The Slovak labour market during the pandemic – who is at risk and how to protect all workers?

Category: Slovakia,Uncategorized
written by oecdecoscope | August 6, 2020
by Gabriel Machlica, OECD Economics Department

The COVID-19 pandemic triggered the most severe economic recession since World War II, causing enormous damage to people's health, jobs and well-being. The Slovak economy is expected to decline by more than 11% in 2020 if a second wave of infections requiring renewed lockdowns hits before the end of this year (OECD, 2020a). The pandemic could lead to lasting demand changes and structural shifts in the economy. Real per capita income will fall to the level of 2015, implying a loss of five years of income growth. The unemployment rate will reach almost 10% this year. Around 100 thousand people could lose their jobs, with vulnerable workers at risk to bear the brunt of the crisis. In Slovakia, these high-risk groups include (i) the non-standard workers, particularly the self-employed and the temporary workers, (ii) the marginalised Roma community and (iii) young people. Well-targeted labour market activation policies should be coupled with a strong social safety net, to mitigate the inevitable adjustment costs of moving towards new jobs.

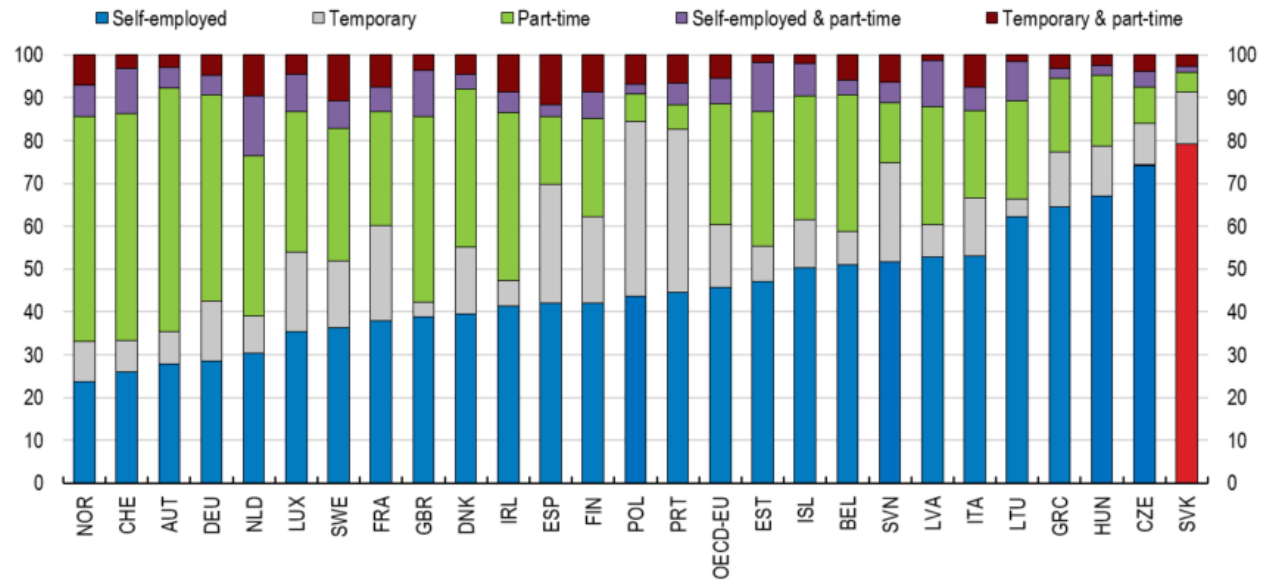
Who is at risk?

Non-standard workers are vulnerable to the loss of income as a result of the widespread shutdown. Since March, approximately 26% to 40% of Slovak workers have been directly affected by containment measures (NBS, 2020; OECD, 2020c). The most

affected sectors were tourism and those services involving contact between consumers and service providers. In this respect, non-standard workers are particularly vulnerable, as they have less protection, they are less likely to receive any form of income support during out-of-work periods than standard employees, and when they do receive benefits they are often significantly less generous than for standard employees (OECD, 2019a).

In Slovakia, non-standard workers accounted for one third of workers directly affected by containment measures, most of them self-employed (Figure 1). Over the last decade, the favourable tax treatment of self-employed workers led to an increase in the number of regular employment contracts disguised as self-employment contracts (Remeta et al, 2015). The share of own account self-employed workers who earn most of their income from just one client is the highest in the OECD (OECD, 2019a). The other group at high risk are temporary workers, particularly the workers with contracts of agreement for work performed outside an employment relationship, so-called ‘work agreements’. They have been significantly affected by the initial impact of the crisis (IFP, 2020). These groups are particularly vulnerable as their dismissal is less costly for employers and leaves them with less protection compared to standard workers.

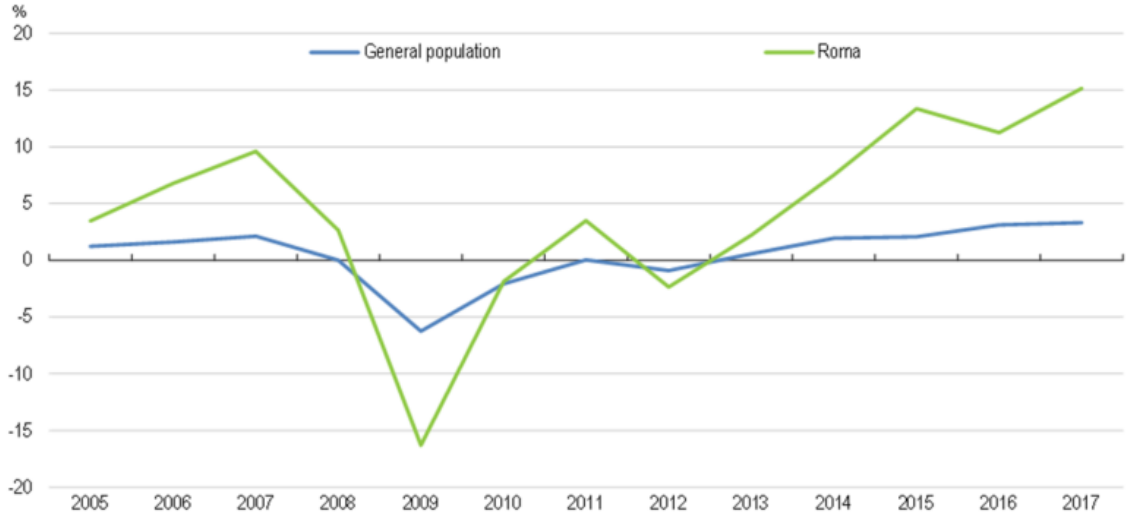
Figure 1. Composition of non-standard workers in activities most affected by containment measures across European OECD countries, percent of non-standard employment in affected sectors, 2018



Source: OECD (2020), "Issue Note 4: Distributional risks associated with non-standard work: Stylised facts and policy considerations", in *Issues notes on macroeconomic and structural policy issues related to the COVID-19 outbreak*, OECD Publishing, Paris, https://doi.org/10.1787/7f54e942-en.

The Roma community is highly vulnerable to economic shocks. Roma account for almost one-tenth of the population in the Slovak Republic. Their labour market outcomes are much weaker compared to the general population, but have been considerably improving in the last couple of years (Machlica et al. 2019). However, they remain at particular risk during a downturn as they are mostly low-skilled and work in seasonal, temporary jobs which are much more affected by the economic cycle. Indeed, their employment reacts much more strongly to the economic cycle (Figure 2). In addition, many Roma work in the informal economy, which increases their income insecurity, as they are not entitled to unemployment benefits when they are out of work (Gatti et. al, 2016). All these factors place Roma at a higher risk of falling into poverty when faced with a health or employment shock. This is a significant concern as the vast majority of Roma have been at risk of poverty even before the crisis and almost one-third was living in households where at least one person went to bed hungry in the past month (Machlica et al. 2019).

