

Employment and Unemployment in the Aftermath of the Wall Street Implosion: What we have learned and the roads ahead

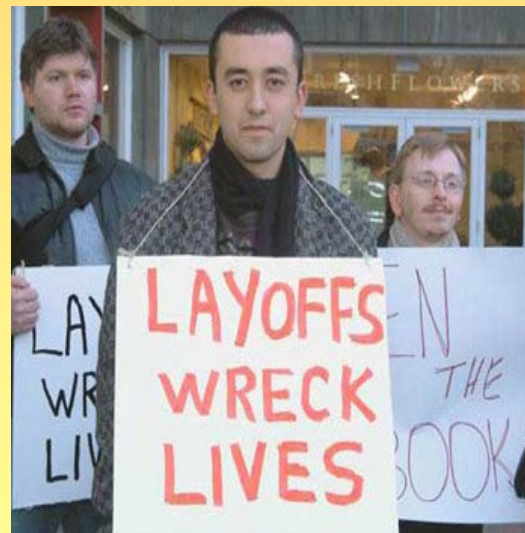
- 1 The Jobs Situation in Advanced Countries
2. Minimizing the costs of a long jobless recovery:
old insurance policy or more flexibility?
3. “Don't take your eye off the ball of finance.”
4. Opportunity for systemic reform?

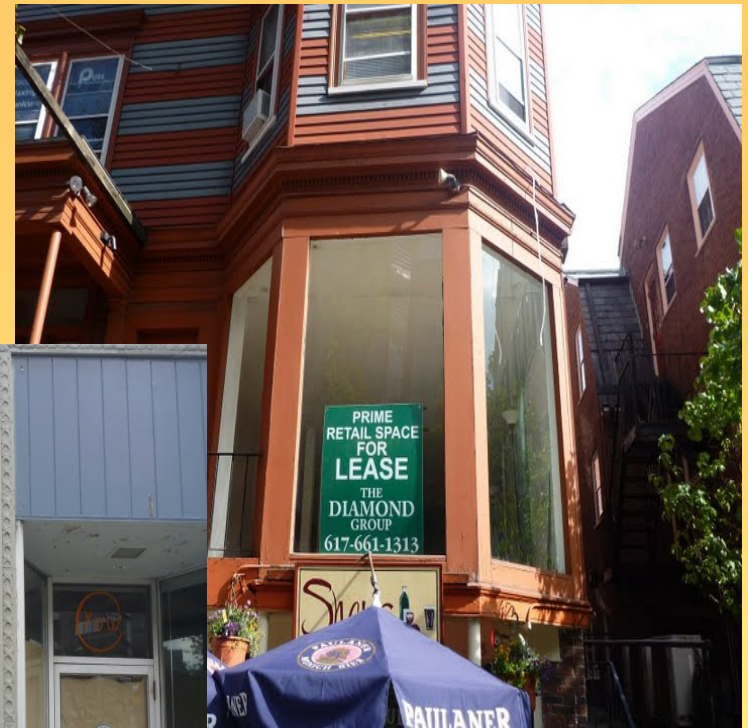
Richard B. Freeman, Harvard, NBER; CEP, LSE

