

The jobs crisis

It's coming, whatever governments do; but they can make it better or worse.



Illustration by Belle Mellor

Nothing evokes the misery of mass unemployment more than the photographs of the Depression. You can see it in the drawn faces of the men, in their shabby clothes, in their eyes. Their despair spawned political extremism that left a stain on society; but it also taught subsequent generations that public policy has a vital part in alleviating the suffering of those who cannot get work. Thanks to welfare schemes and unemployment benefits, many of which have their origins in those dark days, joblessness no longer plunges people into destitution, at least in the developed world.

Not even the gloomiest predict that today's slump will approach the severity of the Depression, which shrank America's economy by more than a quarter, and put a quarter of the working-age population out of a job. But with the world in its deepest recession since the 1930s and global trade shrinking at its fastest pace in 80 years, the misery of mass unemployment looms nonetheless, and raises the big question posed in the Depression: what should governments do?

Join the queue

In the rich world the job losses are starkest in America, where the recession began. Its flexible labour market has shed 4.4m jobs since the downturn began in December 2007, including more than 600,000 in each of the past three months. The unemployment rate jumped to 8.1% in February, the highest in a quarter-century. An American who loses his job today has less of a chance of finding another one than at any time since records began half a century ago. That is especially worrying when the finances of many households have come to depend on two full incomes.

But it is already clear that unemployment will strike hard far beyond America and Britain. In Japan output is plunging faster than in other rich economies. Although unemployment is low, rapid job losses among Japan's army of temporary workers are exposing the unfairness of a two-tier labour market and straining an egalitarian society.

In Europe joblessness has grown fastest in places such as Spain and Ireland, where building booms have crashed, but has only begun to edge up elsewhere. The unemployment rates in many European countries are below America's, but that may be because their more rigid labour markets adjust more slowly to falling demand. Given how fast European economies are shrinking, nobody doubts that worse lies ahead. By the end of 2010, unemployment in much of the rich world is likely to be above 10% (see article).

In the emerging world the pattern will be different, but the outcome more painful. As trade shrinks, millions of workers are losing their foothold on the bottom rungs of the global supply chain. Poverty will rise as they sink into informal work or move back to the land. The World Bank expects some 53m people to fall below the level of extreme poverty this year (see article).

Politics dictates that governments must intervene energetically to help. That's partly because capital has taken such a large share of profits for so many years that the pendulum is bound to swing back and partly because, having just given trillions of dollars to the banks, politicians will be under pressure to put vast amounts of money into saving jobs. But help cannot be measured in dollars alone. Badly designed policies can be self-defeating. After the recessions of the 1970s and early 1980s, Europe's rigid labour-markets kept unemployment high for decades.

Governments are piling in with short-term help for workers. In America, which has one of the lowest social safety nets in the rich world, extending unemployment benefits was, rightly, part of the recent stimulus package. Japan is giving social assistance to "non regular" workers, a group that has long been ignored. In general, however, it makes more sense to pay companies to keep people in work than to subsidise unemployment. Many countries are topping up the earnings of workers on shortened weeks or forced leave.

These are sensible measures, so long as they are time-limited; for, in the short term, governments need to do all they can to sustain demand. But the jobs crisis, alas, is unlikely to be short-lived. Even if the recession ends soon (and there is little sign of that happening), the asset bust and the excessive borrowing that led to it are likely to overshadow the world economy for many years to come. Moreover, many of yesterday's jobs, from Spanish bricklayer to Wall Street trader, are not coming back. People will have to shift out of old occupations and into new ones.

A difficult dance

Over the next couple of years, politicians will have to perform a difficult policy U-turn; for, in the long term, they need flexible labour markets. That will mean abolishing job-subsidy programmes, taking away protected workers' privileges and making it easier for businesses to restructure by laying people off. Countries such as Japan, with two-tier workforces in which an army of temporary workers with few protections toil alongside mollycoddled folk with many, will need to narrow that disparity by making the latter easier to fire.

The euphemism for that is "flexibility". The bare truth is that the more easily jobs can be destroyed, the more easily new ones can be created. The programmes that help today, by keeping people in existing jobs, will tomorrow become a drag on the great adjustment that lies ahead. As time goes by, spending on keeping people in old jobs will need to be cut, and replaced with spending on training them for new ones. Governments will have to switch from policies to support demand to policies to make their labour markets more flexible. That is going to require fancy political footwork; but politicians will have to perform those steps, because if they fail to, they will stifle growth.

However well governments design their policies, unemployment is going to rise sharply, for some time. At best it will blight millions of lives for years. The politicians' task is to make sure the misery is not measured in decades.

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