

# Flattening the unemployment curve? Policies to support workers' income and promote a speedy labour market recovery

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The spread of COVID-19 across countries and measures taken by governments to contain it – including shutdowns of many business and restrictions on travel and mobility – have led to employment losses that dwarf those experienced during the economic crisis of 2008-09 in terms of both speed and magnitude. 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 around 2 percentage points between the third quarter of 2008 and the second quarter of 2009.

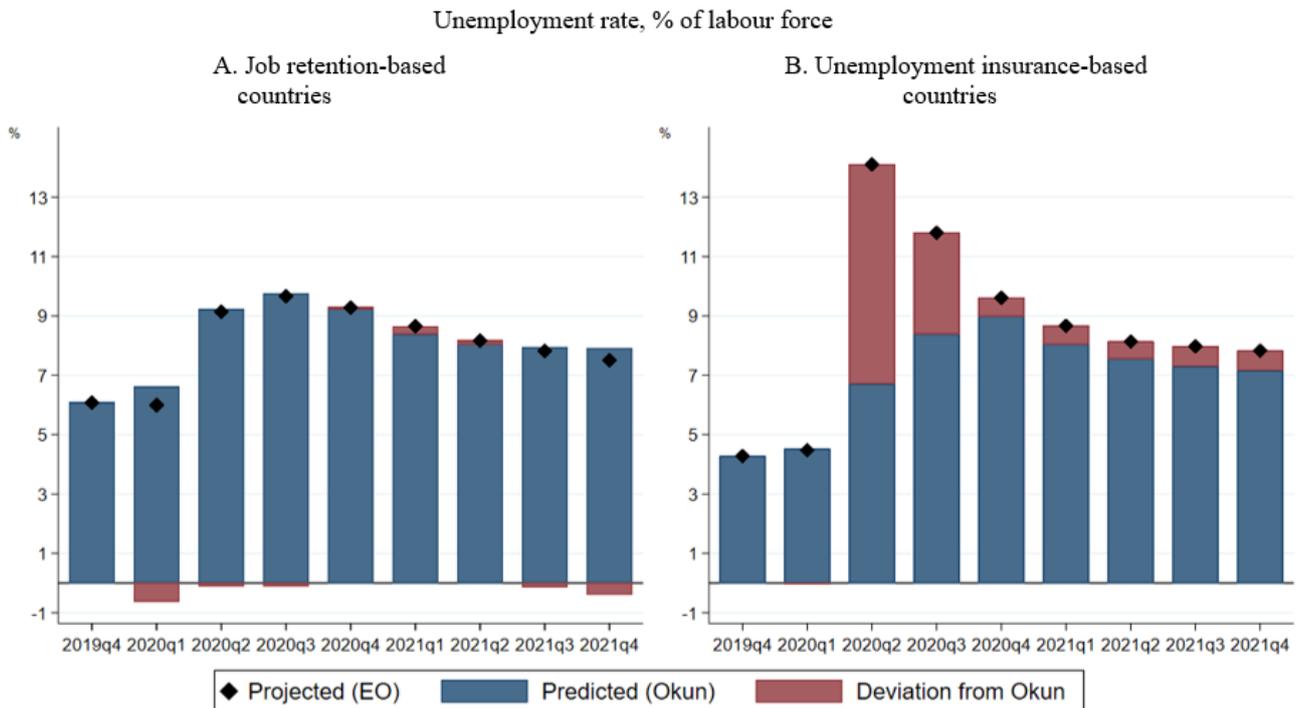
A number of countries, including Australia, Japan, New Zealand and most Western European countries, have established or expanded job retention schemes to preserve as many existing jobs as possible (OECD, 2020). These schemes typically operate on the principle that businesses are subsidised to preserve existing job matches while workers experience no or limited wage losses. 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.

Other countries, including a number of Central and Eastern European countries and the United States, have taken very limited labour market measures to support the preservation of existing jobs. Firms in these countries have greater

incentives to lay off workers in response to the COVID-19 shock. The unemployment rate in the United States, for instance, increased by about 10 percentage points between February and May 2020, which partly reflects the ease of layoffs and the absence of significant job retention schemes at the federal level.

The massive use of job retention schemes during the crisis raises the question of their effectiveness in preserving existing jobs in the short term. Although data on GDP growth and unemployment for the first half of 2020 are not yet available, a first assessment can be made by analysing OECD projections. OECD country specialists 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, thereby summarising the currently available information in a synthetic way. The analysis suggests that – relative to predictions based on the historical relation between unemployment and GDP growth (“Okun’s law”) – countries that have resorted to large job retention schemes during the crisis are projected to experience smaller increases in unemployment than other countries (Figure 1).