EMPLOYMENT POLICY IN THE CRISIS

FES and LO SEMINAR Stockholm, October 15, 2009

Message for Advanced Country Workers is Grim





Source: <https://blogs.law.harvard.edu/mytown2009/>

1. IMF: Financial Crisis + Globalization → WORST RECESSIONS

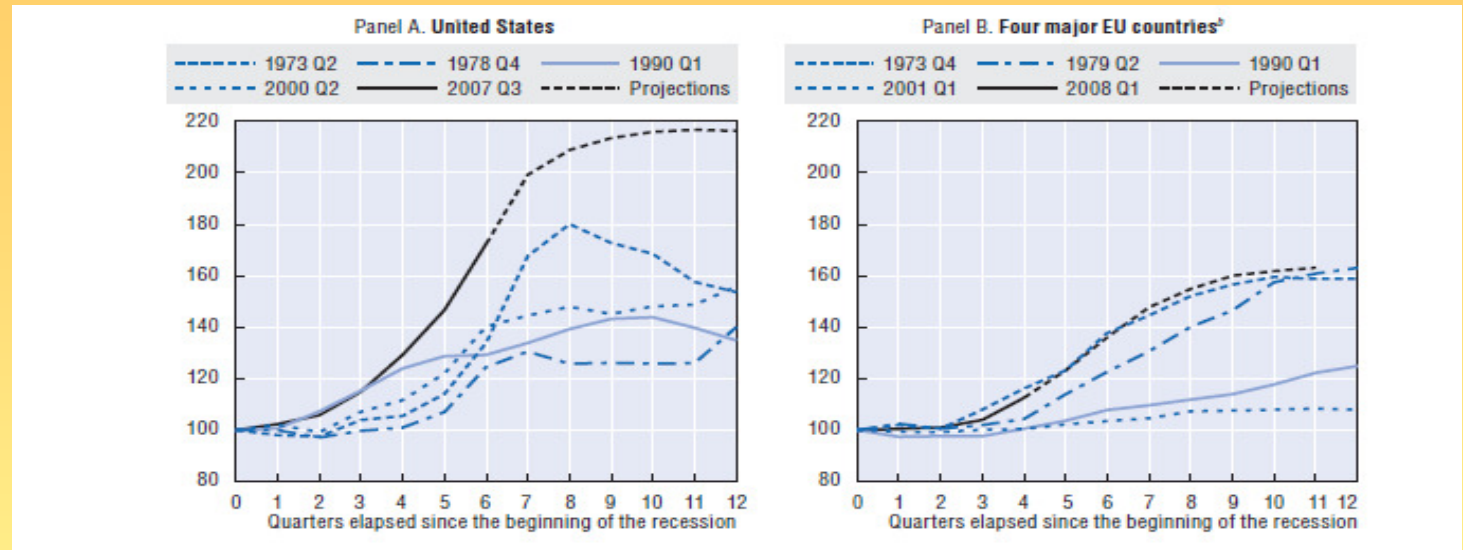
recessions associated with financial crisis are longer and more severe ... On average, financial crisis-associated recessions last one and a half years ...longer than other recessions. ... almost three years to get back to pre-recession output levels.

globally synchronized recessions are also longer and deeper (and) ... more sluggish. So this is sobering evidence for today, given that we have both financial sector driven and globally synchronized recessions.

Chapter 3 of the World Economic Outlook 2009 (studying 120 recessions and recoveries across advanced economies since 1960).

ILO predictions for recovery: BRICS may have V in 2010; Advanced countries not till 2015

OECD



INTRADE
PREDICTION
MARKET



Employment recovery likely slow and painful

Employment increasingly laggard in recoveries over the past 30 or so years in US and some other countries (Sweden, Korea).

