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Special Presentation of New OECD Research

## **Persistence of High Unemployment**

### **What Risks? What Policies?**

Residence Palace, Brussels  
20 April 2011

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**The Lisbon Council**  
**Brussels, 20 April 2011**

**Persistence of High Unemployment:  
What Risks? What Policies?**

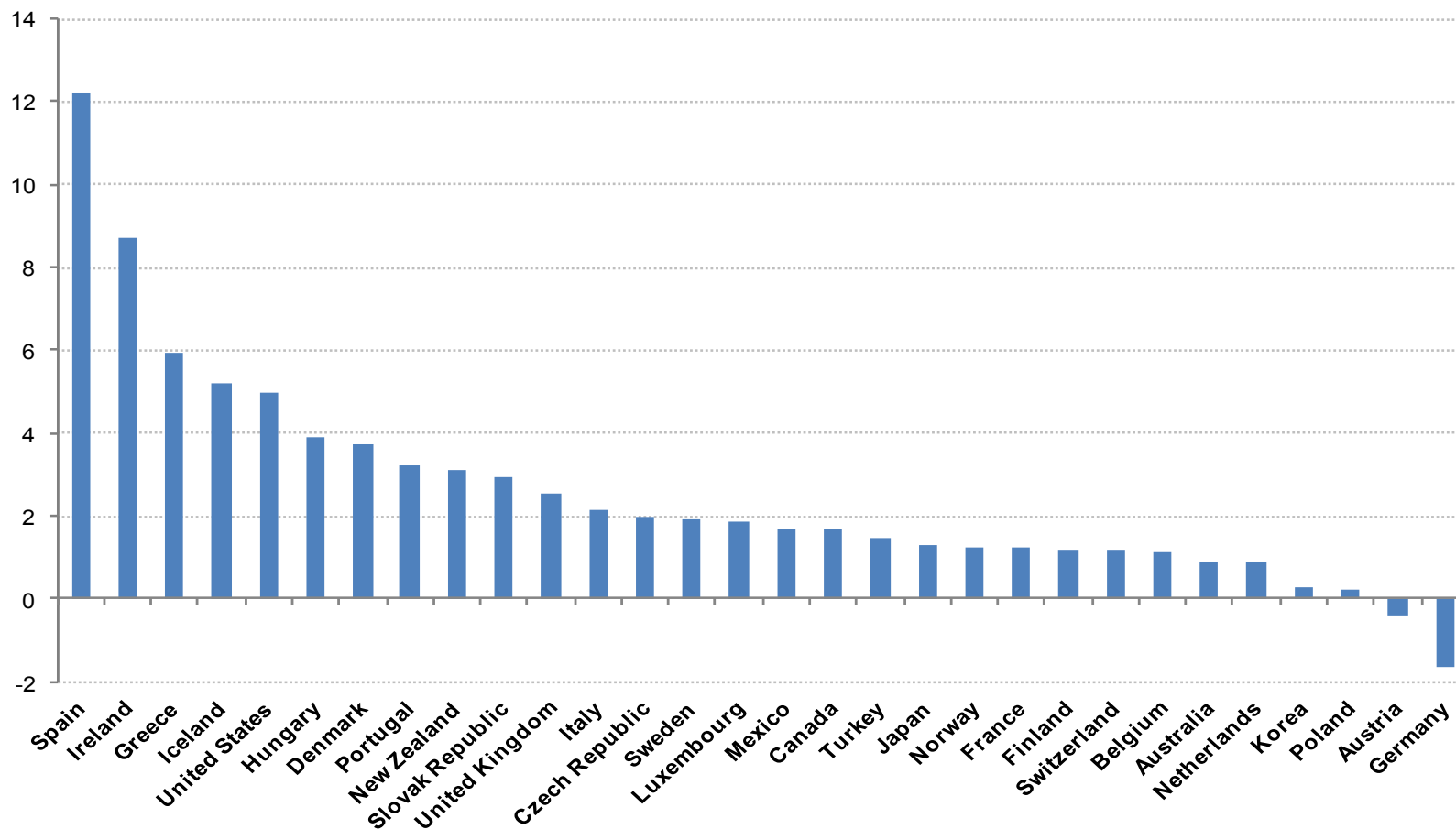
**Pier Carlo Padoan**

**Deputy Secretary-General and Chief Economist, OECD**

# Main Highlights

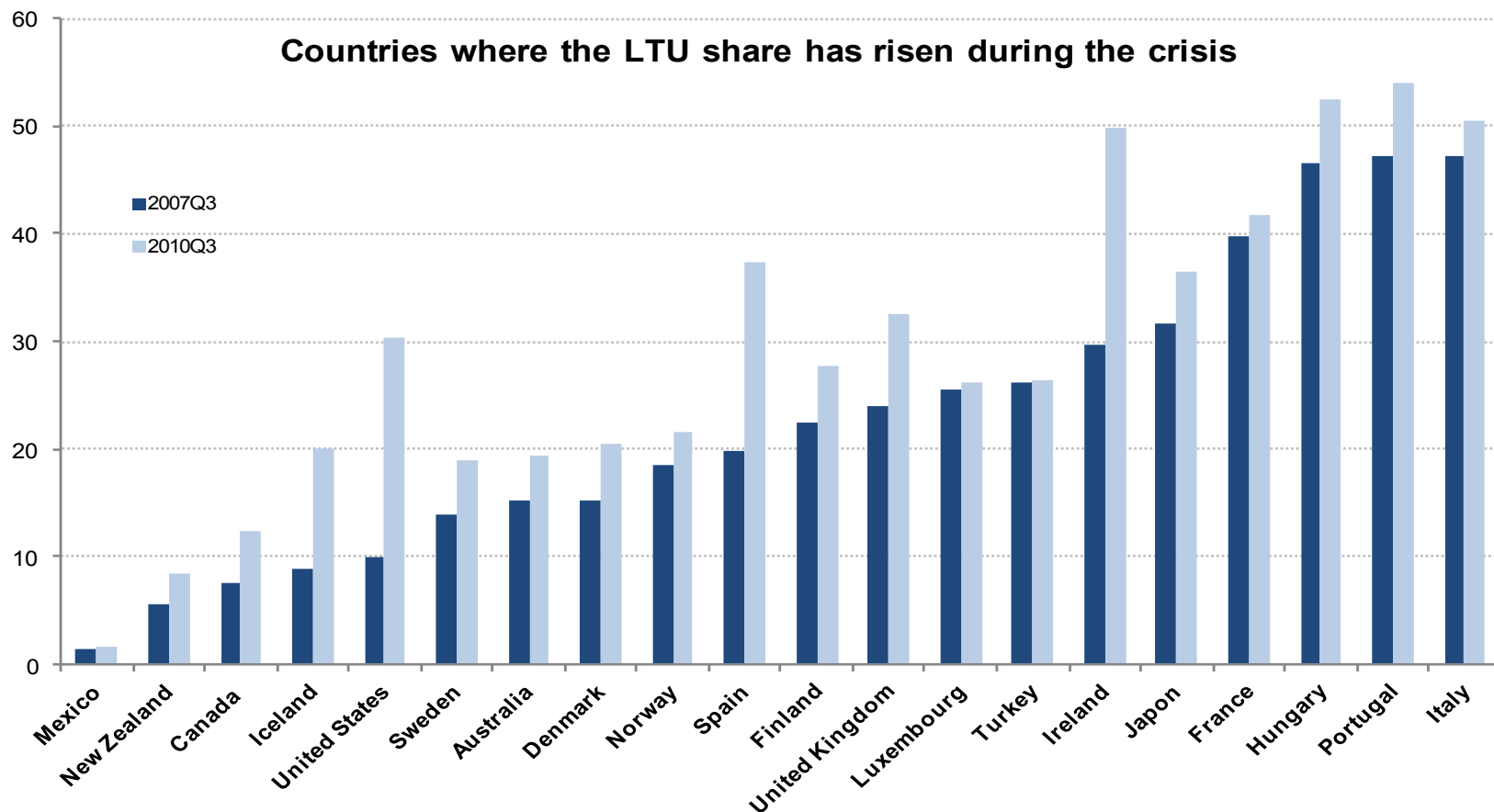
- **Assessing the main risks**
  - ❖ **Unemployment persistence and long-term unemployment**
  - ❖ **Falling labour force participation**
  
- **Assessing the policy response to accelerate the return to work**
  - ❖ **Boosting labour demand through targeted payroll tax reductions**
  - ❖ **Using active policies to help unemployed find the right job**
  - ❖ **Designing unemployment benefits to minimise their unintentional side effects**
  - ❖ **Reforming employment protection to boost hiring**
  
