

Trade Openness and Labour Market Institutions during Global Economic Downturns

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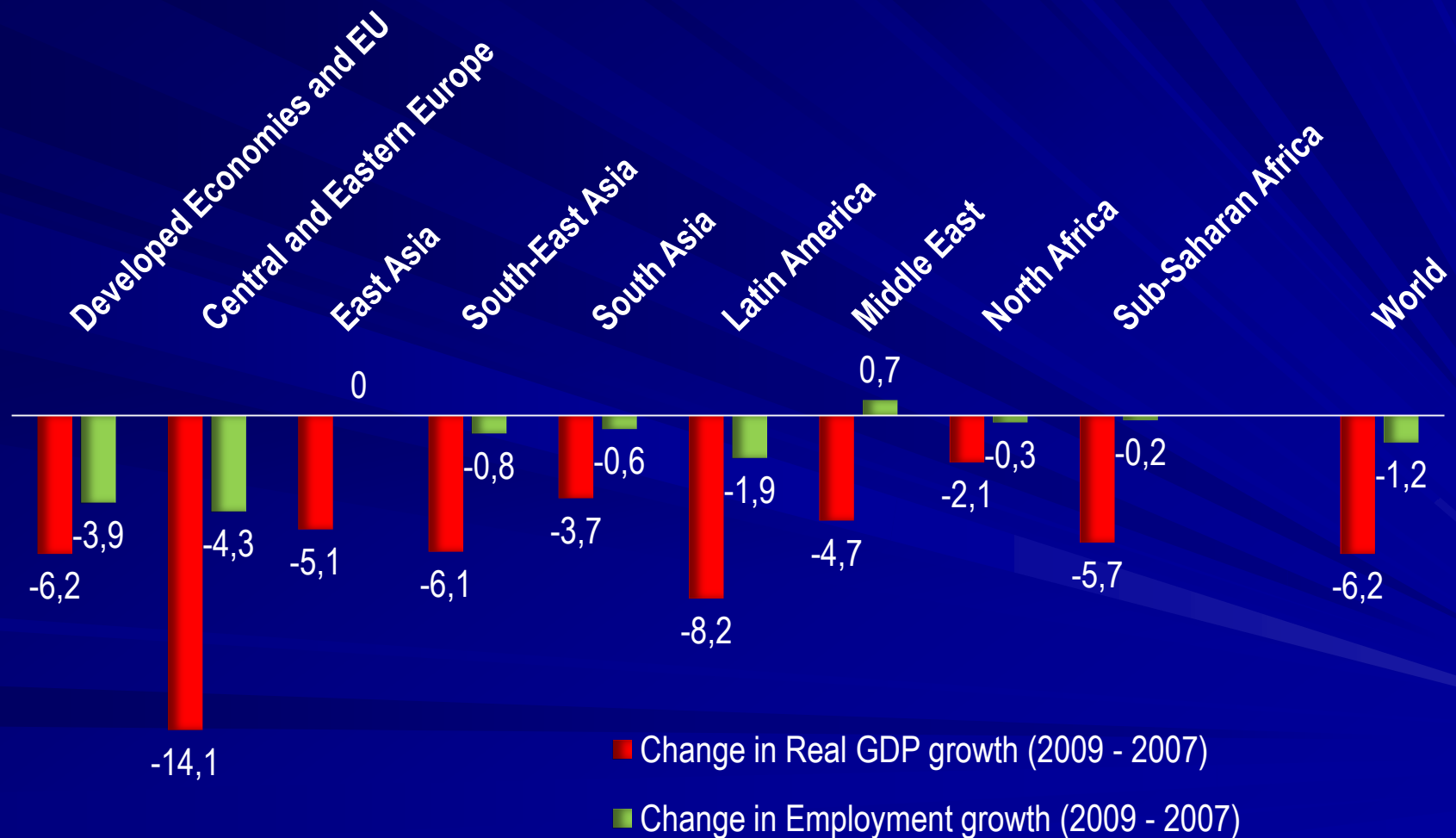
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The crisis has led to declines in GDP and employment growth around the world:

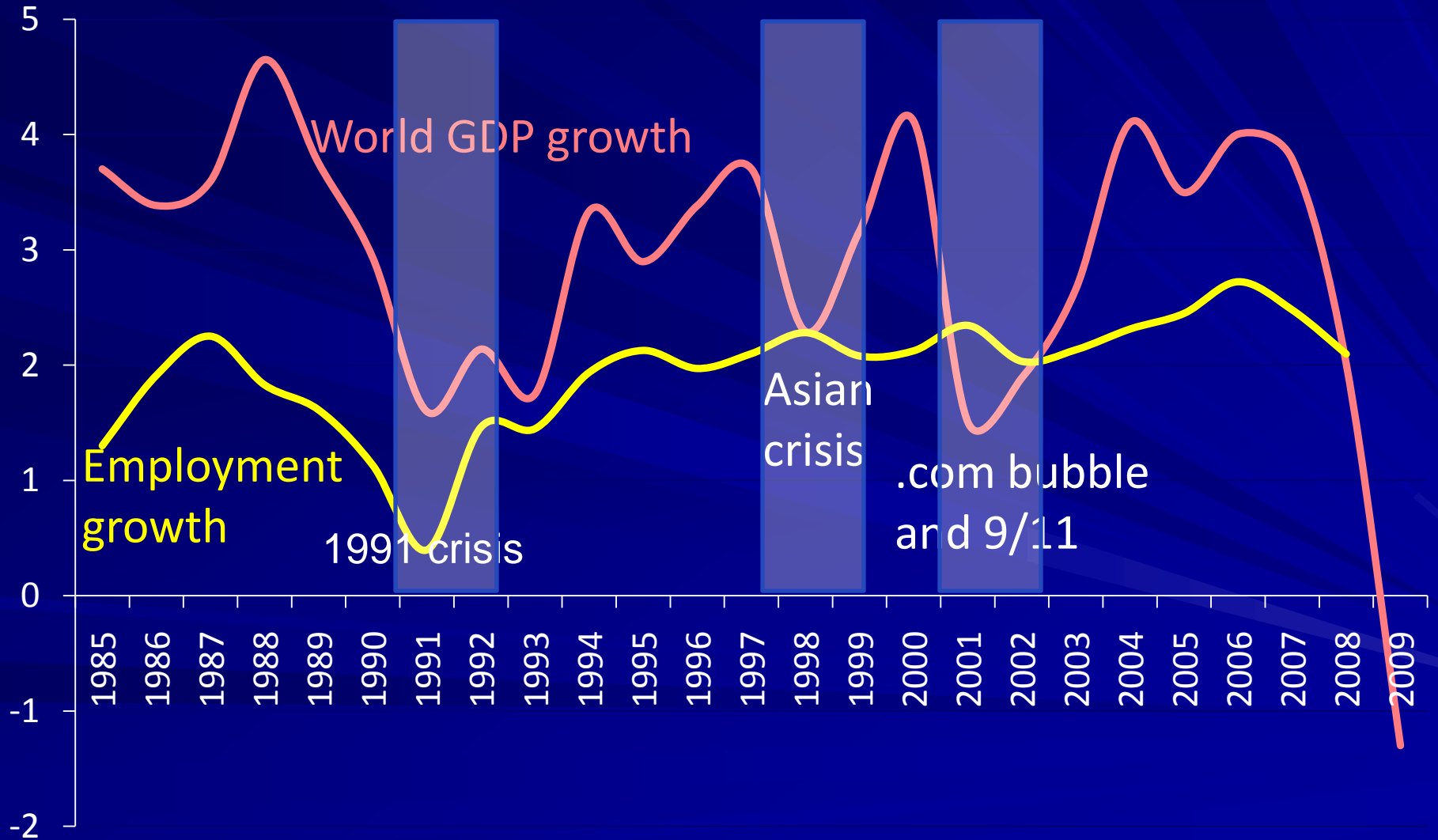


Source: ILO Global Employment Trends

This raises some obvious questions...

