

Issue Note 5: Flattening the unemployment curve? Policies to support workers' income and promote a speedy labour market recovery

This note analyses the roles of job-preserving measures, including short-time work schemes, and the unemployment insurance system, in supporting workers' income and ensuring that employment rapidly rebounds as COVID-19-related shutdowns of non-essential activities are eased. Given large uncertainty about the longer-term consequences of the COVID-19 crisis for the reallocation of resources across industries and firms, the challenge is to preserve jobs that are viable in the medium term while allowing workers in distressed firms and industries to move to those with better growth prospects. Against this background, the note outlines a number of policy options to balance job preservation with reallocation by adjusting the parameters of existing policies as the COVID-19 crisis evolves.

Introduction and main findings

The spread of the COVID-19 virus across countries and measures taken by governments to contain it – including shutdowns of many businesses and restrictions on travel and mobility – imply sharp contractions in GDP and the associated employment losses risk dwarfing those experienced during the global crisis of 2008-09. The OECD projects the OECD-wide unemployment rate to increase by around 6 percentage points between the fourth quarter of 2019 and the second quarter of 2020 as compared to an increase of 2.2 percentage points between the third quarter of 2008 and the second quarter of 2009.

Labour market policies play a critical role in limiting social hardship and ensuring that employment rapidly rebounds once the shutdown of non-essential activities is eased. The focus is on the respective roles of policies aimed at preserving existing jobs (e.g. short-time work schemes, temporary layoff schemes and administrative measures to limit dismissals) and the unemployment insurance system. Economic downturns triggered by shocks that are both transitory and exogenous, such as natural disasters, typically require limited reallocation of resources. In this case, policies to preserve existing jobs may be the best course of action to both support workers and ensure businesses quickly resume activity once the initial shock fades. However, existing jobs may become unviable following shocks that require a sizeable reallocation of resources, such as financial and housing crises or persistent changes in commodity prices. In this case, partly relying on the unemployment insurance system allows for sufficient reallocation of resources rather than preserving existing jobs that may no longer be viable. The optimal mix of job preservation and unemployment benefit policies to support workers and ensure a rapid recovery thus depends on whether the exogenous COVID-19 shock turns out to be purely transitory or more persistent.

The main findings of the analysis are summarised in Box 2.6.

Box 2.6. Key findings

- OECD projections of an increase in the OECD unemployment rate between the fourth quarter of 2019 and the second quarter of 2020 of around 6 percentage points are significantly above the prediction of 3 percentage points based on the historical relation between unemployment and GDP growth (“Okun’s law”).
- Large positive deviations of unemployment projections from Okun’s law are observed in countries that have taken only limited measures to preserve existing jobs through job retention schemes, whereas unemployment projections are similar to Okun’s law in countries with large job retention schemes. Moreover, administrative unemployment register data for April 2020 suggest that unemployment has increased significantly less in countries with large job retention schemes.
- While job retention schemes may be *effective* in preserving existing jobs in the short term, these schemes may not be *efficient* in reallocating workers from unviable jobs to industries and firms with better medium-term growth prospects. Restrictions on some non-essential activities (e.g. travel; hotels and restaurants; parts of the retail sector; recreational services) may persist for some time and consumer demand may not fully recover even thereafter, while industries and firms with business models that are compatible with social distancing may grow (e.g. e-commerce; courier, express and parcel services; parts of the health sector; as well as activities that rely mostly on tasks that can be performed remotely), suggesting that the COVID-19 shock may require significant reallocation of resources.
- Given large uncertainty about the longer-term consequences of the COVID-19 crisis for the reallocation of resources across industries and firms, policies to preserve existing jobs can be combined with temporary expansions of unemployment benefits where generosity and/or coverage is currently low.
 - For instance, employers’ contributions to the cost of job retention schemes could be set in such a way that only businesses expecting to be viable in the medium term select into them rather than using the unemployment insurance system. This may require combining low employers’ contributions during the acute phase of shutdowns with a gradual increase over time. Moreover, access to training and restrictions on combining income from short-time work schemes with income from other jobs could be eased to allow workers seize new job opportunities as they arise.
 - An appropriate balance between preserving existing jobs and reallocation could also be achieved by strengthening incentives in unemployment insurance systems to recall dismissed workers once economic conditions improve. Combining generous unemployment benefits with rules that provide subsidies or tax relief for firms that recall previously dismissed workers could support workers and preserve job matches to a similar extent as short-time work schemes while allowing for a sufficient degree of reallocation.

Benchmark unemployment forecasts based on Okun’s law

Okun’s law quantifies the average response of the unemployment rate to changes in GDP growth. Previous studies generally find that Okun’s law is a strong empirical regularity in most countries (Ball et al., 2017). However, the size of the Okun coefficient – the effect of a 1% shock to GDP on the unemployment rate – is typically found to vary across countries and, to a lesser extent, within countries over time. Typical

estimates of the Okun coefficient range from -0.1 to around -0.8, suggesting that a 1% decline in GDP may raise the unemployment rate by between 0.1 and 0.8 percentage points. These differences are typically interpreted as reflecting differences in labour market policies and institutions.

The country-specific Okun coefficients are estimated using quarterly unemployment and GDP data over the period 2000-2019 based on the following equation:

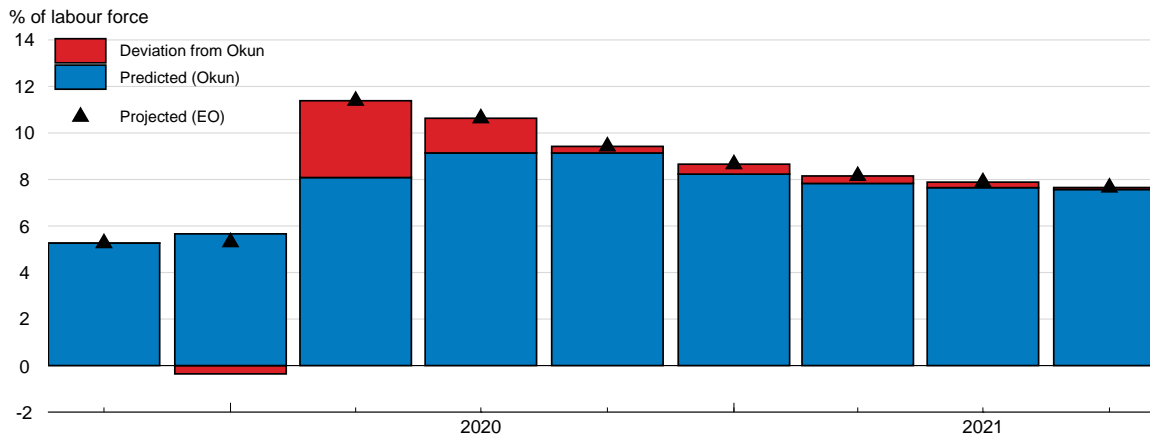
$$\Delta U_q = \alpha + \beta_0 \Delta \log(Y_q) + \beta_1 \Delta \log(Y_{q-1}) + \beta_2 \Delta \log(Y_{q-2}) + \varepsilon_q \quad (3)$$