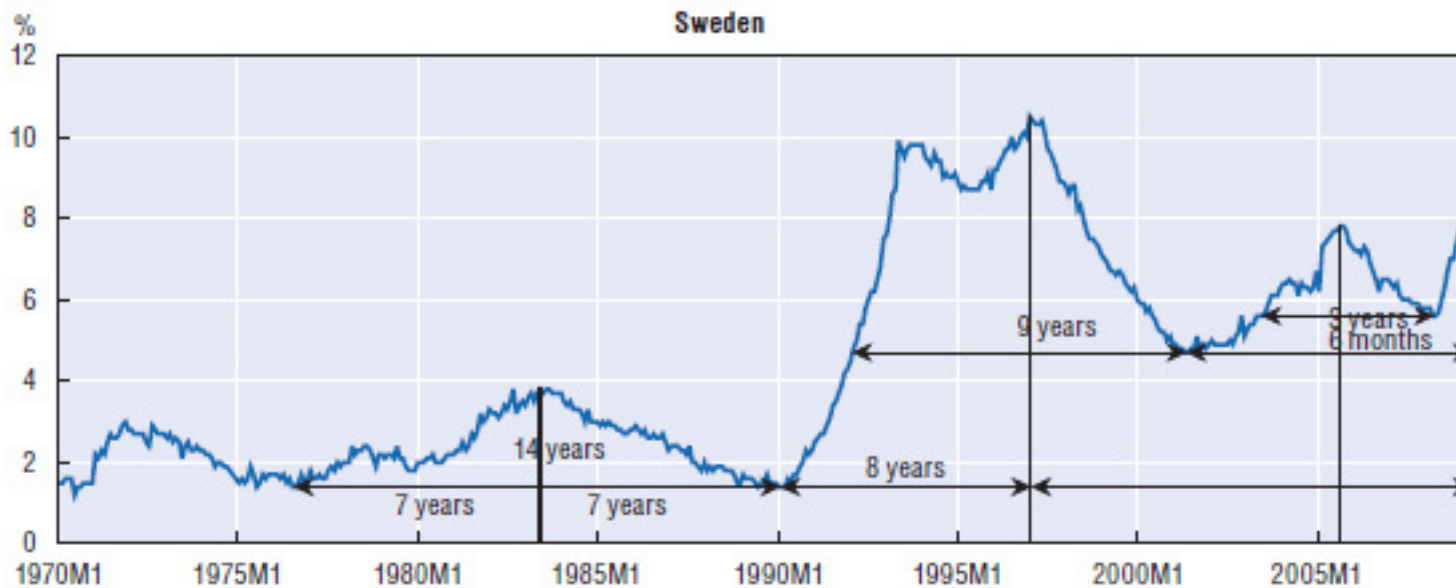
Swedish employment has never recovered fully from early 1990s economic crisis.

Korean employment recovered from 1996 but inequality has risen to 2nd highest in OECD

In US danger that tax receipts will lag and get large state and city layoffs to give weakened jobs recover: California as “failed state”?) Fed may tighten too early.

Figure 1.7. Severe recessions generate sharp increases in unemployment which are long-lasting and often not reversed completely in recoveries (cont.)

Evolutions of monthly harmonised unemployment rates^a in selected countries, January 1970-June 2009



A US Disaster: failed US polity of PR

Huge public sector deficits: ~30% of budget; Bond-rating down; Unemployment rate of 15%; Government cuts jobs; raise taxes, especially on wealthy and firms -->

San Juan – Puerto Rican unions called a general strike for Oct. 15 in response to the dismissal of 17,000 public employees. ... organized labor is currently readying ... “the most massive movement in the history” of Puerto Rico.

San Juan-- Puerto Rican Government Threatens Terrorism Charges For Laid-Off Workers At Oct 15 Protest

San Juan - Thousands of laid-off government employees in Puerto Rico will be doing the conga for free, thanks to Gloria Estefan.

The lesson of history: labor loses

Korea – Asian flu – not due to labor but increased inequality, decline in formal sector jobs. Irregular work.

Argentina – IMF poster child of WC globalization – not due to labor but jump in poverty, unemployment, inequality, risk of populist economic harm

Sweden – Poster child of welfare state – not due to labor but housing/banking crisis, no rise in poverty, modest rise in inequality, continued high unemployment with longterm jobless

US –Great Depression; 2009 unemployment → 10% loss of retirement income, housing loss. Inequality rising, poverty increasing.

FINANCE IS EMPLOYMENT AND LABOR POLICY

2. Employment and Social Policy

Stimulus spending: “ **expansionary macroeconomic policies** have been associated with shorter recessions and stronger recoveries. ... the current recessions are likely to be unusually severe, and the forthcoming recoveries sluggish. Aggressive monetary and, particularly, fiscal policies could strengthen and bring forward recoveries.

Korea: Asian Crisis: Raise interest rates, cut government spending, privatize--> 8-9% unemployment

Korea, 2008 the largest stimulus package in OECD (6.1% of GDP) ; wage freezes, hours reduction → 4% unemployment

The flexibility policies that OECD promulgated

' there does not appear to be any strong reason to expect that recent structural reforms mean that OECD labour markets are now substantially less sensitive to severe economic downturns than was the case in the past. ,... the “great moderation” apparently cannot be attributed to greater resilience due to the types of structural reforms that have received a lot of attention from labour market analysts and policy makers (pp 39)

“there do not appear to be any clear grounds for concluding that workers, generally, are either better or worse prepared to weather a period of weak labour markets than was the case for the past several recessions (pp 40)

So what did these policies do?