- **What role can policy play to mitigate the employment effect and promote recovery?**
- **How long will it take for employment growth to recover?**
- **Will there be “catch-up” growth in employment, or will employment remain below its pre-crisis trend?**

Past global downturns

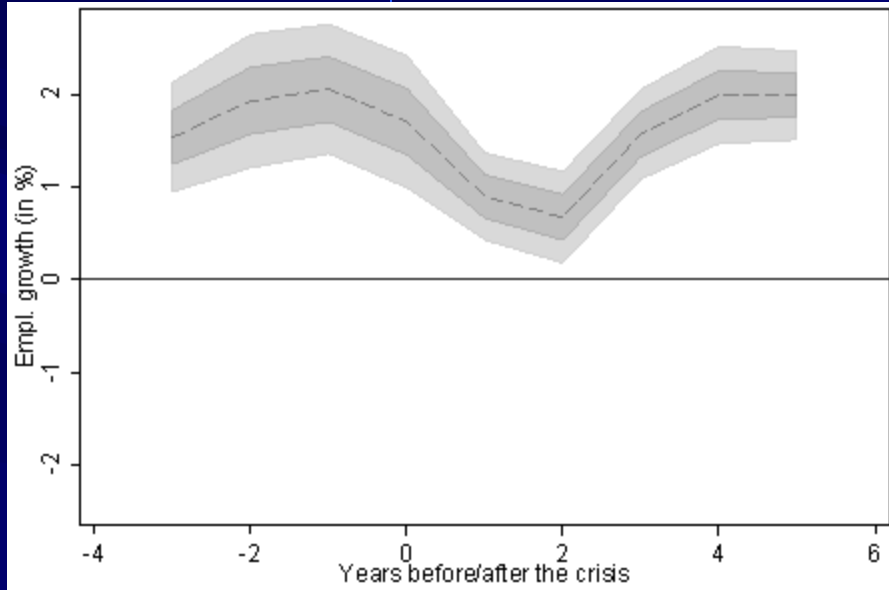


The impact of crises on employment

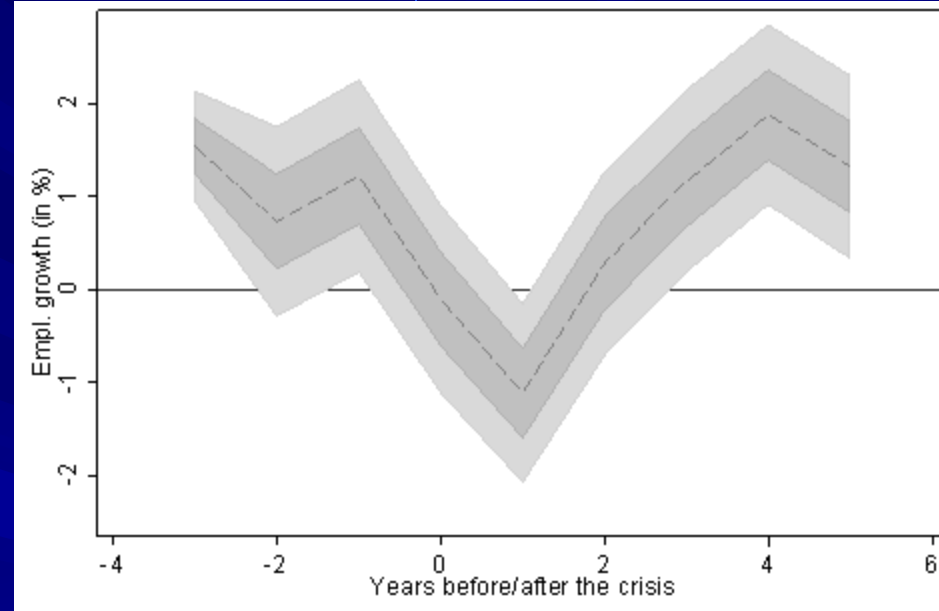
- **Alternatively: Laeven and Valencia (2008) dataset on domestic debt and banking crisis (country specific)**
- **Employment growth from 1985 to 2008 from ILO Laborsta and KILM (excluding TREND estimations)**
- **Sample of 42 countries with at least 10 years of data: 20 industrialized and 22 developing countries**
- **Data on severance pay in monthly salaries after 9 months, 4 years, 20 years of employment from IMF / Fondazione Debenedetti**
- **Data on share of previous wage replaced by unemployment benefits 1 year after job loss from IMF / Fondazione Debenedetti**
- **Trade openness from WDI**

