



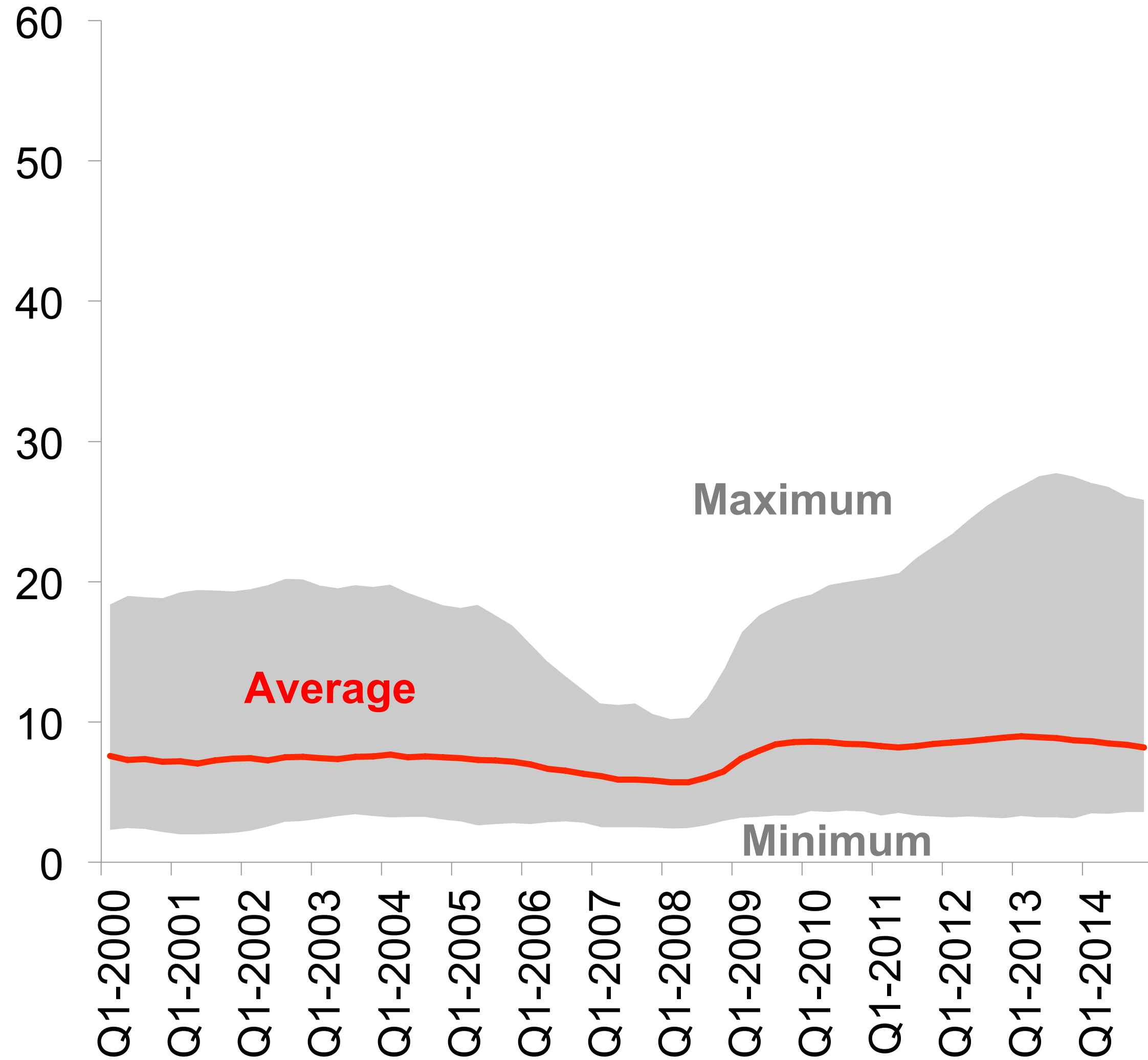
# International Monetary Fund

## *Back to Work: What Can Fiscal Policy Do for Jobs?*

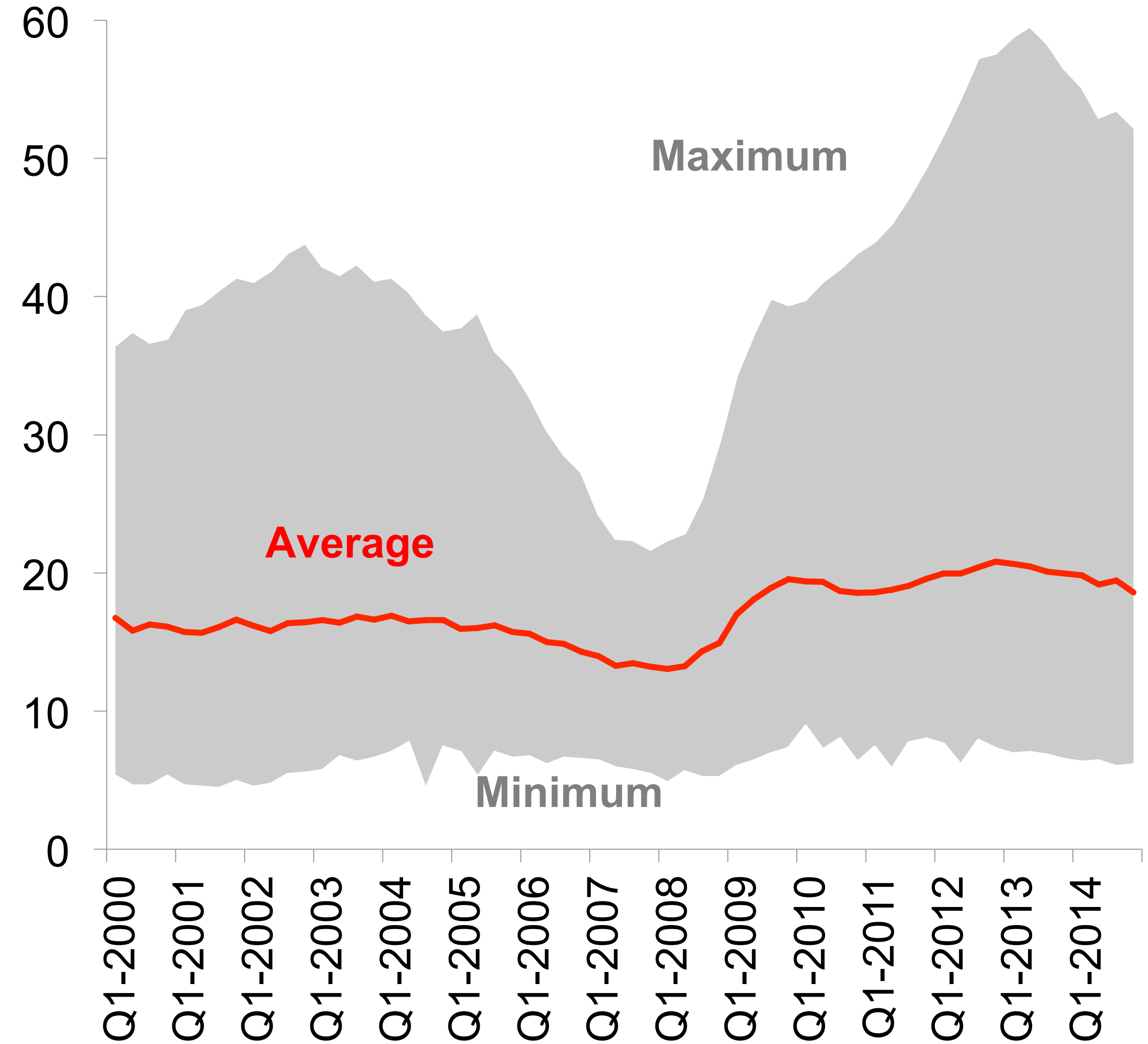
*Martine Guerguil  
Deputy Director, Fiscal Affairs Department*

# Unemployment remains stubbornly high

OECD countries: quarterly unemployment rate  
(percent)



OECD countries: quarterly youth (15-24) unemployment rate  
(percent)