Figure 2. Employment of Roma is volatile
Employment growth (%)



Source: Bednarik, M., S. Hidas and G. Machlica (2019), "Enhancing the social integration of Roma in Slovak Republic", OECD Economics Department Working Papers

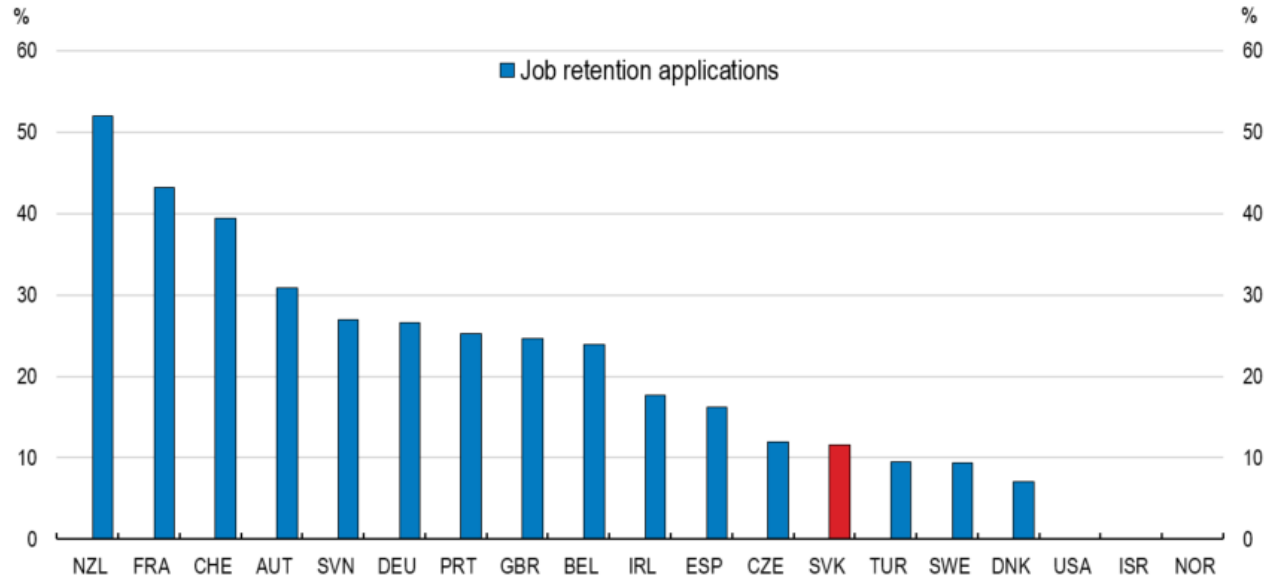
The crisis can significantly worsen the labour market prospects of youth as the initial labour market experience can have a profound influence on later working life. This year's graduates will leave schools and universities with poorer chances of finding employment or work experience. This is a particular concern because of scarring effects that may lead to long-lasting negative labour market outcomes (Bell and Blanchflower, 2011; Helbling and Sacchi, 2014). Young people indeed appear most severely affected by the crisis as they generally work in less secure jobs, and are overrepresented among workers in hard-hit industries such as accommodation and food services (OECD, 2020b).

Protecting all workers

The Slovak government has rightly put in place a number of measures in response to the COVID-19 crisis, including incentives to preserve existing jobs, but the take up was much lower than in other OECD countries (Figure 3). These job retention schemes can help limit increases in unemployment and promote a quicker labour market recovery by reducing costs of matching employers to employees. However, this support should not be indefinite as it hampers the necessary reallocation of workers to new jobs (OECD, 2020a). Consumers may emerge from

lockdown with new spending habits requiring new jobs, and the long-term preservation of existing jobs may not be efficient. The longer the recovery from the crisis takes, the more should the policy focus shift from “protecting jobs” towards “protecting workers”, providing them with expanded unemployment insurance and an effective activation framework to improve their employability. Strong activation policies can help mitigate some of the inevitable adjustment costs of moving towards new jobs.

Figure 3. Applications for participation in job retention schemes
Early March to end-May (or latest available date), % of labour force



Source: OECD (2020a), OECD Economic Outlook, Volume 2020 Issue 1, OECD Publishing, Paris

Vulnerable groups require special attention. First, the government should ensure adequate social safety nets to avoid the risk of some groups falling through the cracks of existing social protection system as outlined in a recent OECD report (OECD, 2020d) In the medium term, there is a need to enforce a clear distinction between self-employed and employee status. Many OECD countries are tackling false self-employment by reducing incentives for firms and workers to misclassify employment relationships, putting in place tests and criteria for assessing employment relationships and increasing the capacity of labour inspectorates to monitor and detect breaches (OECD, 2019a).

A strong social safety net should be coupled with an extensive

activation framework, which in the case of the Roma community should reflect their specific constraints such as poor health, housing and transport issues, indebtedness or limited availability of childcare. Tailored measures should offer a mix of training, counselling and mentoring programmes. Collaborating and outsourcing some of these services to non-governmental providers with a good track record of high-quality support for the Roma can help ease capacity constraints of the Public Employment Services. The OECD report on the social integration of the Roma in Slovakia suggests that more coordinated interventions in different policy areas are needed to avoid further exclusion of the Roma, as interventions in one area will not work without others (Machlica et al. 2019). For the young unemployed, training complemented by subsidies to private employers offering on-the-job training can improve skills and employability (OECD, 2019b). For example, Australia and Denmark as part of its economic response to COVID-19 have introduced wage subsidies to help companies maintain or expand their apprenticeship and in-firm training programmes (OECD, 2020b).

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Impact of COVID-19 on Housing: how can policies support a healthy recovery?

Category: COVID-19,Housing,Uncategorized
written by oecdecoscope | August 6, 2020



By Boris Cournède, Federica De Pace and Volker Ziemann, OECD Economics Department



https://www.oecd.org/housing/policy-toolkit/

The COVID-19 pandemic has hit the housing sector particularly

hard, but governments have swiftly responded with an array of measures to alleviate the negative consequences of the crisis for tenants, borrowers, builders and lenders. Most, if not all, of these measures are meant to be temporary. If they are maintained for too long, they can stand in the way of a robust recovery and/or impair the responsiveness of the housing market to the evolving needs of society. This blog reviews new OECD evidence of the impact of the COVID-19 crisis on construction and discusses policy trade-offs between the objectives of preserving short-term housing affordability for tenants and mortgage-holders, facilitating mobility and ensuring sufficient, environmentally sustainable supply. The full study is available on the OECD "Tackling the coronavirus" online hub: Housing Amid Covid-19: Policy Responses and Challenges.

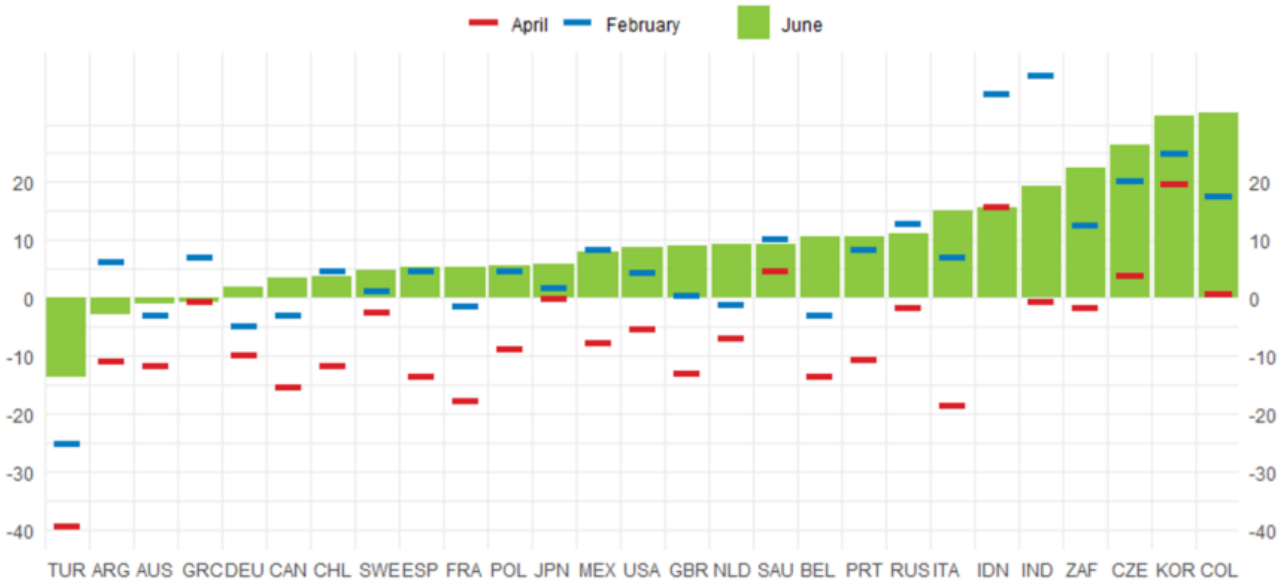
The COVID-19 crisis has severely hit the housing sector