**Figure 1. Lower projected unemployment increase in countries with job retention schemes**

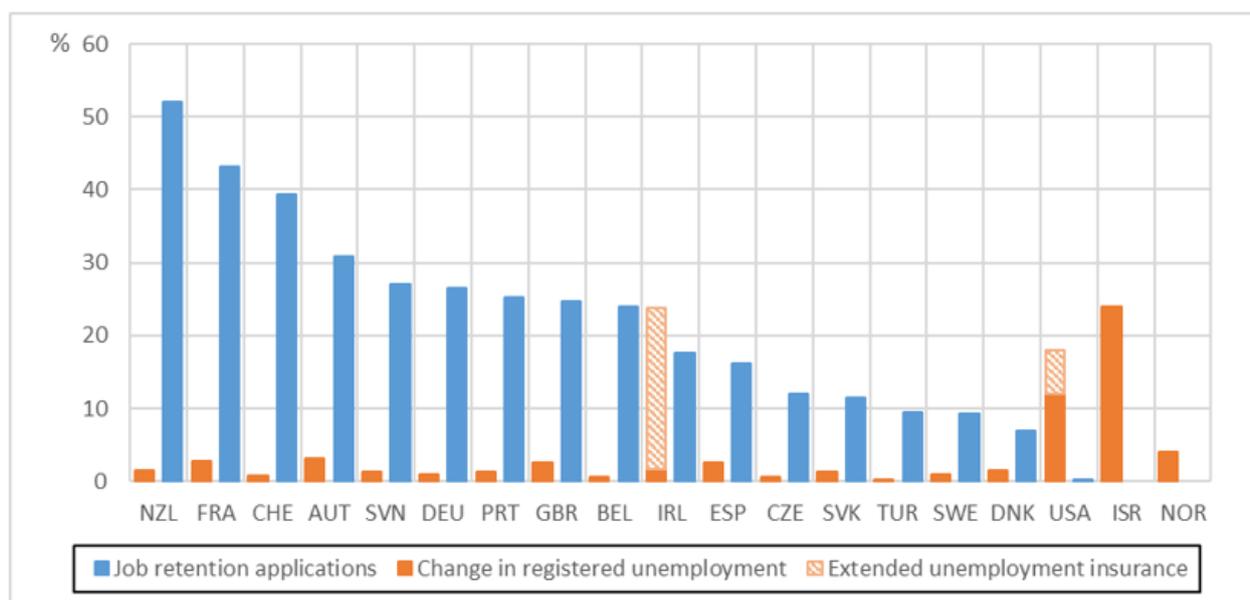


Note: The Okun predictions are based on the average response of unemployment to GDP growth over the period 2000Q1-2019Q4. Country groupings are based on the number of applications for participation in job retention schemes and OECD country experts' judgement.  
Source: OECD (2020).

A complementary way to assess the effectiveness of policies to preserve existing jobs is to compare real-time unemployment developments across countries with and without large job retention schemes. Ideally, such comparisons would take into account differences across countries in the magnitude of the GDP shock. However, GDP is available on a less timely and lower-frequency basis than unemployment data, which makes conditioning on GDP impossible. The approach taken instead is to report changes in registered unemployment along with the workforce covered by applications to job retention schemes. The results, shown in Figure 2, suggest that increases in unemployment have been systematically smaller in countries with larger coverage of applications, suggesting that – at least in the short term – these schemes have been effective in limiting increases in unemployment.

**Figure 2. Smaller increases in unemployment in countries with job-retention schemes**

Early March to end-May, % of labour force



*Note:* The change in registered unemployment refers to the difference between early March 2020 and the end of May 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 May, or closest available date.  
*Source:* OECD (2020).

Job retention schemes may be *effective* in preserving existing jobs in the short term, but this may come at the cost of a less *efficient* reallocation of workers from unviable jobs to industries and firms with better medium-term growth prospects (Barrero, Bloom and Davis, 2020). 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.

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. Given large uncertainty about the longer-term consequences of the 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 (OECD, 2018). This may require gradually increasing employers' contributions from the low level put in place during the acute phase of shutdowns.. 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 to 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 (Fujita, Moscarini and Postel-Vinay, 2020). 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. In Israel, for instance, the government introduced a recall subsidy of around USD 2100 at the end of May.

As the COVID-19 crisis evolves, finding the right balance between job preservation and reallocation of resources will involve some degree of experimentation regarding the sharing of costs related to job retention schemes between employers, employees and the government, as well as a focus on restoring viable job matches in countries that have experienced large numbers of layoffs. As activity in a number of industries resumes, a renewed focus on active labour market policies, including training and public employment, on top of

appropriate income support may limit the costs of reallocation for workers. In order to provide timely and granular labour market policy advice, the OECD is monitoring ongoing reallocation across firms, industries and regions using real-time data on online job advertisements. The results of this work will be reported in forthcoming OECD policy briefs.

## References

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