Regional Challenges in Structural Unemployment

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Presentation Outline

I. Introduction, trends and challenges

II. Shift and measures

III. Financial crisis and unemployment

IV. The Chinese Taipei experience

V. Discussions
Global unemployment trends

*2010 are preliminary estimates.
Source: ILO, *Trends econometric models*, October 2010
Unemployment Rate by Region

Projected Unemployment Rate, by Region, 2011
(percent)

Sources: Haver Analytics; International Labor Organization; and IMF staff estimates.

1AR: Argentina; AU: Australia; BR: Brazil; CA: Canada; CEECIS: central and southeastern
Europe (non-EU) and Commonwealth of Independent States; CN: China; DE: Germany;
DEEU: developed economies and European Union; EAS: east Asia; EU: euro area; FR:
France; GB: United Kingdom; ID: Indonesia; IT: Italy; JP: Japan; KR: Korea; LAC: Latin
America and the Caribbean; ME: Middle East; MX: Mexico; NAF: north Africa; RU: Russia;
SAS: south Asia; SEAP: southeast Asia and the Pacific; SSA: sub-Saharan Africa; TR:
Turkey; US: United States; ZA: South Africa.
Global Employment by Sector

Source: ILO, Trends econometric models, October 2010
Unemployment poses grave social and economic challenge
Made worse under recent global financial crisis
Three lines of defence against unemployment (IMF):

1. Supportive macroeconomic policies;
2. Financial sector repair;
3. Specific labour market measures.
Monetary policy is expected to stay loose in advanced economies

- A different challenge for the emerging economies with inflationary concern

Restructuring of financial and banking sector is needed

Credit to small and medium enterprises also need to be addressed since they provide the bulk of jobs

Broader market reform needed to create more jobs for structural/long-term unemployment
The structural unemployment concept is not well defined and there is considerable uncertainty and controversy concerning their measurement and policy use
Unemployment Latin America

Source: ILO, Trends econometric models, October 2010
Unemployment Latin America

Source: ILO, Trends econometric models, October 2010
Unemployment in East Asia

Source: ILO, Trends econometric models, October 2010
Unemployment in East Asia

Source: ILO, Trends econometric models, October 2010
Unemployment in South-East Asia and Pacific

Source: ILO, Trends econometric models, October 2010
Unemployment in South-East Asia and Pacific

Source: ILO, Trends econometric models, October 2010
Chinese Taipei Experience
Chinese Taipei Experience

- Chinese Taipei followed the conventional international manufacturing chain
- The export products in early days might change, but were predominately labour intensive
- The labour intensive manufacturing has at the same time provided much needed jobs
- The competitiveness shift started in the 1980’s
Chinese Taipei Experience

- Chinese Taipei has managed to graduate from its labour intensive industry in the 1990’s.
- A result of globalisation and domestic industrial restructuring, the combination which propel the industry development from labour intensive to capital intensive.

Source: Directorate General of Budget, Accounting and Statistics
The process of Chinese Taipei’s industrial restructuring can be divided into four stages:

1. Decline of labour intensive industries;
2. Industrial regionalisation;
3. Demise of the agricultural sector;
4. Transformation of the service sector
Chinese Taipei Experience

- By 1984, capital intensive and technology intensive industries total output have exceeded 50% of total industrial outputs.
- By 1995, capital intensive and technology intensive industries total output exceeded over 70% of the total industrial outputs.

Source: Directorate General of Budget, Accounting and Statistics
While the definition for structural unemployment is straightforward, obtaining an actual estimate is more complicated.

Using the Council for Economic Planning and Development survey, it is discovered structural unemployment made up the bulk of Taipei’s unemployed (more than frictional and seasonal).
Globalisation and global competition has accelerated the pace of industrial restructuring

Labour intensive manufacturing has been replaced by information technology

Structural unemployment is not a unique to Chinese Taipei, in fact, it is a common ailment amongst OECD countries since the 1980’s

At the wake of new millennium, structural unemployment made up some 47% of the unemployed

External shocks – The recent financial crisis has exasperated the job market difficulties
Chinese Taipei Experience

Following the global financial Crisis, the Government has introduced: “The 2010 Employment Promotion Implementation Plan”