where U_q is the unemployment rate in quarter q , Y_q is real GDP, β are the Okun coefficients, and ε is the error term; α denotes the intercept and can be interpreted as the change in the unemployment rate at zero GDP growth. Consistent with previous studies, estimated Okun coefficients range from around -0.1 in some countries, including Japan, Korea and Norway, to -0.8 in Spain (Annex Figure 2.B.1).

The Okun predictions conditional on GDP projections in a scenario with a single COVID-19 outbreak (“single-hit scenario”) suggest that the OECD unemployment rate could increase from around 5% in the fourth quarter of 2019 to 8% in the second quarter and 9% in the third quarter of 2020 (Figure 2.25). In the single-hit scenario, GDP growth in the OECD would be around -2% in the first quarter of 2020, -13% in the second quarter and +6½ per cent in the third quarter. Predicted unemployment based on Okun’s law continues to increase in the third quarter despite positive GDP growth because the estimated Okun coefficients imply significant persistence in unemployment.

Figure 2.25. OECD unemployment projections and deviations from the Okun benchmark

OECD unemployment rate, as a percentage of labour force



Note: The Okun predictions for the level of unemployment are obtained by cumulating the predicted value from equation (1) over the projection horizon (2020Q1-2021Q4). The blue bars denote the predicted unemployment rate based on estimated Okun coefficients; the black markers denote current OECD projections; and the red bars show the difference between OECD projections and Okun predictions.

Source: OECD calculations.

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The positive average deviation of OECD projections from Okun's law could reflect a number of factors. One factor could be the prevalence of COVID-19-related shutdowns in highly employment-intensive industries, which appears indeed to be the case for the OECD as a whole (Annex Figure 2.B.2). Another reason that may be particularly relevant in the current context could be that the unemployment response is non-linear in the sense that large negative GDP shocks may have disproportionately large and rapid effects on the unemployment rate compared with more moderate shocks. In any case, the positive average deviation of projections from the Okun prediction hides significant differences across countries (OECD, 2020c). In part, this may reflect the fact that OECD projections account for exceptional labour market policy measures taken in response to the COVID-19 crisis.

Policy-related deviations of unemployment from the Okun benchmark

Policies that encourage the preservation of existing jobs, such as job retention schemes as well as administrative suspensions of dismissals, may lead to deviations of unemployment from the Okun benchmark. The Okun benchmark described above measures the *average* response of unemployment to changes in GDP growth, both during economic upturns and economic downturns. To the extent that a number of governments have put in place *exceptional* measures to damp the unemployment increase in response to the COVID-19 crisis, one may expect the Okun benchmark to over-predict the increase in unemployment, or at least not to under-predict it as observed in Figure 2.25 for the OECD average. Although data on GDP growth and unemployment for the first half of 2020 are not yet available to formally test this hypothesis, a first assessment can be made by analysing OECD projections. OECD country experts integrate real-time information on GDP growth and unemployment from high-frequency indicators in their projections, as well as information on the extent of job-preserving measures, including past experience and real-time information on programme uptake. While by no means allowing a formal test of the hypothesis that job-preserving measures dampen increases in unemployment, the use of OECD projections allows summarising the currently available information in a synthetic way.

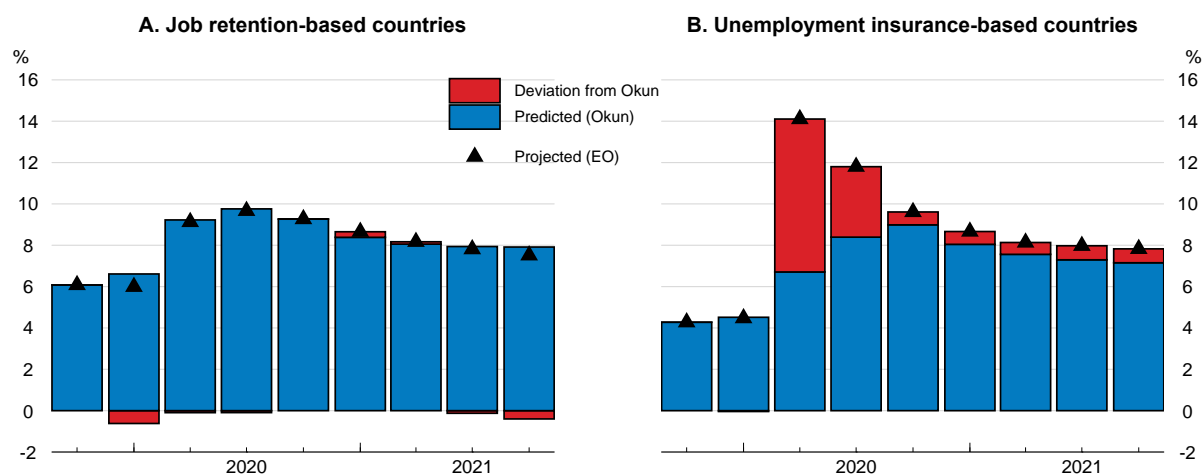
To compare and contrast outcomes, countries are split into those with large job retention schemes ("retention-based countries") and those that have taken no exceptional measures in this area, continuing to rely mostly on unemployment insurance ("unemployment insurance-based countries"). Retention-based countries have either expanded existing job retention schemes or introduced large schemes during the crisis, with take-up suggesting that a significant share of businesses and workers are participating in them (Annex Table 2.B.1). Unemployment insurance-based countries do not have a job retention scheme in place, or take-up of existing schemes has been limited to a small fraction of businesses and workers.