The spread of the COVID-19 pandemic destabilised the real estate sector throughout the world. Containment measures involved total or partial shutdowns of construction sites in many countries, and the associated income and revenue losses for households and enterprises adversely affected the outlook for the different segments of the property market, depending on the timing and stringency of confinement and the severity of the public health crisis, which differed across countries.

New OECD analysis draws on Google Trend data to mimic the construction sector's Purchasing Managers' Index (PMI) for a wide range of countries for which the PMI is not available. The results confirm the slump in the construction sector's confidence during confinement but also suggest that the conditions have improved markedly across most countries, without, however, reaching February levels (Figure 1). It is noteworthy to remember that, following the original PMI's definition, a positive reading of the index only suggests that

activity is expanding not that output has come back to pre-crisis levels. It will certainly take some time in many countries before residential construction reaches pre-COVID-19 volumes. Besides, there remains considerable uncertainty about the extent to which the economic slump is going to weigh on future demand and the prospects of the sector at large.

Figure 1. A rebound followed the construction crash in most countries

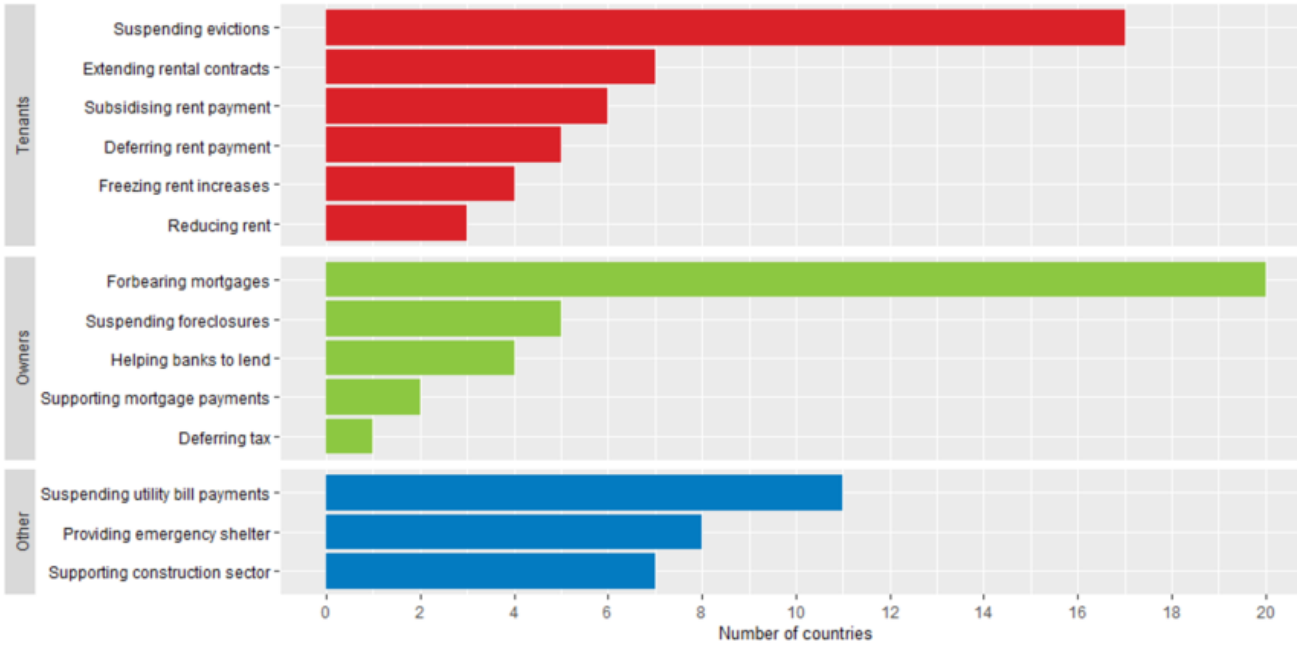


Note: Positive numbers mean expansion and negative ones contraction. The chart shows countries for which the Google Trends data are available and where the population is greater than 10 million in 2018.
Source: OECD calculations based on Google Trends analysis.

Governments have introduced rescue and support measures

With the onset of the COVID-19 crisis, governments responded with a host of specific measures to protect mortgage-holders and tenants in addition to the support from social safety nets. A number of countries also intervened to help the post-crisis recovery of the construction sector (Figure 2). In most countries, emergency support involved a suspension of eviction procedures, temporary forbearance of rent and mortgage payments, and in some cases moratoria on utility payments. Most governments, at both national and local levels, also took specific steps to shelter the homeless during the lockdown.

Figure 2. Most support measures targeted tenants and homeowners



Note: The sample includes all 37 OECD and 9 non-OECD countries. See detailed country-coverage in the Annex.
Source: OECD (2020[1]), DIW, Arena Housing Project.

Crisis-response measures are needed but involve policy trade-offs

While meeting an important objective of supporting tenants and borrowers during the crisis, several measures pose difficult policy trade-offs over the medium term (Figure 3). For example, if they are maintained for an extended period, measures that aim to preserve near-term affordability may create disincentives for the maintenance and expansion of the housing stock, as well as thwarting residential and labour mobility in the longer term. They may also undermine economic and financial resilience.

Measures that preserve housing affordability for mortgage-holders and tenants in the short term can have adverse longer-term side-effects. They can undermine resilience or compromise the long-term functioning of the housing market. If maintained for too long, tax advantages for mortgage-holders feed into house prices, creating instability and eroding affordability. A tightening of rent controls makes it more difficult for

people who don't already rent a dwelling to rent one and over time exacerbates housing shortages. Public authorities would do well to adopt a calendar for the phasing-out of COVID19-related tax advantages for mortgage holders and rental-market restrictions. Doing so would avoid letting emergency measures become new bottlenecks to the long-term efficiency of housing markets that would ultimately undermine affordability, inclusiveness and sustainability objectives.

By contrast, expanding capital spending on social housing, coupled with provisions ensuring that eligibility is portable, can generate benefits for both near-term affordability and long-term supply with limited adverse consequences for mobility. Furthermore, this kind of direct intervention in the market provides an opportunity for governments to promote and accelerate the spread of construction techniques that are aligned with environmental-transition sustainability objectives.

Figure 3. Housing policy responses to Covid19 involve trade-offs and complementarities



Note: Green means that the policy in the row supports progress towards the objective in the column; orange means that the policy in the row hampers progress towards the objective in the column; white means that there is no known effect.
Source: (Causa, Woloszko and Leite, 2019[2]; Cournède, Sakha and Ziemann, 2019[3]; Cavalleri, Cournède and Özsöğüt, 2019[4]; Causa and Pichelmann, 2020[5]; Bétin and Ziemann, 2019[6]) and authors' elaborations.

