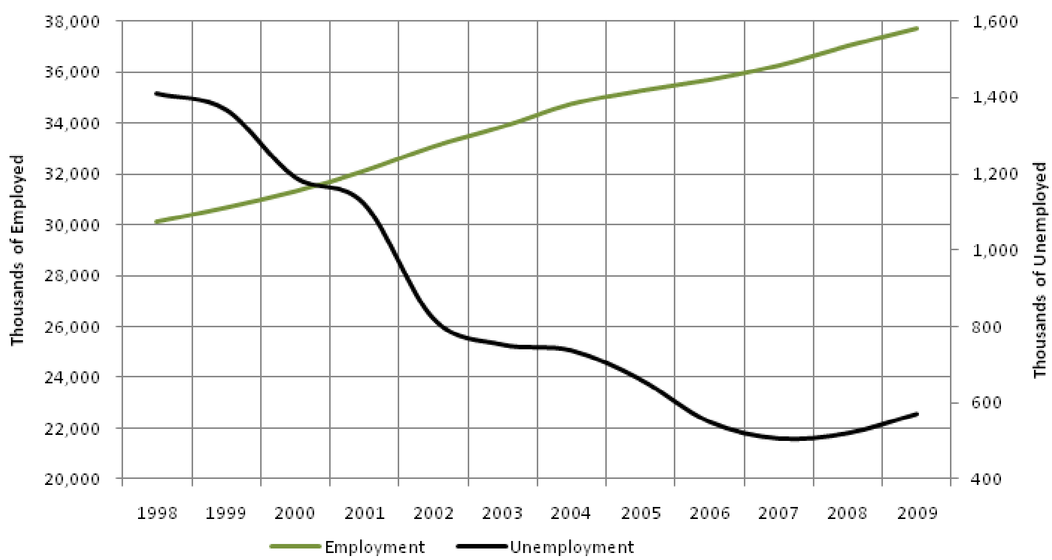
These problems reduce the effectiveness of the stimulus packages. Although money has been injected into the economy, the misuse of funds will adversely affect the sustainability of these projects.

No Structural Change in Labor Market

Thanks to the agricultural sector, the Thai labor market has not been affected by the global economic crisis. While unemployment did rise briefly, no other significant shift has been observed; see Figure 9-11, which shows no evidence of change in unemployment, except for a slight increase in 2007-2009. When compared to unemployment rates reached during the 1997 crisis, rates in this crisis are much lower. Employment patterns have not changed across sectors, except for a slight increase in education, which could be influenced by the intensity of stimulus packages of over 15 percent (see Figure 9-9, above).

Figure 9-11

Thailand's Employment and Unemployment, 1998–2009



SOURCE: Bank of Thailand (2010).

Clearly, Thai labor can move relatively easily between nonagricultural sectors and the agricultural sector, demonstrating the strong agricultural inheritance of Thais. The existence of these labor market linkages presents an opportunity to reform the Thai economy in the long run by establishing systematic linkage between the agricultural sector and the rest of the economy. Due to the time lag for persons completing training, education will eventually be beneficial to the economy but without structural change. Education projects, therefore, build capacity rather than induce structural change. Training for labor remains limited since its progress is slow. More professional and occupational training shall be implemented as a long-term commitment to allow labor workers to switch career paths. Short-term training is too challenging to administer and has relatively little effect when compared to the absorptive capacity of agriculture. Therefore, strengthening the agricultural sector is arguably the most effective way to provide a social safety net for Thailand in times of economic crisis.

Concluding Remarks

Fiscal stimulus packages to counter the impact of the global economic crisis in Thailand have not been effective with regard to labor. Despite a low rate of project implementation, limited allocation of budget to labor and human resource projects, and accusations of corruption, Thailand's employment rates continued to rise during the crisis and unemployment rate recovered after April 2009. There has been no long-term effect on employment or labor market structure. Budgets and programs have not been well thought out and nearly all programs and projects address short-term problems (Jitsuchon and Sussangkarn 2009). Leakages in fiscal policy implementation and a substantial delay in spending have also blunted the overall impact. The government also failed to take this opportunity to restructure the labor market or retrain current employees. This global economic crisis should provide an opportunity for Thailand to move toward long-term restructuring of the labor force for the sustainable future since Thailand is reaching the end of a labor-intensive era. Strengthening systematic linkages between the all important agricultural sector and other sectors is vital for the Thai economy.

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SP2 Website: http://www.tkk2555.com/

10. United States of America

Overview

The economic crisis began in the United States in December 2007 as the real estate bubble, which had propped up the economy for several years, began to burst. A harbinger of things to come was the collapse of the Bear Stearns investment bank, which was subsequently sold through a government-promoted transaction to JP Morgan Chase. This was followed by the bankruptcy of another prominent investment bank, Lehman Brothers. This was the largest bankruptcy in U.S. corporate history and it had an inordinate impact on U.S. financial markets as loans were called in and margin requirements raised, and funds were withdrawn by nervous investors, amounting to a run on the banks, resulting in the bankruptcy of numerous mutual funds and banks. GDP declined by 2.4 percent during 2009 following 25 quarters of uninterrupted growth which ended in June of that year. Unemployment, which had been below 5 percent during the two years before the crisis, rose to 10.1 percent in October 2009 with the loss of 8.3 million jobs. Essentially, the United States was faced with its greatest economic crisis since the Great Depression, requiring unprecedented intervention by the government to prevent a worse collapse with the potential for serious implications for the rest of the world.

Thanks in large part to these interventions, the worst of the crisis has passed. GDP registered positive growth during the last two quarters of 2009 and the first two quarters of 2010 and unemployment declined slightly to 9.5 percent. The major concern is now the sustainability and pace of the recovery and its employment effect.

Performance of the Economy and Labor Market until the Global Recession

From the first quarter of 1990 through the last quarter of 2007, the United States experienced positive GDP growth in 67 of the 71 quarters covered. GDP grew from $8,027.7 billion to $13,319.2 billion (2005 dollars) while per capita GDP grew from $32,248 to $44,171. During this same period, the unemployment rate for men ranged from 5.7 percent in 1990 to 4.7 percent in 2007 while the rate for women ranged from 5.5 percent to 4.5 percent.

In 2007, before the economic crisis, the employment participation rate was 66 percent (153 million of a population of 234 million). Of these numbers, 82 million were men and 72 million were women, for participation rates of 73.5 percent and 59.3 percent respectively.

In November 2007, the national unemployment rate was 4.7 percent (7.3 million people) broken down by category of worker in Table 10-1.

Table 10-1

United States: Unemployment Rates by Category, November 2007

Category	Rate (%)
SEX AND AGE	
Adult men	4.2
Adult women	4.2
Teenagers	16.2
RACE OR ETHNICITY	
Whites	4.2
Blacks	8.5
Hispanics	5.8
Asians	3.6
SECTOR	
Goods-producing	16.0
Construction	5.4
Manufacturing	10.5
Service providing	84.0
Retail trade	10.1
Professional and business services	13.0
Education and health services	13.4
Leisure and hospitality	9.4
Government	16.0

According to the Office of Management and Budget, the federal government's share of GDP increased from 21.9 percent in 1990 to 24.7 percent in 2009 and to over 25 percent in 2010. Except for the 2009 and 2010 increases generated by the stimulus measures adopted in the face of the global financial crisis, government spending remained stable at about 20 percent of GDP over this period.

General Impact of the Global Recession on the U.S. Economy

The macroeconomic impact of the financial crisis was felt almost immediately after its onset. GDP declined by 0.7 percent (annual rate, seasonally adjusted) during the first quarter of 2008, underwent a brief uptick of 1.5 percent, then declined 2.7 percent, 5.4 percent, 6.4 percent, and

0.7 percent before returning to positive growth during the last two quarters of 2009 and the first two quarters of 2010.

The effect of the crisis on employment was equally powerful. The overall unemployment rate rose from 5 percent at the end of 2007 to 7.4 percent at the end of 2008 and to 10 percent by the end of 2009 before declining slightly to 9.7 percent in the first quarter of 2010, increasing to 9.9 percent in April 2010, and then falling again to 9.7 percent in May and 9.5 percent in June 2010 (Figure 10-1). Much of the drop in May was due to the hiring of 411,000 temporary workers to conduct the census, and the drop in the unemployment rate in June was due primarily to a decline in the participation rate despite a decline in the number of census workers. The labor force participation rate declined from 66 percent to 64.6 percent at the end of 2009 and stood at 64.7 percent in June 2010.

In June 2010 among the major worker groups, the unemployment rate for adult women (7.8 percent) declined, while the rates for adult men (9.9 percent), teenagers (25.7 percent), whites (8.6 percent), blacks (15.4 percent), and Hispanics (12.4 percent) showed little or no change. The jobless rate for Asians was 7.7 percent, not seasonally adjusted.

Figure 10-2 shows the monthly changes in payroll employment during the worst of the crisis. In brief, the fourth quarter of 2008 and the first quarter of 2009 saw the greatest loss in payroll employment; with losses tapering off during the rest of 2009 and undergoing a slight uptick beginning in 2010.

Figure 10-1

United States: Monthly Unemployment Rate, June 2008–June 2010

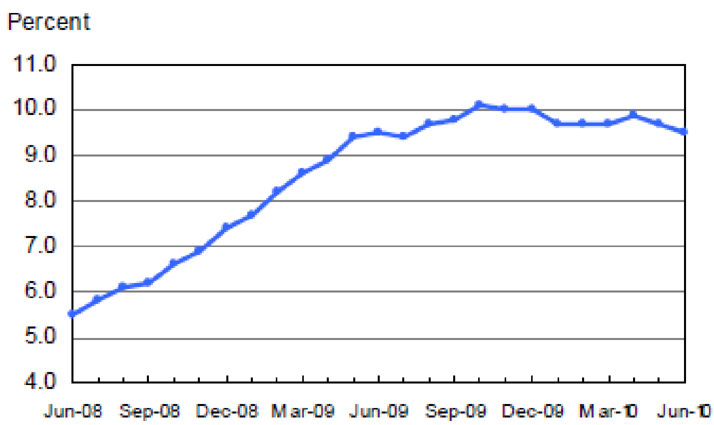
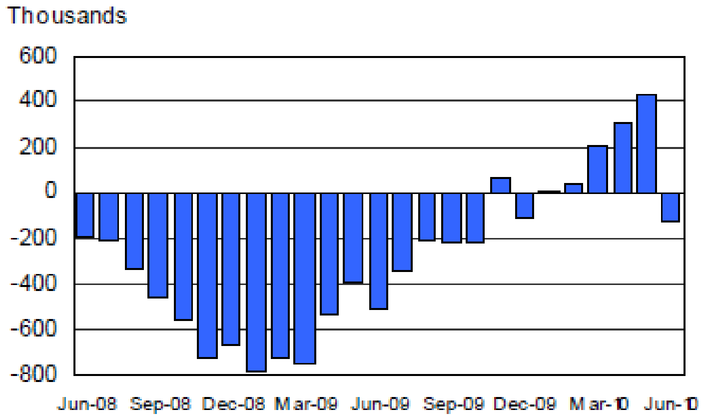


Figure 10-2

United States: Nonfarm Payroll Employment Over-the-month Change, Seasonally Adjusted, June 2008–June 2010



The official unemployment rate tends to understate the problem for two reasons: discouraged workers and people employed part time for economic reasons. The first refers to people who have given up seeking employment because of a perceived absence of opportunities. The latter refers to people who work part time but would prefer to work full time. The number of discouraged workers rose from 369,000 in 2007 to 462,000 in 2008, to 778,000 in 2009, and to 1.207 million in June 2010 (see Table 10-2). The number of persons employed part time for economic reasons (sometimes referred to as involuntary part-time workers) rose from 4.665 million at the end of 2007 to 8.090 million at the end of 2008, and to 9.165 million at the end of 2009 and declined to 8.6 million in June 2010. When discouraged and involuntary part-time workers and other workers marginally attached to the labor force are factored in, the total of unemployed and underemployed amounts to 16.5 percent of the labor force. Comparable figures for 2007, 2008, and 2009 were 8.2 percent, 12.8 percent, and 16.3 percent respectively.

Government receipts declined and expenditures increased from the beginning of the recession. Receipts declined from $4,254.2 billion (seasonally adjusted annual rate) in the last quarter of 2007 to $3,996.8 billion in the last quarter of 2008 to $3,763 billion in the last quarter of 2009, then increased slightly to $3,866.5 billion in the first quarter of 2010. Expenditures for the same periods were $4,520.5 billion, $4,726.9 billion, $5,077.8 billion and $5,195.9 billion respectively. These numbers reflect both a decline in tax receipts and an increase in spending to stimulate the economy.

Table 10-2

United States: Rates of Unemployed, Discouraged Workers, and Workers Employed Part-time for Economic Reasons, %

Measure	Not seasonally adjusted			Seasonally adjusted					
	June 2009	May 2010	June 2010	June 2009	Feb. 2010	Mar. 2010	Apr. 2010	May 2010	June 2010
U-1 Persons unemployed 15 weeks or longer, as a percent of the civilian labor force	4.8	5.9	5.6	5.1	5.8	5.8	5.8	5.8	5.8
U-2 Job losers and persons who completed temporary jobs, as a percent of the civilian labor force	5.9	5.7	5.7	6.2	6.2	6.1	6.0	6.0	5.9
U-3 Total unemployed, as a percent of the civilian labor force (official unemployment rate)	9.7	9.3	9.6	9.5	9.7	9.7	9.9	9.7	9.5
U-4 Total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers	10.1	10.0	10.3	10.0	10.4	10.3	10.6	10.3	10.2
U-5 Total unemployed, plus discouraged workers, plus all other persons marginally attached to the labor force, as a percent of the civilian labor force plus all persons marginally attached to the labor force	10.9	10.6	11.1	10.8	11.1	11.1	11.3	11.0	11.0
U-6 Total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force	16.8	16.1	16.7	16.5	16.8	16.9	17.1	16.6	16.5

NOTE: Persons marginally attached to the labor force are those who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the past 12 months. Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not currently looking for work. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule. Updated population controls are introduced annually with the release of January data.

The impact of the crisis on various sectors can be ascertained by looking at value added by industry from the national accounts. Table 10-3 illustrates this.