They increase “shock amplification” – make recession effects on labor bigger: weaker EPL; less regulation; lower tax wedge on labor; less centralized cb, lower UI, less ALMP → quicker firing. Why? Easiest to see is lower EPL → quicker firing.

But reduce “shock persistence” – length of impact on labor. (Dubious because they find no changes in speed of adjustment of demand for labor.)

On net, OECD says do no good in recession (“less evident that an employment centered social protection system ... can be effective” p 19);

How to judge this?

Standard Welfare Calculus Assessment

Policies raise efficient use of labor in boom but increase employment vulnerability in recession

Redistributed income to wealthier

So make your assessment:

My assessment says however you come: **THE FOCUS ON LABOR “INEFFICIENCIES” TOOK OUR EYES OFF THE BALL. Directed attention at supply side when real risk is demand side.**



What to do? “Smart standard welfare state insurance policies”

Income support for job losers (extending coverage of UI to non-standard workers)

Skills/work links deteriorate quickly for older workers so encourage partial employment but depends on age/cycle

Work-sharing via partial UI for reduced hours

EPL for part-time employment

For young workers, ideal time for training and education – low opportunity cost of time; Interning & volunteering

Reduce social security contributions; hiring subsidies

Wage insurance

BUT ASSESSMENT SHOULD BE MACRO NOT JUST MICRO – Does it affect aggregate?

What the economy that has managed best has done

- **Reduced hours –over time**
- **Lower real wages – very concessionary firm level CB**
- **Govt support for maintaining employment with wage freeze**
- **Strengthened UI**
- **Huge fiscal stimulus.**
- **Helped/hurt by reliance on exports**

3. We Took Our Eyes off the Ball

(eyes off ball is an idiomatic expression that means we didn't concentrate on something important while watching something else



The 1990s/2000s-pre-Implsion view of the world that the big impediment to full employment/ prosperity was an inflexible labor market has been proven WRONG.

The danger to jobs and prosperity was NEVER the labor market:

The ball to watch is not small inflexibilities in labor market.

The ball to watch is the financial market, the crown jewel of capitalism. (“The best way to rob a bank is to own one”)

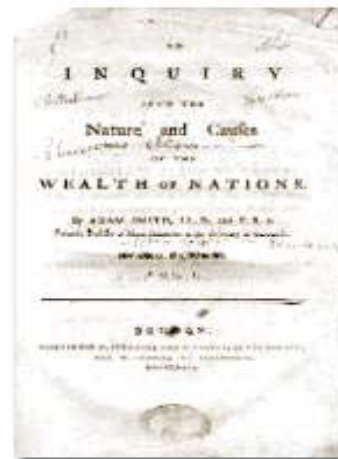
IMF ex-Chief Economists View

“elite business interests—financiers, in the case of the U.S.—played a central role in creating the crisis ...they are now using their influence to prevent ... reforms. One channel of influence ... the flow of individuals between Wall Street and Washington. Rubin ... Paulson ... Greenspan-- **Simon Johnson**

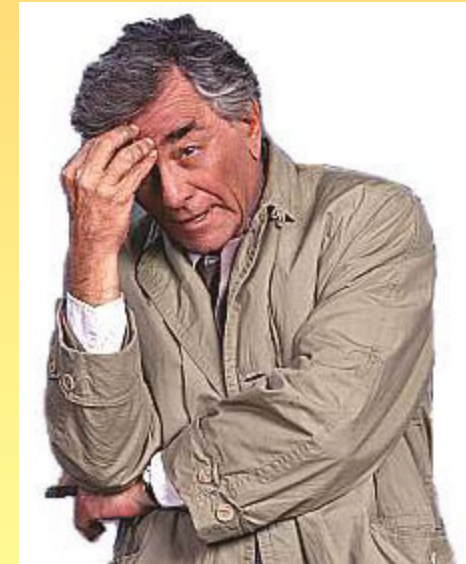
“ single biggest distortion ... is when a number of private institutions are deemed by political and regulatory authorities as too systemic to fail. ... The consequences ...a system of **crony capitalism**.corrupt officials can hide behind the doctrine of systemic importance to bail out favored institutions ... two sets of rules, one for the systemically important, and another for the rest of us.” **Raghuram Rajan**

the financial system has become very bloated in size and needed to shrink “ **Ken Rogoff**