Unemployment projections overshoot the Okun benchmark in unemployment insurance-based countries but are similar to the benchmark in job retention-based countries (Figure 2.26). The absence of significant deviation from the Okun benchmark in retention-based countries despite the fact that the shutdown industries appear to be more employment intensive than other industries suggests that country desks project job retention schemes to significantly damp increases in unemployment. In the second quarter, the deviation in retention-based countries is negligible while the overshoot in insurance-based countries is around 7½ percentage points. Taking the difference in the deviation from the Okun benchmark in retention-based and insurance-based countries at face value, on average, country desks project job retention schemes to damp increases in unemployment in the second quarter of 2020 by 7½ percentage points (0 deviation minus positive deviation of 7½ percentage points).¹

¹ Note that employment intensity in the shutdown sectors is not systematically higher in insurance-based countries than in retention-based countries, suggesting that differences in the deviation from the Okun benchmark do not simply reflect differences in employment intensity.

A complementary way to assess the likely effectiveness of policies to preserve existing jobs is to compare real-time unemployment developments across countries with and without large job retention schemes. Such comparisons would ideally be based on deviations from the same Okun benchmark. However, GDP is available on a less timely and lower-frequency basis than unemployment data, which makes the computation of real-time deviations from Okun's law impossible. The approach taken in Box 2.7 is to report both changes in registered unemployment and the workforce covered by applications to job retention schemes. Increases in unemployment have been systematically smaller in countries with larger coverage of applications, suggesting that these schemes have been effective in limiting increases in unemployment.

Figure 2.26. Deviations from Okun's law partly reflect labour market policies



Note: The Okun predictions for the level of unemployment are obtained by cumulating the predicted values from equation (1) over the projection horizon (2020q1-2021q4). The blue bars denote the average predicted unemployment rate based on Okun coefficients, the black markers denote OECD projections, and the red bars the difference between projections and Okun predictions. Country groupings are based on the number of applications for participation in job retention schemes and OECD country desks' expert judgement (Table A.1). Job retention-based countries: Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Finland, France, Germany, Iceland, Ireland, Israel, Italy, Japan, Lithuania, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom. Unemployment insurance-based countries: Colombia, Estonia, Greece, Hungary, Korea, Latvia, Mexico, Poland, United States. Source: OECD calculations.

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Box 2.7. Unemployment developments in real time

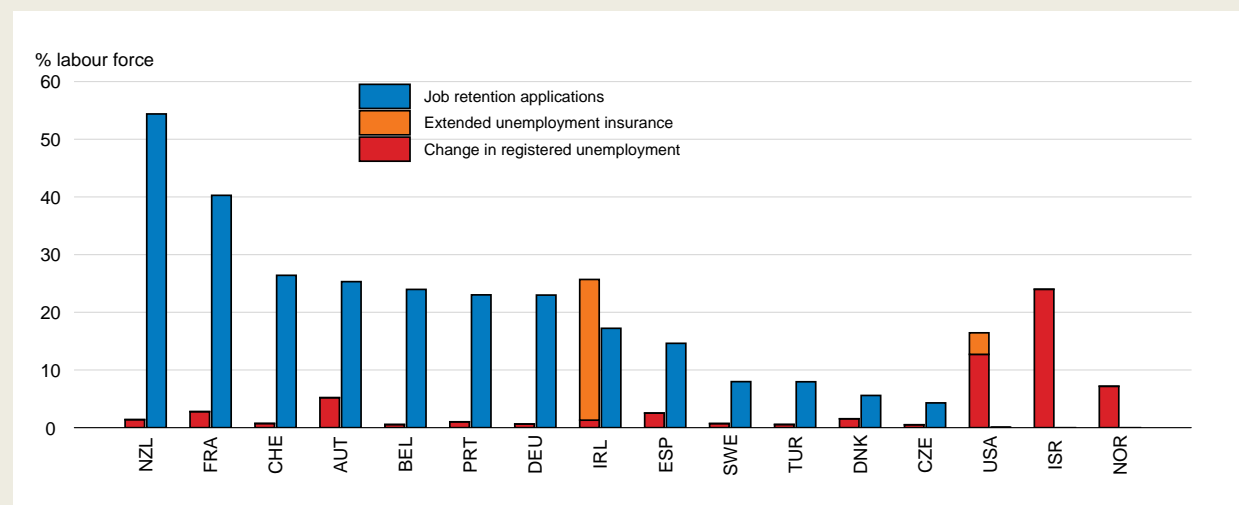
Official data on unemployment from Labour Force Surveys is typically released with a lag of several weeks or months, with most currently available data referring to a period before countries entered shutdowns. This box therefore focuses on administrative data from unemployment registries that are often significantly more timely. The focus is on the number of registered unemployed as a fraction of the total labour force.

Countries with large shares of the workforce covered by applications to job retention schemes typically experienced smaller increases in (registered) unemployment between early March and end-April 2020 than countries with smaller schemes (Figure 2.27).¹ This pattern is in line with real-time survey evidence from April from a small number of OECD countries (Adams-Prassl et al., 2020). This pattern is particularly evident if large extensions of unemployment insurance in Ireland and the United States, which push up the unemployment rate relative to countries without such extensions, are netted out. A caveat with respect to the data on applications for participation in job retention schemes is that typically only a fraction of applications is taken up (Box 2.8). However, preliminary data suggest that in France take-up is around 50%, significantly higher than during the economic crisis of 2008-09 (DARES, 2020).

Data from private businesses such as internet search engines can offer an alternative real-time view of labour market developments and are available with even shorter time lags than administrative data. An analysis of Google Trends data on searches for unemployment benefits reveals a similar country pattern as administrative data (OECD, 2020c), but this analysis has the drawback that the estimated relation between internet searches and the unemployment rate may not be stable, especially in this exceptional situation.

Figure 2.27. Registered unemployment and applications for participation in job retention schemes

Early March to end-April



Note: The change in registered unemployment refers to the difference between early March 2020 and the end of April as a fraction of the total labour force. Job retention applications refers to the workforce covered by applications to national job retention schemes since early March and until end of April, or closest available date. Actual take-up may be lower than the number of applications as only a subset of applying firms actually take up short-time work. Registered unemployment data are not seasonally adjusted, except for the United States. Registered unemployment includes workers on unpaid leave in Israel and on temporary layoffs in Norway. Extended unemployment insurance refers to COVID-19 Pandemic Unemployment Payment in Ireland and Pandemic Unemployment Assistance in the United States. Note that numbers on job-retention applications may differ from those reported in Annex Table 2.B.1 because of the common end-of-April cut-off date applied in this figure for cross-country comparability purposes.