Table 10-3

United States: Value Added by Sector, billions of dollars

Sector	2007	2008	2009
GDP	14,077.6	14,441.4	14,256.3
Agriculture, forestry, fishing, and hunting	147.0	163.2	136.4
Mining	242.1	307.2	231.3
Utilities	247.0	255.2	269.2
Construction	661.2	639.3	578.3
Manufacturing	1708.6	1,669.6	1,568.6
State and Local Government	1,112.6	1,132.0	1,133.4

Source: Bureau of Economic Analysis, U.S. Department of Commerce

The most severely affected sector in absolute terms was manufacturing ($140 billion decline), while the most severely affected in relative terms was construction (12.5 percent decline).

The Federal Reserve (Fed) oversaw a significant lowering of interest rates to maintain liquidity. The annual interest rates for Federal Funds declined from 4.24 percent in December 2007 to 0.15 percent in December 2008 and to 0.12 percent in December 2009, before increasing slightly to 0.20 percent in May 2010 with the economy showing signs of recovery. Other interest rates trace the movements of the Federal Funds rates.

The impact of the crisis on investment was severe. Using 2005 as a base year (2005=100) real private fixed investment was 99.564 at the end of 2007 and declined to 77.585 at the end of 2009 before increasing slightly to 77.483 during the first quarter of 2010.

U.S. trade in goods and services also suffered a precipitous decline during the economic crisis. Total U.S. exports totaled $148,217 million in December 2007, declined to a low of $121,653 million in April 2009, and rebounded to $147,873 million in March 2010. Imports declined from $203,643 million in December 2007 to a low of $150,696 million in May 2009 and recovered to $189,092 million in March 2010.

Information on welfare take-up provides mixed messages. Welfare in the United States consists of direct income support for poor families and has two major components: the Supplemental Nutrition Assistance Program (SNAP), formerly known as the Food Stamps Program, and Temporary Assistance for Needy Families (TANF), formerly known as the Aid to Families with Dependent Children (AFDC). TANF provides three types of assistance: basic assistance to poor children and parents; wages for subsidized jobs; and short-term, non-recurring assistance for needy families, such as rent to avoid eviction. SNAP levels generally have followed poverty and unemployment trends, while TANF usage has remained less responsive to economic cycles. SNAP and its expansion under the American Recovery and Reinvestment Act of 2009 (ARRA) are discussed in more detail later in this paper.

About 67 percent of unemployed workers were receiving unemployment compensation in the fourth quarter of 2009. This is up from an average of 40 percent during normal times. The percentage tends to increase during recessions because a larger number of the unemployed are job losers. Also, federal support allows the payment of benefits to be extended during recessions, so a larger number of the unemployed continues to receive benefits. During this recession, the benefit period has been extended to as much as 99 weeks, compared to 26 weeks during nonrecession periods. The unemployment compensation program is addressed in more detail later in this report.

The income replacement rate of unemployment compensation varies from state to state. The United States average is about 33 percent, but unemployment compensation is as high as 50 percent in some states.

General Policy Responses to the Impacts of the Recession

Federal Reserve and FDIC

Two U.S. government entities were well positioned to address the financial impacts of the recession initially without requiring additional resources or legislation. The Federal Reserve (Fed) functions as the nation's central bank, setting monetary policy and acting as a lender of last resort to financial institutions. The response of the Fed to the crisis consisted of lowering interest rates and making trillions of dollars in liquidity available to the financial system.

The Federal Deposit Insurance Corporation (FDIC) insures bank deposits, supervises banks, and manages receiverships of failed banks. From 2007 until 2010 the FDIC oversaw the closure of

241 banks with assets of over $613.2 billion at a cost of $68.7 billion. All deposits insured by the FDIC up to $100,000 were fully insured. The limit was raised to $250,000 by the Wall Street Reform and Consumer Protection Act of 2010 enacted on July 21, 2010.

Financial Stability Plan

Under the Financial Stability Plan, a number of additional initiatives were introduced. The Emergency Economic Stabilization Act of 2008 (EESA) was signed into law on October 3, 2008. The Troubled Assets Relief Program (TARP) was established under the EESA with the goal of stabilizing the U.S. financial system and preventing a systemic collapse. Administered by the Treasury Department, several programs were established under the TARP to stabilize the financial system, restore the flow of credit to consumers and businesses, and address the foreclosure crisis to keep Americans in their homes. The TARP was intended originally to purchase troubled assets (usually involving subprime mortgage–backed securities) to restore liquidity to the affected financial institutions, but the program evolved as the crisis developed. The Obama Administration's Financial Stability Plan includes several initiatives to assist the financial markets, consumers, and the larger economy.

Affordable homes. Using a combination of tax credits, community programs, and mortgage modifications, this program is intended to make the costs of owning a home more affordable to people affected by the economic crisis.

Capital Purchase Program. The CPP is a voluntary program. Through the CPP, the Treasury Department is investing up to $250 billion in U.S. banks that are healthy but desire an extra layer of capital for stability or lending. This is accomplished through the purchase of senior preferred shares on standardized terms, which will include warrants for future Treasury purchases of common stock.

Consumer and Business Lending Initiative. This joint initiative with the Federal Reserve broadens and expands the resources of the Term Asset-Backed Securities Loan Facility (TALF). The Consumer and Business Lending Initiative will support the consumer and business credit markets by providing the financing to private investors to help unfreeze and lower interest rates for auto, student loan, small business, credit card, and other consumer and business credit.

Asset Guarantee Program. The AGP provides government assurances for assets held by financial institutions that are critical to the functioning of the nation's financial system, which face losing the confidence that is needed for them to continue to lend to other banks. The AGP also encourages investors to keep funds in the institution. These institutions risk losing the confidence of investors and other financial institutions in large part because they hold significant distressed assets, such as subprime mortgage–backed assets, which could cause the institution to incur large losses. Placing guarantees, or assurances, against such distressed or illiquid assets is one way that the government is working to stabilize the financial system.

Targeted Investment Program. TIP is intended to stabilize the financial system through investment in individual financial institutions that are critical to the system's functioning. The Treasury Department determines the form, terms, and conditions of any investment made pursuant to this program on a case-by-case basis in accordance with the considerations mandated in the EESA. Treasury may invest in any financial instrument, including debt, equity, or warrants, that the Secretary of the Treasury determines to be a troubled asset, after consultation with the Chairman of the Board of Governors of the Federal Reserve System and notice to Congress. Treasury requires that any institution participating in this program provide it with warrants or alternative consideration, as necessary, to minimize the long-term costs and maximize the benefits to the taxpayers in accordance with the EESA.

Automobile Industry Financing Program. Under this program, the Treasury Department provided approximately $76 billion in loans or equity investments to General Motors, GMAC, Chrysler, and Chrysler Financial to avoid a disorderly bankruptcy of one or more auto companies; such an event would pose a systemic risk to the member economy's financial system. These loans paved the way for these companies to go through orderly restructurings and achieve viability.

Financial Regulatory Reform. The Wall Street Reform and Consumer Protection Act of 2010 was signed into law on July 21, 2010. The law is intended to give the federal government the means to exercise greater oversight over the financial industry. It has the following main components:

- An increase in the amount of deposits insured by the Federal Deposit Insurance Corporation from $100,000 to $250,000
- Regulation of trading in derivatives
- Standards for credit rating agencies
- Disclosures on executive compensation
- Expanded oversight of trading in futures by the Commodity Futures Trading Commission
- Establishment of the Financial Stability Oversight Council to monitor systemic risk to the financial system
- Establishment of the Consumer Financial Protection Bureau to protect consumers from unscrupulous lending practices.

Specific Labor Market Impacts of the Recession

Table 10-4 shows the sectoral impact of the crisis. Except for government and self-employed, these data refer to private wage and salary workers.

Nearly all industries have shed workers since the recession began. Long-term structural declines in employment in certain industries, particularly in manufacturing and information activities, have deepened.

In 2009 (based on calculated annual averages), manufacturing suffered the highest job losses (1.5 million); followed by trade, transportation and utilities (1.3 million); professional and business services (nearly 1.2 million); and construction (1.1 million). There have been recent signs of improvement in manufacturing production, construction of single family homes, and consumer spending.

Table 10-4

United States: Unemployment Rates December 2007, December 2009, and April and June 2010, %

Sector	December 2007	December 2009	April 2010	June 2010
Mining, quarrying, oil and gas extraction	3.4	11.8	9.4	8.2
Construction	9.4	22.7	21.8	20.1
All manufacturing	4.6	11.9	11.1	9.9
Durable goods manufacturing	4.3	13.3	11.6	10.4
Non durable goods manufacturing	5.1	9.5	10.2	9.1
Wholesale, retail trade	4.8	9.1	9.5	9.3
Transportation, utilities	3.4	9.0	9.1	7.2
Information industry	3.7	8.5	9.4	8.8
Financial services	3.2	7.2	7.6	6.9
Professional and business services	5.7	10.3	11.1	10.3
Education and health services	2.6	5.6	5.0	6.2
Leisure and hospitality	7.9	12.6	12.8	12.3
Other services	3.9	8.2	8.4	8.5
Agriculture, forestry, fishing, hunting	7.5	19.7	15	11.7
Government	2.1	3.6	3.4	4.4
Self-employed	3.2	5.9	5.6	5

In April 2010, the highest unemployment rates were in the leisure and hospitality sector and the agriculture, forestry, fishing, hunting sector.

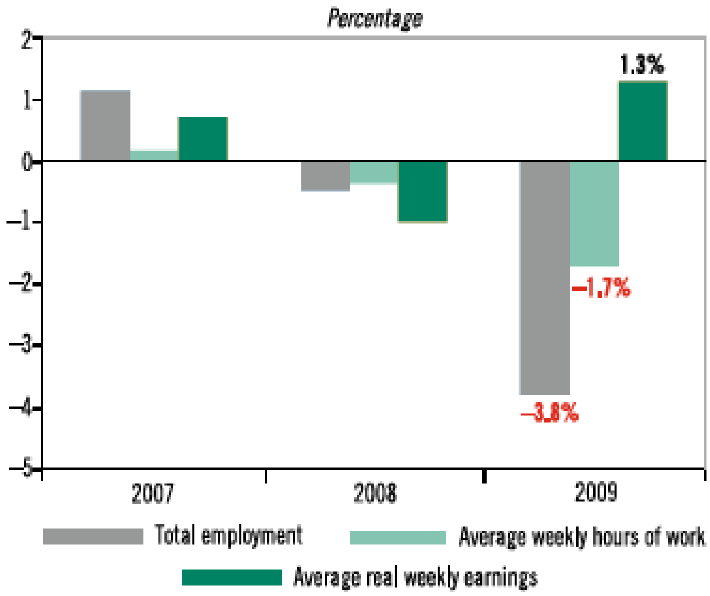
The American Recovery and Reinvestment Act of 2009 (ARRA) provided a fiscal stimulus that is contributing to the creation and/or retention of jobs, particularly in the construction and education sectors.

Absent additional Congressional action, state and local governments are expected to shed more workers in 2010 because of fiscal restraints imposed by declining tax revenue. States and local governments lack the fiscal tools available to the federal government because most states are required by constitution or statute to produce balanced budgets.

Employment and hours of work declined sharply in 2009—fell 3.8 percent and 1.7 percent respectively, while weekly earnings recovered the losses suffered in 2008 (see Figure 10-3). Hours worked and earnings stabilized and recuperated slightly in 2010 (Table 10-5).

Figure 10-3

United States: Change in Total Employment, Weekly Hours of Work and Real Weekly Earnings, 2007–2009



Source: ILO based on data from the U.S. Bureau of Labor Statistics. Employment data based on Current Population survey; hours and earning data cover employees and are based on Current Employment Statistics survey. Average real weekly earnings refer to earnings of all employees in 1982–1984 dollars.

Source: International Labor Organization for the G20 Meeting of Labor and Employment Ministers

Table 10-5

United States: Hours and Earnings, All Employees, Total Private, June 2009 and April, May and June 2010

Total Private	June 2009	April 2010	May 2010	June 2010
Average weekly hours	33.8	34.1	34.2	34.1
Average hourly earnings	$22.16	$22.50	$22.55	$22.53
Average weekly earnings	$749.01	$767.25	$771.21	$768.27
Index of aggregate weekly hours (2007=100)	91.5	91.9	92.2	92.0
Over-the-month percent change	-0.8	0.4	0.3	-0.2
Index of aggregate weekly payrolls (2007=100)	96.7	98.6	99.2	98.9
Over-the-month percent change	-0.6	0.6	0.6	-0.3

Source: Bureau of Labor Statistics, the Employment Situation – June 2010

Employment declines were widespread across industries on average in 2009, the year of greatest job loss (Table 10-6).

Table 10-6

United States: Unemployment Rates by Region, December 2007, 2008, 2009 and May 2010, %

Region	Dec. 2007	Dec. 2008	Dec. 2009	May 2010
West	5.1	8.1	10.7	10.9
Midwest	5.2	7.6	9.9	9.7
South	4.5	7.1	9.5	9.4
Northeast	4.6	6.7	9.0	8.9

Regional Unemployment (Seasonally Adjusted)

The West reported the highest regional jobless rate in May, 10.9 percent, while the Northeast recorded the lowest rate, 8.9 percent. The Midwest and South experienced the only statistically significant over-the-month unemployment rate changes (-0.3 percentage point and -0.2 percentage point, respectively). Three of the four regions registered significant rate changes from a year earlier: the West (+0.8 percentage point) and the Northeast and South (0.5 point each).

State Unemployment (Seasonally Adjusted)

Nevada reported the highest unemployment rate among the states, 14.0 percent in May. This is the first month in which Nevada recorded the highest rate among the states and the first time since April 2006 that a state other than Michigan has posted the highest rate. The rate in Nevada also set a new series high. (All region, division, and state series begin in 1976.) The states with the next-highest rates were Michigan, 13.6 percent; California, 12.4 percent, and Rhode Island, 12.3 percent. North Dakota continued to register the lowest jobless rate, 3.6 percent, followed by South Dakota and Nebraska, 4.6 percent and 4.9 percent, respectively. Twenty-five states posted jobless rates significantly lower than the U.S. average of 9.7 percent, nine states had measurably higher rates, and 16 states and the District of Columbia had rates that were not appreciably different from the national average.