Some Stylized Facts

Global Downturn



Domestic Debt or Banking Crisis

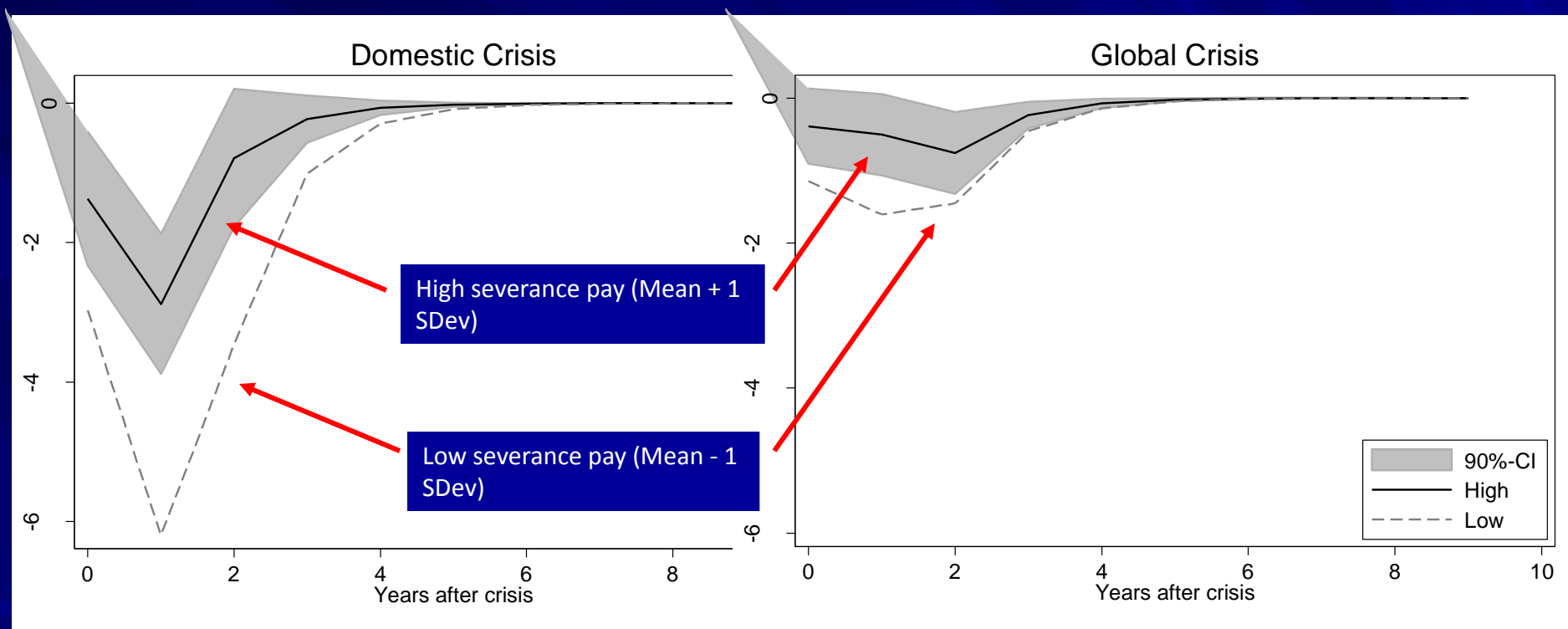


1. Reduced Employment growth for 2 years
2. Little evidence of catch up
3. Stronger decline under domestic crisis ($\sim -2\%$) than global downturn ($\sim -1\%$)