# What Can Fiscal Policies Do for Jobs?

What we know about multipliers

Targeted fiscal measures

Making place for labor market reforms

# What Can Fiscal Policies Do for Jobs?

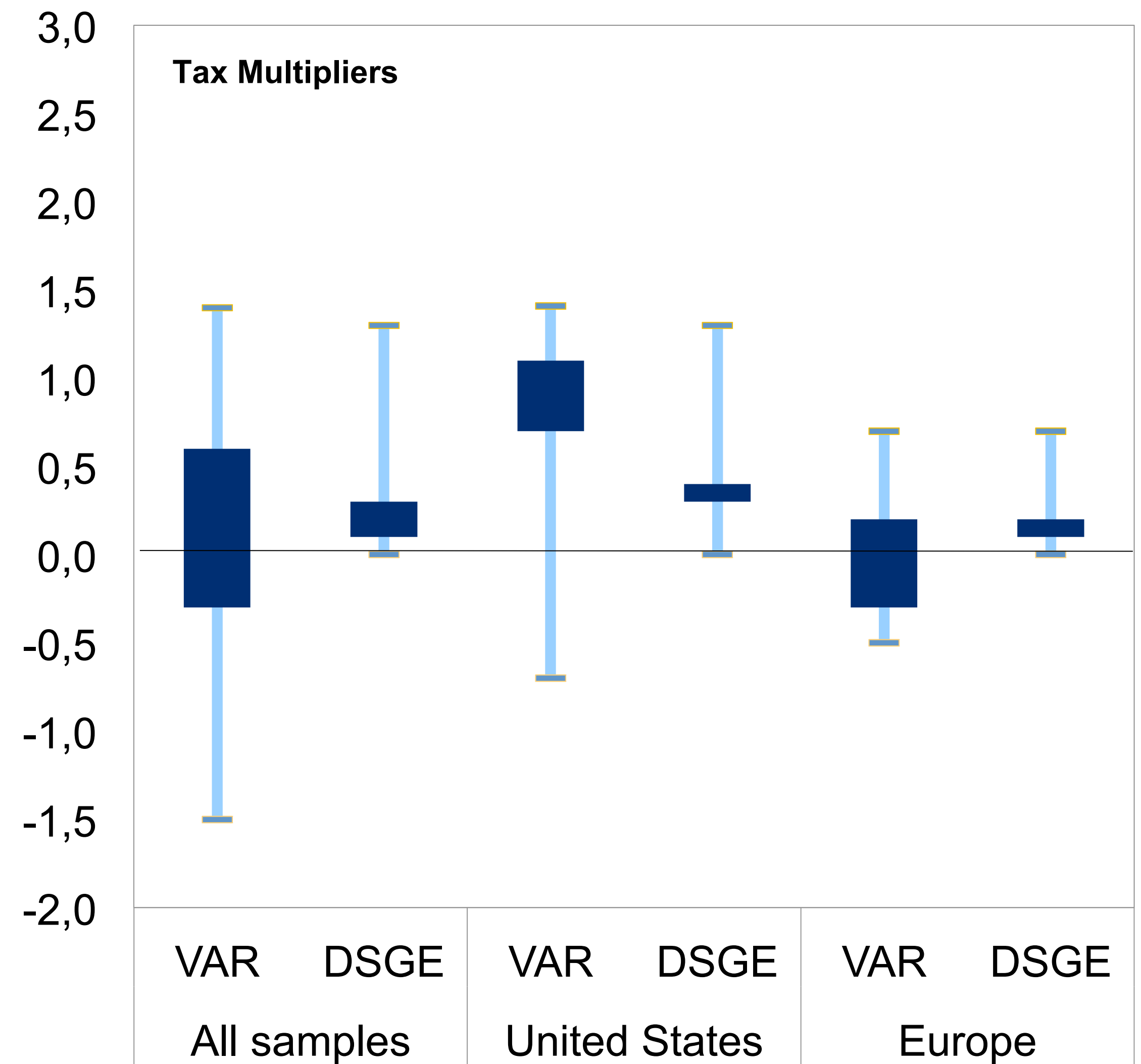
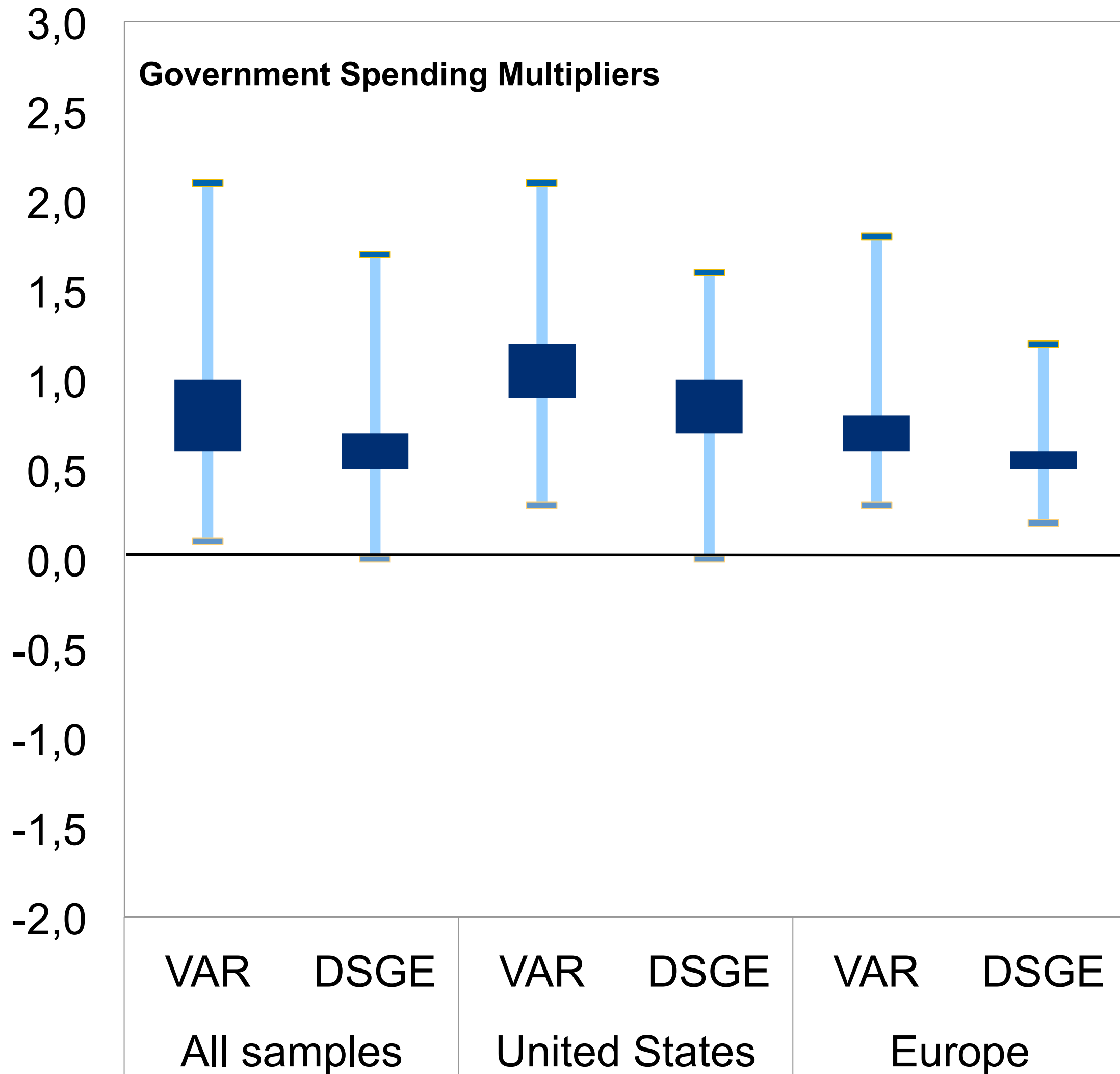
What we know about multipliers

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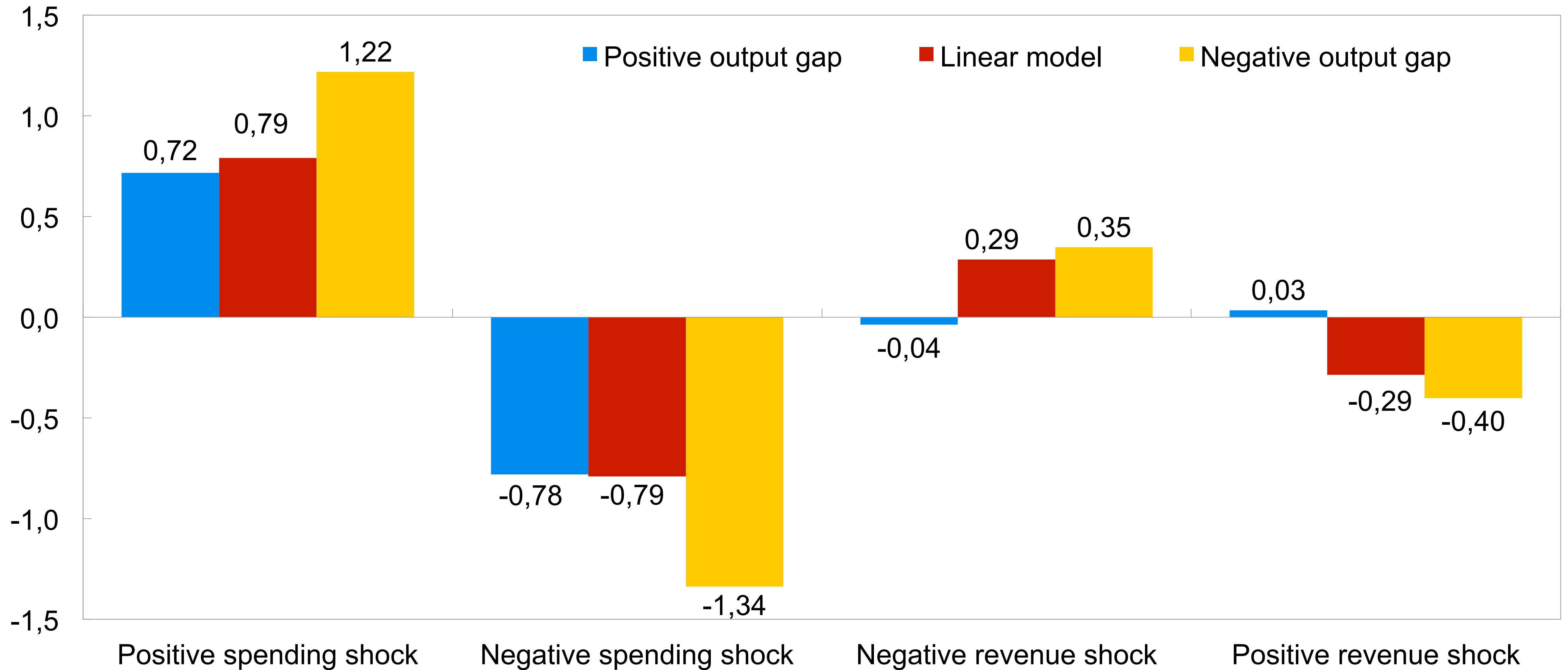
# There is no single fiscal multiplier