Table 10-7

United States: Unemployment Rates by State Significantly Different from the National Average, May 2010

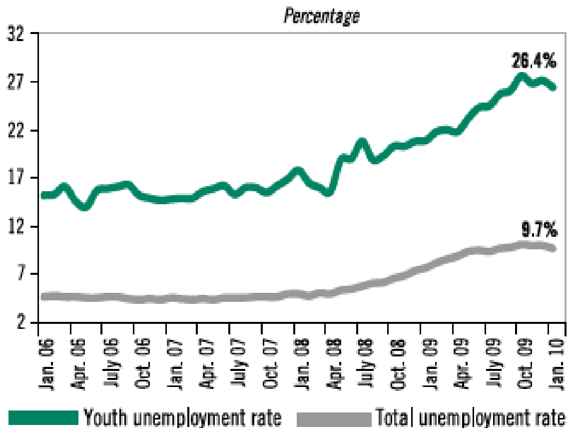
State	%	State	%	State	%	State	%
United States	9.7	Iowa	6.8	Nebraska	4.9	South Carolina	11.0
Alaska	8.3	Kansas	6.5	Nevada	14.0	South Dakota	4.6
Arkansas	7.7	Louisiana	6.9	New Hampshire	6.4	Texas	8.3
California	12.4	Maine	8.0	New Mexico	8.4	Utah	7.3
Colorado	8.0	Maryland	7.2	New York	8.3	Vermont	6.2
Delaware	8.8	Michigan	13.6	North Dakota	3.6	Virginia	7.1
Florida	11.7	Minnesota	7.0	Ohio	10.7	Wisconsin	8.2
Hawaii	6.6	Mississippi	11.4	Oklahoma	6.7	Wyoming	7.0
Illinois	10.8	Montana	7.2	Rhode Island	12.3		

Youth Unemployment

Youth (ages 16–19) experienced a sharper increase in unemployment following the crisis than the average. The spread between youth and total unemployment rates averaged about 11 percentage points in 2006/2007 and nearly 14 percentage points in 2008/2009. The youth unemployment rate stood at 26.4 percent in January 2010, nearly double the 14 percent in May 2006 (Figure 10-4). The labor force participation rate among youth has continued its recent downward trend, reaching 35.2 percent in January 2010. This compares with a participation rate of about 44 percent in 2006. Young people outside the labor force may return to school to sharpen their job skills, or they may join the ranks of discouraged workers.

Figure 10-4

United States: Monthly Youth Unemployment and Total Unemployment Rates, January 2006–January 2010



Source: U.S. statistical summary prepared by the ILO for the G20 Meeting of Labor and Employment Ministers

Unemployment for Older Workers

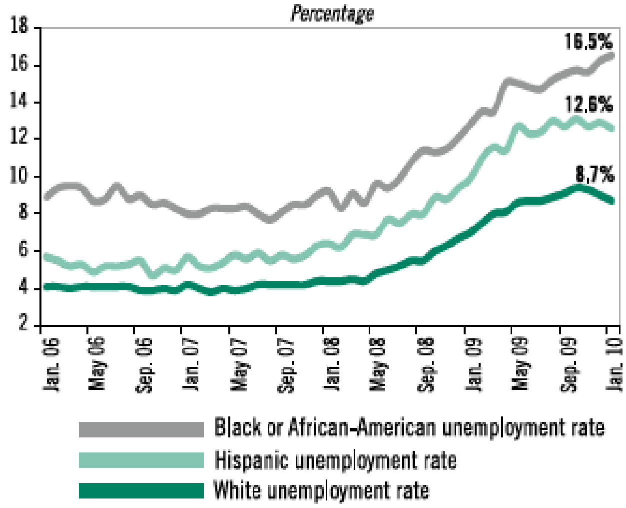
The long-term unemployment for older workers increased to 39.4 percent in 2009 while the overall unemployment rate for seniors reached 7 percent, an all-time high.

Unemployment by Major Ethnic Group

All race and ethnic groups have experienced sharp increases in unemployment since the onset of the recession, but rates in January 2010 remained much higher among black job seekers (16.5 percent) and Hispanics (12.6 percent) than their white counterparts (8.7 percent)(Figure 10-5).

Figure 10-5

United States: Monthly Unemployment Rate for White, Black and Hispanic People, January 2006–January 2010



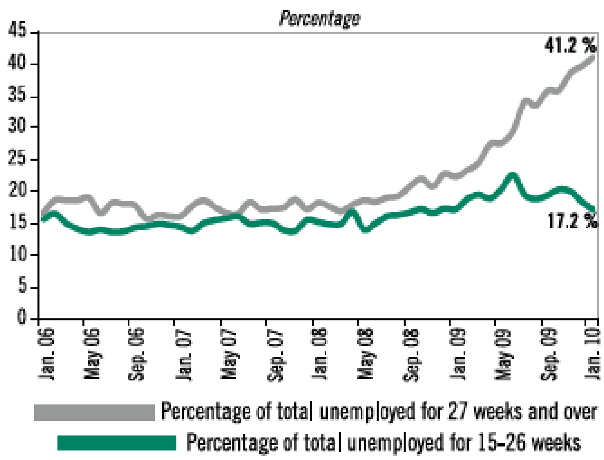
Source: U.S. statistical summary prepared by the ILO for the G20 Meeting of Labor and Employment Ministers

Long-term Unemployment

Long-term unemployment (persons unemployed for longer than six months) rose sharply to 44.6 percent of total unemployment in May 2010 from a low of 15.8 percent in October 2006 (Figure 10-6). These long-term unemployed persons may enter the ranks of discouraged workers and no longer seek employment.

Figure 10-6

United States: Duration of Unemployment, January 2006–January 2010



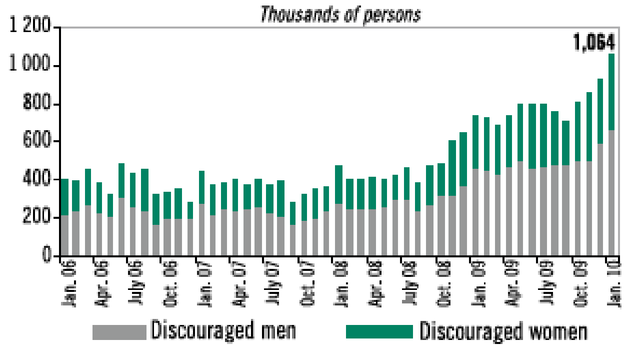
Source: U.S. statistical summary prepared by the ILO for the G20 Meeting of Labor and Employment Ministers

Discouraged Workers

As long-term unemployment has increased, the number of discouraged workers (those who are not looking for work because they believe no jobs are available for them) rose sharply, to more than one million in January 2010, compared with 396,000 in January 2006 (Figure 10-7). This is the highest level of discouraged workers since the redefined series of this indicator began in 1994.

Figure 10-7

United States: Discouraged Workers by Sex, January 2006–January 2010



Source: U.S. Bureau of Labor Statistics. Not seasonally adjusted data.

Part-time Workers for Economic Reasons

Although declining employment was the main labor market adjustment during the recession, many workers also experienced a decline in hours of work. The percentage of employed people who were working part time for economic reasons but preferred to work full-time more than doubled during the recession to a high of 6.7 percent in October 2009. This indicator fell to 6 percent in January 2010.

Unemployment Insurance Claims

Unemployment insurance claims (continued claims) rose from about 2.5 million in the precrisis period to nearly 6.6 million at the peak in the second quarter of 2009. Despite a decline in continued claims in the second half of 2009, the level remained high, nearly 5.5 million in the fourth quarter of 2009, still more than double the precrisis level. By July 2010 continued claims dropped to about 4.6 million, although this figure may be misleading because people who exhaust their benefits are no longer counted.

Interventions in Response to Labor Market Impacts

American Recovery and Reinvestment Act of 2009 (ARRA)

This key fiscal stimulus measure was signed into law in February 2009 and is intended to stimulate the economy, strengthen social protection, and improve employment prospects. The law provides $787 billion in new spending and tax cuts. The stimulus spending has three main components: (1) roughly $300 billion in tax breaks for individuals and businesses; (2) more than $250 billion in direct aid to states and individuals; (3) almost $200 billion to modernize and improve infrastructure.

The ARRA allocated $82.5 billion to strengthen social protection and improve employment prospects through labor market programs, including (1) an extended unemployment insurance program; (2) food stamps; (3) a subsidy on health insurance for certain laid-off workers; (4) training grants for green jobs and emerging industry sectors; and (5) a work-sharing program.

Strengthening the Social Safety Net

Unemployment Insurance Program

The Federal-State Unemployment Insurance Program provides benefits to eligible unemployed workers. States operate unemployment insurance programs under their own laws, which must conform to federal law. By temporarily replacing part of the unemployed worker's lost wages, the Unemployment Insurance Program seeks to minimize financial hardship resulting from job loss and helps to stabilize the economy during economic downturns. Initial state benefits cover up to 26 weeks of unemployment, and federal aid is now available after that. Under the ARRA and subsequent extensions, unemployment compensation was extended for those who had already exhausted their benefits or would have done so by the end of 2009. This provision extends federal jobless benefits to 99 weeks in states that have especially high unemployment rates. This program was recently extended through the end of 2010.

Additionally, Department of Labor spent ARRA funds to modernize state unemployment programs, expand eligibility and benefits, and improve efficiency. Thirty-six states have modernized their laws under this program.

Under the modernization program, work-sharing programs were expanded. Seventeen states offer some type of work-sharing program in which employers can reduce their workers' weekly hours and pay 20 percent to 40 percent, with the states compensating some of the lost wages, usually half, from their unemployment insurance funds. This is particularly helpful for businesses who expect workforce reductions to be temporary, because it allows firms to avoid severance costs and costs associated with rehiring and training. Workers, meanwhile, avoid financial and other hardships associated with layoffs. It is estimated that about 100,000 jobs have been saved because of this program. Even though the work-sharing program has proven effective, only a fraction of the businesses and workers in the United States that are eligible actually benefit from it, which may be due in part to a lack of awareness of the program's existence.

SNAP

The ARRA also allocated $48 billion to the Supplemental Nutrition Assistance Program (SNAP), formerly known as the Food Stamp Program. SNAP provides assistance to low-income families in the form of food vouchers. Almost all (97 percent) of SNAP benefits are redeemed in grocery stores and at farmers' markets within 30 days, providing a timely and much-needed economic stimulus by helping low-income families purchase food. The ARRA also allocated nearly $300 million to states for SNAP administrative expenses in fiscal years 2009 and 2010.

As of April 2009, monthly benefits for the 32.2 million recipients of SNAP increased by $80. The average SNAP household now receives $294 in monthly benefits, which is a 19 percent increase over 2008 levels. According to the Department of Agriculture, every $5.00 in new SNAP benefits generates $9.20 in total community spending.

COBRA

The ARRA, as amended on December 19, 2009, provides premium reductions for health benefits under the Consolidated Omnibus Budget Reconciliation Act of 1985, commonly called COBRA.

COBRA gives workers and their families who lose their health benefits the right to continue group health coverage through their former employers under certain circumstances. If the employer continues to offer a group health plan, the employee and his or her family may retain their group health coverage for up to 18 months by paying group rates. The COBRA premium may be higher than what the individual was paying while employed because it includes the former employer's share, plus a 2 percent administrative fee. Generally the cost is lower than to private individual health insurance coverage.

Under the ARRA, eligible individuals pay only 35 percent of COBRA premiums, and the remaining 65 percent is reimbursed to the insurance provider through a tax credit. To qualify, workers had to have lost their jobs involuntarily during the period September 1, 2008 through May 31, 2010. The premium reduction lasts for up to 15 months.

Training and Job Retention

Workforce Investment Act

The Workforce Investment Act is overseen by the Department of Labor's Employment and Training Administration. Of the $3.95 billion of funding, $2.95 billion provides grants to the states for training and employment services. Of the remaining $1 billion, $720 million has been set aside for a program of competitive grants for worker training and placement in high-growth and emerging industry sectors such as green jobs and health care. Of the rest, $120 million went to the Senior Community Service Employment Program, which provides employment opportunities for older Americans. Stimulus spending aimed at training American workers for green jobs and emerging industries complements the more than $60 billion spending to green the U.S. economy by other government agencies—central to job creation efforts.

AmericCorps

AmeriCorps—a program intended to put young people to work in socially useful areas—received $201 million to expand its programs in job training, counseling, and construction and rehabilitation of housing and other buildings.

Job Corps Centers

Funding of $250 million was made available to Job Corps Centers. Job Corps provides employment training to disadvantaged youth. Up to 15 percent of these funds can be allocated to training programs for careers in renewable energy, energy efficiency, and environmental protection. Funds will also be used to upgrade facilities and for oversight and monitoring.

Housing and Urban Development Tribal Governments

This $40 million in funding is aimed at training tribal members in skills associated with the building trades, as well as job training in environmental protection and renewable energy.

Hire Now Tax Cut Act of 2010

The "Hire Now" Tax Cut Act of 2010 legislation aims to encourage businesses to hire new workers. Under this law, businesses that hire someone who has been unemployed for at least 60 days will not have to pay the 6.2 percent employer's share of payroll taxes on that worker for the duration of 2010.

Key Assessments

Impact—Bolstering Employment and Growth

One measure of a program's effectiveness is economic activity generated per federal dollar spent. A multiplier effect of more than one indicates an impact beyond the amount of the stimulus. According to the President's Council of Economic Advisors (CEA) in its Fourth Quarterly Report on the Economic Impact of the ARRA, this multiplier effect is most significant in public investment outlays (1.5), state and local fiscal relief (1.1), and income support payments (unemployment compensation and food stamps) (1.5). One-time payments to retirees, tax cuts to individuals, and business tax incentives rank lower (0.4, 0.8, and 0.1 respectively). The Congressional Budget Office (CBO) found a range of effects, but overall its numbers are consistent with those of the CEA (Table 10-8).

Table 10-8

United States: CEA and CBO Estimates of Multiplier Effects of Interventions

	CEA[a]	CBO Low	CBO High
Public Investment Outlays[b]	1.5	1.0	2.5
State and Local Fiscal Relief	1.1	0.7	1.8
Income Support Payments[c]	1.5	0.8	2.1
One-time Payments to Retirees	0.4	0.3	1.0
Tax Cuts to Individuals	0.8	0.6	1.5
AMT Patch	0.4	0.2	0.6
Business Tax Incentives	0.1	0.0	0.4

Source: CBO (2010b).