Furthermore, easing land-use restrictions is a way of

facilitating the recovery of homebuilding and better aligning the supply of housing with evolving demand and the needs of society. Reforms to ease land-use restrictions deliver greater benefits if conducted within an integrated spatial planning framework across government sectors and hierarchies. The goal should be to encourage housing construction and improve affordability while enhancing neighbourhood liveability and avoid excessive spatial divergence in the access to public services, transportation systems and social infrastructure. Fostering residential construction could also accelerate the transition to a low-carbon economy provided that the new buildings are required to comply with sufficiently ambitious environmental standards.

Facilitating construction and redevelopment would also allow accommodating the possible long-term change in housing demand that the COVID-19 crisis may prompt. There is a possibility that the COVID-19 crisis may lead to lasting mutually linked changes in housing demand and work organisation. Preferences could shift in favour of living in lower-density areas and working remotely. This could slow or even reverse urban-rural divergences. First, such a shift would relieve demand pressures in overly-dense areas. Second, flexible workplace amid more teleworking would free office space for conversion to residential units in city centres, provided land use can accommodate the change. The combination of such demand and supply effects could reduce regional home price differentials and contribute to reducing residential segregation.

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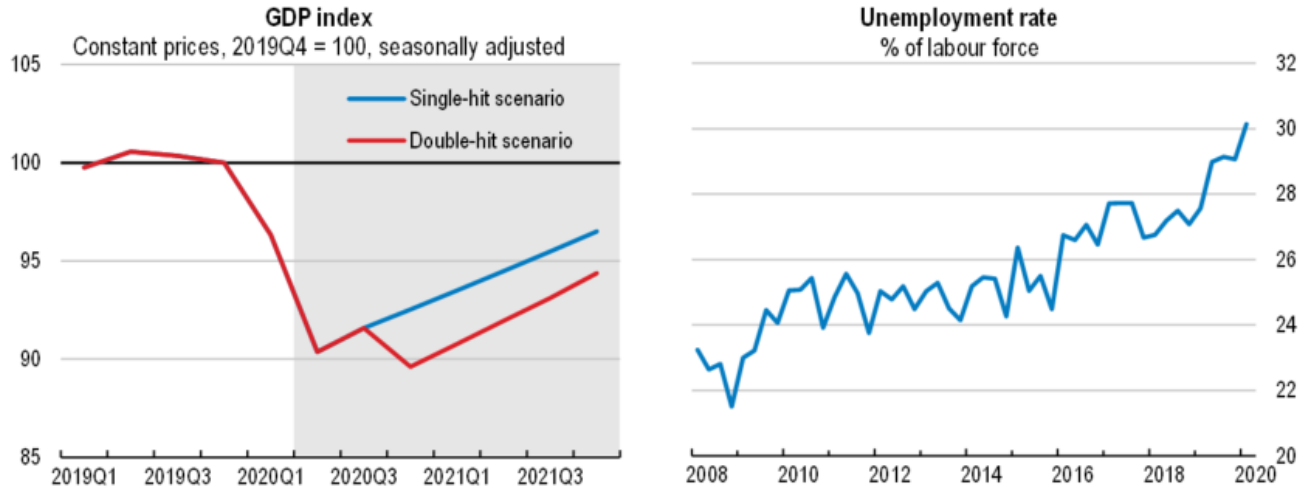
South Africa: The time to reform has come

Category: Uncategorized
written by oecdecoscope | August 6, 2020
By Falilou Fall, OECD Economics Department

The COVID-19 pandemic and the ensuing lockdown have led to a sharp economic contraction and rising unemployment, particularly affecting youth (Figure 1). The government reacted swiftly to mitigate the fall in household consumption, but investment will decline to a record low level.

The crisis also deepens existing fiscal challenges as it follows a sharp deterioration in fiscal accounts over the past three years. The government deficit will reach around 15% of GDP in 2020. In the absence of consolidation, debt will exceed 100% of GDP in 2022, raising sustainability risks in a context of low growth and high government borrowing rates. South Africa thus has to cope, in the short-run, with the impact of the coronavirus and support the economy, while adopting reforms to restore debt sustainability and spur growth in the medium-term.

Figure 1. Growth has collapsed following a modest performance in the past decade



Source: OECD Economic Outlook 107 database; Statistics South Africa.

Fiscal reforms are urgently needed

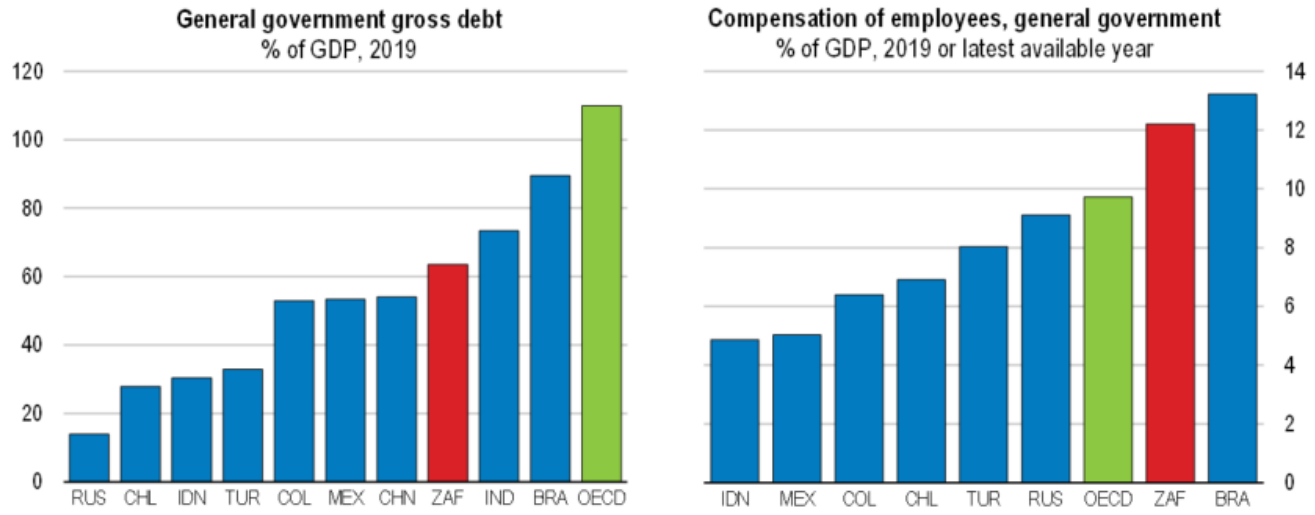
Restoring fiscal sustainability will require measures that will curtail wage bill growth and SOE financing, as well as contain spending growth in higher education, raise revenue and improve the efficiency of public spending.

Managing spending pressures: the government wage bill

The general government wage bill, at 12% of GDP, is one of the highest among OECD and partner countries (Figure 2). At 38% of total consolidated government spending, the compensation of employees was the largest spending item in 2019 (National

Treasury, 2020). Public sector wage increases are the main driver of government spending rather than increases in employment. Wage negotiations have systematically granted above-inflation increases over the past decade. Moreover, promotion policies contributed to wage bill increases. The government could consider indexing public sector wages below inflation for three years. An inflation minus 2 percentage points in the public service could generate around ZAR 30 billion savings over three years. Given the wage gains of recent years, the real cost to civil servants would be limited as they would still benefit from annual progression in the pay scale. Such a measure could create fiscal space for much-needed investment in infrastructure and education.

Figure 2. High government wage bill is contributing to the deficit and debt increases



Source: National Treasury, 2020 Budget Review, 2020 Supplementary Budget Review; IMF, World Economic Outlook April 2020 database; OECD Economic Outlook database; IMF, Government Finance Statistics Database.

Reforming state-owned enterprises to limit government contingent liabilities

Government financing of state-owned entities is high and represents risk to debt sustainability and public finances. The COVID-19 crisis is worsening the financial situation of many SOEs. The underperformance of SOEs is widespread due to mismanagement, corruption, overstaffing and uncontrolled spending. The government has started to reform key SOEs. New

boards and executives have been appointed at several of these entities and public inquiries into state corruption have started. Nevertheless, South Africa still needs to establish an effective governance framework for SOEs that clearly sets company-specific goals in terms of profitability, capital structure and non-financial objectives.