First-year fiscal multipliers from literature survey



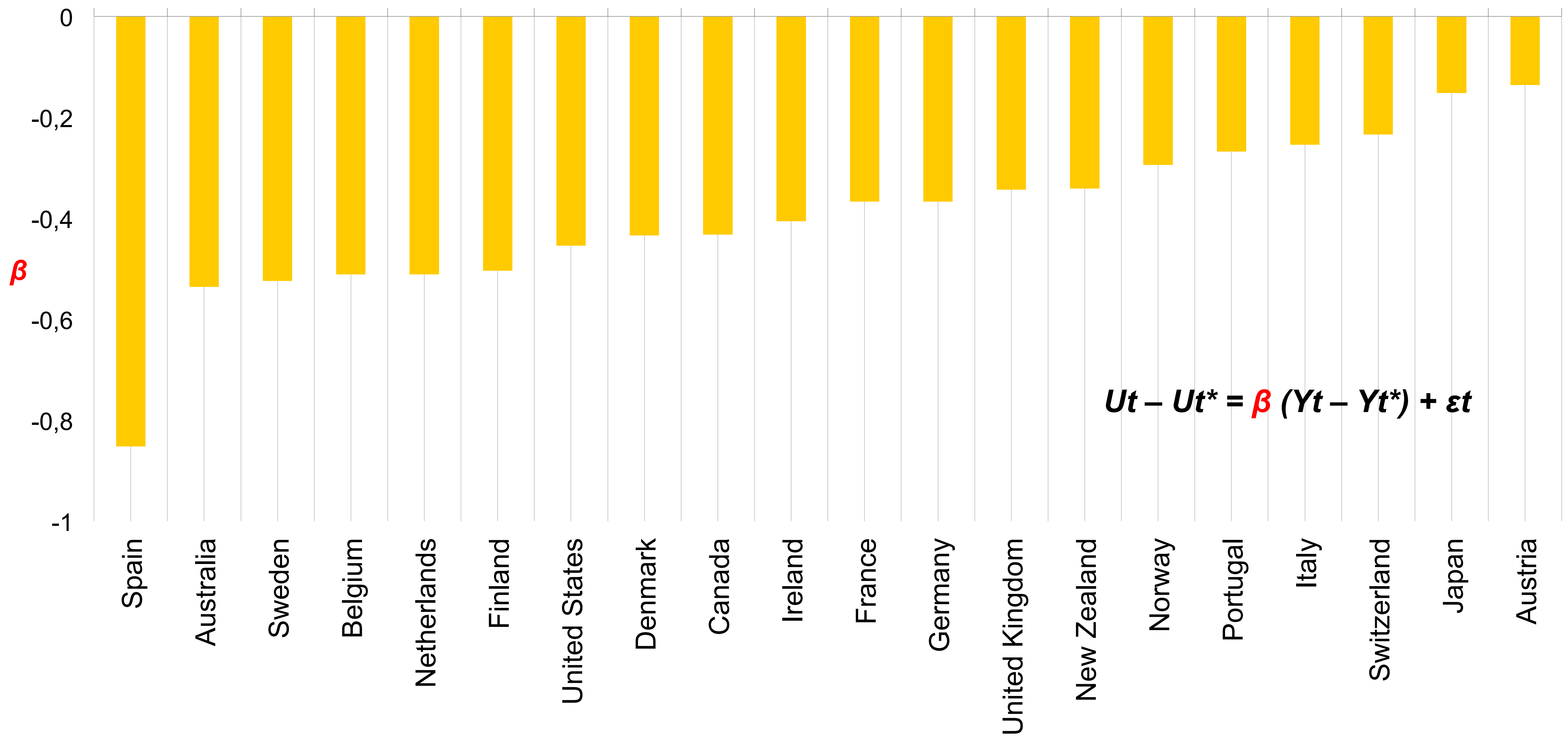
# Determinants of the size of output multiplier

## Fiscal Multipliers in G-7 Economies

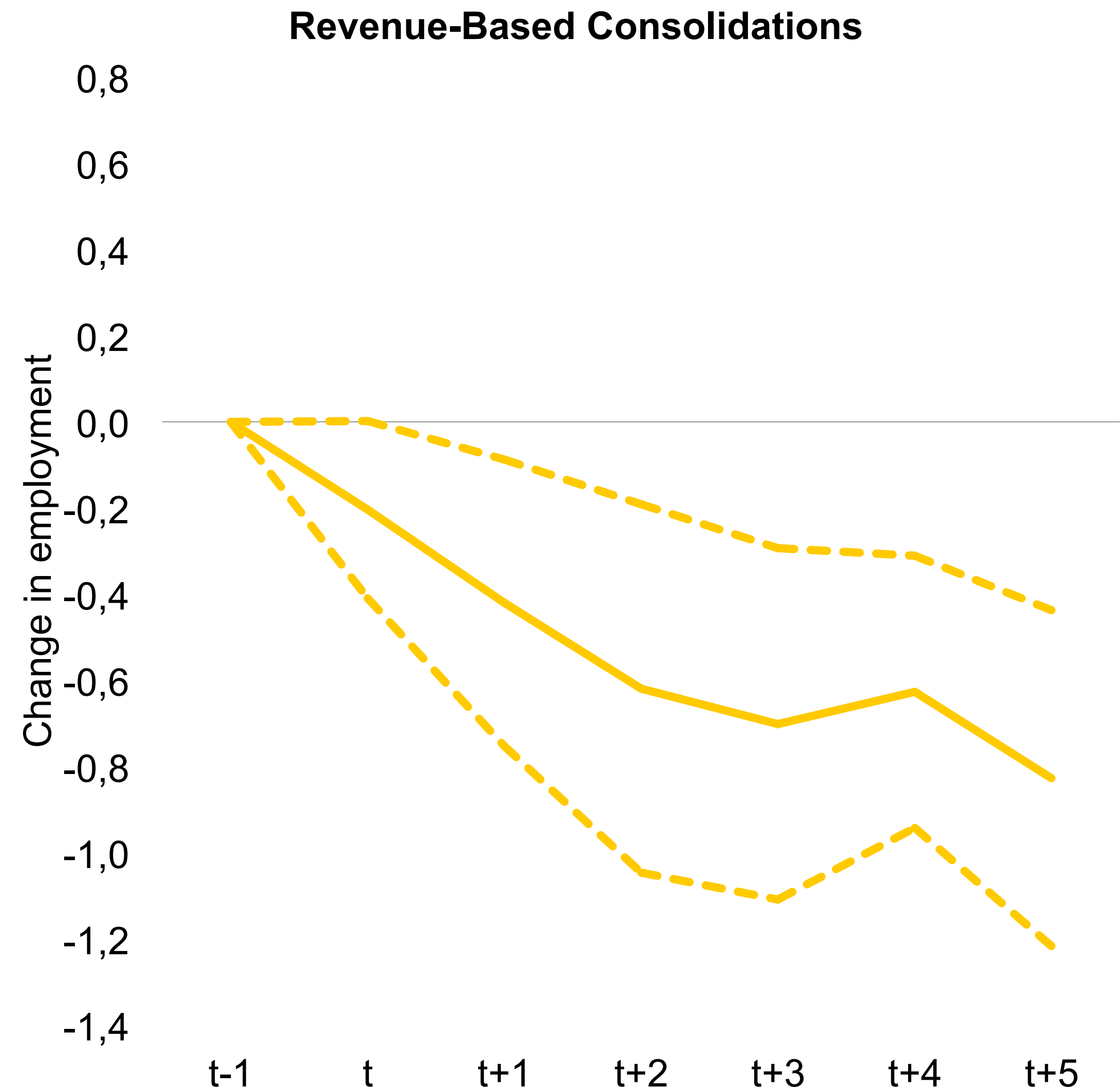
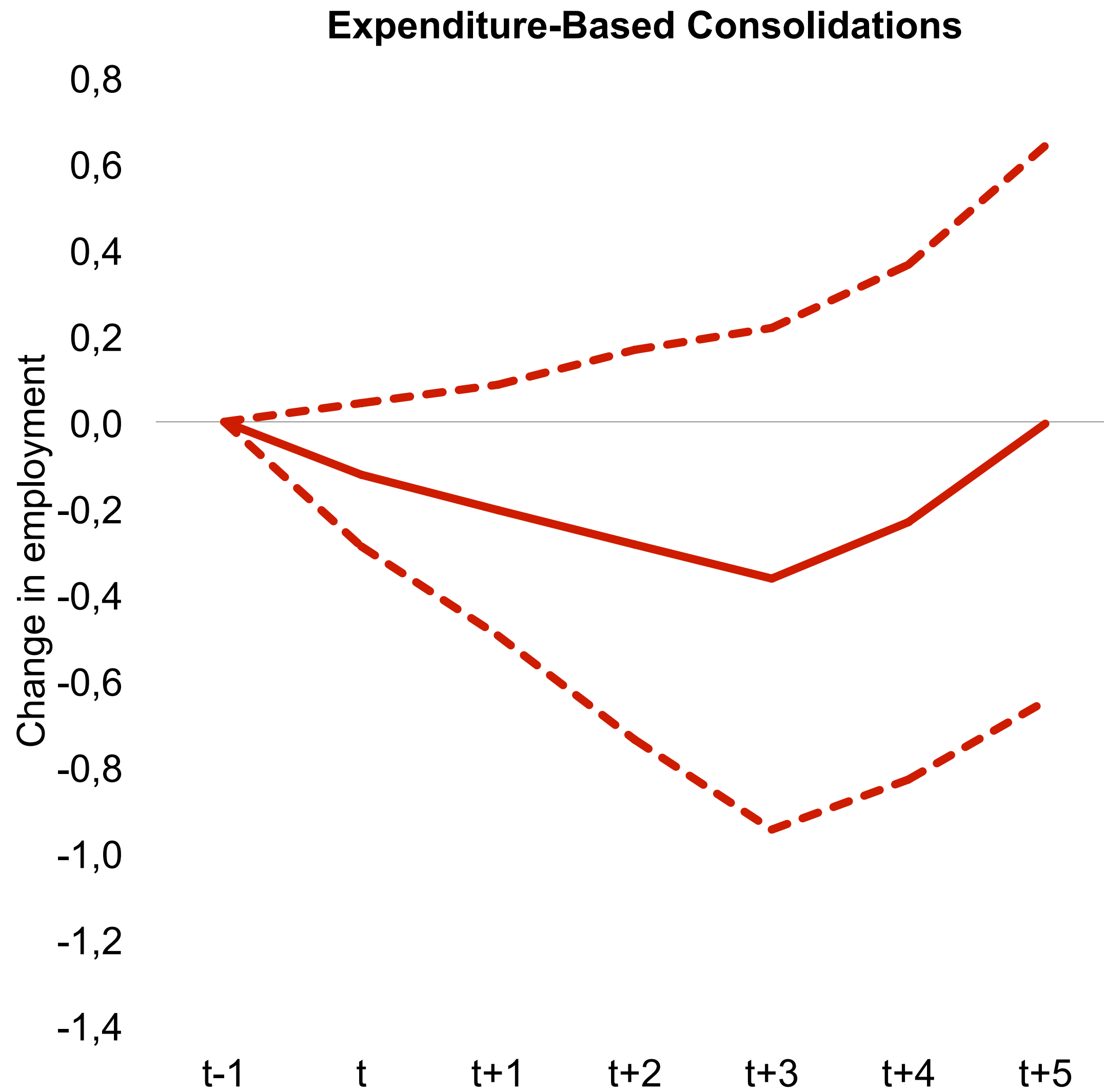