Source: OECD calculations based on registered unemployment from OECD.stat (Belgium), AMS (Austria), MPSV (Czech Republic), Arbeitsagentur (Germany), STAR (Denmark), SEPE (Spain), Pôle Emploi (France), Live Register (Ireland), Ministry of Social Development (New Zealand), NAV (Norway), Israeli Employment Agency (Israel), MTSSS (Portugal), Arbetsformedlingen (Sweden), SECO (Switzerland), ISKUR (Turkey), Department of Labor (United States). Data on job retention scheme applications from: Ministry of Labour, Family and Youth (Austria), ONEM (Belgium), Federal Council (Switzerland), MPSV (Czech Republic), Arbeitsagentur (Germany), Ministry of Industry, Business, and Financial Affairs and STAR (Denmark), SEPE (Spain), Ministry of Labour (France), Live Register (Ireland), Ministry of Social Development (New Zealand), MTSSS (Portugal), Tillvaxtverket (Sweden), ISKUR (Turkey), Department of Labor (United States).

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1. Registered unemployment includes workers on unpaid leave in Israel and on temporary layoffs in Norway. If interviewers follow standard practice in these countries, these workers will not be included in labour force-based unemployment figures.

Policy discussion

The above analysis based on OECD unemployment projections and real-time unemployment data suggests that measures to encourage the preservation of existing jobs are likely to be *effective* in limiting increases in unemployment in the short term. Previous research also suggests that such policies are effective in the sense that they do not primarily preserve jobs that would have been preserved even in the absence of job retention schemes (Hijzen and Venn, 2011; OECD, 2018). Searching for suitable jobs in terms of wage and non-wage attributes, such as location, working time or employer amenities, is costly for workers, as is the search of employers for suitable workers. Preserving existing jobs reduces such costs of matching employers to employees and may thereby promote a quicker labour market recovery as activity rebounds. To the extent that the COVID-19 shock is temporary and does not require a major reallocation of resources, freezing the existing allocation of resources by preserving existing jobs may also promote longer-term growth of employment and productivity by limiting the loss of firm-specific human capital.² However, the preservation of existing jobs may not be *efficient* if the COVID-19 shock turns out to be more persistent than initially expected as some fraction of jobs preserved by short-time work schemes may not be viable in the long term. For instance, a number of non-essential activities (e.g. travel, hotels and restaurants, parts of the retail sector, recreational services) may suffer persistent rather than transitory declines as a result of new social distancing standards or changes in consumer preferences.³

One policy option to preserve existing jobs are job retention schemes. These schemes typically operate on the principle that businesses are subsidised to preserve existing job matches while workers experience no or limited wage losses (Box 2.8). In practice, businesses continue to pay employees a significant part of their monthly wages even though they are working only part-time or not at all. In return, they can claim a wage subsidy that covers part of the excess wage cost. Short-time work schemes allow for work sharing in the sense that working time for all workers is typically reduced by a fixed proportion, whereas temporary layoff schemes allow businesses to put all or a proportion of workers on “furlough” (i.e. zero hours). In practice this difference is less significant, as most temporary layoff schemes set up during the COVID-19 crisis allow for some degree of work sharing. A number of countries, including Australia and New Zealand, have introduced broad wage subsidy schemes that are not conditional on working time reductions but may be used as short-time work or temporary layoff schemes. Businesses resorting to job retention schemes are typically required not to dismiss workers while using the schemes, although this is not the case in all countries, e.g. in the German short-time work scheme (Box 2.8).

² Evidence for the United States suggests that the probability of recalling a worker that has previously been laid off is positively correlated with pre-unemployment tenure and wage declines among laid off workers are smaller for those who are eventually recalled (Fujita and Moscarini, 2017), which suggests that firm-specific human capital is important.

³ Based on a business survey, Barrero et al. (2020) estimate that in the United States the COVID-19 shock has thus far caused three new hires in the near term for every 10 layoffs.

Box 2.8. An illustration of policies to preserve existing jobs

The German short-time work scheme

The subsidy scheme for short-time work (*Kurzarbeitergeld*) aims to reduce the labour costs of companies that are in temporary distress. In its current form, companies are generally eligible to use short-time work if they face a major drop in activity for economic reasons or due to extraordinary events, provided the drop is temporary and unavoidable. Specifically, at least one-third of employees must lose more than 10% of their gross wage and other options to reduce working time, such as negative balances on working time accounts, must have been exhausted.

In normal times, the labour agency reimburses 60% of the lost net earnings for a childless worker and 67% for a worker with children. Social security contributions for lost working hours usually have to be fully covered by the employer. All workers that are subject to social-security contributions can receive the subsidy including workers on temporary contracts or apprentices but workers in marginal employment (*minijobs*) or temporary-agency workers cannot receive the subsidy. The subsidy can be used for a maximum of 12 months, up from 6 months before 2016. Firms resorting to short-term schemes are allowed to dismiss workers for economic reasons if conditions deteriorate beyond those reported in the short-time work notification.

Exceptional measures in response to the COVID-19 crisis include:

- The eligibility threshold of affected workers has been lowered to 10% in March 2020 and the requirements on negative working-time balances have been lifted. Temporary agency workers have become eligible for the subsidy scheme.
- The labour agency covers 100% of social security contributions for the lost working hours starting from the first month.
- In April 2020, the government increased the replacement rate of lost net earnings to 70% for childless workers and 77% for workers with children from the fourth month of short-time work if they have reduced their working time by at least 50%. In the seventh month, payments are increased further to 80% and 87% respectively.
- Restrictions on taking part-time jobs while on short-time work have been lifted. Additional earnings are not credited against short-time work benefits so long as total income does not exceed previous earnings.

These measures are scheduled to be phased out at the end of 2020. The labour agency has reported a high number of applications in response to the Covid-19 pandemic, suggesting significantly higher take-up than during the economic crisis of 2008-09. Since the beginning of March, over 750 000 firms submitted a notification to potentially use short-time work with the largest increase occurring in April. The cumulative number of workers mentioned in those notifications exceeds 10 million, which is an upper bound for actual take-up. The labour agency estimates that around 6 million workers were in short-time work in April (around 14% of the labour force). Over the course of 2009, 3.3 million workers were mentioned in initial notifications to the labour agency, while on average one third of those ended up participating in short-time work.