Managing spending pressures: financing higher education

South Africa has severe skills shortages and poor basic education outcomes despite high levels of public spending (OECD, 2015 and 2017). Higher education has been a growing component of expenditure. With the introduction of fee-free higher education from poor and working class families (announced in 2017), government spending on higher education is expected to increase from 1.3% of GDP in 2017/18 to 2.6% in 2022/23.

Reducing financial barriers for access to higher education is an important objective in South Africa's context. However, alternative financing mechanism could alleviate students' credit constraints while reducing the impact on fiscal resources. Under the current grant system, 95% students are receiving the same support, regardless of household income. Student loans could be designed as income – contingent loans backed up by the government to ensure that students are not constrained in their educational choices due to access to financial resources. Efficient administration of the scheme, including collection of repayments, is crucial.

Structural reforms should be accelerated to unlock growth

Supporting the economic recovery in the short-run while undertaking reforms to increase potential long-run growth is key. Regulatory restrictions are still relatively high. Reform should include reducing the high level of government

involvement in the economy, barriers to domestic and foreign entry, complex rules for licences and permits, and less protection of existing businesses from competition, for instance, in legal services and network industries. In addition, in the medium term, developing tourism and boosting transport infrastructure investments can contribute to growth and job creation during the recovery. These policy options are detailed in the new OECD Economic Survey of South Africa (OECD, 2020b).

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Building back better: enhancing equal access to opportunities for all

Category: COVID-19,education,Inequality,Uncategorized
written by oecdecoscope | August 6, 2020
by Laurence Boone, Aida Caldera Sanchez, Nikki Kergozou, Stefano Scarpetta

As some G20 countries are gradually re-opening their economies after a period of strict confinement measures, governments have the opportunity to build back better and make growth more inclusive. The COVID-19 crisis is generating new sources of inequality but also exacerbating the inequalities that existed before the crisis. Already disadvantaged groups, low-paid workers, those in non-standard forms of employment, including those in the informal sector, as well youth and many women have been disproportionally affected by the economic and social shock of the pandemic. These groups have been particularly exposed because of the nature of their jobs and because they suffer from weaker coverage by social protection tools. G20 Governments have acted quickly and boldly to provide immediate support for people and businesses, but building back better involves tackling these inequalities. Our new report prepared for the G20 discusses why these groups are disadvantaged and which levers governments can use to enhance access to opportunities for groups in more urgent need of support, including young people, women, informal and non-standard workers, low-income, low-skilled workers and SMEs (OECD, 2020[1]).

The pandemic is increasing the risk that children and young people struggle to access learning opportunities and potentially do not graduate, while those who do will find it harder to find work experience and jobs. There is a risk that

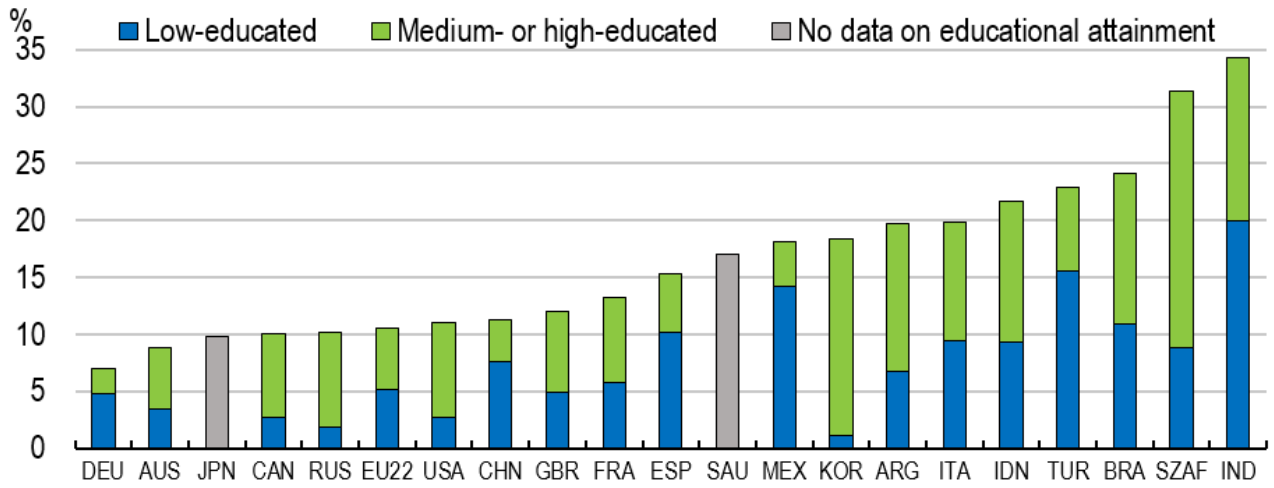
confinement measures compound the inequalities in children's learning linked to their family's socio-economic status as parents with higher levels of education and higher income have more opportunities to telework or arrange their work schedules to spend time with their children. In the lead-up to the crisis many young people already struggled to gain a solid foothold in the labour market, with around 19% of 15-29 year-olds not in employment, education or training (NEET) on average across G20 economies (Figure 1). Young people are also often among the most affected during labour market downturns as they generally hold less secure jobs (Figure 2) (OECD, 2020[2]). While the effects of the pandemic on the labour market are just starting, the increase in the youth unemployment rate was almost double that for the entire working-age population. The youth unemployment rate increased from 14.3 to 18.6 percent between February and May across G20 countries for which data is available, compared to an increase from 6.0 to 8.2% for the working-age population[1].

The first experiences of young people in the labour market is crucial: youth unemployment can have long-lasting scarring effects in terms of lower pay and higher unemployment (Bell and Blanchflower, 2011[3]; Schmillen and Umkehrer, 2017[4]). After the global financial crisis it took a whole decade, until 2017, before the youth unemployment rate returned to its pre-2008 level (OECD, 2020[2]). We can promote more equal access to opportunities for children and young people by targeting resources to disadvantaged schools and students, investing in high-quality teachers and school leaders and ensuring qualified educational staff and high staff-child ratios. Effective employment and social support, such as job search assistance and counselling, and work experience opportunities are important to help young people in their transition to the labour market. Targeted employment support and screening for barriers to access opportunities can help ensure that all young people, and particularly the most disadvantaged, receive the type and intensity of employment

and welfare support that they need. Close collaboration between schools and the public and private employment services can help increase the effectiveness of these services.

Figure 1. Many young people not in employment, education or training (NEET) have not completed high school

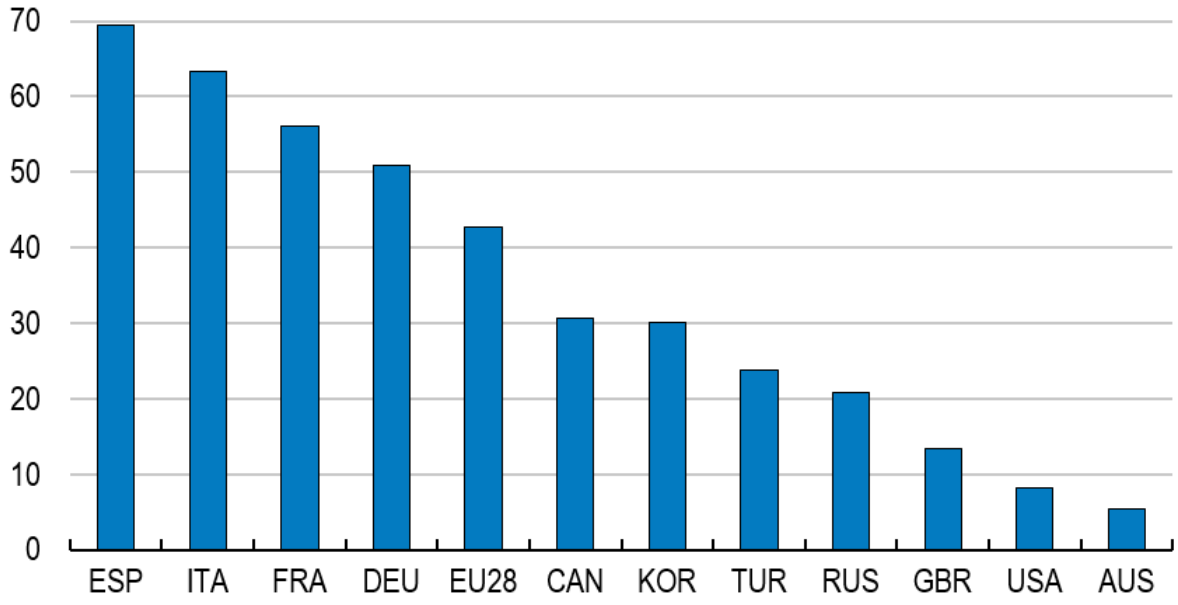
Percentage of 15-29 year-olds who are not in employment, education or training, by educational attainment, 2018