1. Expanding cooperation between the academia and the industries
2. Strengthening professional training
3. Increase job matching success rate
4. Provide salary subsidies
5. Strengthen implementations of short term employment promotion
6. Assist entrepreneurs and self-employed workers
Some of Chinese Taipei’s initiative to improve job prospects are:

- **Social Insurance**
  - Unemployment Benefit (CLA): 60% of monthly insured salary for 6 months
  - Premium Subsidy of National Health Insurance for Unemployed Workers and their Dependents (CLA): 8 months
  - Premium Subsidy of National Pension Insurance for Middle and Low Income Earners and the Disabled (MOI): subsidy of 55%–100% of contribution
  - Call: 02-2396-1266

- **Employment Service**
  - “Getting to Work Immediately Program” (CLA): NTS$10,000 per month
  - 2008-2009 Short-term Employment Promotion Measures (various ministries and commissions): Total 73,000 job opportunities
  - 2009-2012 Employment Promotion Program
  - Call: 0800-777-888

- **Vocational Training**
  - Training Expense Subsidy (CLA): 80%-100% of expense
  - Training Living Allowance (CLA): 60% of insured monthly salary
  - Call: 0800-777-888

- **Business Start-up Guidance**
  - Low-Interest Loans
  - Business Start-up Counseling (CLA)
  - Business Start-up Training Courses (CLA)
  - Call: 0800-092-457

- **Housing Aid**
  - Call: 02-8771-2863
  - Provision of Work-study Opportunities (CLA, MOE)
  - Subsidies for Lunch Expense, Tuition, and Miscellaneous School Charges (MOE)
  - Study Loans (MOE)

- **Aid for Children**
  - Call: 02-7736-6336
  - Preference Housing Loans (MOI)
  - Housing Rent Subsidy (MOI)
  - Deferred Repayment of Loan Arrears (MOI)
  - Extension of Housing Loan Term (FSC)

- **Social Assistance**
  - Call: 1957
  - Immediate Care and Assistance (MOI): Emergency relief grant of NTS$10,000-30,000
  - Living Aid for Low Income Households (MOI): NTS$2,200–14,152 per month
  - Welfare Advice (MOI)

- **Counseling Services**
  - Call: 0800-788-996
  - Psychological Counseling and Treatment (QOH)

- **Labor Disputes**
  - Call: 02-8599-2820
  - Legal Assistance
  - Essential Living Expenses Subsidy during Litigation (CLA)
Discussions

☑ Some of our economies are more exposed to long-term unemployment/structural risk;

☑ This varies across economies in our region

☑ Persistent high unemployment is a reflection of government policies that are not sufficiently proactive

☑ OECD Study suggests extended benefit is necessary to reduce unemployment, including raised benefit level, duration and coverage of the benefits

☑ OECD also suggests active labour market policies can reduce persistence
## Impacts of Policies on Unemployment