Notes: a. The CEA multipliers show the impact of a permanent change in the component of 1% of GDP after 6 quarters, or, equivalently, the cumulative impact of a one-time change of 1% of GDP over 6 quarters. The CBO multipliers show the cumulative impact of a one-time change of 1% of GDP over several quarters.

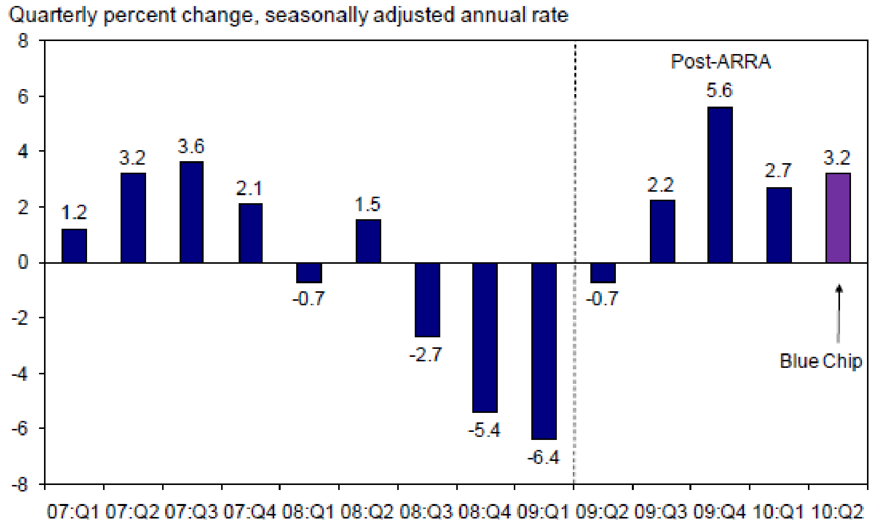
b. Includes transfer payments to state and local governments for infrastructure and tax incentives to businesses directly tied to certain types of spending.

c. Includes such programs as unemployment compensation, COBRA, and SNAP.

Figure 10-8, also from the CEA Fourth Quarterly Report on the Economic Impact of the ARRA, shows GDP growth on a quarterly basis from 2007 to 2010. The dotted line separates the timeline into two periods: before the ARRA and after the ARRA. The numbers indicate a clear impact on GDP from the ARRA.

Figure 10-8

United States: Quarterly GDP Growth, 2007–2010

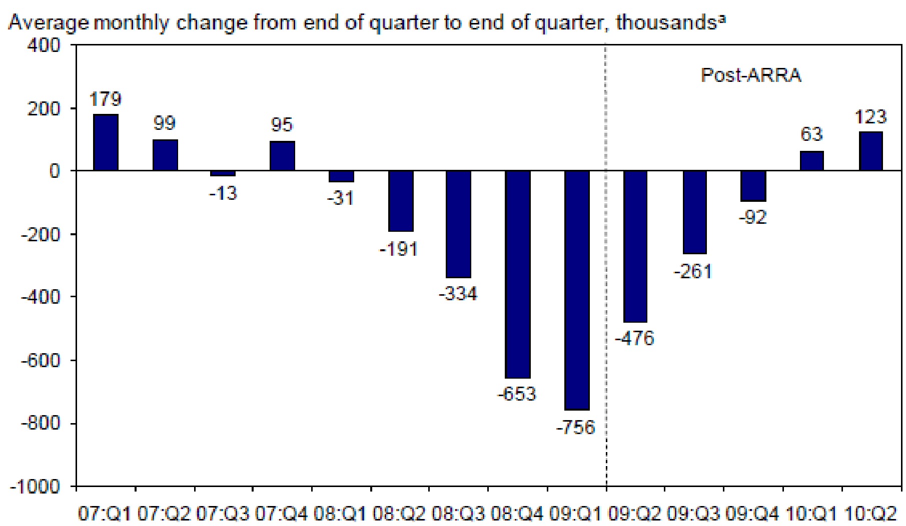


Sources: U.S. Department of Commerce (Bureau of Economic Analysis); Blue Chip consensus forecast.
Note: 2010:Q2 datapoint reflects Blue Chip consensus forecast from July 10, 2010.

The CEA report also measured the growth in payroll employment before and after the passage of the ARRA. Figure 10-9 illustrates its findings. Although the impact on employment is less dramatic than the impact on GDP growth, the graph shows a significant decline in the rate of job loss after passage of the ARRA and increases in payroll employment during the first and second quarters of 2010.

Figure 10-9

United States: Average Monthly Change from End of Quarter to End of Quarter, Thousands

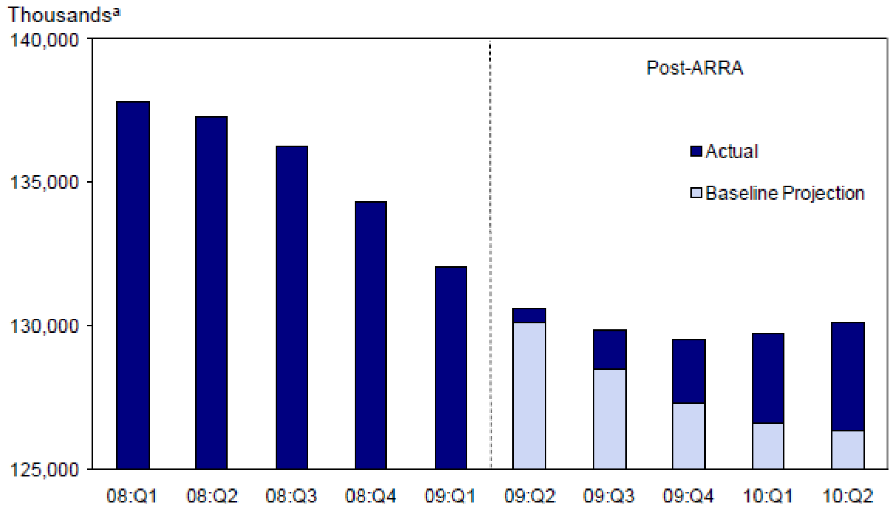


Source: U.S. Department of Labor (Bureau of Labor Statistics).
Note: a. Excludes temporary Census workers.

Finally, in comparing projected employment levels with actual employment levels, the CEA determined that that the actual employment level in the second quarter of 2010, after the enactment of the ARRA, was 3 million higher than projected earlier (Figure 10-10).

Figure 10-10

United States: Projected and Actual Employment Levels



Sources: U.S. Department of Labor (Bureau of Labor Statistics); CEA calculations.
Note: a. Excludes temporary Census workers.

Other studies have shown a positive impact on the U.S. economy resulting from the measures adopted by the government to counter the crisis. A new study by prominent economists Alan S. Blinder and Mark Zandi, *How the Great Recession Was Brought to an End* (July 27, 2010), argues that without the totality of government measures, GDP in 2010 would be 11.5 percent lower than it is and that there would be 8.5 million fewer jobs. In analyzing the multiplier effect of different elements of federal spending and tax cuts, Blinder and Zandi produced the table shown in Figure 10-11.

Figure 10-11

United States: Fiscal Stimulus "Bang for the Buck"

Fiscal Stimulus Bang for the Buck

Tax Cuts	Bang for the Buck
Non-refundable Lump-Sum Tax Rebate	1.01
Refundable Lump-Sum Tax Rebate	1.22
Temporary Tax Cuts	
Payroll Tax Holiday	1.24
Job Tax Credit	1.30
Across the Board Tax Cut	1.02
Accelerated Depreciation	0.25
Loss Carryback	0.22
Housing Tax Credit	0.90
Permanent Tax Cuts	
Extend Alternative Minimum Tax Patch	0.51
Make Bush Income Tax Cuts Permanent	0.32
Make Dividend and Capital Gains Tax Cuts Permanent	0.37
Cut in Corporate Tax Rate	0.32

Spending Increases	Bang for the Buck
Extending Unemployment Insurance Benefits	1.61
Temporary Federal Financing of Work-Share Programs	1.69
Temporary Increase in Food Stamps	1.74
General Aid to State Governments	1.41
Increased Infrastructure Spending	1.57
Low Income Home Energy Assistance Program (LIHEAP)	1.13

Source: Moody's Analytics

Note: The bang for the buck is estimated by the one year $ change in GDP for a given $ reduction in federal tax revenue or increase in spending.

The impact of spending increases is the most significant of the measures, while that of permanent tax cuts is the least. This is consistent with the numbers produced by the CEA and CBO.

Although the size of the impact of federal intervention may be subject to interpretation, there can be no doubt that these initiatives kept a bad situation from becoming significantly worse.

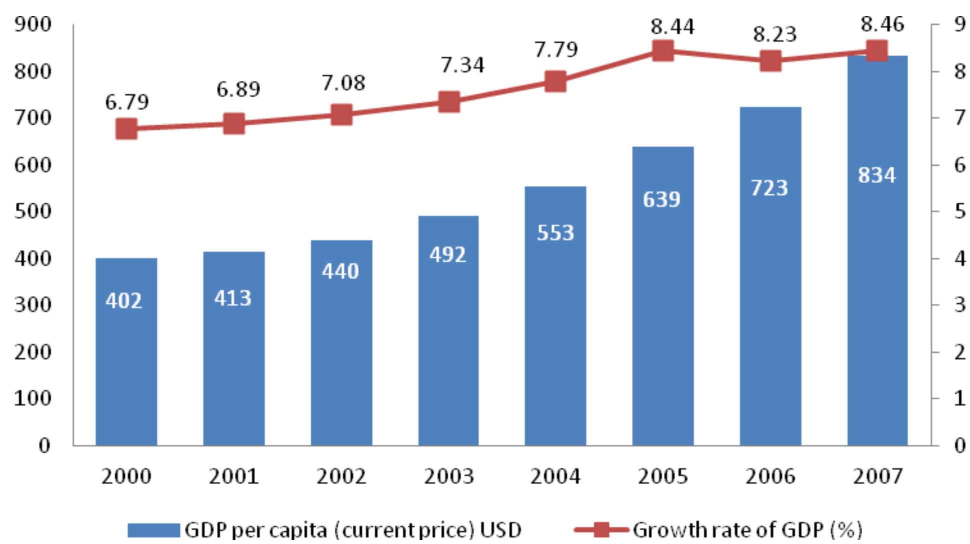
11. Viet Nam

Performance of the Economy and Labor Market up to the Global Recession

After the Asian financial crisis of 1997-1998, Viet Nam's gross domestic product (GDP) grew at an annual average rate of 7.6 percent between 2000 and 2007. In U.S. dollar terms, per capita GDP rose from US$402 in 2000 to US$843 in 2007 (Figure 11-1). Compared with East Asian countries Viet Nam in this period is second only to China and somewhat better than other strong performers like India. In current price, this represents a 2.6 times increase, lifting the member economy's GDP from VND 441,646 billion (US$31.2 billion) in 2000 to VND 1,143,715 billion in 2007. The member economy's GDP in 2007, just before the turmoil, stood at US$72 billion, while it had a population of 84.2 million.

Figure 11-1

Viet Nam's GDP Growth Rate (%) and GDP per capita (USD), 2000–2007



SOURCE: *Viet Nam's General Statistics Office,* www.gso.gov.vn

The state sector was an important factor of the national economy, and its role did not change throughout the observation period. During the period 2000–2007, the structure of the member economy's GDP by economic sector experienced only slight change. The state sector's part of

GDP increased from 40.8 percent in 2001 to 41.1 percent in 2004 then decreased in the next three years to 39.0 percent in 2007. The contribution of the nonstate sector decreased from 48.4 percent of GDP in 2000 to 47.3 percent in 2005 then increased slightly to 47.8 percent of GDP in 2007. Meanwhile, the contribution of the FDI sector to GDP increased steadily from 10.8 percent in 2000 to 13.3 percent in 2007.

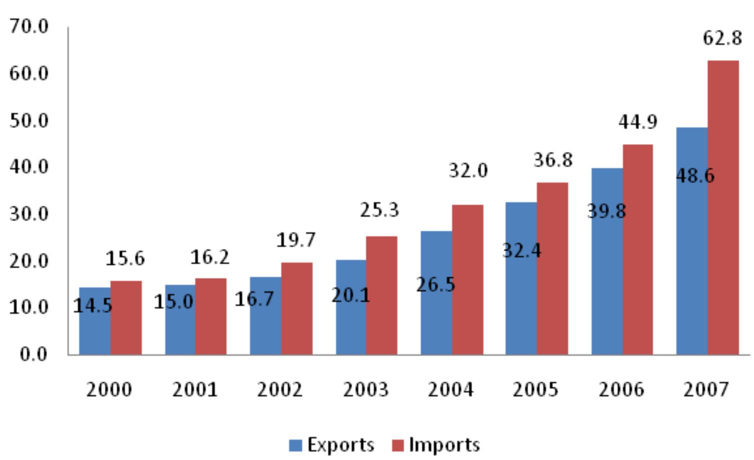
In the period 2000–2007, the consumption of the state increased at an annual average growth rate of 7.2 percent. Its share of GDP was stable. In 2000, state consumption accounted for 6.5 percent of total GDP (VND 18,245 billion or US$1.65 billion). In the 7 years that followed, the figure remained in the neighborhood of 6.5–6.6 percent of GDP. In 2007, government expenditure was VND 30,272 billion, or US$2.74 billion. The figure in 2009 is US$3.12 billion, or 6.8 percent of GDP (at constant 1994 prices).

In terms of industries, the composition of Viet Nam's economy underwent significant changes. In 2000, industry accounted for 36.73 percent of GDP, while the agriculture and services sectors accounted for 24.53 percent and 38.74 percent respectively. In 2007, the industry sector represented 41.48 percent of total GDP, while the agriculture and service sectors accounted for 20.4 percent and 38.18 percent of the member economy's GDP, respectively.