The Danish job retention scheme

The Danish government and the social partners agreed to set up a job retention scheme (*Lønkompenationsordning*) effective from 9 March 2020. Employers can furlough between 30% and 100% of their employees with 75% of their monthly wage costs covered by the government. For lower-wage employees who are usually on contracts with short notice periods, the government subsidy is 90% of the monthly wage cost. The government subsidy is capped at EUR 4 000 per employee per month. Employers must pay the remaining part of the salary and promise not to lay off any worker for economic reasons. Employees keep their salaries but must use five days of annual leave and are not allowed to work on days that they are furloughed.¹ Employers may furlough workers part-time (e.g. every second day or second week) as long as at least 30% of employees (or at least 50 people) are furloughed on average. The job retention scheme is scheduled to remain in place for six months.

Employers furloughed about 7% of the labour force during the first two months of the job retention scheme, limiting the increase in the unemployment rate to a comparatively modest 1.6 percentage point during the shutdown. The take-up of an existing short-time work scheme (*Arbejdsfordelingsordning*) only increased by 0.3% of the labour force. The reasons are likely that this scheme is less accessible and flexible for employers and requires agreement with trade unions. Short-time work is much less generous for employees compared to job retention as they can only receive supplementary unemployment insurance benefits on non-work days. Moreover, employees in the hardest hit industries typically have the lowest union membership rates and the lowest enrolment in the voluntary unemployment insurance scheme.

The Danish job retention scheme achieved the purpose of preserving existing jobs at large scale during the shutdown. Concerns about the job retention scheme include the economic loss from subsidising people not to work and possible design flaws. Although, the scheme offers flexibility to furlough workers only part of the time, this may be unattractive for employers since there is a 25% wage cost on non-work days whereas employers incur no costs when using the short-time work scheme.

Suspension of economic dismissals in Italy

Italy first responded to the COVID-19 crisis with the March *Cura Italia* decree. One of its provisions suspended the right to dismiss employees for economic reasons. The May *Recovery* decree extends the prohibition to 16 August 2020. The suspension covers both permanent and temporary employment contracts but temporary contracts expiring during the suspension period will be allowed to expire. In the fourth quarter of 2019, 17% of Italy's workforce held temporary contracts, 20% of which were set to expire within three months and 400 000 in March and April 2020. 13% of the workforce, or 3 million workers, are self-employed.

The *Cura Italia* and *Recovery* decrees also expanded the main short-time work scheme, the Wages Guarantee Fund (*Cassa Integrazione, CIG*), to all businesses, extended the period it is available and streamlined access and administration. However, the CIG does not cover employees on temporary contracts or the self-employed. The government has expanded unemployment benefits and other social safety nets. Employers will continue to have access to these expanded liquidity and wage support schemes after the suspension of economic dismissals expires. Suspending layoffs for economic reasons may encourage employers to use these schemes as well as taking other measures to adapt to COVID-19-related shutdowns, including remote work and requiring employees to take holidays.

1- In principle, workers can take jobs with other employers on days that they are on furlough. In practice, they do not take this opportunity because they need to be available for the furloughing employer with one-day notice.

Job retention schemes that are used for work sharing preserve human capital of workers particularly effectively, as workers continue to work part-time but receive a subsidy for being partially unemployed. The adjustment in hours worked allows firms to adjust working time rather than employment, thereby preserving the job match while allowing workers to maintain their human capital and avoiding the trauma of job loss. In order for job retention schemes to promote work sharing among all workers, an important consideration is the coverage of non-standard workers, such as temporary or dependent self-employed workers. Broad coverage can ensure that the burden of employment adjustment does not disproportionately fall on non-standard workers (OECD, 2020d).

Another labour market policy option to preserve existing jobs and freeze the existing allocation of resources is to suspend the dismissal of workers for economic reasons. A number of countries, including Italy and Spain, have introduced such suspensions to varying degrees (Box 2.8). In contrast to short-time work schemes – whose cost is typically shared between workers, firms and the government – the cost of administrative suspensions of dismissals is fully borne by firms if no compensating subsidies are in place. This may put firms that may otherwise be viable at risk of failure. In Italy and Spain, for instance, this risk is mitigated by providing subsidies through liquidity support measures (OECD, 2020a) or by combining suspensions of dismissals with short-time work schemes. However, a significant drawback of such suspensions is that they do not cover non-standard workers, such as temporary workers with imminent contract expiration dates or dependent self-employed workers who are not covered by dismissal regulations. Limited coverage of non-standard workers by short-time work schemes could further re-inforce such uneven employment adjustment across different groups of workers (OECD, 2020d).

A number of countries, including many in Central and Eastern Europe and the United States, have taken very limited labour market measures to support the preservation of existing jobs.⁴ Firms in these countries have greater incentives to lay off workers in response to the COVID-19 shock. For instance, US data on registered unemployed shows that about 13% of the labour force have been laid off in the United States between mid-March and end-April 2020. This partly reflects the ease of layoffs in the United States and the absence of significant job retention schemes at the federal level.⁵

This approach allows for the possibility that the COVID-19 shock may have more persistent economic implications than initially expected and may therefore require a significant reallocation of resources in the future. Laid-off workers are more likely to engage in job search than workers on short-time work schemes. At the same time, an exceptionally high share of layoffs during March and April in the United States appears to be temporary, with around 90% of all laid-off workers in the April labour force survey reporting to be on temporary layoff. Temporarily laid-off workers have explicitly been provided with a recall date by their employers or expect to be recalled in the future, suggesting that the employer-employee relation has not been fully severed and a degree of attachment of the employee to the previous employer remains intact (Groschen, 2020). The recall rate is particularly high for temporary layoffs – around 85% according to Fujita and Moscarini (2017) – suggesting that a significant share of these workers may be recalled by their previous employers if and when economic conditions normalise.⁶ By contrast, employers for which the COVID-19 shock adversely affects longer-term growth prospects are likely to permanently sever the employment relationship.

⁴ These countries have generally taken significant non-labour market measures to preserve existing businesses, including through liquidity support (OECD, 2020a), and shelter workers from income losses through expanded unemployment insurance (OECD, 2020f).

⁵ In the United States, short-term work schemes exist in 26 states but take up has been extremely limited (Von Watcher, 2020).

⁶ Recalls are particularly likely if the COVID-19 shock is short-lived, as the likelihood of recall is high for low unemployment durations but declines over time (Fujita and Moscarini, 2017).