<table>
<thead>
<tr>
<th></th>
<th>Unemployment:</th>
<th></th>
<th>Flow out of</th>
<th>Persistence of</th>
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<tbody>
<tr>
<td></td>
<td>Level</td>
<td>Flow into</td>
<td></td>
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<tr>
<td><strong>Reduction in:</strong></td>
<td></td>
<td></td>
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<tr>
<td>Unemployment benefit</td>
<td>Reduce</td>
<td>No effect</td>
<td>Increase</td>
<td>Reduce</td>
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<tr>
<td>initial replacement</td>
<td>rate</td>
<td></td>
<td></td>
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<tr>
<td>duration</td>
<td>No effect</td>
<td>No effect</td>
<td>Increase</td>
<td>Reduce</td>
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<td></td>
<td><strong>Higher spending in:</strong></td>
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<tr>
<td>Active Labour Market</td>
<td>Reduce</td>
<td>Reduce</td>
<td>Increase</td>
<td>No effect</td>
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<tr>
<td>Policies</td>
<td><strong>Public Employment Services</strong></td>
<td>Reduce</td>
<td>Increase</td>
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<tr>
<td>Job creation</td>
<td>Reduce</td>
<td>Reduce</td>
<td>Reduce</td>
<td></td>
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<td>Training</td>
<td>No effect</td>
<td>Increase</td>
<td>Increase</td>
<td></td>
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<td></td>
<td><strong>Reduction in:</strong></td>
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<td></td>
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<tr>
<td>Tax wedge</td>
<td>Reduce</td>
<td>No effect</td>
<td>Increase</td>
<td>Reduce</td>
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<tr>
<td>Tax wedge interacted</td>
<td>Reduce</td>
<td>No effect</td>
<td>Increase</td>
<td></td>
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<tr>
<td>with minimum wage</td>
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<tr>
<td>Tax wedge interacted</td>
<td>Reduce</td>
<td>No effect</td>
<td>Increase</td>
<td>Reduce</td>
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<td>with nature of wage</td>
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<tr>
<td>bargaining</td>
<td>Share of temporary contracts</td>
<td>No effect / Reduce (prime-age women)</td>
<td>Reduce (prime-age women)</td>
<td>Increase</td>
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<td></td>
<td><strong>Easing of:</strong></td>
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<tr>
<td>Employment Protection</td>
<td>Reduce</td>
<td>Increase</td>
<td>Increase</td>
<td>Reduce</td>
</tr>
<tr>
<td>Legislation (regular</td>
<td>(youth)</td>
<td></td>
<td>(youth)</td>
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<td>contracts)</td>
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<td></td>
<td><strong>Product Market Regulation</strong></td>
<td>Reduce (youth and prime-age women)</td>
<td>Increase (youth and prime-age women)</td>
<td>Reduce</td>
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<tr>
<td></td>
<td><strong>Increase in:</strong></td>
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<td></td>
<td></td>
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<tr>
<td>Short-time work schemes participation</td>
<td>Reduce¹</td>
<td>Reduce</td>
<td>Reduce</td>
<td></td>
</tr>
</tbody>
</table>

1. This favourable assessment relies on the premise that short-time work schemes are implemented on a temporary basis, in the context of a downturn.

Source: de Serres, Murtin and de la Maissoneuve (2011).
### Impacts of Policies on Unemployment

<table>
<thead>
<tr>
<th>Policy</th>
<th>Timing</th>
<th>Budgetary cost</th>
<th>Social protection / Labour force participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce initial replacement rate</td>
<td>Rapid</td>
<td>Negative</td>
<td>Reduce</td>
</tr>
<tr>
<td>Shorten benefit duration</td>
<td>Rapid</td>
<td>Negative</td>
<td>Reduce</td>
</tr>
<tr>
<td>Increase spending on PES</td>
<td>Fairly rapid</td>
<td>High</td>
<td>Improve</td>
</tr>
<tr>
<td>Create public sector jobs</td>
<td>Fairly rapid</td>
<td>High</td>
<td>Unclear (risk of strong displacement effect)</td>
</tr>
<tr>
<td>Expand training programmes</td>
<td>Fairly rapid</td>
<td>High</td>
<td>Improve</td>
</tr>
<tr>
<td>Reduce labour taxation</td>
<td>Rapid</td>
<td>Potentially high</td>
<td>Neutral</td>
</tr>
<tr>
<td>Ease EPL on regular contracts</td>
<td>Fairly Slow / Medium term</td>
<td>None unless accompanied by stronger UI benefits</td>
<td>Improve if help reduce duality</td>
</tr>
<tr>
<td>Reform wage bargaining</td>
<td>Slow / long-term</td>
<td>None</td>
<td>Improve if reduce insider-outsider divide</td>
</tr>
<tr>
<td>Phasing out subsidies to short-term working schemes</td>
<td>Rapid</td>
<td>Negative</td>
<td>Reduce if jobs prospects remain bleak</td>
</tr>
</tbody>
</table>

Source: de Serres, Murtin and de la Maisonneuve (2011).
Structural shift and migration of the lower value-added industries to other Asian economies appeared to have worsen the employment prospect in Taipei, but there is a silver-lining.

Moving production operations to our neighbours has at the same time, increase welfare gain.

There is now increased tourists to Taipei, this has helped to transform Taipei’s service sector.

Increase domestic economic activities has helped to absorb the structural unemployed.
Thank You