Boosted by Viet Nam's adherence to the ASEAN Free Trade Area (AFTA), the Bilateral Trade and Investment Agreement with the United States signed in December 2001, and World Trade Organization (WTO) membership in January 2007, Viet Nam's exports and imports increased at an average annual rate of 20.6 percent throughout the 2000–2007 period (Figure 11-2). Total exports and imports soared, from US$30.1 billion in 2000 to US$111.3 billion in 2007. Exports grew at an annual average rate of 19.7 percent—from US$14.5 billion in 2000 to US$48.6 billion in 2007. Meanwhile, the annual average growth rate of import value was 21.5 percent, resulting in a sharp rise from US$15.6 billion in 2000 to US$62.8 billion in 2007. With such impressive growth in imports and exports, Viet Nam now has one of the highest ratios between foreign trade and GDP in the world.

Figure 11-2

Viet Nam: Export and Import of Goods, 2000–2007 (US$ billion)



SOURCE: *Viet Nam's General Statistics Office,* www.gso.gov.vn

Large increases in the population between 1997 and 2007 added to the member economy's labor force, placing pressure on the labor market. Future population growth, however, is not expected to be as high as in the previous decade. In 2000, Viet Nam's population was 77.6 million people: 38.2 million males and 39.4 million females. In 2007, the population was 84.2 million people. The population growth rate slowed, from 1.35 percent in 2000 to 1.09 percent in 2007. The employed population (at 15 years of age and above) increased from 37.1 million people in 2000 to 45.2 million people in 2007.

Young people (those between the ages of 15 and 24) accounted for nearly a quarter of the population expansion, while those in the prime working ages, that is, 25- to 54-year-olds, represented close to 56 percent of the 10-year population growth.

The labor force participation rate, defined as the ratio of the labor force to the working-age population, dropped by nearly 5 percentage points, from 72.3 percent of the population in 2000 to 69.7 percent in 2007 (Table 11-1). According to MOLISA and ILO in a recent study, nearly the entire decline in labor force participation between 2000 and 2007 can be explained by people staying at school longer in the lower age groups and moving into retirement earlier in the upper age groups.[27]

Table 11-1

Viet Nam: Key Indicators of Viet Nam Labor Trend between 2000 and 2007 (%)

	2000	2004	2005	2006	2007	Change 2000–2007
LABOR FORCE PARTICIPATION RATE (15+)						
Both sexes	72.3	71.4	71.1	70.3	69.7	-2.6
Males	76.1	75.5	75.5	74.7	74.4	-1.7
Females	68.8	67.6	67.0	66.1	65.4	-3.4
EMPLOYMENT-TO-POPULATION RATIO(+15)						
Both sexes	70.7	69.9	69.6	68.7	68.1	-2.6
Males	74.3	74.1	74.0	73.0	72.6	-1.7
Females	67.4	66.0	65.5	64.6	63.8	-3.6
UNEMPLOYMENT RATE (15+)						
Both sexes	2.3	2.1	2.1	2.3	2.4	0.1
Males	2.4	1.9	2.0	2.3	2.4	0.0
Females	2.1	2.4	2.2	2.2	2.5	0.4

SOURCE: ILO, Molisa and EU. (August 2010). Viet Nam Employment Trend 2009

Unemployment is not a problem presently, with the unemployment rate remaining stable and very low over the past decade. Total employment also grew by about 10 million persons between 1997 and 2007, and as with labor force participation, the employment-to-population ratio, which is a

[27] ILO, Molisa and EU. (August 2010). Viet Nam Employment Trend 2009.

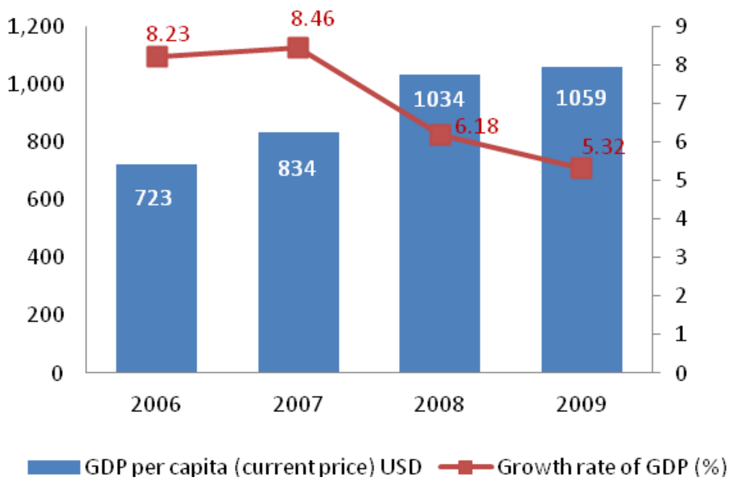
key indicator of economic activity, declined by about 4 percentage points during the period to 68 percent. In 2007, the rate of unemployment, also a key indicator, was very low, at 2.4 percent.

General Impacts of the Global Economic Turmoil on Viet Nam

In 2007, just before the crisis, GDP growth exceeded 8 percent (see Figure 11-3). Domestic investment and private consumption were robust, and non-oil exports experienced impressive growth. Foreign direct investment (FDI), boosted by Viet Nam's accession to the WTO, soared. FDI commitments surged to US$20.3 billion in 2007, well above the 2006 level of US$10.2 billion in 2006 and 2005 level of US$6.2 billion. The stock market, though still small by regional standards, grew rapidly, to above 40 percent of GDP. During the first part of 2007, Viet Nam's economy was confronted with overheating created by massive capital inflows, resulting in spiraling inflation, a ballooning trade deficit, and a real estate bubble.

Figure 11-3

Viet Nam's GDP Growth Rate (%) and GDP per capita (USD), 2006–2009



SOURCE: *Viet Nam's General Statistics Office,* www.gso.gov.vn.

Since the last quarter of 2007, however, there was an increase in non-food prices, which reached over 10 percent (year on year) at the end of the first quarter of 2008 (Figure 11-4). The main causes were homemade rather than as a consequence of the worsening world economic conditions. Credit to the economy increased by 63 percent over the 12 months period ending in March 2008. Credit growth was caused by the attempt by the State Bank of Viet Nam (SBV)—the central bank—to prevent the appreciation of the dong due to massive capital inflows. Trying to preserve the competitiveness of exports, the government bought more than US$10 billion in a single year. It has therefore injected the equivalent in dong into the economy.[28]

Global macroeconomic conditions started to deteriorate in the second half of 2007. In addition to a slowdown in industrial countries, there was considerable uncertainty in financial markets and a

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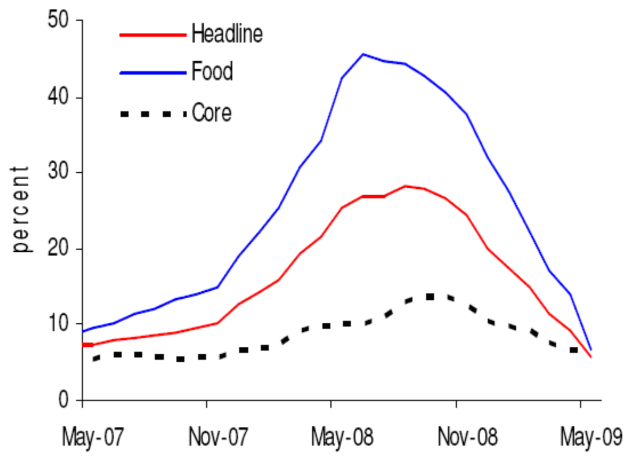
[28] World Bank. (June 2009). "Taking Stock"

surge in the world prices of commodities. Rapid increases in the international prices of rice and oil were of particular concern for Viet Nam. Growth forecasts around the world have been revised downward and are lower for 2008 than for 2007.

Figure 11-4

Year-on Year CPI of Viet Nam 2007–2009



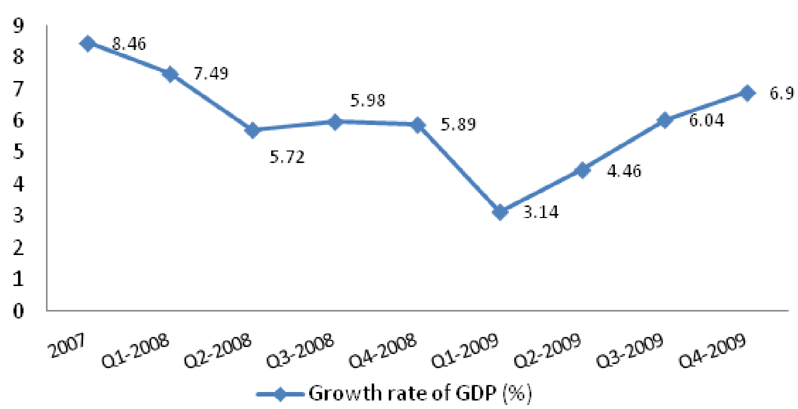
SOURCE: *Viet Nam's General Statistics Office,* www.gso.gov.vn.

The world economic recession started to wreak havoc on Viet Nam's economy in 2008. The GDP growth rate of Viet Nam decelerated remarkably in 2008 and 2009 (Figure 11-5). After reaching its peak of 8.46 percent in 2007, the growth rate of Viet Nam's GDP slowed by 2.28 percentage points to 6.18 percent in 2008. In 2009, it continued to decline by another 0.86 percentage points to 5.32 percent.

Looking deeper into details, the growth rate of GDP in Viet Nam was slowest in Q1 2009 when the economy was growing only 3.14 percent. The growth rate picked up to 4.46 percent in Q2, to 6.04 percent in Q3, and 6.9 percent in Q4.

Figure 11-5

GDP Growth Rate of Viet Nam 2007–2009, by Quarter

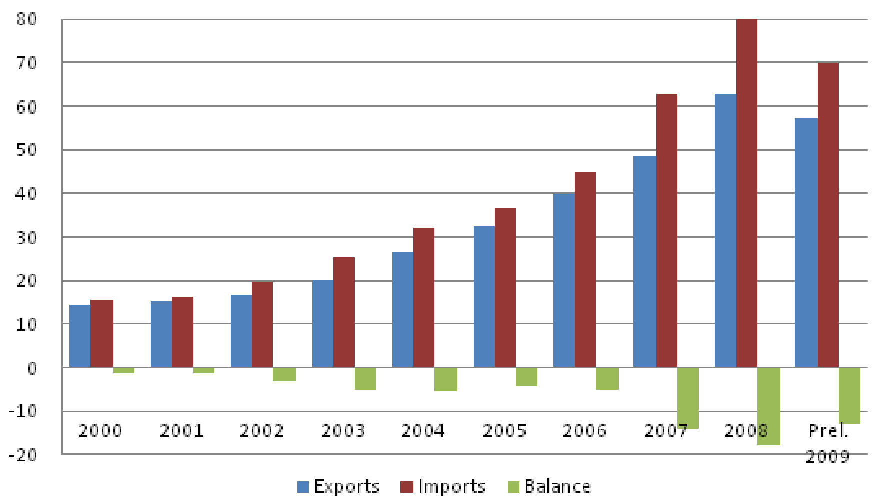


SOURCE: *Viet Nam's General Statistics Office,* www.gso.gov.vn.

Viet Nam's export and import of goods has been seriously affected by the global recession. In 2008, it seemed that the fallout of the global financial crisis on Viet Nam still small, it still exported 62.7 billion USD, or and increase of 129.1 percent as compared to that in 2007. However, in 2009, its export value was only 57.1 billion USD, accounting for 91 percent of the export value in the previous year (Figure 11-6).

Figure 11-6

Viet Nam's Exports and Imports



SOURCE: *Viet Nam's General Statistics Office,* www.gso.gov.vn.

The impacts of global recession on Viet Nam's foreign trade are illustrated in Figure 11-6. From 2000 to 2008, the growth rates of Viet Nam's exports were highly positive. Except for 2001, all of the years in the period saw growth rates well over 20 percent per year. However in 2009, the growth rate of Viet Nam's exports became negative, at -8.9 percent.

General Policy Responses

In brief, Viet Nam suffered from two major economic problems in a very short period of time. Viet Nam had experienced a huge credit expansion in 2007. But conditions changed quickly after the global crisis unfolded in the second half of 2008, and global demand for goods and services of Vietnamese companies fell dramatically. The government reacted with different set of policies to address these problems.

Stabilization Policy Package to Counter Overheating

Several months of overheating elapsed before the government reacted. By the end of 2007, it was clear that inflation was accelerating, the trade deficit was widening, and real estate prices were soaring. Yet, rapid economic growth was still seen as the top priority for Viet Nam, and this required both a competitive exchange rate and massive public investment in infrastructure. Only in February 2008 did the government decide to shift its policy and give priority to macroeconomic stability over rapid growth.

As part of the stabilization package adopted in March 2008, the State Bank of Viet Nam (SBV) adopted a tight monetary policy. The tightening took place through successive and eventually strong measures. The SBV stopped purchasing foreign exchange from late 2007, when the inflationary trend started accelerating. Then, in early 2008, it sold compulsory bills to further absorb VND liquidity in the banking system while introducing a cap on deposit interest rates. As a result, credit growth declined sharply and raised concerns of a credit crunch in June and July.

The fiscal balance remained manageable as a result of prudent fiscal policies in general, high oil prices during most of 2008, and significant fiscal tightening under the stabilization package. The government intended to cut expenditure by VND 48 trillion (equivalent to US$2.6 billion or 4.2 percent of GDP in 2007), by reducing general government expenditure (excluding salaries and some social entitlements) and canceling or postponing inefficient or nonurgent public investment projects. The GDP growth target for 2008 was revised downward, from 8.5–9 percent to 7 percent.[29] The stabilization package announced by the government in March 2008 seemed to work. Inflation came down.

Moving from Fiscal Restraint to Fiscal Stimulus

The international economic environment, however, continued to deteriorate dramatically. The world economy was entering a major downturn, caused by the most dangerous shock in mature financial markets since the 1930s.

In that context, by the end of 2008, the policy of the government shifted quickly from addressing the domestic overheating responding to the global crisis. Policy emphasis moved from fiscal restraint to fiscal stimulus. Since the 2009 national budget was approved, additional stimulus measures were approved and came into effect. The first, costing US$1 billion, focused on cuts and delays in tax payment, an interest rate subsidy, and more social spending. A much bigger stimulus costing US$8 billion (VND 143 trillion) was announced, also at the end of Q1 2009 (Table 11-2).

The package is organized into five groups of measures: (1) promoting production and exports, (2) supporting consumption and investment, (3) further loosening the financial and monetary stance, (4) reducing poverty and providing social welfare, and (5) strengthening public sector management at all levels.