# There is no single employment multiplier

Advanced Economies: Estimates of Okun Coefficients (annual data, 1980-2011)



# Impact of expenditure- and revenue-based consolidations on employment





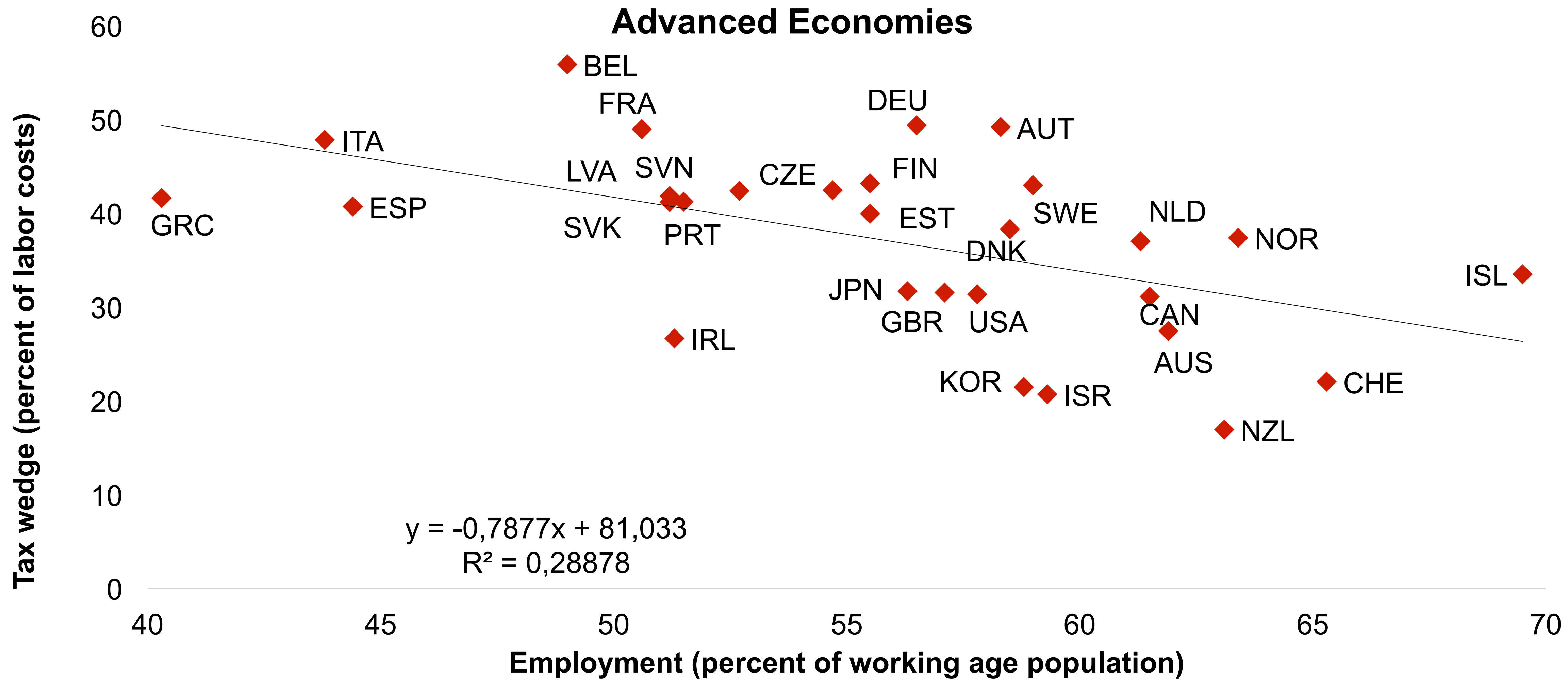
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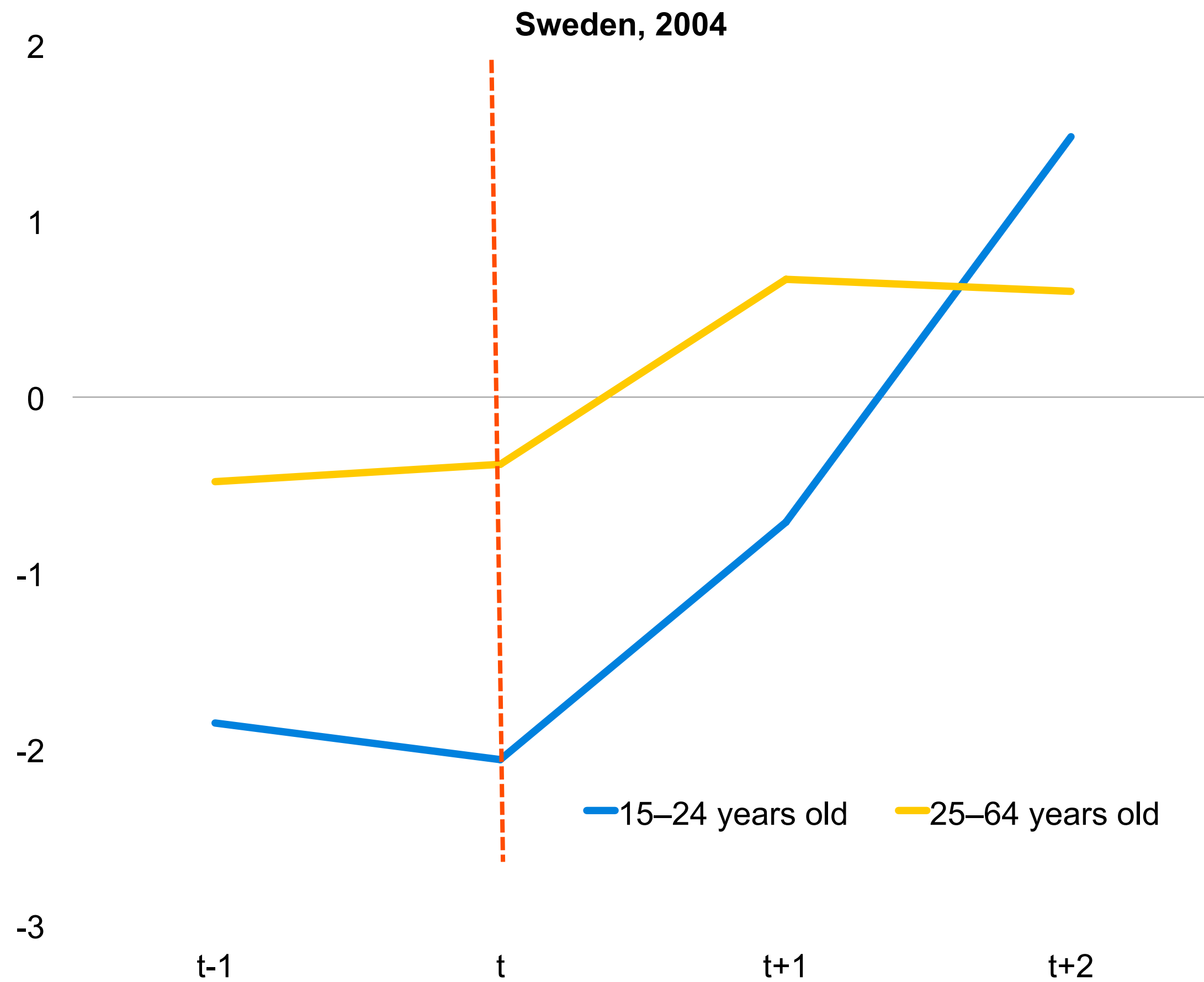
Making space for labor market reforms