- **Old lessons and new insights from the crisis**

# Unemployment persistence is the most pressing concern for a majority of countries



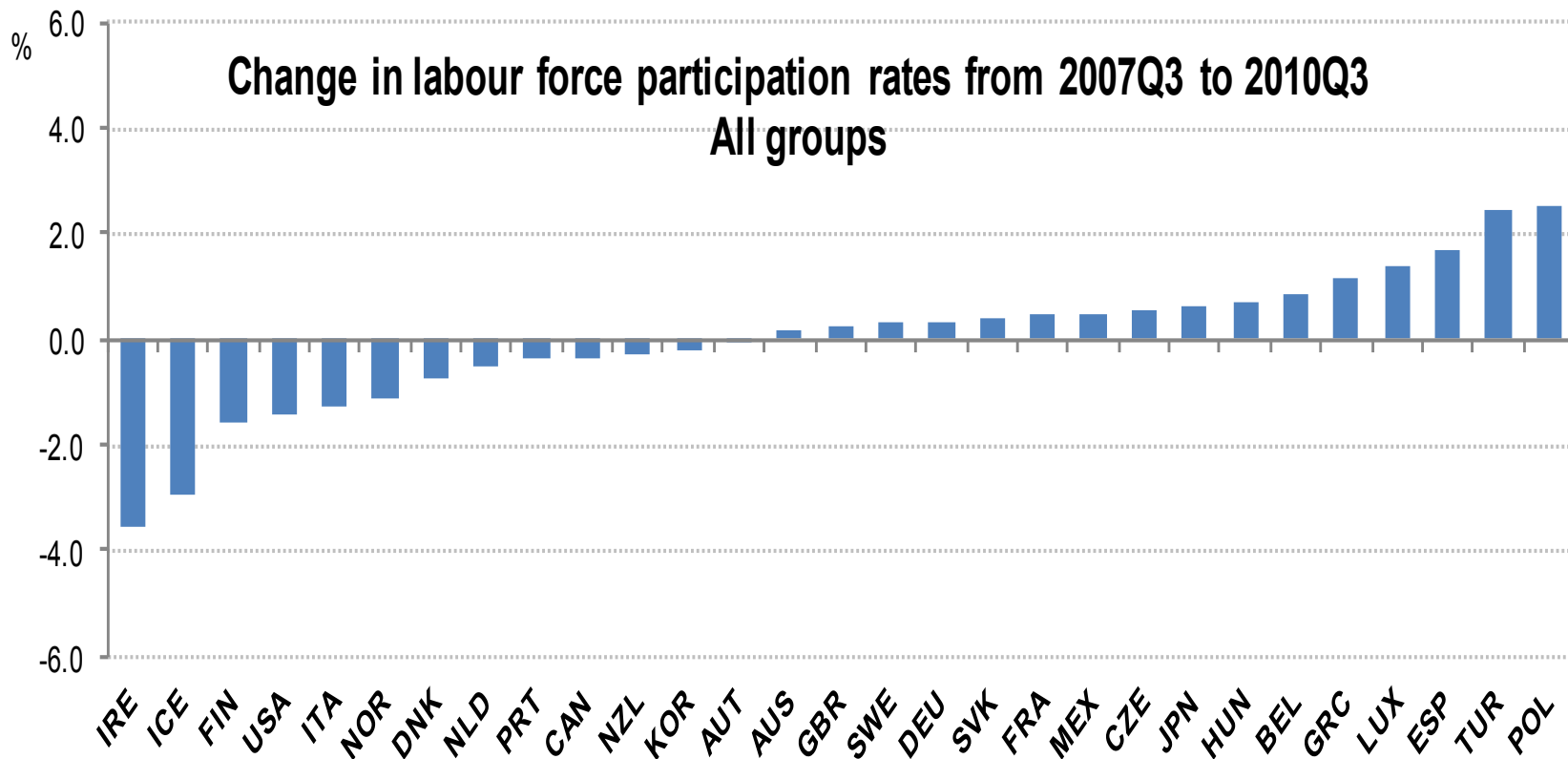
**Unemployment rate remains above pre-crisis level by at least 2 percentage points in 12 countries**