The Model and its Limitations

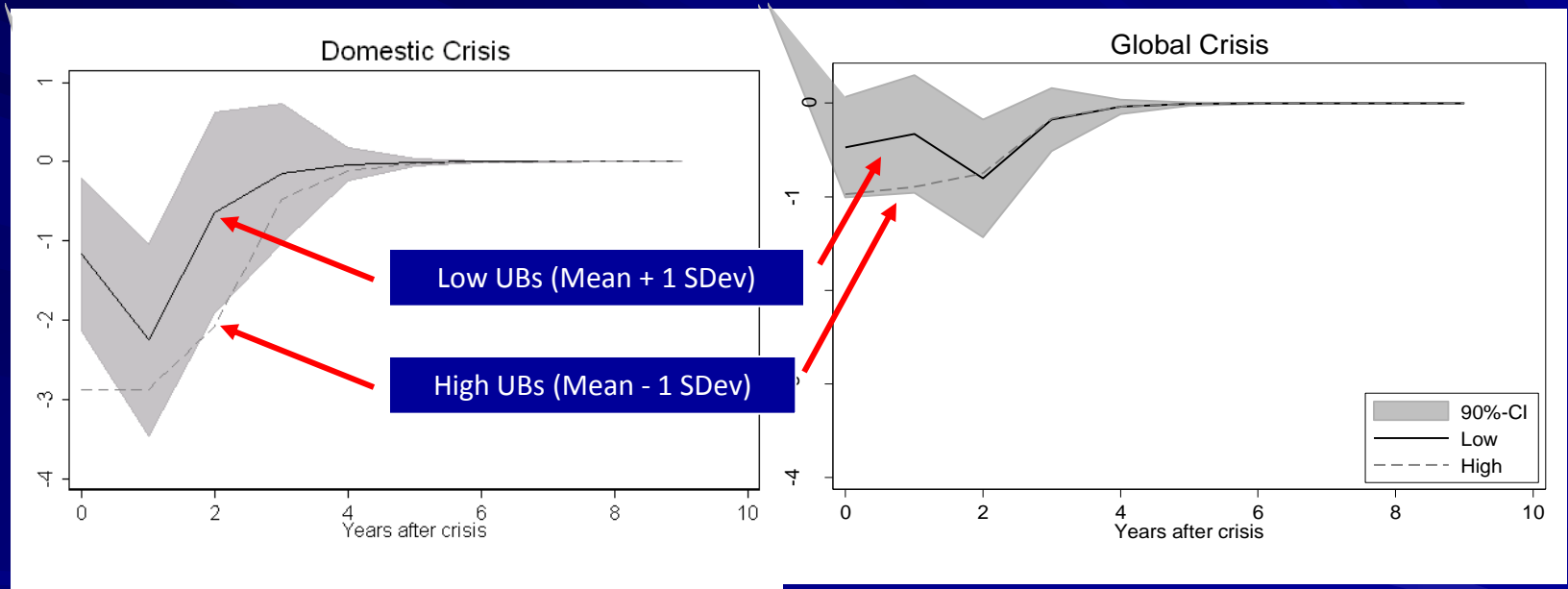
- **Arellano-Bond dynamic GMM estimation**
- **Model captures the impact of crisis and policy variables in the first 3 years → short run view**
- **Asymmetric: only negative shocks**
- **Does not capture all labour market policies, nor impact on wages, working hours, informality**
- **Why? DATA restrictions**

Higher severance pay dampens the negative effect on employment growth...