# Tax wedges can adversely affect employment

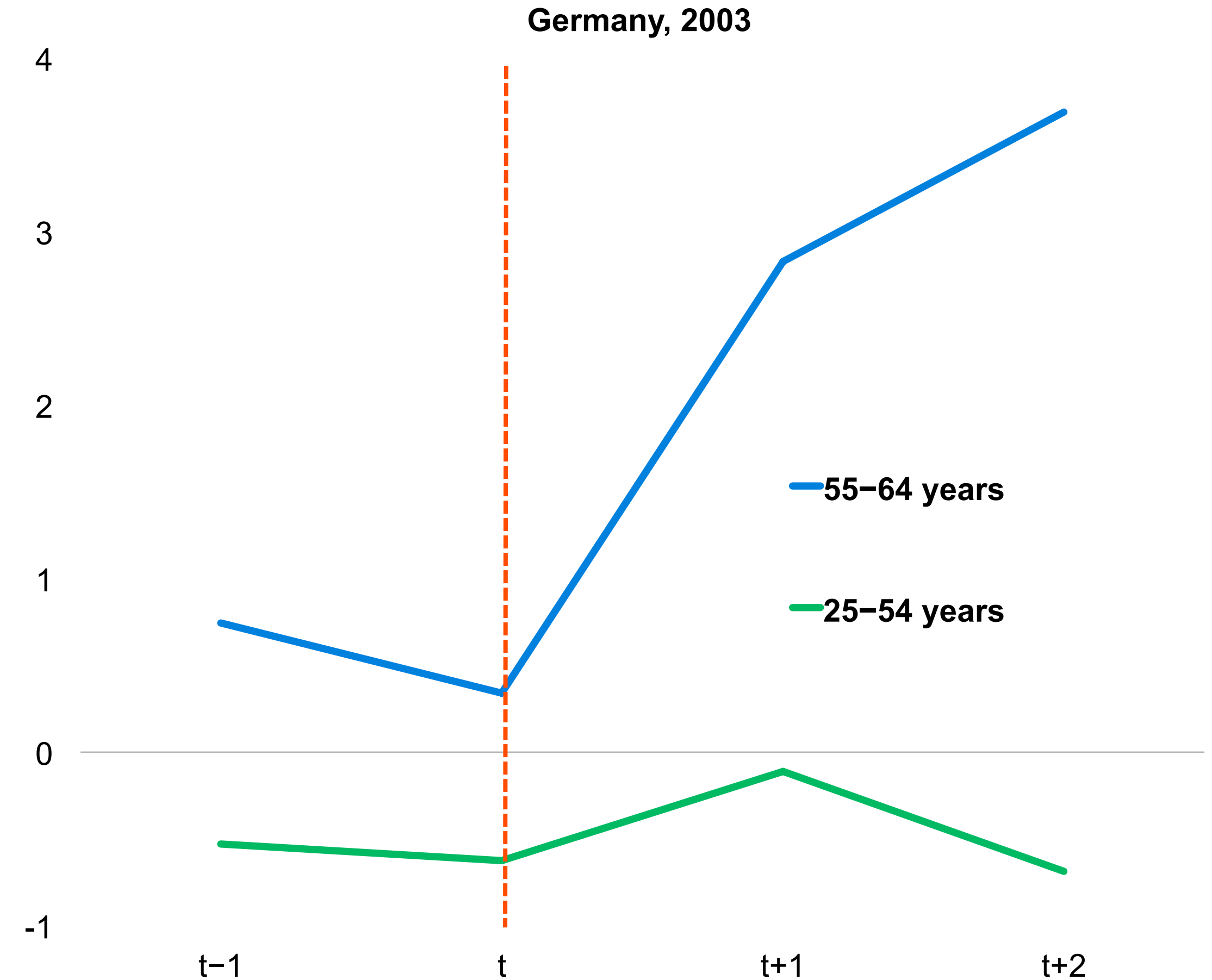


# Fiscal instruments can be targeted to foster employment

## Impact on Employment Growth of a Cut in Employer Social Security Contribution Cuts Targeted to the Youth



## Impact on Employment Growth of a Cut in Employer Social Security Contribution Targeted to the Elderly



## Design matters (based on case studies)

- Targeting the low-paid and youth has been associated with better labor market outcomes than targeting very specific disadvantaged socioeconomic groups (e.g. long-term unemployed or specific regions).
- Targeting all workers within a specific group—regardless of employment status, employer size, and contract type—creates fewer distortions (e.g. tax cuts for “new” jobs inefficient ).
- A calibrated reduction of employer SSC within a well-defined range has been more effective when targeting the low-paid than a single threshold (creating a “low-pay” trap).
- Clarity in design and low administrative costs are important.
- Targeted tax credits have been used in some countries that want to preserve the link between social security contributions and benefits.