# The share of long-term unemployment has risen sharply in some countries...



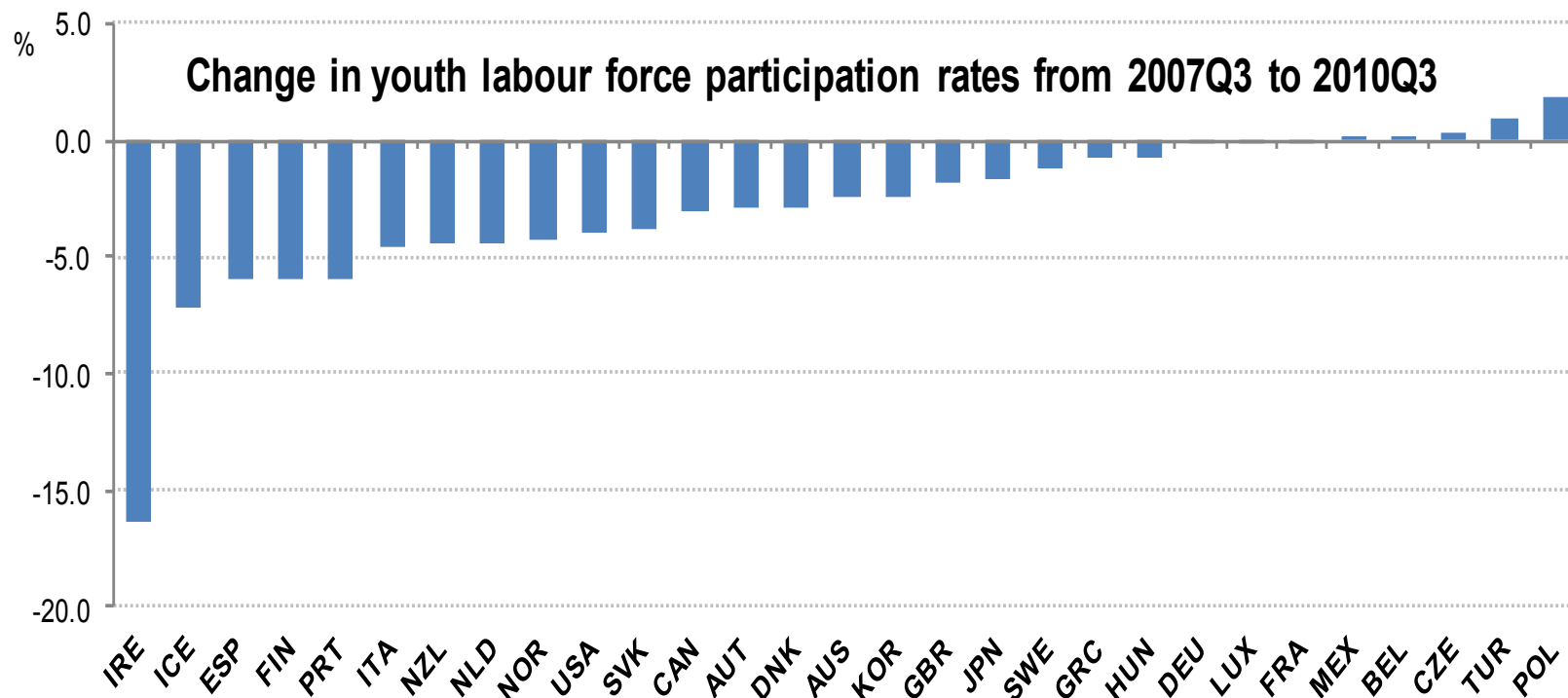
...albeit from a relatively low level in some cases (e.g. Iceland, United States), while in other countries (e.g. France, Italy) the share of LTU was already high before the crisis.