The government also approved a 15 percent increase in pension and social subsidies starting October 2008, three months ahead of plan. Subsidies to low-wage civil servants and military personnel were also approved. It has also redefined the national poverty line in 2008, which will have important implications for spending in the social sectors. These measures, while costly, are important to alleviate the impacts that poor and vulnerable segments of the population are likely to suffer because of the recent bout of double-digit inflation and the global financial crisis.[30]

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[29] The country would manage eventually to grow at 6.2 percent in 2008.

[30] World Bank. June 2009. Taking Stock

Table 11-2

Viet Nam Economic Stimulus Package Program, VND 143 trillion (US$8 billion)

Revenue Item	VND Trillion
Combination of measures related to rebates and payment delay on CIT, PIT and VAT.	28
Total revenue foregone	*28*
EXPENDITURE ITEMS	
Advancing the implementation of critically important projects from 2010. In practices, resources will be reallocated from project with poor implementation	37.2
Subsidized interest rate schemes.	17
Other spending, mainly on social safety net, including Tet (Chinese New Year) allowance.	7.2
Investment to be financed on revenue brought forward from the 2008 budget.	22.5
Issuance of additional off-budget domestic bond (VND 20 trillion were to finance additional expenditure. The other 7.7 trillion represent additional finance)	
Total expenditures	*83.9*
FINANCING ITEM	
Suspending the recovery of advances made in 2008 for investment not implemented.	3.4
Issuance of additional off-budget domestic bonds for investment	27.7
Total financing	31.1

SOURCE: *Taking Stock, World Bank Viet Nam, June 2009.*

Specific Labor Market Impacts of the Recession

Because of a lack of reliable data and information through labor surveys, it is very difficult to assess the impact of the growth slowdown. At the peak of the crisis, there was much anecdotal evidence of increased hardship, especially in industrial zones and in handicraft villages. Local authorities, business associations, and international agencies have tried to put the data together to provide an overall picture of the impact of the global recession on the labor market in the member economy.

Capacity to Create New Jobs Hindered

With the fall in exports and the slowdown of the national economy, the job creation capacity of the member economy was badly affected. In 2007, 1.68 million new jobs were created but in 2008 only 1.61 million jobs were created, and in 2009, only 1.51 million new jobs were created—far from the official target of 1.7 million.

Given the slow recovery of the economy and the lasting consequence of the recession, the Ministry of Labor and Social Affairs (MOLISA) has a more modest job creation target for 2010 of 1.6 million—much lower than in previous years.

Job Losses Were Widespread; Women Were Less Affected Than Men

Job losses were widespread in industrial parks in late 2008 and early 2009 but few took the form of outright layoffs. Nonrenewal of contracts and incentives for voluntary departure were more common. Job losses were frequent among seasonal workers and those on short-term contracts. Many enterprises in industrial parks faced difficulties in complying with social insurance and the new system of unemployment insurance. Even in the enterprises that reported a recovery in production, workers were often offered regular hours and shifts only, with no overtime. A lack or scarcity of overtime pay forced workers to cut back on spending, especially in Ho Chi Minh City and surrounding areas, because of the high cost of living. Remittances to families staying in rural areas suffered as a result.

MOLISA estimated that more than 80,000 workers lost their jobs in 2008. In 2009, more than 133,000 workers lost their jobs, and the majority of the job loss (107,000 workers) occurred in the first half of the year and in more industrialized provinces (e.g., Ho Chi Minh City, Hanoi, Binh Duong, Bac Ninh, Dong Nai, Nam Dinh and Hai Phong). Also in 2009, in rural areas more than 40,000 jobs were eliminated, and 100,000 people were underemployed.

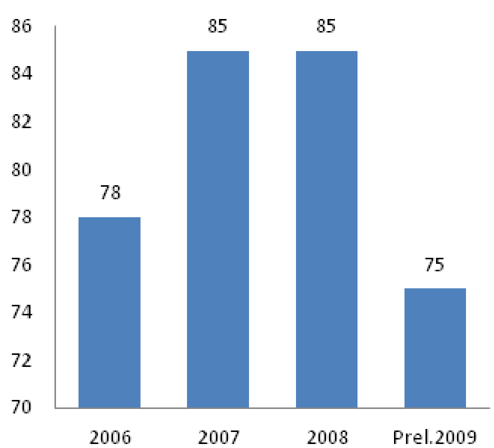
Also according to the ministry, in 2009, 18 percent of job loss in industrial zones or factories affected women. In craft villages and rural areas, 41.2 percent of job loss affected women.

Demand for Vietnamese Workers in Overseas Market Slumped

Labor export is also one of the main pillars in Viet Nam's labor market development strategy. Vietnamese laborers now work in more than 40 countries and territories. The economy started to send laborers to work abroad in 1995 with 10,050 people. In 2006, Viet Nam found jobs for 78,000 workers in overseas markets. This figure soared to 85,000 in 2007 (Figure 11-7).

Figure 11-7

Labor Exports of Viet Nam, 2006–2009 (thousands of workers)



SOURCE: *MOLISA. (2009). "Report on Activities of MOLISA in 2009"*

This is an area where the world economic recession hit Viet Nam hard. Faced by economic hardship, the demand for Vietnamese workers froze in major labor markets such as Korea, Japan, Chinese Taipei, Malaysia, and the Middle East. In 2008, Viet Nam still managed to create 85,000 new jobs in overseas labor markets. This was stagnation compared with previous years and is in stark contrast with the growth rate of 10-15 percents seen in the preceding period. In 2009, jobs abroad dropped sharply to 75,000, far below the ambitious target of 90,000 set by the government. According to MOLISA, it is estimated that in 2009, 21,000 workers abroad were affected by the world economic recession, in terms of either income reduction or the risk of temporary unemployment. Of those, 9,000 workers had to return to Viet Nam because they lost their job.

The government aims for 2010 at a more modest target for labor exports of 85,000—the level in 2007 before the recession hit.

Remittances Declined

As migrant workers' incomes were at risk in the economic downturn, so were the remittances to their families, who live mostly in rural areas. Remittances are an important source of income for many families in Viet Nam, and in particular for poor households. Remittances from overseas were US$5.5 billion (8 percent of GDP) in 2007 and US$7.2 billion in 2008. Affected by the crisis, remittances into Viet Nam then declined significantly, to US$6.3 billion.

According to MOLISA, 9,000 Vietnamese workers working abroad lost their jobs as a consequence of the recession in 2009. With these workers earning an average annual income of US$10,000, these losses translated into US$90 million less in remittances in 2009. With another 12,000 Vietnamese workers abroad affected by the world recession, and the conservative assumption that their income was cut 30 percent, remittances to Viet Nam decreased by another US$40 million. Total remittances lost by Vietnamese workers, whose families were very poor and relied heavily on these remitted income, were estimated to reach US$130 million in 2009.

In terms of urban remittances to the rural poor areas, the job losses of 105,000 migrants workers in 2009 also means that the same amount of poor households in rural who were counting on the remittance of these workers were affected financially. Anecdotes went that many of the poor families even had to send money back to the urban areas to support these migrant workers to subsist while waiting for new job opportunities. It is also the case for the rural families with migrant workers whose were luckily not laid off but had their working time and of course their income reduced.

Construction Sector Was Hit the Hardest

Among economic sectors, the construction sector was affected the most by the recession in 2008, as reflected in declining annual growth of sector value added, from 12.2 percent in 2007 to -0.4 percent in 2008. The manufacturing sector, which had performed remarkably well between 1997 and 2007, experienced its lowest annual growth rate of value added since 1999 in 2008, 9.5 percent. The 2008 figure was down by 2.9 percentage points from 2007. Efforts to prevent a bursting of the property market bubble were important for curbing the growth of this sector.

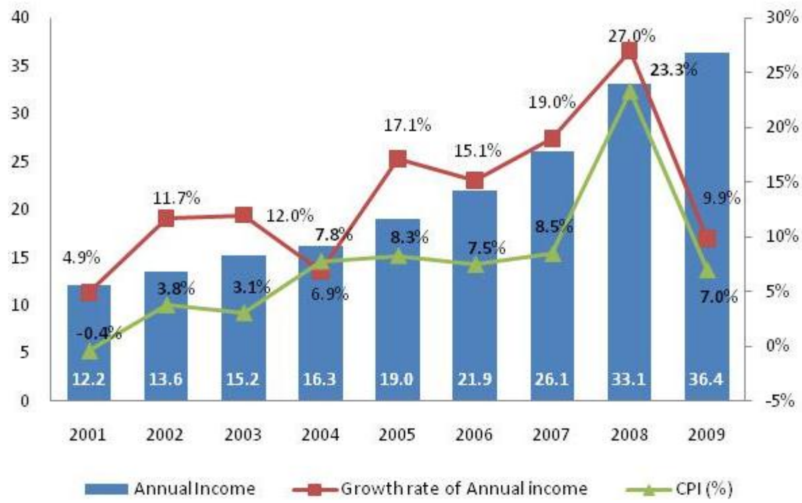
Workers Annual Income Grew at a Much Lower Rate

Between 2001 and 2008 (except for 2004), the annual income of Vietnamese workers increased at double-digit rate (Figure 11-8). The highest growth rate was observed in 2007 when the economy was overheated and in 2008 when the fallout of the overheating was still lingering. But in 2009, the average annual income grew at only 9 percent (Figure 11-7). Because of the budget deficit caused by the fiscal stimulus, the government had to reschedule increases in the minimum wage.

High-as-usual increases in annual worker income in the business sector were not possible because of lower sales and exports and customers less willing to pay.

Figure 11-8

Viet Nam Labor Productivity 2001–2009 (at 1994 Constant Prices)



***SOURCE:** Viet Nam's General Statistics Office, www.gso.gov.vn, and calculation by the author*

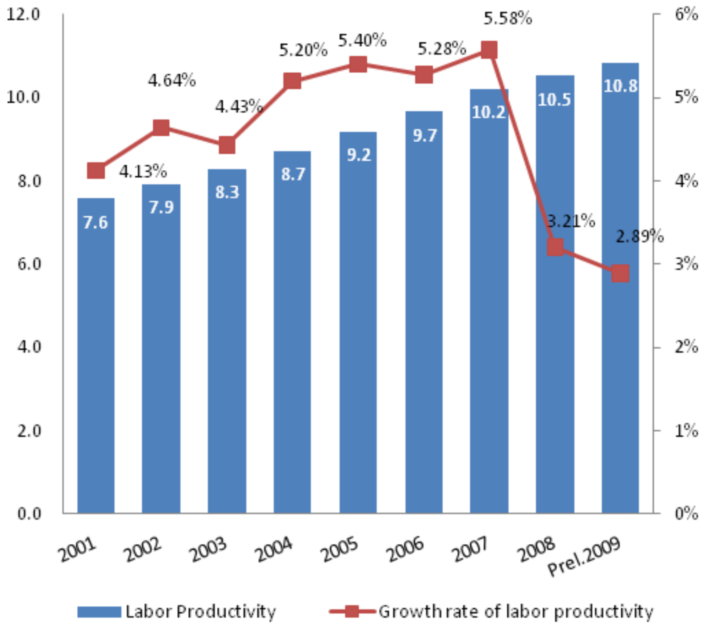
Despite the high increase in 2007 and 2008, the CPI was spiraling upward and wiped away almost all the gain in workers' average income.

Labor Productivity Decreased Sharply

The annual growth rate of labor productivity was in a steady upward trend in the period 2001–2007 (Figure 11-9). It surged from 4.13 percent in 2001 to 5.58 percent in 2007. The average annual growth rate of labor productivity in this period was 4.95 percent. The economic recession badly affected the productivity in the economy, which nosedived to 3.21 percent in 2008 and further to 2.89 percent in 2009.

Figure 11-9

Viet Nam: Annual Real Wages of Laborers between 2001 and 2009



SOURCE: *Viet Nam's General Statistics Office,* www.gso.gov.vn.

Shift to Vulnerable and Informal Employment

The economic crisis and corresponding decline in production in Viet Nam resulted in a shift away from more formal, higher value-added wage employment to lower-productivity and informal economic activities. One useful indicator in this regard is the number and share of workers in vulnerable employment, which is defined as the sum of own-account workers and unpaid family workers. Many workers in these types of employment status do not enjoy social protection in case of job loss, personal or family illness, or other difficulty; they are less likely than formal wage employees to receive an adequate income and to have their fundamental labor rights respected.

Data released by MOLISA illustrates this shift to vulnerable employment. In 2007, approximately 35 million people were own-account and contributing family workers.[31] In 2009, this figure, which also reflects the number of workers in the informal sector, was estimated to represent 82 percent of the total workforce,[32] or 38 million people. The rise reflects a negative trend because most people working in the informal employment sector are not covered by any official social security program.

Migration Reversed

During the recession, job losses in export manufacturing have affected rural-to-urban migrants and their income support to their rural families. Some 10,000 retrenched workers who cannot find

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[31] ILO, MOLISA and EU. 2009. Viet Nam Employment Trend 2009

[32] Vietnamese Academy of Social Sciences, Viet Nam General Statistics Office, France Institute of Development, International Conference on Informal Labor Sector, Hanoi , May 6-7, 2010.

new urban employment often seek rural work opportunities as their only remaining option. This process of reverse migration has taken place in Viet Nam.

Unemployment increased from 2.38 percent in 2008 to 2.9 percent in 2009. Most of the rise in unemployment occurred in rural areas, with unemployment rising from 1.53 percent to 2.25 percent. Meanwhile, unemployment even decreased by 0.05 percentage points (see more on Table 11-3). This means that unemployment hit the rural areas—the more vulnerable areas—much harder. This also backs the oft-mentioned anecdotal evidence that many unemployed workers, many of them working in the informal sector as construction workers, street vendors, and the like, who could no longer find jobs in urban areas actually migrated back to rural areas, thus exacerbating the unemployment there.

Table 11-3

Viet Nam: Unemployment and Underemployment Rates of Labor Force at Working Age

	2007	2008	2009
Unemployment rate (%)	2.4	2.38	2.90
Urban	4.9	4.65	4.60
Rural	1.6	1.53	2.25
Underemployment rate (%)	-	5.10	5.61
Urban	-	2.34	3.33
Rural	-	6.10	6.51

SOURCE: *Viet Nam's General Statistics Office,* www.gso.gov.vn,

The reverse migration, however, has not been as severe and obvious as in some other Asian countries during the depths of the recession.