# What Can Fiscal Policies Do for Jobs?

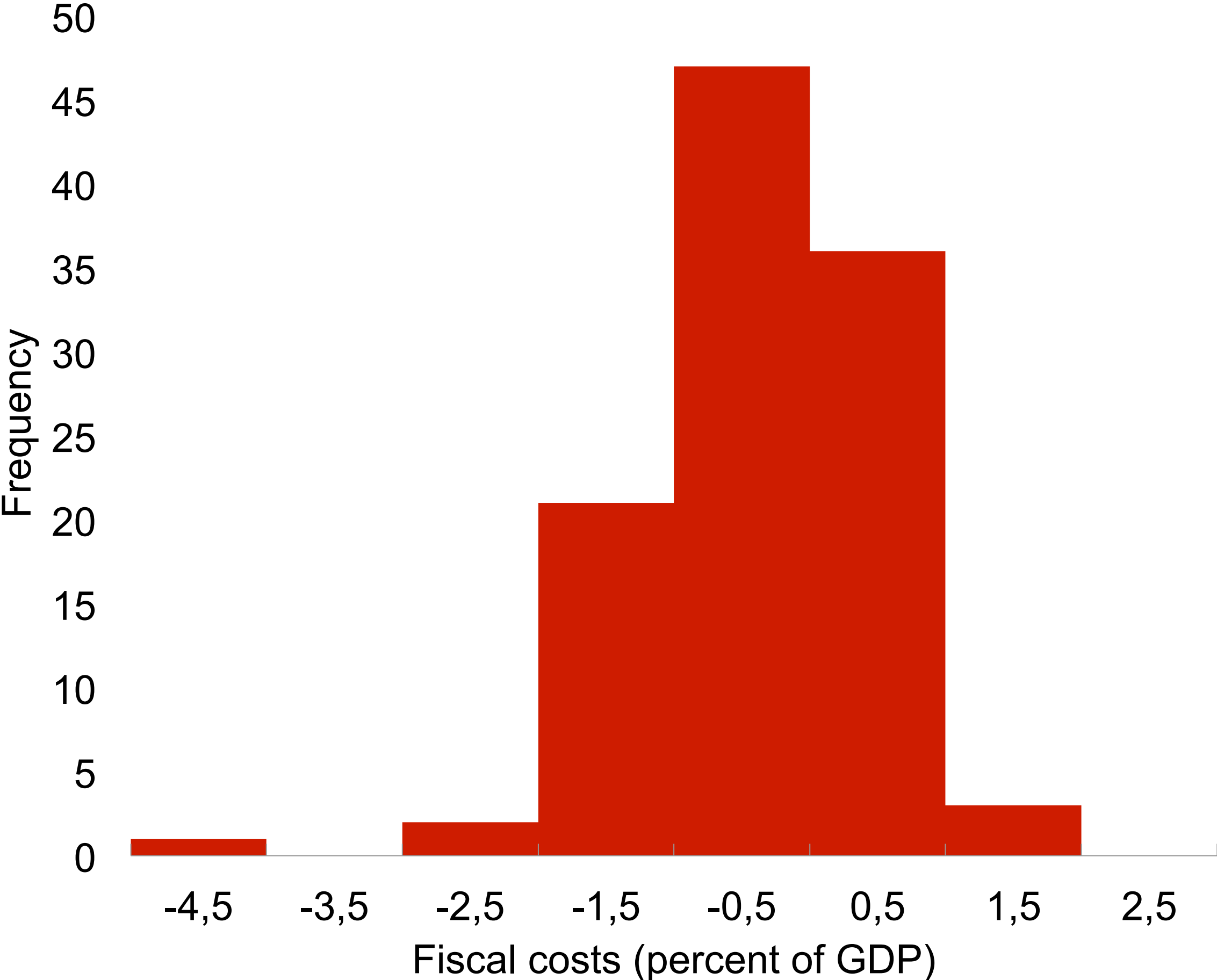
What we know about multipliers

Targeted fiscal measures

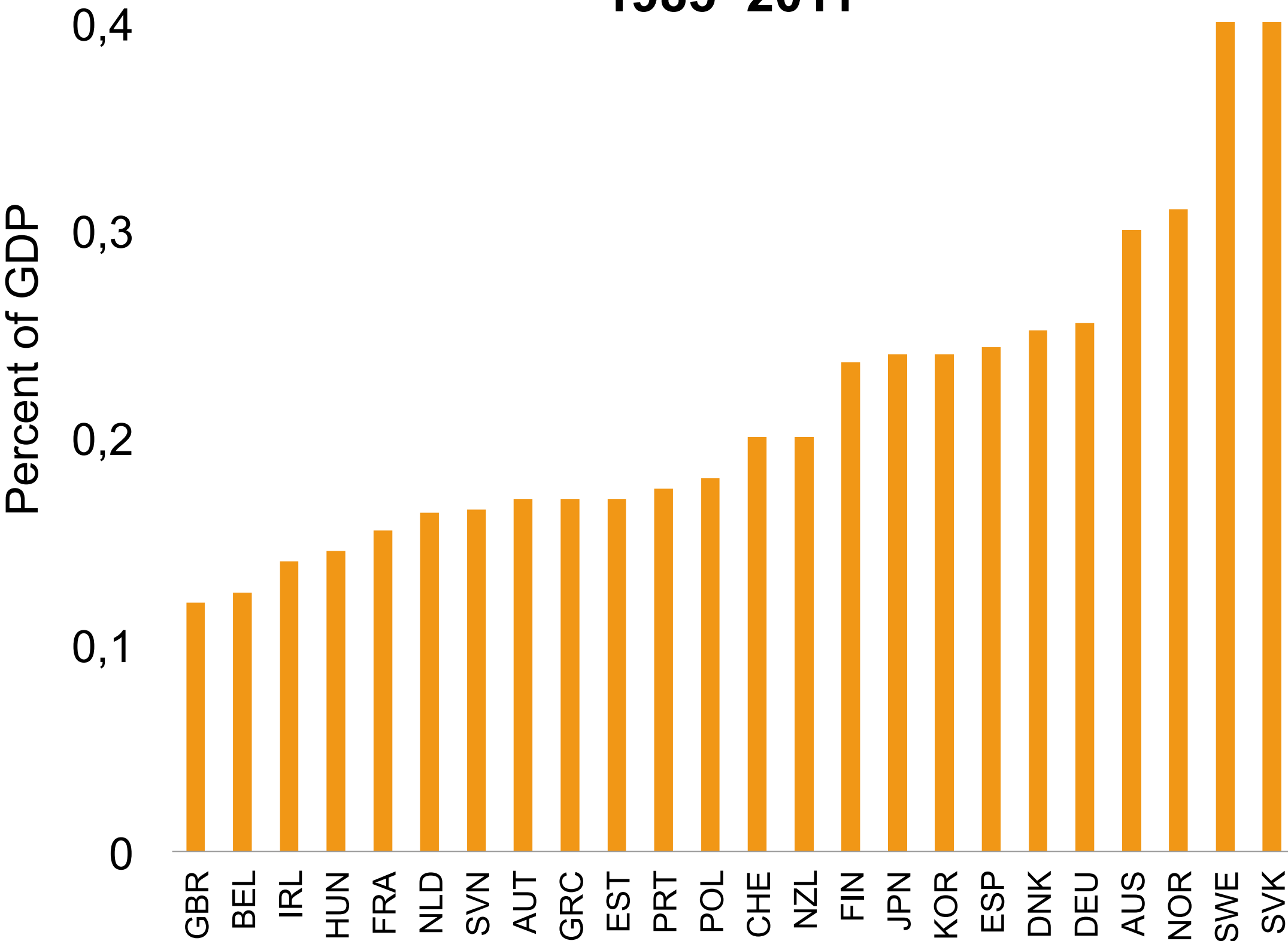
Making place for labor market reforms

# Labor market reforms can have large direct fiscal costs

### Estimated Revenue Effect of Labor Tax Cuts among OECD countries since 1985

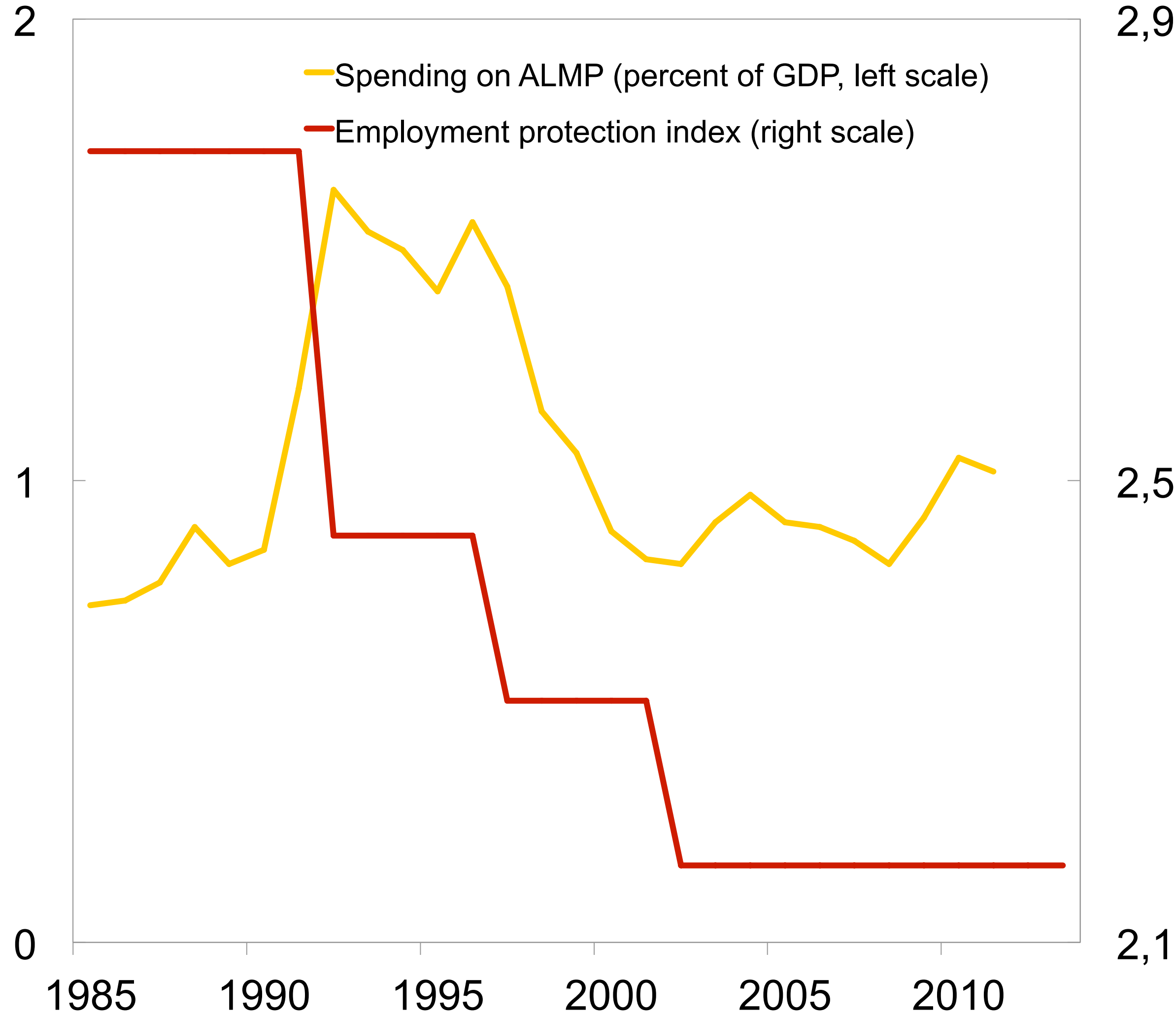


### Active Labor Market Policies Annual Spending Increase During Reform Episodes 1985-2011

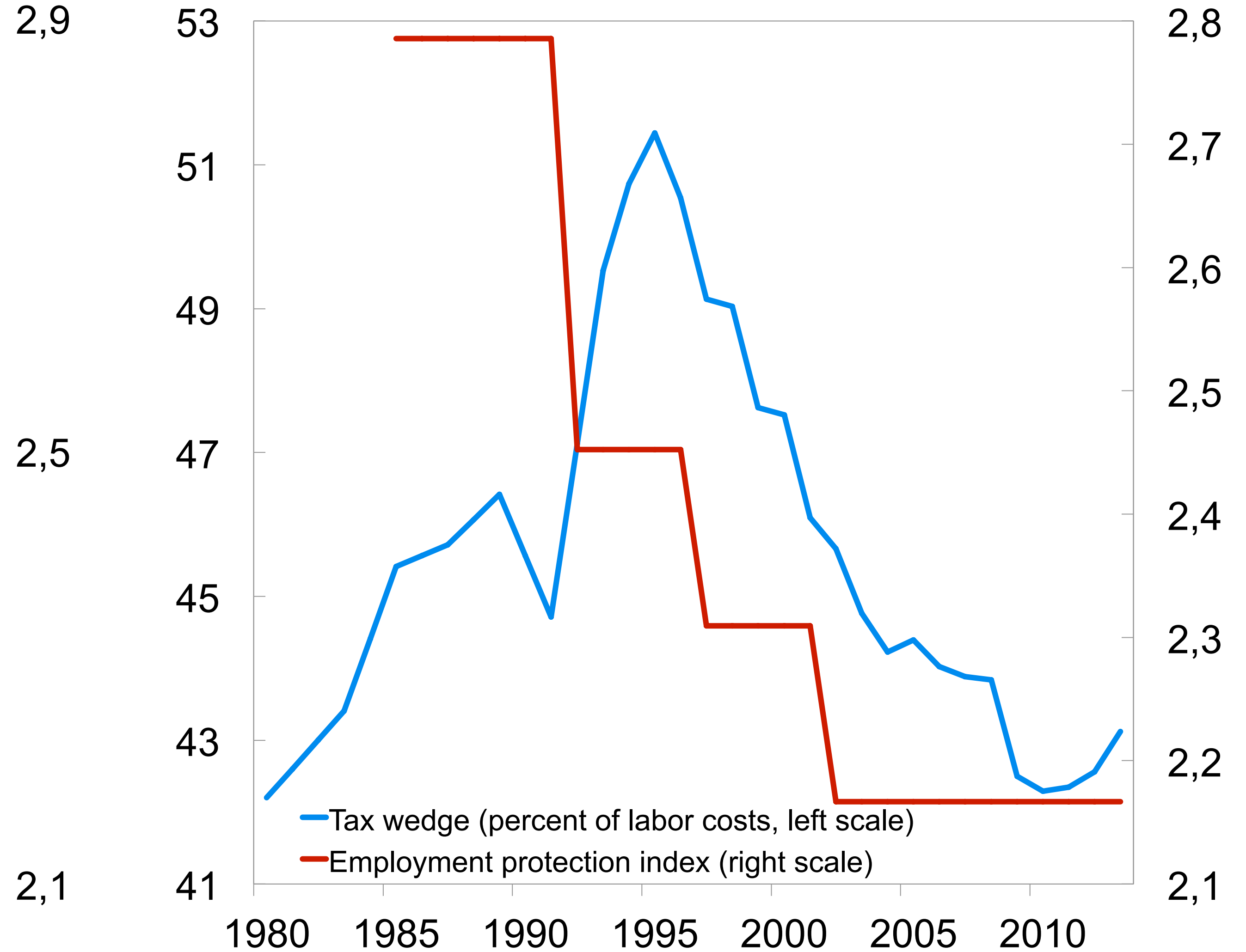