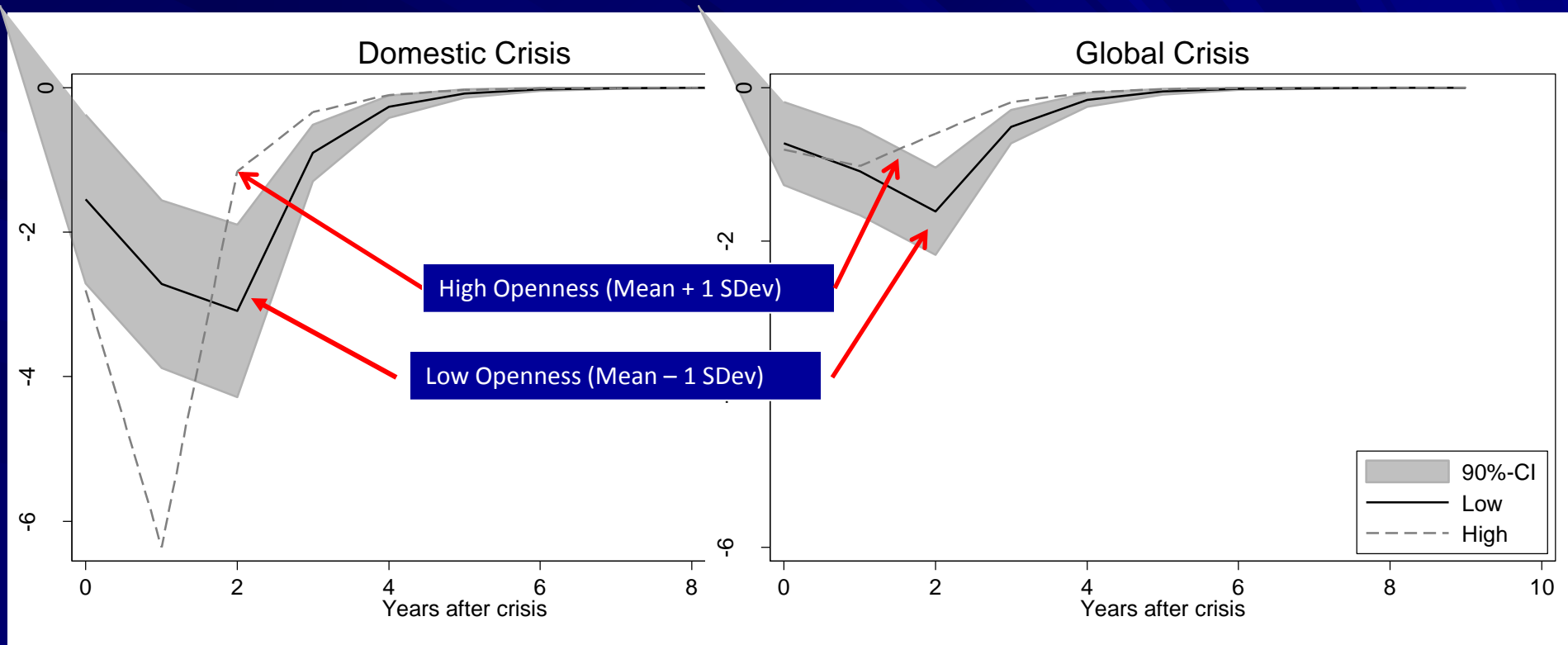


....And unemployment benefits are associated with stronger reductions in employment growth...

Excluding people with very high benefits



...Greater trade integration means larger initial shock but also faster recovery



Conclusions

1. First line of defense is to avoid for global downturn to lead to domestic crisis
2. Preferred labour market policy makes may depend on whether shocks are temporary or structural: keeping people employed may be preferable in times of crisis
3. Raising trade protection during crisis endangers the recovery of the labour market