Unemployment and Underemployment Increase

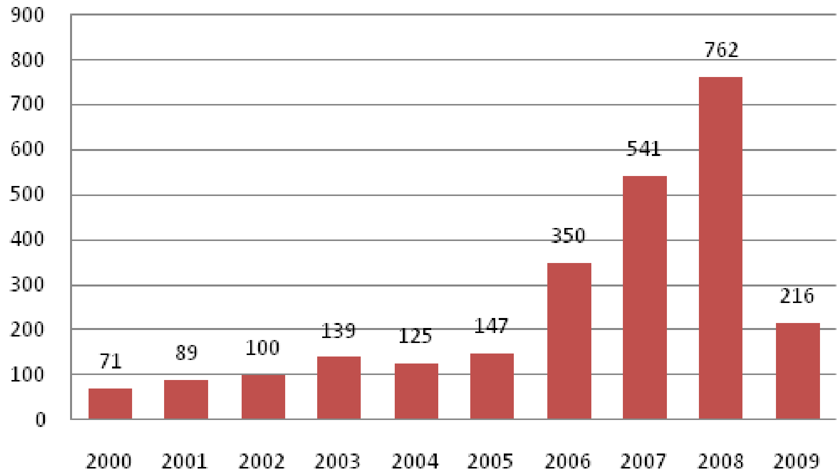
According to the official statistics of the Government, the underemployment rate also increased from 5.10 percent in 2008 to 5.61 percent in 2009. The underemployment rate in rural areas is really high. It increased from 6.1 percent in 2008 to 6.51 percent in 2009. In urban areas, the underemployment rate in 2009 was 3.33 percent, surging by 1 percent point as compared to that in 2008. The unemployment rate rose from 2.4 percent in 2007 to 2.90 percent in 2009 and much of the surge occurs in the rural areas.

Workers Strike

Despite the sharp growth in number of enterprises between 2000 and 2005, the number of worker strikes in Viet Nam only doubled. But the number of rose to 350 in 2006 and then 541 in 2007, reflecting the fact that strikes also surged with a gradually overheating economy. Exacerbated by the crisis, the number of strike soared to 762 in 2008, when world demand for Vietnamese exports plummeted, many orders were cancelled, and worker lay-off was imminent in major industrial provinces (Figure 11-10). This is an important indicator that reflects the tension of industrial relations in Viet Nam as a consequence of the crisis.

Figure 11-10

Viet Nam: Number of Labor Strikes 2000–2009



SOURCE: *Benedict J. Tria Kerkvliet, Workers' Protests in Contemporary, Journal of Vietnamese Studies, Vol. 5, Issue 1, 2010, pps. 162–204, and the Lao Dong newspaper on January 05, 2010*

Interventions in Response to Labor Market Impacts

Preventing a collapse in economic activity was also critical to mitigating the social impacts of the global crisis. Keeping the economy growing or avoiding a recession is key to creating jobs for more than 1.5 million people entering the job markets each year, keeping underemployment low and under control and to improving the quality of the jobs for Vietnamese workers.

With labor market stability the cornerstone of its policies, the government started an economic stabilization package in early 2008 to prevent economic collapse and then a fiscal stimulus program to prevent a recession and to counter the impact of the global economic crisis. The objective of the government in these policies was to prevent negative consequences on the labor market and to mitigate social impacts that the turmoil may have brought about.

In early 2008, only half a year after the first signs of overheating were visible, the government shifted its priorities decisively, from growth to stabilization, effectively ending the real estate bubble and bringing the inflation rate down in a matter of months. In late 2009, when some analysts still claimed that inflation could be running out of control, the government swiftly shifted its priorities again, from stabilizing the economy to sustaining growth. The stimulus measures adopted in the following months were effective at reversing the decline in economic activity and preventing any major social impact. By late 2009 the Vietnamese economy was among the fastest growing in the world. All these measures helped to ensure that more than 1.5 million jobs were created in 2009 (although this is lower than in 2007 and 2008) and that unemployment increased only very slightly, from 2.38 percent in 2008 to 2.9 percent in 2009.

To support enterprises in sustaining production and to avoid mass lay-offs, the government introduced a combination of measures related to rebates and payment delay on corporate income tax and VAT. The payment of personal income tax in the first six month of 2009 was deferred and then exempted, to increase laborers' disposable income. The total cost incurred by the government for this combination of measures was estimated at US$1.55 billion.

Another policy was to introduce a controversial subsidy interest rate loan scheme. The total amount spent by the government for this program reached US$2 billion. In January 2009, the government announced the first package of US$1 billion to subsidize 4 percent of the interest rates on loans made to selected enterprises. In April 2009, another package, also of US$1 billion, was announced. The second package had a stronger focus on medium-term loans of a maximum of 24 month. As of November 2009, total loans made by banks at subsidized interest rates reached VND 414 trillion (US$23 billion). Sixty-seven percent of the loans were channeled through state-owned banks, 25 percent through private banks, and 8 percent through foreign and joint venture banks. In terms of benefiting borrowers, 15 percent of the loans made went to state-owned enterprises, 69 percent to private sector enterprises and foreign-invested enterprises, and the rest, 16 percent, to households and family businesses.

The government also released a policy that encouraged enterprises not to lay off workers but to reduce working time and overtime shifts instead. As a result, even in enterprises that reported a recovery in production, workers were often offered regular hours and shifts only, with no overtime.

Many enterprises in industrial parks encountered difficulties in complying with social insurance and the new system of unemployment insurance. To address this problem, the government launched a program to provide loans to enterprises to support social insurance payments and severance payments for workers. According to the government program, enterprises affected by the world economic recession and unable to pay salary, social insurance, and severance payments for workers would be given government interest-free loans for those purposes. This applied to enterprises that had to lay off either 30 percent of the workforce or more than 100 workers (excluding seasonal workers or workers with contracts of less than 3 moths). MOLISA reported that by the end of 2009, approximately US$4 million was lent out to enterprises in support of the implementation of this policy.

The National Job Creation Fund also pumped more funds into the market for the purpose of job creation. In 2009, US$89 million was disbursed by the fund. Most of the loans were made to informal sector and family businesses. MOLISA estimated that 250,000 new jobs were created thanks to the loans made from this fund.

The government worked with labor export companies to find new jobs for 15,000 overseas workers working abroad and facing lay-off. It also took action to find new jobs or provide financial support to 9,000 workers who were sent back home as a result of the financial crisis. Despite the low demand for labor in international labor markets, the government has been persistent in its programme to send workers abroad. By the end of 2009, also partly thanks to the recovery of the world economy, more than 73,000 people could find jobs in other countries. Improved vocational training for overseas workers and relentless efforts to enter new labor markets—such as the Middle East, North America, Australia, and Eastern Europe—helped to achieve this objective.

Lack or scarcity of overtime pay forced workers to cut expenses, especially in Ho Chi Minh City, Hanoi, Binh Duong, Hai Phong and surrounding areas. Remittances to families staying in rural areas suffered as a result. Reduction in and loss of remittances from overseas workers also worsened this problem. The hardship is aggravated by lower demand for products from rural areas (especially handicraft products for export), rising unemployment and underemployment, and the higher cost of living. The member economy's 2.4 million poor people and those who lost their jobs and had their income reduced suffered the most. In an effort to relieve the pain, the government introduced a direct transfer program amounting to US$190 million. The program was implemented just before Tet (Chinese New Year) in March 2009). Under this program, each poor person received a direct transfer of VND 200,000 (or US$12) for the Tet event.

The effect of the crisis also cemented the government's decision to launch the unemployment insurance program in January 2009. This is the first time that a mandatory insurance scheme of this sort has been introduced in Viet Nam. The unemployment insurance scheme is based on the contribution of workers, employers, and the government, with each of the three paying 1 percent of the salary stated in the worker contract. Because the scheme was introduced only at the beginning of 2009, no worker was eligible to benefit from the program in 2009.

To help workers increase their disposable income and strengthen the social security net, the government has worked out a plan to increase the minimum wage gradually. Since 2007, the minimum wage has been increased three times—in January 2008, in May 2009, and in May 2010. The current minimum wage for workers in private enterprises, state-owned enterprises and public sector is VND 730,000 per month (US$38). The increases were aimed at relieving hardship on workers, especially in the context of economic turmoil and high inflation.

Assessment

Sustaining job opportunities, mitigating social impacts, and preventing a massive slide into poverty as consequence of the world economic turbulence have been the main objectives of economic policies since 2007. These issues have emerged in most government statements as the government's prime concerns.

In reality, there has not been an official government report providing a comprehensive assessment of the effectiveness of the stimulus package. Most of the assessment has focused on the loans made under the subsidized interest scheme. There was no official report released to the public on the direct transfer program. Neither was a report published on the program of tax rebates and payment delay. It is therefore difficult to monitor the implementation of the whole stimulus package. Information about the package and its impact is patchy and fragmented. Effectiveness of the programs and government policies to counter the recession has been reflected mostly through macroeconomic indicators such as GDP growth rate, inflation, trade deficit, budget deficit, and unemployment and underemployment rates.

The determined reaction to stabilize the economy in early 2008 was generally assessed as successful. In spite of surging world prices for food and oil, a tight monetary policy and a measure of fiscal restraint ended the real estate bubble, gradually brought down the inflation rate, and reduced the trade deficit to manageable levels. In the process, economic activity was also affected, with the first half of 2008 seeing the worst growth performance in years. The overall economic situation was fragile in May 2008 when markets were nervous about a possible balance-of-payments crisis, but it gradually became apparent that the stabilization package was working.

The government proved very responsive to changing conditions. Especially in late 2009, when some analysts still claimed that inflation could be running out of control, the government swiftly shifted priorities again, from stabilizing the economy to sustaining growth. The stimulus measures adopted in the following months were effective at reversing the decline in economic activity and preventing any major social impact. The stimulus package in 2009 helped to keep credit flowing and to sustain the growth of the corporate sector. As a result, the economy still grew at 5.3 percent in 2009—a rate higher than those of many countries in the region.

This has made a tremendous contribution to the stabilization of the job market. Massive lay-offs were avoided. More jobs were created, although at a lower level than before the crisis. Workers who lost their jobs did not have to suffer long before they found new job opportunities, which emerged thanks to the improved economic conditions. Recovery in the world economy and the relentless effort of the government also helped to sustain the demand for Vietnamese workers. Lower inflation made the life of workers, both in the formal and informal sector, less stressful. Unemployment and underemployment rates increased in 2009 but just slightly.

But this does not mean that there was no cost involved. The stimulus package of 2009 came on top of an already expansionary budget, resulting in an overall budget deficit substantially higher than in previous years. In addition to the explicit measures adopted to stimulate economic activity, the fall in oil prices and the slowdown in economic activity resulted in a large decline in government revenue.

The stimulus program, although effective at boosting economic activity, contributed to increased external vulnerability. Rapid credit growth together with an expansionary fiscal policy, have led to a sustained increase in inputs and a widening trade deficit.

The stimulus policies of early 2009 included an interest rate subsidy scheme for working capital. Subsidized interest rates, it is claimed, have encouraged enterprises to roll over loans with higher interest rates. Some enterprises were suspected of channeling the loans borrowed under the scheme back into saving accounts at banks offering interest rates on savings much higher than the subsidized lending rate. This is really a negative side-effect of the policy.

The government's response relied heavily on standard monetary and fiscal policy instruments. But administrative measures and moral suasion (especially on state-owned enterprises and banks) were consistently complemented with more conventional monetary and fiscal measures. For example, to mop up liquidity in early 2008, the government implemented a massive compulsory bond issue.

The direct transfer program in early 2009 to support the poor—many of them badly affected by rising inflation and less disposable income—was praised as a good program designed with good intentions, but its implementation was fraught with problems of mismanagement and misuse of funds.

The launch of the compulsory unemployment insurance scheme by the government in early 2009 was lauded as a determined effort to strengthen the safety net for workers in the formal sector. The importance of an effectively managed unemployment insurance program was highlighted by the recession, which resulted in the loss of more than 130,000 jobs in 2009. But the critics said that it was introduced at a time in which enterprises were facing too many hardships. The contribution of 1 percent of salary each by employee and employers added an additional cost burden on enterprises and on laborers. This was another factor denting the economy's advantage in providing cheap labor. Another criticism is that the program is ill-suited to assisting young and educated job seekers and other potentially vulnerable group of workers, especially those in the informal sector.

The increase in the minimum wage aimed at relieving the pain of workers, but this policy did not seem to work because purchasing power of workers did not improve, but fell. With the consumer price index spiraling up in 2008 and 2009, the increase in minimum wage did not help to relieve hardship for workers.

The incomes of workers in the corporate sector were almost indifferent to the increase in minimum wage. Faced by competition for laborers, most enterprises already paid workers more than the minimum wage. The additional costs for enterprises are related to the increase in costs for social insurance, health care, and unemployment insurance. In reality, most enterprises sign contracts with workers at minimum wage levels only to minimize costs. The increase in minimum wage means only a proportional increase in costs for enterprises for social, health care, and unemployment insurance for workers.

But the minimum wage helped to increase the disposable income of some 3.5 million workers in the public sector. The salaries of civil servants are calculated through a sophisticated formula involving the domestic minimum wage and coefficients related to occupation and seniority, plus a series of bonuses and additional payment. And it is also the effective increase in salary in this sector as a result of the increase in minimum wage that further strained the government budget.

Worried that labor conflicts might lead to social unrest, the government paid particular attention to addressing the issue during a recession. Provincial authorities were asked to monitor industrial relations closely and take prompt action to prevent large-scale strikes. Special task forces were set up in provinces where migrant workers were most concentrated—Binh Duong, Dong Nai, Ho Chi Minh City. Financial support to address the problems of salary or severance was also introduced. Dialogue between employers and workers was encouraged. As a result, after soaring to 541 strikes in 2007 and 762 strikes in 2008—the highest levels since 1995—the number of strikes plummeted to merely 216 in 2009. This is also thanks to the improving economic conditions in that year. The rise in the number of strikes during the crisis and good practices in the more industrialized provinces of Binh Duong, Dong Nai, Da Nang, and Hai Phong prompted the establishment of provincial industrial relations committees in some provinces on a pilot basis to address the issue of strikes. The pilots are expected to be set up by the end of 2010.