# Fiscal policy can mitigate the distributive effect of structural reforms

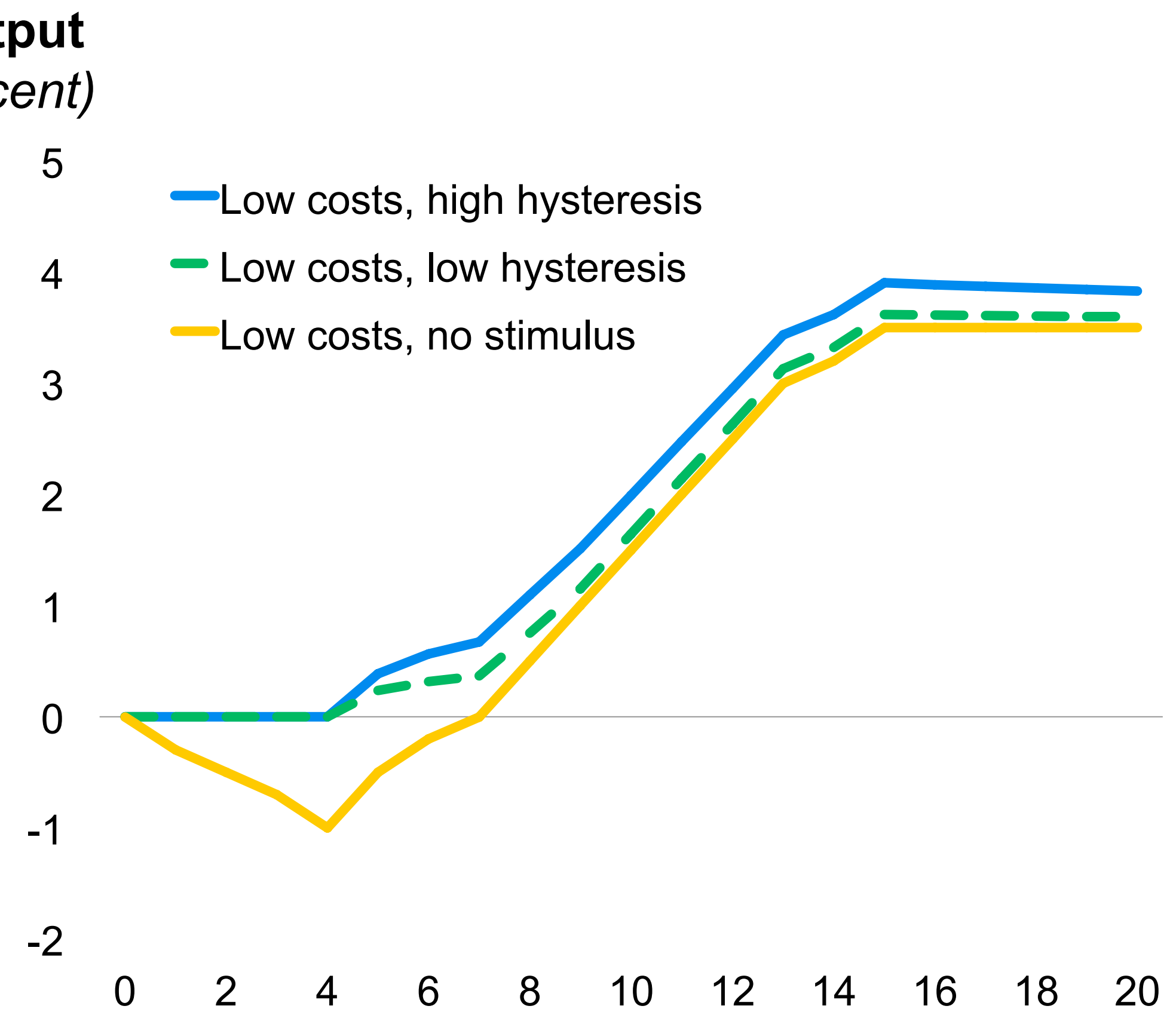
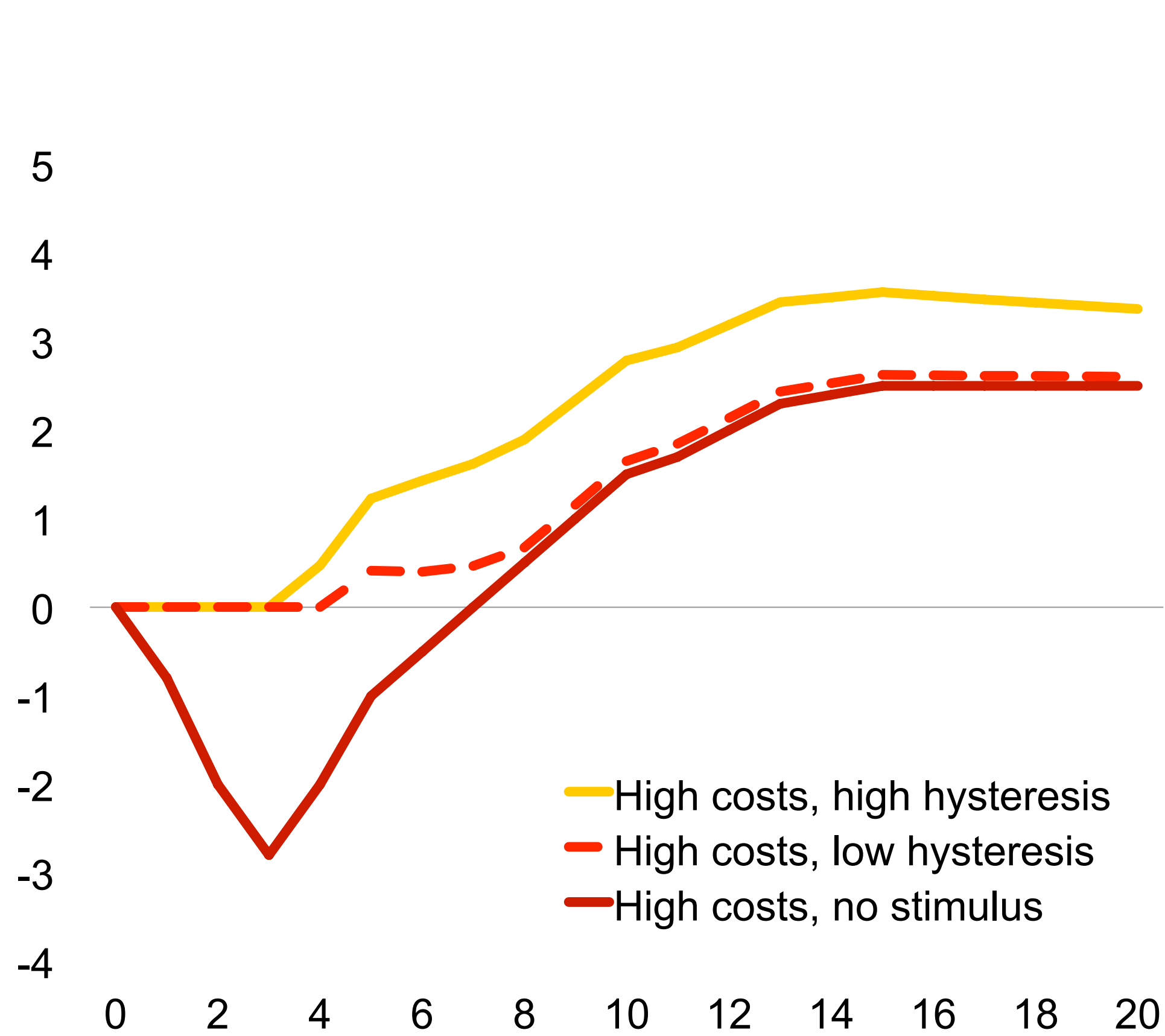
**Finland: Tighter Employment Protection versus Higher ALMP Spending**



**Finland: Tighter Employment Protection versus Labor Tax Cuts**



# Implications of a two-handed approach to reforms



**Key assumptions: Objective is to fully offset GDP losses related to reforms**

**Effectiveness of fiscal policy**

- Fiscal multiplier: 1.25 declining to zero after 5 years
- High hysteresis: 0.2
- Low hysteresis: 0.02