The main drawback of relying on unemployment insurance rather than preserving existing jobs is the risk of excess dismissals and social hardship. Businesses do not immediately bear the cost of laying off workers while they partly bear the cost of short-time work schemes. Even if firms expect job matches to be viable in the long term, they may choose to lay off workers to reduce costs, thereby creating a negative externality on the unemployment insurance system (Cahuc and Zylberberg, 2008). Such risk of excess dismissals is particularly pronounced in countries with weak employment protection. At the same time, relying on unemployment insurance rather than preserving existing jobs may lead to social hardship, especially where earnings replacement rates are low or a significant part of the workforce may not be eligible for unemployment benefits (e.g. the dependent self-employed) or may only be entitled to low benefits (e.g. temporary workers with patchy employment histories (OECD, 2020d). Even with extended coverage and enhanced generosity of unemployment benefits, this approach may nonetheless lead to social hardship in countries where health and/or pension insurance are provided by employers or linked to peoples' employment status.

Given the high degree of uncertainty on the consequences of the COVID-19 shock for the reallocation of resources, the challenge for policy makers is to find the right balance between measures to promote the preservation of jobs that are viable in the long term and the reallocation of workers in unviable jobs. The prudent course of action is to combine policies to preserve existing jobs with temporary expansions of unemployment benefits to limit the income loss for laid-off workers. One policy option is to adjust the relative cost for firms of choosing short-time work over lay-offs (OECD, 2018). If more reallocation is deemed to be required, for instance because activity in high-contact sectors does not fully recover in the medium term, lay-offs could be made relatively more attractive by reducing the government subsidy to short-time work schemes while possibly protecting workers' income by expanding unemployment insurance. This may become increasingly relevant as shutdowns are eased in countries with particularly generous government subsidies to job retention schemes, such as Denmark, France and the United Kingdom. In countries with a risk of excess layoffs, such as most Central and Eastern European countries and the United States, there may be room to promote the use of existing short-time work schemes and/or making access to various aid programmes set up in response to the COVID-19 shock conditional on preserving employment.⁷ In US states with short-time work schemes, for instance, firms could be encouraged to reduce working time rather than lay off workers, which would give workers on reduced hours access to the full weekly USD 600 lump-sum payment in the COVID-19 rescue package on top of pro-rated unemployment benefits (Von Watcher, 2020).

Other options to adjust the balance between the preservation of existing jobs and reallocation is to promote reallocation in job retention schemes and promote recalls where firms rely predominantly on lay-offs to adjust total hours. Reallocation in job retention schemes could be promoted by lifting restrictions on taking new jobs without workers losing their benefits. Workers in job retention schemes could also be provided with training subsidies, for instance in the area of digital skills, which may allow them to look for and perform jobs online. In countries where firms predominantly rely on layoffs, preservation of existing jobs that are viable in the long term could be promoted by subsidising recalls of previously dismissed workers. Firms do not account for the positive externality of recalls on workers' wages as the gains from recalls only partly accrue to firms through higher productivity while part of them go to workers through higher wages. In Israel, for instance, the government introduced a recall subsidy of around USD 2100 at the end of May. One option of subsidising recalls in the context of the COVID-19 crisis is to partly convert liquidity support in the form of interest-free loans or tax deferrals into subsidies conditional on firms recalling their previously dismissed workers (Fujita et al., 2020).

⁷ The Paycheck Protection Programme enacted as part of the COVID-19 rescue package (CARES Act) allows for conversion of loans into grants if funds are used for payroll, with allowances for rent and utilities. However, caps on the size of loans per firm and high rents in large cities appear to have limited the extent of job retention.

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Annex 2.B. Country-specific tables and figures

Annex Table 2.B.1. Job retention policies in OECD countries

A. Job-retention-based countries

Country	Available information on job retention schemes
Australia	Introduction of <i>JobKeeper payment</i> scheme. The applications cover 21.2% of the labour force by 20 May 2020.
Austria	Introduction of <i>Corona Kurzarbeit</i> building on <i>Kurzarbeit</i> . The applications cover 30.8% of the labour force by 2 June 2020.
Belgium	Extension of <i>Chômage temporaire</i> by easing administration, increasing subsidy and removing conditions on firm turnover. The applications cover 24% of the labour force by 30 April 2020.
Canada	Introduction of Canada Emergency Wage Subsidy (CEWS). The applications cover 9.4% of the labour force by 9 May 2020.
Chile	Introduction of <i>Employment Protection Act</i> . The applications cover 6.5% of the labour force by 22 May 2020.
Czech Republic	Introduction of Antivirus programme. The applications cover 12% of the labour force by 22 May 2020
Denmark	Introduction of <i>Midlertidig lønkompensation</i> . The applications cover 7% of the labour force by 18 May 2020.
Finland	Extension of <i>Temporary layoff programme</i> by shortening the notice period, with weak conditions. Information on number of applications is currently unavailable.
France	Modification of <i>Chômage partiel</i> by increasing subsidies. The applications cover 43.2% of the labour force by 25 May 2020.
Germany	Extension of <i>Kurzarbeit</i> by increasing firm coverage. The applications cover 26.6% of the labour force by 27 May 2020.
Iceland	Extension of <i>Part-time unemployment benefits</i> by increasing coverage, with strong conditions. Information on number of applications is currently unavailable.
Ireland	Introduction of <i>Temporary COVID-19 Wage Subsidy Scheme</i> . The applications cover 20% of the labour force by 28 May 2020.
Israel	Extension of <i>employment insurance</i> to workers who are placed on unpaid leave by their employers. Workers on unpaid leave extend to 21.1% of the labour force on 30 April 2020.
Italy	Extension of <i>Cassa integrazione</i> by increasing firm coverage to every firm, with weak conditions. The applications cover 31.6% of the labour force by 18 May 2020.
Japan	Extension of <i>Employment Adjustment Subsidy</i> to increase coverage and easing requirements. The scheme has weak conditions. Information on number of applications is currently unavailable.
Lithuania	Introduction of <i>Downtime allowance</i> , with weak conditions. Information on number of applications is currently unavailable.
Luxembourg	Extension of <i>Chômage partiel</i> by increasing coverage and easing administration. The scheme has weak conditions. Information on number of applications is currently unavailable.
Netherlands	Introduction of <i>Tijdelijke Noodmaatregel Overbrugging ten behoeve van behoud van Werkgelegenheid</i> , which replaces the earlier short time work scheme. The applications cover 18.2% of labour force by 30 April 2020.
New Zealand	Introduction of <i>Covid-19 Leave Support Program / Wage Subsidy</i> . The applications cover 51.8% of labour force by 22 May 2020.
Norway	Extension of <i>Permittere</i> , by reducing the administrative burden. The applications cover 13.8% of the labour force by 31 May 2020.
Portugal	Extension of <i>Temporary lay-off scheme</i> by extension the coverage. The applications cover 25.3% of the labour force by 27 May 2020.
Slovakia	Introduction of <i>Prvá pomoc</i> , unconditionally on turnover. The applications cover 11.5% of the labour force for March 2020.
Slovenia	Introduction of a new short-time work scheme, with strong conditions. The applications cover 33.6% of the labour force by 30 April 2020.
Spain	Extension of <i>Expedientes de Regulación de Temporal de Empleo</i> by increasing coverage and easing administration. The scheme is conditional on laid-off workers. The applications cover 16.2% of the labour force by 31 May 2020.
Sweden	Introduction of <i>Korttidsarbete</i> , without condition on turnover decline. The applications cover 9.4% of the labour force by 2 June 2020.
Switzerland	Extension of <i>Kurzarbeit / Chômage partiel</i> by easing administration. There are no conditions on firm turnover. The applications cover 39.4% of the labour force by 20 May 2020.
Turkey	Extension of <i>Kısa Çalışma</i> by increasing coverage and easing administration. There are no conditions on firm turnover. The applications cover 8% of the labour force by 30 April 2020.
United Kingdom	Introduction of <i>Coronavirus Job Retention Scheme</i> . There are no conditions of firm turnover. The applications cover 24.7% of the labour force by 29 May 2020.