The recession revealed structural issues in Viet Nam's economy. The member economy has relied strongly on labor-intensive, export–oriented industries. A fall in world demand for Vietnamese products and commodities, as the recession has shown, could easily affect hundreds of thousands of workers and their families. The recession and the fact that the member economy has risen to lower-middle-income status have prompted the government to think over a longer-term development strategy to avoid the middle-income trap. A strategy to transit to a better economic structure is being worked out, in which growth based on productivity, innovation, and higher value added is emphasized. The labor market development strategy is being shaped to fit with this new development strategy and to meet the needs for this new development phase. The following initial measures have been taken to make this change in labor structure:

- Strengthen the vocational training system, thus improving the skills of workers and helping them to be prepared for new job opportunities in higher-tech factories
- Implement vocational training and job creation for youth
- Launch a large training program for farmers to support the movement of labor from agriculture to other economic sectors
- Support the functioning of the labor market, emphasizing improvement in the performance of job service centers and labor market information system
- Improve labor productivity, which has become a high priority for the government in its development strategy
- Strike a balance between protecting workers from abuse and keeping formal enterprises competitive—widely discussed in the ongoing debate about the remaking of the Labor Law
- Improve the mechanism for resolution of conflict in industrial relations in the revised Labor Law.

The draft strategy for social economic development for 2010–2020 articulates the linkage between economic growth and productivity improvement. As the economy shifts its focus to the quality of growth, labor productivity and income are considered the decisive factors for sustainable economic development.

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12. Labor Market Policy Responses in APEC Economies to the Worldwide Recession

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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 countries 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 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 12-1 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.

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 12-1, 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 12-1

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*

Table 12-2 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.[33] The five types of programs are: unemployment insurance;

[33] 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.

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

Table 12-2

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 recipiency rate (benefit recipients as a proportion of the unemployed) and the replacement rate (average benefits relative to average earnings).[34] Severance pay programs for terminated workers are present in nearly all APEC economies, but data on 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[35]

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 12-3 shows summary data on unemployment and UC program participation for the three years 2006-2008. Economy-specific data are displayed along with three 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.[36]

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[34] Data from Viet Nam are not available since benefit payments commenced only in 2009.

[35] 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.

[36] The data pertains to each country 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.

Table 12-3

UC Programs in APEC economies

	Income PPP 2005 [1]	Economy Income Decile [2]	Year UC Established [3]	Unemployment 2006-08 [4]	UC Recipients 2006-08 [5]	Recipiency 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

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.[37] 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.[38]

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 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 12-3 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

[37] Table 12-3 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.).

[38] Data for Papua New Guinea are not easily available.

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 recipiency in APEC economies. Not all unemployed individuals receive a UC benefit. As stated above, the recipiency rate is the annual average of unemployed individuals who receive a benefit expressed as a proportion of total unemployment. Note that the recipiency 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.[39]

Column [5] shows average UC recipiency 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 recipiency rate is estimated to be 0.306 for the same period. When unemployment in APEC economies without UC is also included, the overall recipiency 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 12-3 shows that UC recipiency 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.[40] 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 recipiency rate) and the level of periodic payments relative to past earnings (the replacement rate). The product of the recipiency rate times

[39] The two omitted economies, Brunei and Papua New Guinea, rank 21st and 18th respectively in population within APEC and account for only 0.25 percent of the 21-country population total.

[40] Sri Lanka, a non-APEC country in Asia, is considering establishing UC.

the replacement rate shows the share of lost earnings that is paid to unemployed persons. This product can be termed a generosity index.[41]

Table 12-4 displays information on recipiency 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.

Table 12-4

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

Economy	Recipiency Rate 1996–1998	Recipiency Rate 2006–2008	Replace-ment Rate 1996–1998	Replace-ment Rate 2006–2008	Generosity =[1]×[3] 1996–1998	Generosity =[2]×[4] 2006–2008
	[1]	[2]	[3]	[4]	[5]	[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, recipiency rate in 2003 and replacement rate in 2002*

[c] *Replacement rate for 2004*

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

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

[41] 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).

raise average recipiency 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.

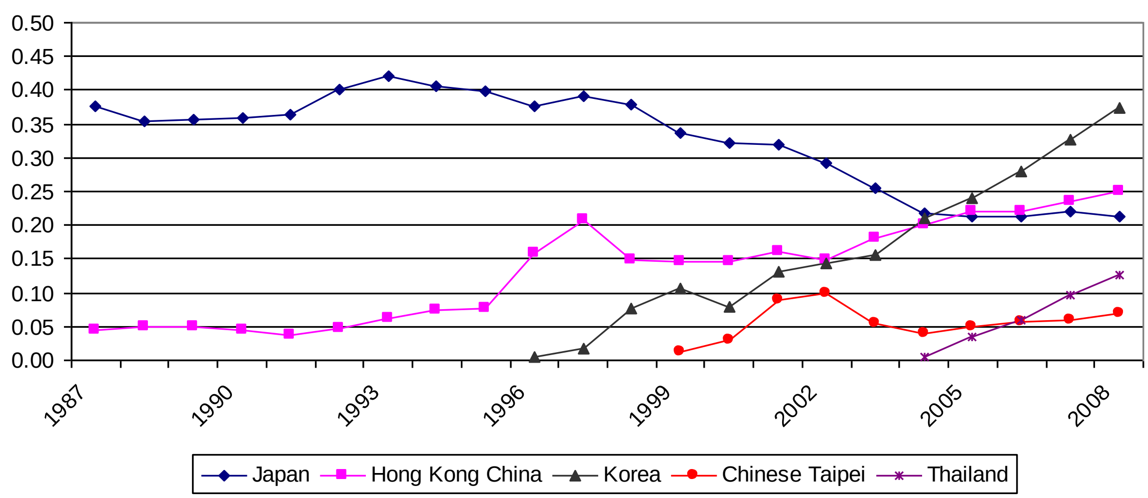
Between the two periods, a modest increase in UC generosity (the product of the recipiency rate times the replacement rate) occurred. The average generosity index for the 12 economies increased nine percent from 0.081 to 0.088. In both periods, the replacement of lost earnings as measured by the product of the recipiency 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 Table12- 4 shows UC recipiency 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 recipiency 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 recipiency data. Figure 12-1 traces their recipiency 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.

Figure 12-1

UC Recipiency Rates in Five Asian Countries, 1987–2008



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

For three of five economies in the figure, a strong secular increase in UC recipiency is observed. The increases in Hong Kong, China and Korea were sufficiently large that both economies now have higher recipiency rates than Japan. Japanese recipiency has trended downward since 1993 and the change is so large that recipiency 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 recipiency 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 Table12- 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.[42]

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

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.

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[42] 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.

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.[43] Table 12-5 provides summary measures for the APEC economies based mainly on information from the ILO and the OECD.

Table 12-5

Severance Pay Statutory Entitlements at Selected Seniority Levels

		Months of Severance at:			OECD Severance Scale at:			
	Severance Scheme? [1]	9 Months [2]	4 Years [3]	20 Years [4]	9 Months [5]	4 Years [6]	20 Years [7]	OECD Sev. Pay Index [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

[43] 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).

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*.

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 member economy sources were also used for Indonesia, Peru and Chinese Taipei.[44] 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.

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.[45] 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 recipiency 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.

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[44] Organisation for Economic Cooperation and Development, "Employment Protection and Labour Market Performance," Employment Outlook 1999.

[45] Donna MacIsaac and Martin Rama, "Mandatory Severance Pay: Its Coverage and Effects in Peru," The World Bank (2001).

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 12-3) 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.)

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.[46] 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.

[46] We classify the individual account program in Chile as a UC program and showed 2006-2008 data earlier in Tables 3 and 4.

C. Other Transfers and Income Support Programs

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.[47] 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 and Temporary Assistance for Needy Families (TANF) in the United States. Table 12-2 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

[47] 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.

comparable to UC participation and support payments.[48] 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

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.[49] 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.

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[48] 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.

[49] 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.

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 less than one percent of regular weeks.[50] 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.[51]

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.[52] 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

[50] 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.

[51] STC participation in November 2009 was provided by staff of Human Resource Development Canada. Unemployment in November 2009 was 1,466,000.

[52] 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.

initiative worthy of consideration by other APEC member-economies besides the four discussed above.

E. Recent UC Policy Initiatives

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.[53]

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.[54]

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 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.

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[53] 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.

[54] For further information, see http://www.actionplan.gc.ca/initiatives/eng/index.asp?mode=5&btnSubmit=Submit&clientId=2&parent=1&1=2

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).[55] 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.[56]

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.[57] More recent information on activation of the unemployed (the number of participants and

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[55] SOCX, 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.

[56] 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.

[57] 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).

spending on specific ALMPs) can be found in the statistical annex of *Employment Outlook 2009*.[58]

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 12-6 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.[59] The first six measures included in Table 12-6 are ALMPs; the final two entries are passive labor market programs.

Table 12-6

Frequency of Measures Supporting Jobseekers, Jobs and the Unemployed Percent

Measure	APEC (13)	ILO (55)
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 [60]

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;[61] 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,

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[58] See http://www.oecd.org/dataoecd/54/48/43766121/pdf

[59] 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.

[60] 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.

[61] According to Mr. Yuki Nagata of the Ministry of Foreign Affairs, Japan subsequently introduced new training measures.

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 12-7 for the seven economies who are members of both APEC and the OECD.

Table 12-7

Discretionary Changes in Expenditure on Active Labor Market Measures

	Job Subsidies and Recruitment Initiatives	Reductions in Non-wage Labor Costs for Hiring Unemployed	Job-Search Assistance and Matching	Job-Finding and Business Start-up Initiatives	Work Experience Programs	Training 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 Table12-7 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.[62]

According to the OECD-EC questionnaire (2009), some additional ALMPs were announced in response to the current recession. Table12- 8 shows these measures for the seven economies who are members of both APEC and the OECD.[63]

As Table 12-8 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

62 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.

63 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.

workers, low-skilled and migrant workers.[64] In three 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 12-8

Additional Active Labor Market Measures

Economy	Youth	Long-term Unemploy-ment	Temporary Workers	Low Skilled	Older Workers	High Unemploy-ment 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.[65]

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 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

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[64] 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.

[65] According to Mr. Yuki Nagata, Japan subsequently introduced initiatives such as expanding scholarships and promoting support to university students in their job search.

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 patters 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.[66] 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

[66] 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).

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 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 12-9 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.

Table 12-9

Measures to Stimulate Demand

	Fiscal spending on infrastructure				Targeted employment programs	
	Additional spending	Employment criteria	Green criteria	Public employment	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

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.

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 be 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 patters 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.

Annex 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.[67] 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.[68] 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.[69]

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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[67] This description is based upon Milan Vodopivec, et al. “How Does the Severance Pay System Work in Slovenia?” World Bank (February 2005).

[68] See Figure 12-8 op. cit.

[69] See Table 1 and Figures 1 and 2 op. cit.

Appendix A

Participants in HRD Experts Meeting, 7–8 July 2010

Name	Position	Organization
AUSTRALIA		
Ms. Marie Clare Grealy	Counselor (Education) Jakarta	Australian Education International
Mr. Malcolm Geoffrey Greening	Assistant Secretary	Department of Education, Employment and Workplace Relations
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Dr. Joyce Teo Siew Yean	Deputy Director International and Public Relation	Univesiti Brunei Darussalam
PEOPLE'S REPUBLIC OF CHINA		
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Ms. DuanYimin	Program Manager	Department of International Cooperation, Ministry of Human Resources and Social Security
Mr. Jiang Mohui	Director General	Centre for International Exchanges, Ministry of Human Resources and Social Security
Mr. He Weipeng	Director	Department of International Cooperation, Ministry of Human Resources and Social Security
INDONESIA		
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Mr. Indro Warsito	Researcher of Manpower Research	Ministry of Manpower and Transmigration
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Ms. Lestyani Yuniarsih	Head of Sub Division for Planning and Program	RandD Office, Ministry of National Education

Name	Position	Organization
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REPUBLIC OF KOREA		
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MALAYSIA		
Ms. Nur Azalila binti Shufa'at	Assistant Director	Economic Planning Unit
Mr. Jagdev Singh a/l Kulbant Singh	Assistant Secretary	Human Resources Policy Division, Ministry of Human Resources
MEXICO		
Dr. Mayren Polanco Gaytan	Director of the Faculty of Economy	Colima University
NEW ZEALAND		
Mr. Paul Barker	Acting Group Manager, Workplace Policy	Department of Labor, New Zealand
PERU		
Mr. Gustavo Yamada	Profesor e Invertigador PrincipalVicedecano de Facultad de Economia	Universidad del Pacifico, Peru
Prof. Augusto Hernandez Campos	Professor San Marcos University, Faculty of Law and Political Science	San Marcos University
Mr. Cristian Collins Leon Vilela	Coordinador Ejecutivo, Programa Revalora Perú	Ministerio de Trabajo y Promoción del Empleo
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Mr. Federico M. Macaranas PhD.	Executive Director of AIM Policy Center	Asian Institute of Management (AIM)
Ms. Criselda Sy	Director	Department of Labour and Employment
CHINESE TAIPEI		
Ms. Kuei-Yen Liao	Specialist	Council for Economic Planning and Development, Manpower Planning Department
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THAILAND		
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Dr. Alan Ginsburg	APEC HRDWG Lead Shepherd	U.S. Department of Education
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Ms. Rahma Nurbani	Researcher	SMERU Research Institute Indonesia
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Ms. Rulita Wijayaningdyah	International Secretary	Indonesian Forestry and Allied Workers Union (FSP KAHUTINDO)
Ms. Fifi Anggraini Arif	Technical Officer	ASEAN Secretariat
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Mr. Gustav Papanek	President	Boston Institute for Developing Economies
Mr. Paul Deuster	Senior Economic Policy Advisor	Economic Growth Office, USAID/Indonesia
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Ms. Shinta Manurung	Program Management Specialist	APEC Technical Assistance and Training Facility

Appendix B

Agenda of the HRD Experts Meeting, 7–8 July 2010