

Notes from working lunch discussion - Oslo Conference 2010

Table 3: Chair Ann Harrison, Director, World Bank.

The discussion focused on 4 topics: policies to enhance labour demand, design of social standards, the macro perspective for employment policies, and special labour market issues in low income countries.

How should policies influence labour demand?

Academic studies have found that an effective tool to stimulate or at least maintain labour demand during a recession is to provide unemployment benefits. This avoids a sharp drop in income and spending and feeds back into aggregate demand and employment. Short-time work or work-sharing is recognized to be a very useful tool to smooth out labour demand along times of business fluctuations. However, its usage also implies that during the recovery, employment and earnings will not pick up as much. In the long run, short-time work is not a sustainable policy because it might slow down or impede the necessary reallocation, which requires other policy tools such as re-training. Union representatives in the US are in general supportive of the short-time work idea, but are sceptical about its implementation. Workers tend to lose out in terms of social security contribution if they enrol in such programmes in the US. This is not the case in Germany, where the level of benefits was maintained for participating workers, which might have accounted for its widespread popularity among both workers and firms. The flexibility of a temporary workforce, in spite of its deficiencies, was seen as a useful and necessary path for entering the labour market, especially for the young. In general, policy recommendations are suggesting it is better to avoid strict paradigms (flexibility vs. protection) and instead adopt a system of dual response: encourage firms and workers to flexibly adapt to business conditions during prosperous times, but limit layoffs and encourage labour hoarding in downturns.

The macro perspective

It was noted that traditionally, policy makers in advanced countries have been overly concerned with controlling inflation. In a deep recession such as the current one, with demand remaining depressed persistently, the potential benefits of stimulating aggregate demand outweigh the costs for most countries. It is justifiable to err on the side of fiscal expansion during a recession, provided there is a credible medium term consolidation package. Some discussants also pointed out that policy makers in large countries such the US, Germany or at the European Central Bank should also be aware that their policy decisions are often the only means of stimulating demand in small countries which do not have adequate fiscal space or the possibility of devaluation. The question of fiscal sustainability seems to receive too much attention right now, and that wrongly puts it above all other goals in the policy debate, although it is generally agreed that there is not "one size fits all" policy.

Social standards

In the face of growing inequality in recent years in both advanced and emerging, low-income countries, it is important to address the question of how to design social standards and potentially introduce "social floors" for the poor. Often in the past, countries were even rewarded for ignoring social standards, for example by a higher ranking in the World Bank's Doing Business report, due to an over-emphasis on flexibility. It has generally come to consensus that this is not the way to go forward. Indeed, social protection schemes were given more attention and support in IMF country reports. But the question of what are universally "fair" social standards for workers and households is open. Some expressed concern for increased risk of protectionism should countries not pursue a global push for common standards for social protection. Union representatives expressed concern that there is a lack of worker organization in low-income countries. These concerns led to major reforms being carried out in these countries without consultation with international labor standards. Arguments were made for the International Financial Institutions to ensure compliance in this regard. Ideally, a socially fair, yet efficient system should be one where job protection exists, but at the same time, enterprises should be able to fire workers if absolutely necessary. Employers should however be penalized for excessive firing, through an appropriate design of the compensation scheme and advance notification.

Issues in Middle/Low-Income Countries

Discussants noted a lack of analysis in the Oslo discussion paper of the employment situation during the crisis in developing countries. This is largely explained by the lack of labor market data in these countries. Latest studies on the impact of the crisis in some specific middle-income countries (Mexico, Philippines) noted that the crisis reduced mainly the quality instead of the quantity of jobs (through cuts in hours, wages). It is recognized that the general pattern of resilience in emerging market countries has contributed to keeping the world economy afloat and pull it towards recovery. The issue of social standards is all the more urgent in the developing world, but there is the problem of an overwhelming informal sector (often up to 80% of the labor force). In this context, questions arose regarding the extraordinary boom in China: it is feared that inequality will rise and growth will not lead to higher social standards. Moreover, it is not clear whether growth in China is driven by "good or bad debt", i.e. whether investment is directed to generate sustainable productive resources or overly concentrated in speculative assets and industries.