Note: A breakdown by educational attainment is not available for Japan and Saudi Arabia. The data refer to 2010 for China, 2015 for Japan, 2016 for Saudi Arabia and 2017 for Korea.
Source:
OECD (2020), Enhancing equal access to opportunities for all in G20 countries.

Figure 2. Youth in temporary employment

15-24 year olds, % of dependent employment, 2019 or latest available



Note: Temporary employment includes wage and salary workers whose job has a pre-determined termination date. Measured as percentage of dependent employees (i.e. wage and salary workers). Data for Australia and the United States are from 2017.
Source: OECD Employment Database.

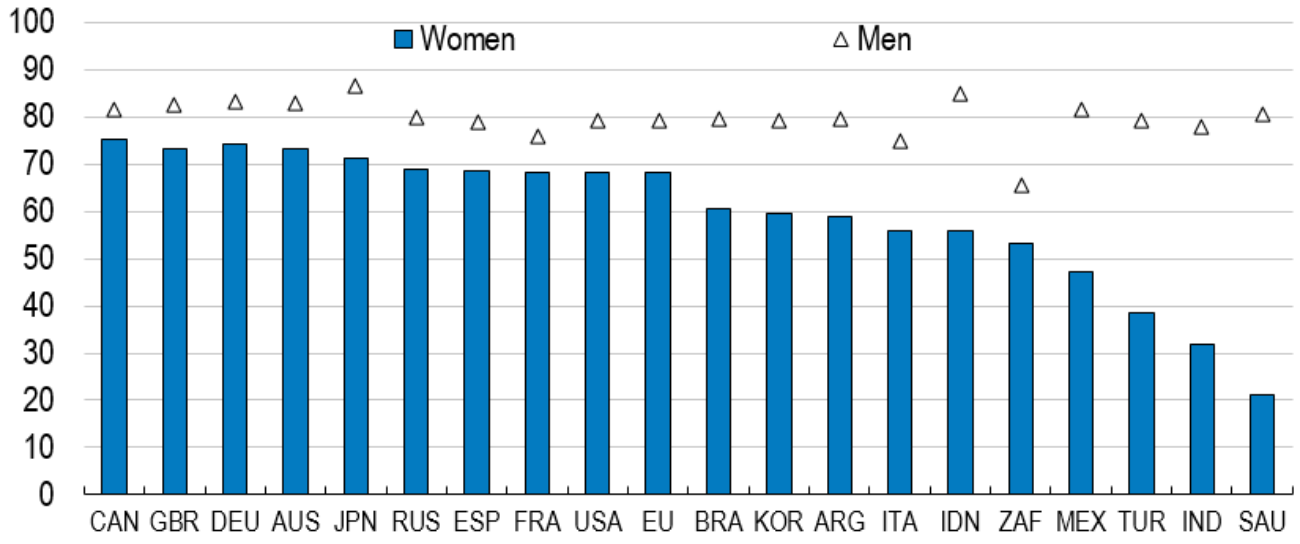
Low-income, low-skill workers are being hit hard by the pandemic on multiple fronts. Low-income workers are less able to work from home, are more likely to be working in sectors affected by shutdowns and are more likely to have suffered job or earnings loss. Even in the years leading up to the crisis, low-income, low-skill workers faced the risk of being replaced by digital and automated solutions (Nedelkoska and Quintini, 2018[5]). The crisis has pushed societies even more towards greater online sales and remote working. This push is likely to speed up digitalisation and automation trends, resulting in an even larger change in the demand for skilled jobs over the coming years. Building a sustainable and inclusive recovery means investing in people. Through upskilling and reskilling, especially in digital technologies, we can make digitalisation an enabler rather than competition for these workers. This calls, however, for reducing financial, time and scheduling barriers to participation in adult learning and for making sure that education and training programmes respond to the demand for skills in today's and future labour markets. Online training offers many opportunities to expand access to adult learning, but low-skill workers may lack the skills to make the most of this kind of training and may need extra support.

The pandemic recession has affected labour market prospects for women more than men so far. Many of the sectors most directly affected by COVID-19 are major employers of women. Even at the onset of the pandemic, women already faced difficulties accessing the same labour market opportunities as men. Women are less likely to participate in the labour market (Figure 3), and those who do work on average in jobs of poorer quality, with lower earnings and a greater incidence of part-time and informal work. These gender differences in employment rates, hours worked and hourly earnings cumulate over people's lives into a substantial gender gap in labour income. Across advanced G20 countries with available data, this gap ranges from around 30% in Canada to over 70% in Turkey. Outside of their paid job, the COVID-19 crisis likely amplified women's

unpaid workload at home (OECD, 2020[2]). G20 countries have made significant progress to reducing the gender gap in labour force participation but the pandemic has rolled some of this back. Recovery policies need to double down on reducing gender gaps in labour force participation by expanding access to quality formal childcare, reforming paid family-leave policies and strengthening long-term care systems. Further efforts will be needed to reduce the gender gap in earnings and the incidence of low pay among women by fighting gender biases and stereotypes, by attracting more women into careers in science, technology, engineering and mathematics, and by increasing the representation of women in leadership positions.

Figure 3. The gender gap in labour force participation remains large in some G20 economies

Percentage of the population aged 15-64 participating in the labour force, 2018



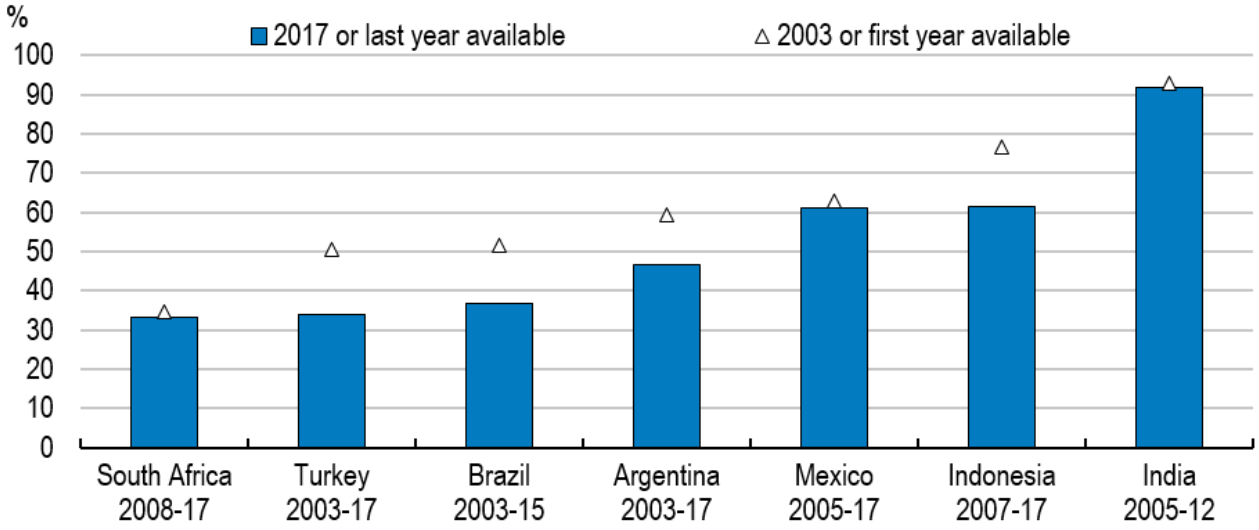
Note: The data refer to: 2015 for India and 2017 for Russia; and the population aged 15 and over for India and 16-64 for the United States.
Source: OECD (2020), Enhancing equal access to opportunities for all in G20 countries.