# Labour force withdrawal has generally been limited so far



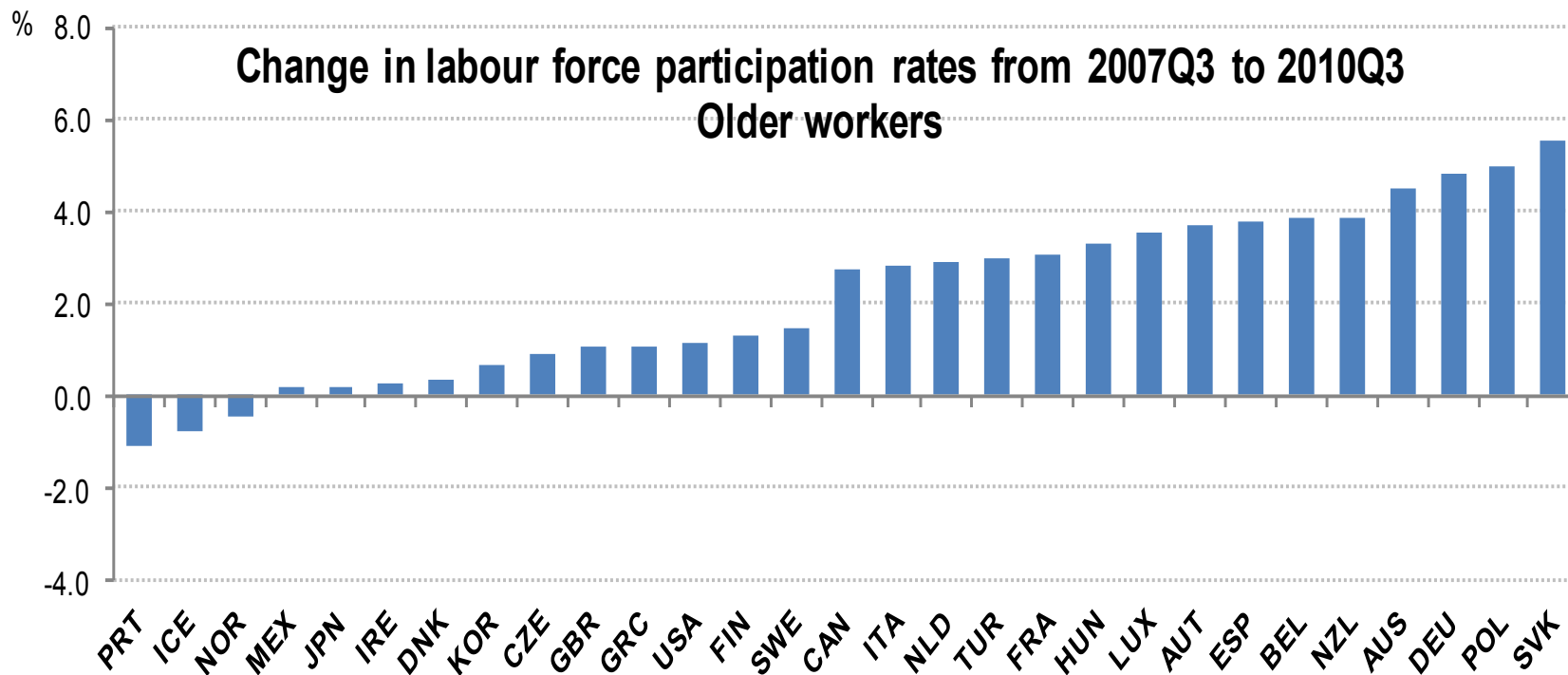
...but protracted slack in employment still raise the risk that unemployed workers drift out of the labour market. It is important to maintain control over entry into disability benefit schemes.

## Labour force withdrawal has been substantial among youth...



...Which may reflect longer time spent in education. For those not in education, there is a risk of failure to get firm foothold on labour market and potential “scarring” effects.

# Older workers have maintained surprisingly strong attachment to labour market in the recent crisis



**Policies that in the past led to premature exit of older workers have been reformed extensively. The loss of wealth associated with the crisis may also play a role.**



## Boosting labour demand through targeted payroll tax reductions

- **Temporary and targeted tax wedge reductions, such as cuts in payroll taxation for additional hires, may be effective in the short run...**
- **...but these schemes can be complex to monitor...**
- **...and should be conditioned by the fiscal situation**

## Using active LM Policies to help unemployed find the right job

- Resources devoted to job-search assistance should be made commensurate to the task
- Enhancing vocational training is desirable especially for youth and low-skilled...
- ...but could be difficult in countries facing severe budget constraint or where existing training infrastructure are limited

## Design Unemployment Insurance benefits to minimise their unintentional side effects

- **The extension of coverage of unemployment benefits to workers previously not covered should be made permanent...**
- **...provided recipients satisfy job-search and availability requirements**
- **The extended duration of unemployment benefits should be reconsidered when the labour market situation has sufficiently improved**

## Reforming employment protection to boost hiring

- **The gap in job protection between permanent and temporary contracts should be reduced**
  - ❖ **Strict restrictions on firing of workers on permanent contracts have helped cushion the impact of crisis**
  - ❖ **But provisions whose costs are high and unpredictable for employers hinder hiring during the recovery**
- **« Two-tier » systems have generated high unemployment turnover and insecurity for some categories of workers (youth, women) with no permanent gain in employment**

- **Recession and recovery have underlined importance of macro-policies and conditions**
  - ❖ **Macro-policies need in good times to create the room for manoeuvre that is required during bad times**
- **Pre-crisis reforms in benefit and activation systems have raised the effectiveness of the emergency measures taken during the crisis**
- **Short-time work schemes can cushion the impact of economic shocks on employment**

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