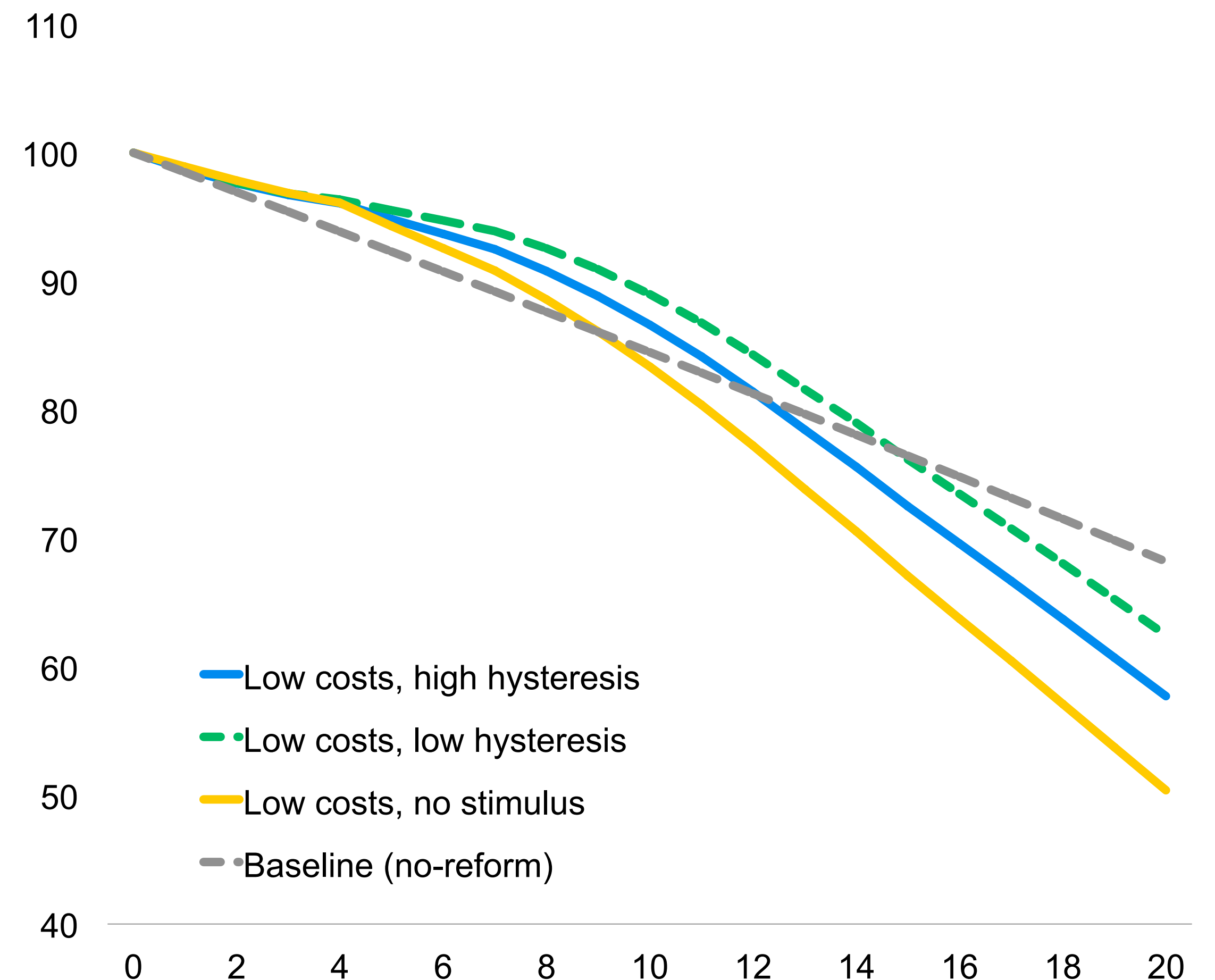
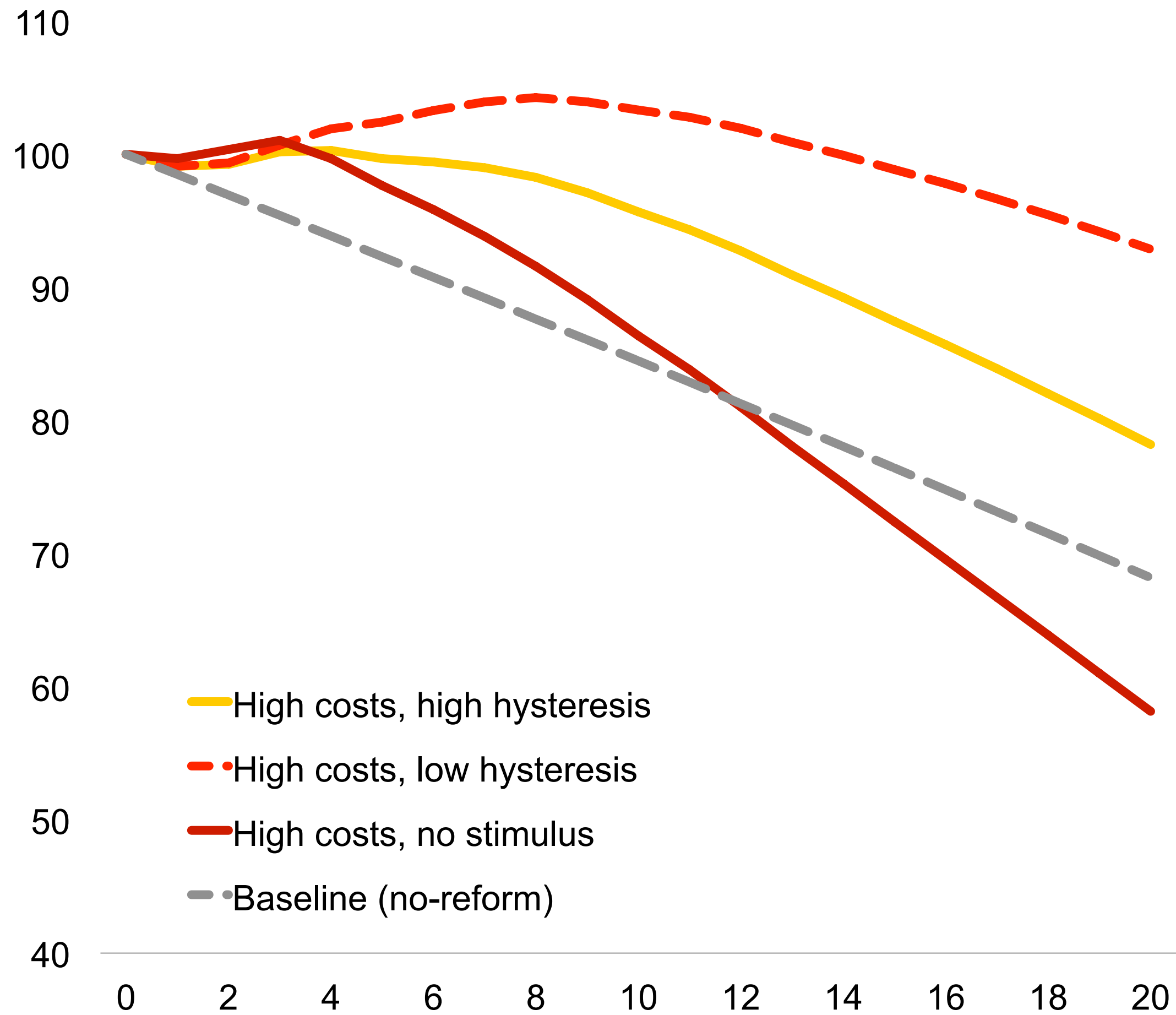
**Transitory cost of labor reforms**

- High: WEO (2004)
- Low: OECD (2011)



# Implications of two-handed approach to reforms

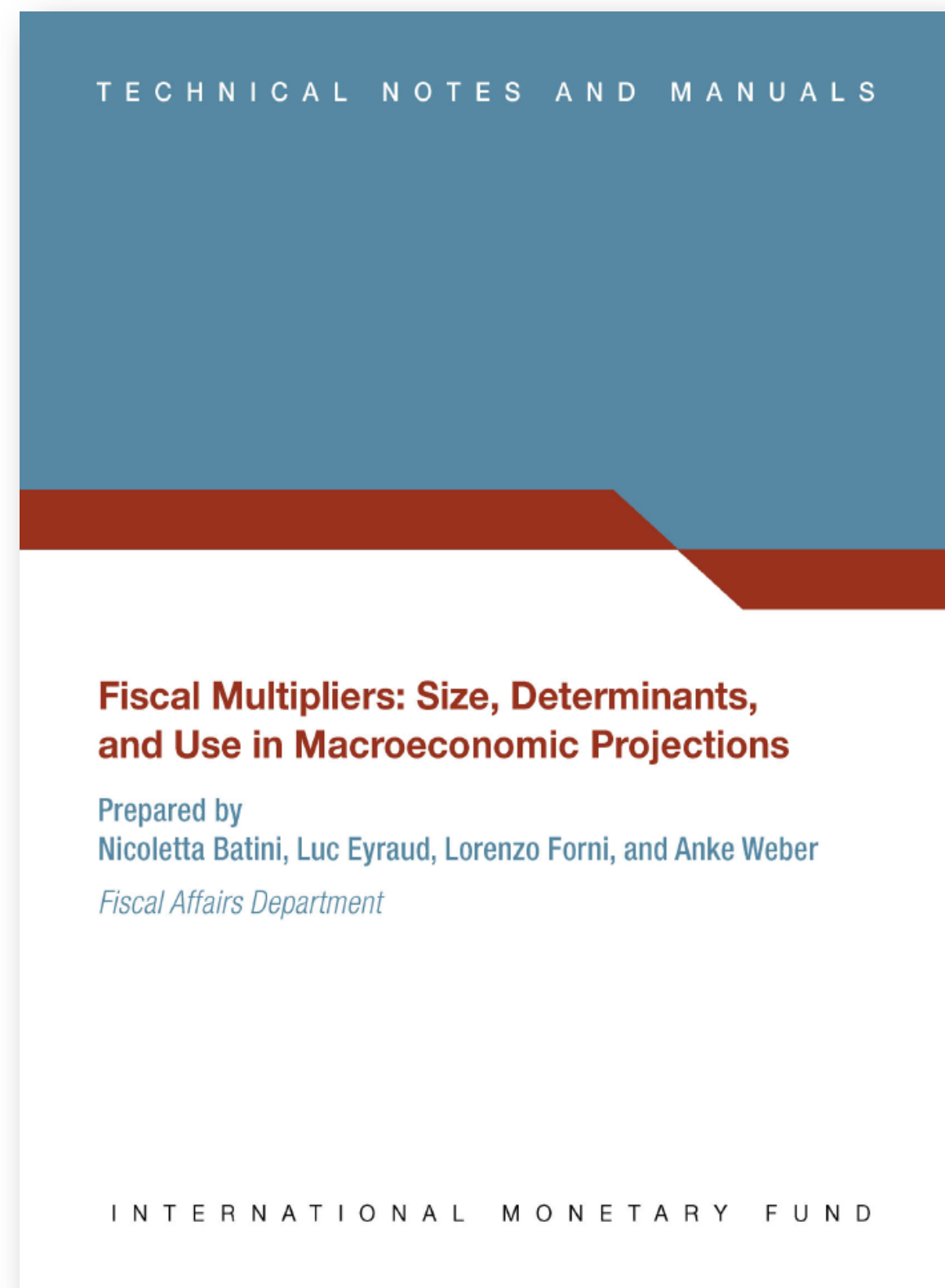
**Public debt**  
(percent of GDP)



# How much fiscal support to provide? Key considerations

- Access to financing at a reasonable cost is available, and policy credibility is present to ensure the deficit widening is perceived as temporary.
  - Low multiplier/high borrowing costs are likely otherwise
- Strong reform commitment is present.
  - Preferable for any fiscal offset to include explicit “sunset clauses”.
  - More effective social safety nets as alternative?
- Estimates of reforms benefits should err on the conservative side due to the related high uncertainty.
  - The case for budget support is stronger when costs are well identified in size and time

# Thank you!



<http://www.imf.org/external/pubs/ft/tnm/2014/tnm1404.pdf>



<http://www.imf.org/external/pubs/ft/fm/2014/02/fmindex.htm>