Informal and non-standard workers, including workers on temporary contracts, in part-time jobs and the self-employed, **are particularly exposed to job and income losses in any crisis** (OECD, 2020[2]). **At the same time, these workers often benefit less, or do not benefit at all, from social protection measures and health coverage.** A sizeable share of workers undertake non-standard work (OECD, 2020[6]), while informal workers make up 33 to 91 percent of all workers in emerging G20 economies with available data (Figure 4). The crisis has highlighted the extent of this vulnerability by forcing some

non-standard and informal workers to choose between protecting themselves from the virus and having an income. Many countries have recognised this difficult situation and have put in place emergency income support, scaling up means-tested assistance of last resort, introducing new ad-hoc cash transfers and providing direct support for expenses. However, these disadvantages in labour market conditions have structural roots. These workers are often faced with lower job quality and fewer opportunities for training and career development. To ensure a more resilient and inclusive economy and society, we need to help more workers get good quality jobs and benefit from social protection systems. We can do this by encouraging formal job creation, in part by ensuring effective labour market regulation that avoids unnecessarily adding to the cost of formal employment, increasing the perceived benefits of formal employment, keeping labour taxes moderate and strengthening enforcement methods and compliance. We can improve access to training and career development for these workers by making training rights portable between jobs and available to all irrespective of employment status through individual learning schemes.

Figure 4. Informality rates are still sizable in G20 emerging economies

Informally employed persons as a % of the working-age employment



Note: Informality is defined to include: i) employees who do not pay social security contributions; and ii) self employed who do not pay social security contributions or whose business is not registered.
Source:
OECD (2020), Enhancing equal access to opportunities for all in G20 countries.

SMEs are facing dramatic revenue losses and severe liquidity shortages as a result of the pandemic. Small and medium-sized enterprises (SMEs) account for the majority of overall employment and have a considerable impact on employment growth (OECD, 2019[7]; Koirala, 2019[8]). The sudden loss of revenue could translate into insolvency problems and unnecessary bankruptcy for SMEs who in normal times are viable and sound businesses. Building back better also involves creating the right conditions for SMEs to thrive. We can create these by improving access to finance, creating a business-friendly environment that creates an equal playing field across businesses of all sizes, reducing regulatory barriers and supporting women and youth entrepreneurship.

We have a chance to build back better and make growth more inclusive. But to do this, we need to tackle the inequalities that existed well before this pandemic and are now getting worse. Governments have many levers to make this happen. G20 Governments need to keep acting boldly to make sure that the recovery benefits everyone.

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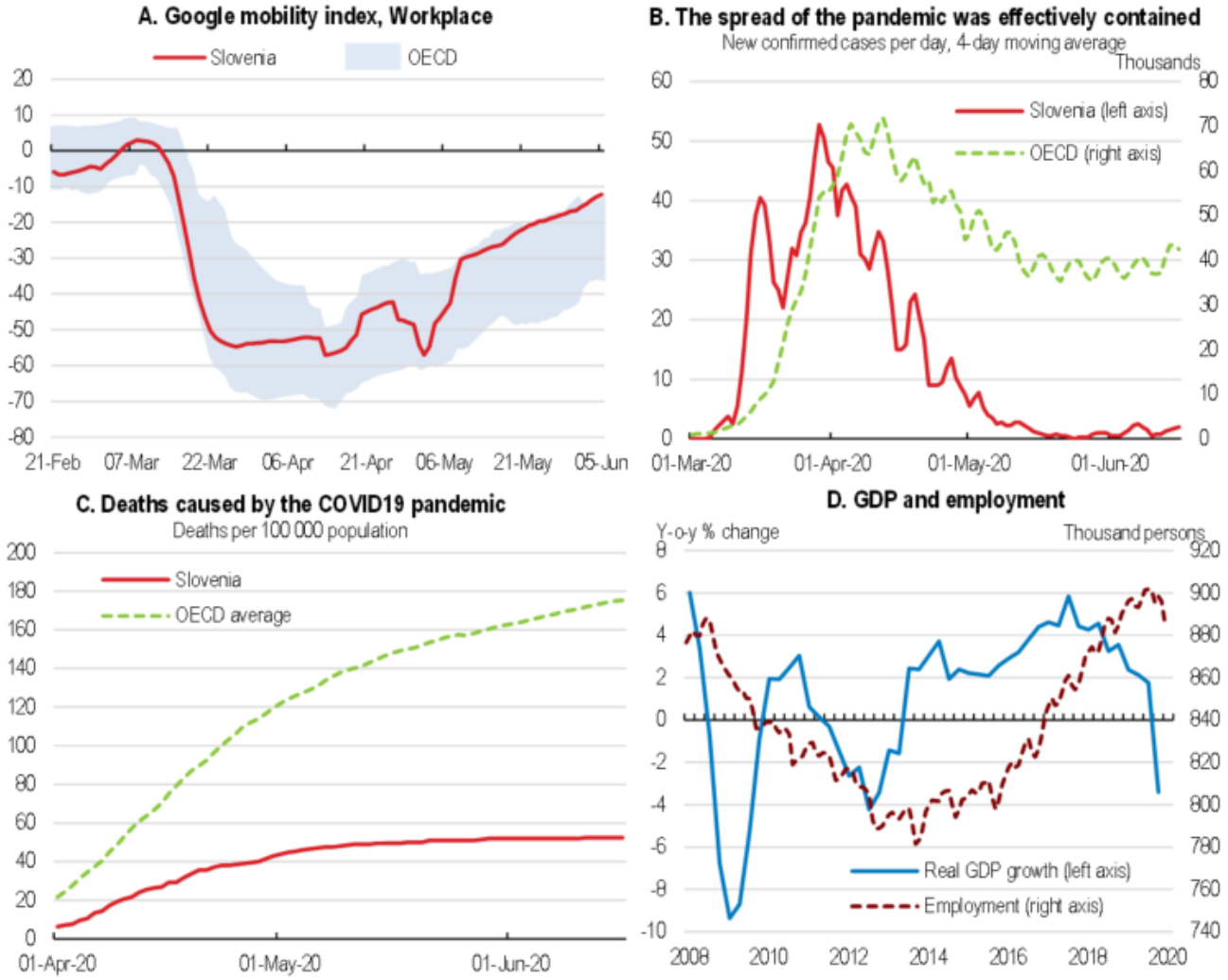
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After the Covid-19 crisis, Slovenia needs to focus on population ageing challenges

Category: COVID-19,Slovenia,Uncategorized
written by oecdecoscope | August 6, 2020
by Jens Høj, Slovenia Desk, OECD Economics Department

Slovenia was one of the best preforming OECD economies until the Covid-19 outbreak. The health crisis was smaller than in most other counties, helped by early implementation of containment measures.

Figure: The Covid-19 outbreak was quickly contained but led to a sharp economic contraction



Notes: Panel A depicts the ratio between mobility to workplace at all points in time and the level during the baseline period (7-day moving average). The shaded area represent the range between the OECD's 90th and 10th percentile. The level during the baseline period was established based on the median value of the volume of visits for each day of the week during the period January 3–February 6, 2020.
Source: OECD calculations based on Google Community Mobility Report and on Ourworldindata; OECD Economic Outlook 107 database; and Statistical Office of Slovenia.