“We rarely hear, it has been said, of the combinations of masters, though frequently of those of workers. But whoever imagines, upon this account, that masters rarely combine, is as ignorant of the world as of the subject.” The Invisible Hand as told to Adam Smith (Wealth of Nations) (book 1, chapter 8)



**The BIG Lesson:
Financial Markets destroy employment and
economic well-being. Labor markets do not.**



Never take your eye off the ball

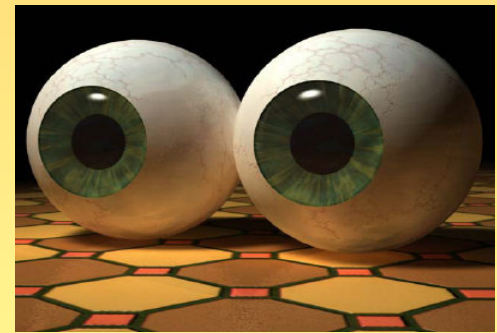
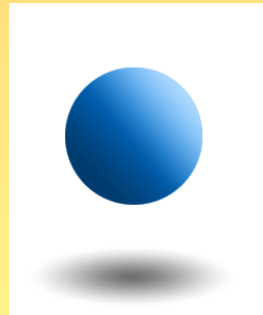
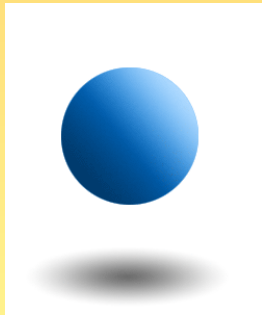


4) Opportunity for systemic reform?

Widespread agreement – more regulation of banks; new forms of compensation to reduce unconscionable behavior and casino-risk-taking.

But this is not only for finance ministries and central banks to decide. THIS IS EMPLOYMENT POLICY and unions, labor departments, others have to weigh in

2) IF crony capitalism is normal and finance can wreck real economy and cronies (Wall Street etc) will fight reforms, THEN market economy needs: Countervailing power – pro-market groups-- unions, NGOs, SMEs, and others



**Sophisticated regulators - Treasury/
Central Bank experts in war room setting;
computer-intensive high-powered early warning
“detect problems” systems**

3) It could be that US level of inequality is inconsistent with long term sustainable growth

Inequality → financial speculation

Huge incentives to top → crime + chicanery

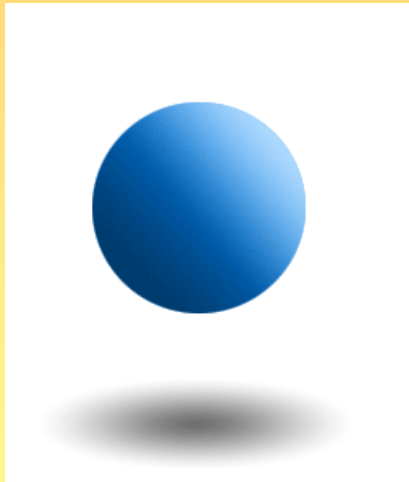
Inequality → lobbyists and greater regulatory capture

Credit becomes functional surrogate for more equal distribution in spurring consumption

4) It could be that world level of inequality and system of trade is inconsistent with global sustainable growth (climate change, natural resources, water, etc)

Foreign debt as a functional surrogate for trade balances; use of dollar etc

ADVICE FROM THE STREET: “TO HELL WITH THE BOUCING BALL, SUCKAH”



PunditKitchen.com