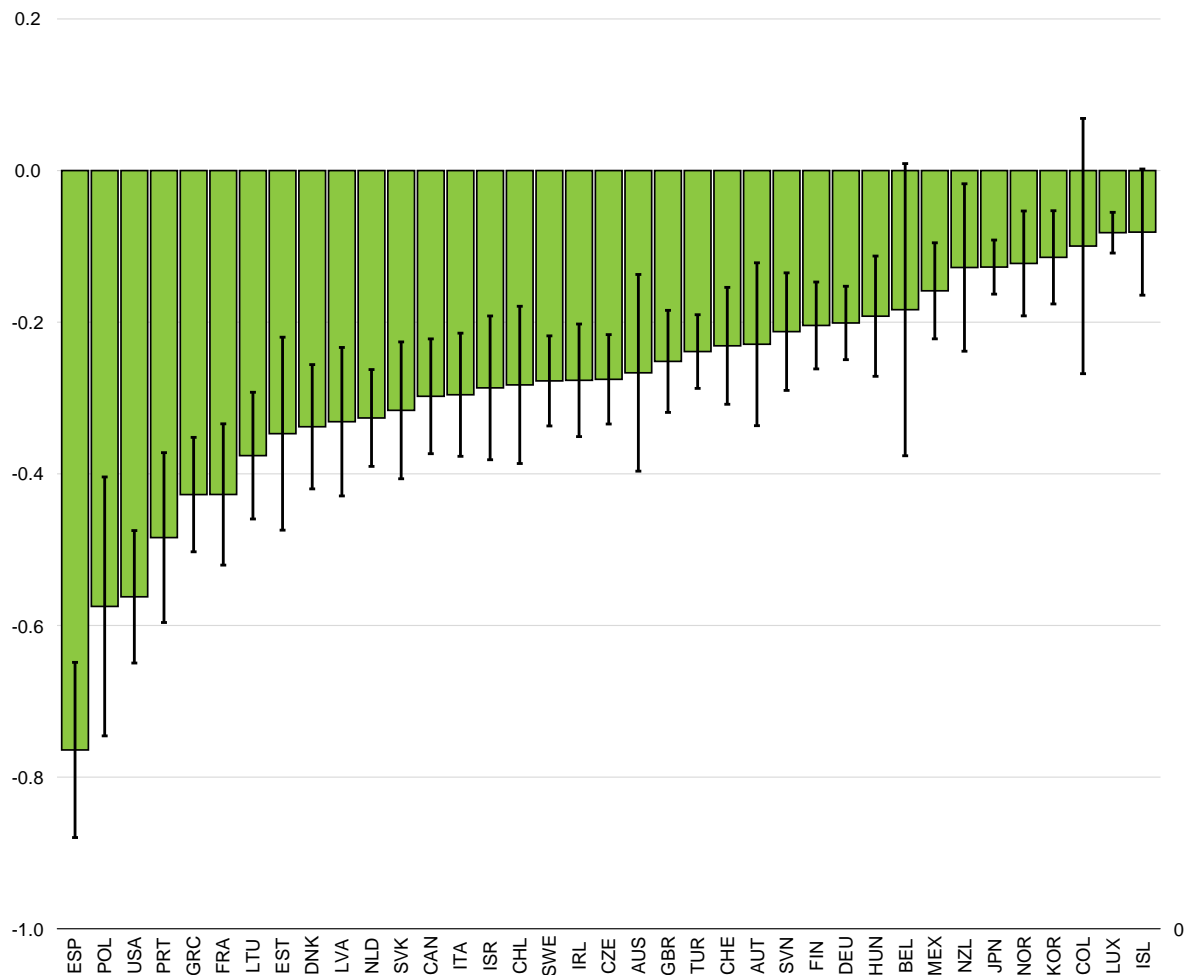
Panel B. Unemployment insurance-based countries

Country	Available information job retention schemes
Colombia	No job retention scheme is available.
Estonia	Modification of <i>Unemployment Insurance Fund</i> so it pays for short-time work, with strong conditions. Information on number of applications is currently unavailable.
Greece	The available scheme is a hybrid between unemployment insurance and job retention scheme and has complex conditions.
Hungary	Introduction of <i>Wage subsidy</i> , with strong conditions. Information on number of applications is currently unavailable.
Korea	Extension of <i>Employment Insurance</i> by increasing coverage and increasing subsidy, with strong conditions. Information on number of applications is currently unavailable.
Latvia	Introduction of <i>Downtime allowance</i> , with strong conditions. Information on number of applications is currently unavailable.
Mexico	No job retention scheme is available.
Poland	Introduction of <i>Tarcza antykryzysowa</i> , with strong conditions. Information on number of applications is currently unavailable.
United States	No federal scheme is available and applications to state-level schemes is limited. The applications to state-level schemes cover 0.1% of the labour force by 9 May 2020.

Note: Information in the table refers to the end of May or the nearest available date. Data on applications for job retention schemes are taken from ministerial publications or statements. Actual take-up may be lower than the number of applications as only a subset of applying firms actually take up short-time work. The details of the schemes were obtained principally by relying on expert opinion of the OECD country desks and OECD COVID-19 Policy Tracker.

Source: OECD COVID-19 Policy Tracker; Additionally: Australia: Parliament, Treasury of the Australian Government; Austria: WKO, Ministry of Labour, Family and Youth; Belgium: National Employment Office (ONEM); Canada: Government of Canada; Chile: Ministry of Labour and Social Security; Czech Republic: Ministry of Labour and Social Affairs; Denmark: STAR, Business Affairs Ministry; Finland: Finnish Government; France: DARES, Ministry of Labour; Germany: Arbeitsagentur; Iceland: Government of Iceland; Ireland: Citizens Information, Revenue; Italy: INPS; Netherlands: Government of the Netherlands; New Zealand: New Zealand Government, Ministry of Social Development; Norway: Ministry of Labour and Welfare, Norwegian Labour and Welfare Administration (NAV); Portugal: Directorate for Employment and Work Relations, MTSS; Slovakia: Ministry of Labour, Social Affairs, and Family; Slovenia: Government of Slovenia; Spain: Wolters Kluwer, State Public Employment Service (SEPE); Sweden: Agency for Economic and Regional Growth; Switzerland Secretariat for Economic Affairs, Federal Council; Turkey: ISKUR; United Kingdom: Gov.uk; United States: Bureau of Labor Statistics, Department of Labor.

Annex Figure 2.B.1. Okun coefficients

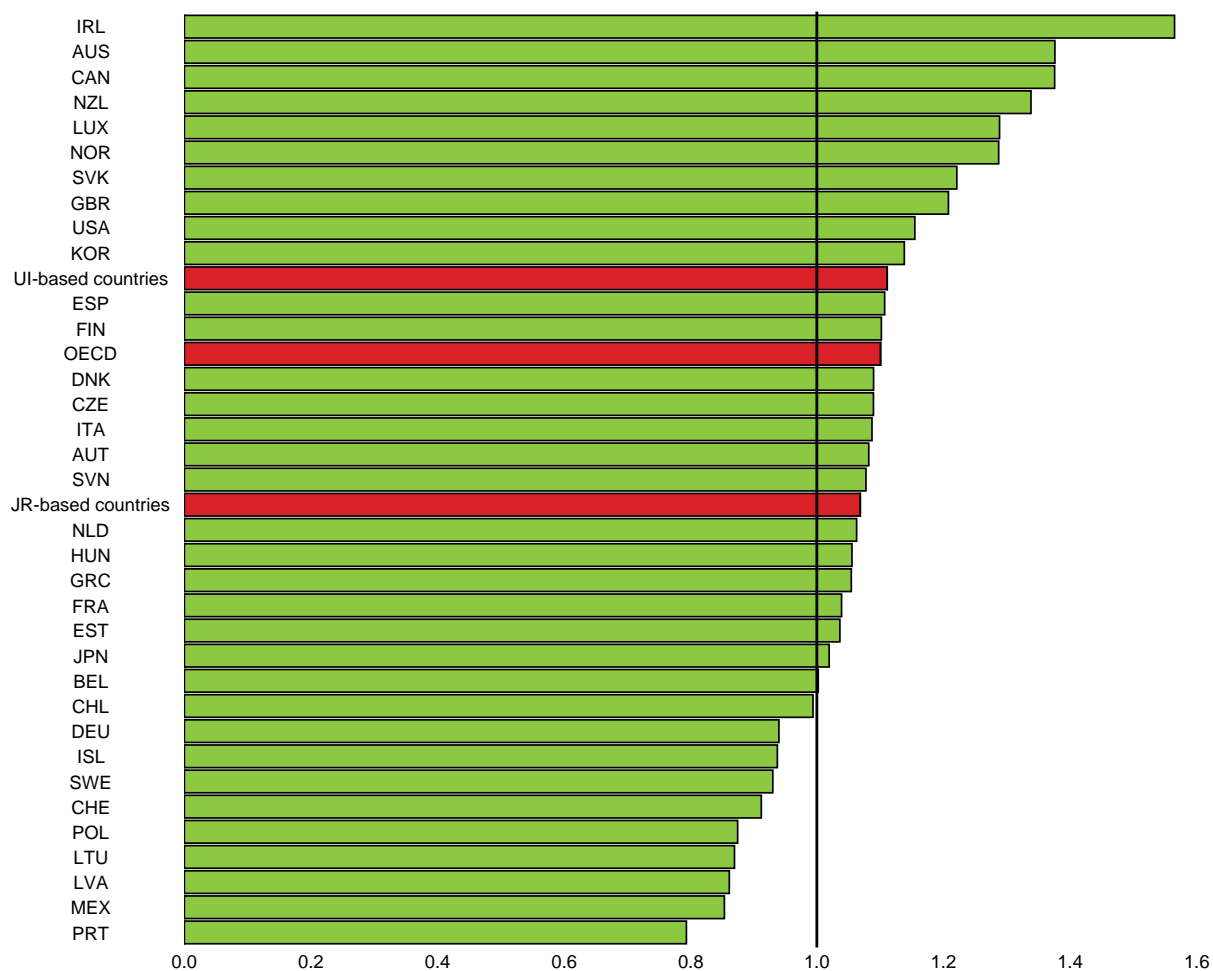


Note: The Okun coefficients are based on the following country-specific equations estimated over the sample period 2000q1-2019q4: $\Delta U_q = \alpha + \beta_0 \Delta \log(GDP_q) + \beta_1 \Delta \log(GDP_{q-1}) + \beta_2 \Delta \log(GDP_{q-2}) + \varepsilon_q$; where U is the unemployment rate in quarter q , GDP is the real GDP, β are the Okun coefficients and ε is the error term. The bars show the sum of β_0 , β_1 , β_2 . The whiskers show the 90% confidence intervals. Source: OECD calculations.

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Annex Figure 2.B.2. Employment intensity of shutdown industries

Ratio of affected employment to affected GDP



Note: A value above one implies that the share of the shutdown industries in employment is larger than the share of the shutdown industries in GDP. Shares of affected GDP are based on OECD (2020), assuming shutdowns of varying degrees in 9 industries. Employment shares are calculated based on the same methodology. UI-based and JR-based are, respectively, the averages of unemployment insurance-based and job retention-based countries.

Source: OECD calculations based on OECD (2020).

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