Extensive fiscal measures were implemented to support jobs and incomes. Nonetheless, the ensuing economic crisis will be as severe as in other countries, reflecting the openness of the small Slovenian economy. The economic recovery should pick up unless a new outbreak materialise, which could lead to higher long-term unemployment and lower growth.

Once the Covid-19 economic crisis is under control, the government needs to start addressing population ageing challenges as this will lead to a higher number of pensioners and as the labour force becomes smaller and older. These developments are creating two main long-term challenges. The

first is to contain ageing-related spending increases in pensions and health and long-term care. Longer working lives is key to secure the pension system's fiscal sustainability, while better use of economic signals is needed to improve the efficiency and effectiveness of the health and long-term care systems. The second challenge is to sustain growth with a changing workforce. In the near-term, underutilised labour resources, such as older and low-skilled workers, need to be mobilised. Thereafter, maintaining growth and income convergence requires faster productivity growth, pointing to a need for continuously improving labour allocation. For this to be realised, labour market institutions have to adjust to ensure that workers' reward reflects to a higher degree individual productivity and efforts. In addition, more geographical labour mobility is needed, pointing to a need to develop further the housing market.

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The US COVID-19 recession – Will this time be different?

Category: COVID-19,Uncategorized,United States
written by oecdecoscope | August 6, 2020
By D. Azzopardi, M. Hermansen, P. Lenain and D. Sutherland, OECD Economics Department

As COVID-19 hit the United States, non-essential businesses had to shut down and large numbers of workers lost their jobs. The unemployment rate went from a low point of 3.5% in early 2020 to a post-war record high of 14.7% in just two months.

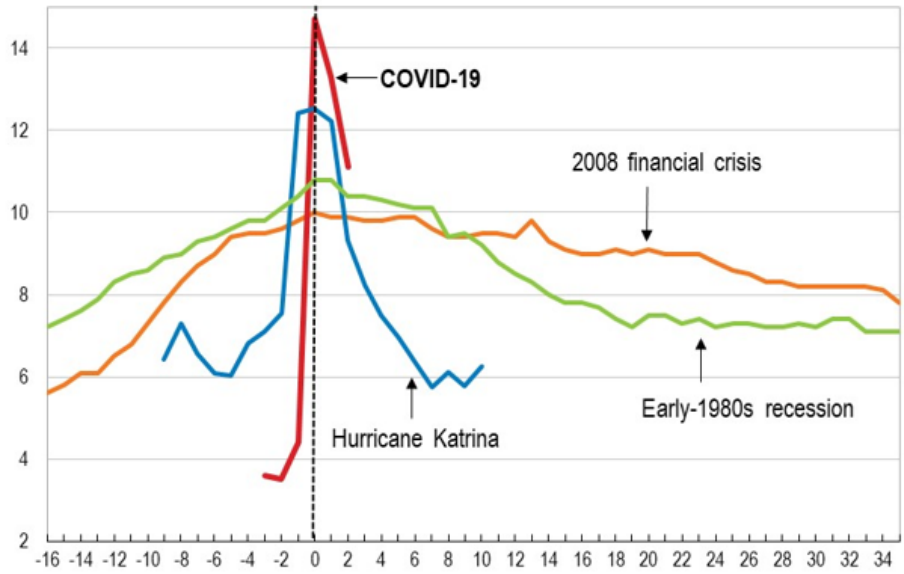
With the easing of confinement and the reopening of businesses, many workers were recalled and the unemployment rate fell back to 11.1% in June 2020. After this initial rapid improvement, however, further declines are likely to be slower. The OECD projects that unemployment will still be in the range of 8-10% at the end of 2021, depending on how fast the coronavirus epidemics is controlled, leaving millions of workers without a job (OECD, 2020a).

Business cycle regularities

A striking regularity of business cycles is that unemployment always rises much faster than it falls. The US economy has a remarkable capacity to create jobs after recessions, bringing unemployment back down to a low range of 3-5%. However, this takes time. Many workers lose their link to a previous employer during recessions and need to go through a time-consuming process of job search, retraining, relocation, and temporary contracts before securing stable employment (Gregory et al., 2020). As a consequence, after a recession, the unemployment rate typically declines at the slow average pace of about 0.55 percentage point per year (Hall and Kudlyak, 2020). After the 1981-82 recession, unemployment did not reach 5% until 1989. After the 2008 financial crisis, it took 10 years for the economy to return to full employment (Figure 1). If this historical regularity still applies, the United States may not return to full employment until the early 2030s. Adopting policy reforms to hasten the return to work would mitigate the impact on job seekers in terms of earning losses and well-being (Davis et al., 2011).

Figure 1 – US unemployment usually rises much faster than it falls

(Unemployment rates, in %)



Source: US Bureau of Labour Statistics

Note: Monthly unemployment rates during the 1982-82 recession, 2008 financial crisis, Hurricane Katrina devastation (New Orleans and Metairie), and COVID-19 recession; t = 0 at top of unemployment cycle.

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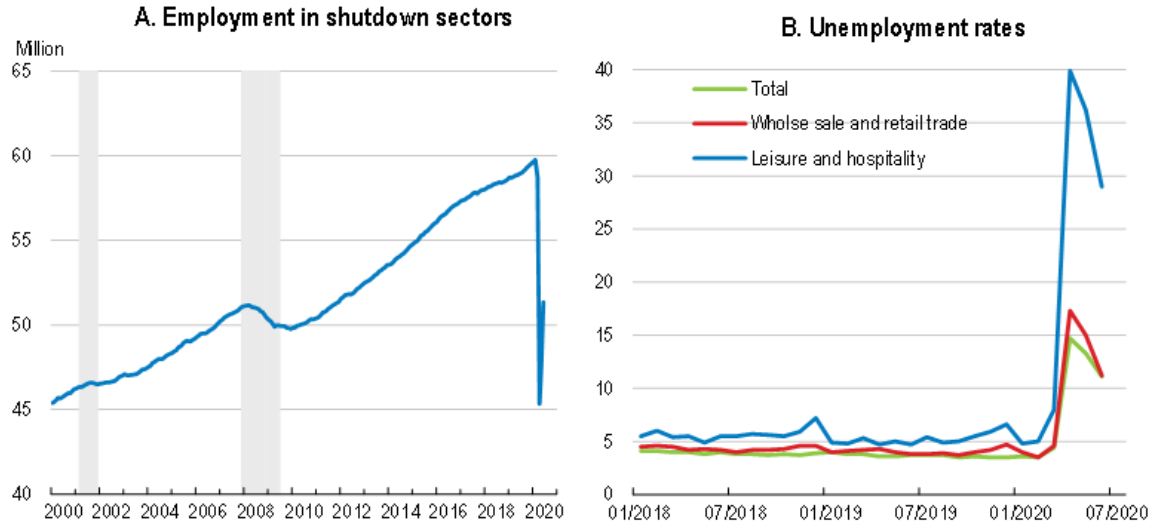
[1] A longer version of this note is available on www.oecd.org/economy/united-states-economic-snapshot/

A large reallocation shock has hit workers providing in-person services

The COVID-19 crisis is not a typical recession. Instead of coming from the accumulation of imbalances (inflation in early 1980s, credit bubble in 2008), it results from government lockdown orders to protect the population from the pandemic. Once businesses reopen, some workers are quickly reemployed. Judging from the experience of New Orleans after Hurricane Katrina, unemployment can decrease fast as sectors such as retail trade, education and social services restart their activity (Figure 1). However, the COVID-19 pandemic is likely to have a longer-lasting impact: sectors such as air transport, leisure, entertainment, accommodation and food services may remain depressed for a long time if distancing and customer anxiety continue to prevail. In June 2020,

despite progress in reopening, 10 million jobs had still been lost in shutdown sectors, and the unemployment rate was still close to 30 percent in the leisure and hospitality industry (Figure 2).

Figure 2: Employment has declined sharply in sectors providing in-person services*



* Air transportation, retail trade, leisure and hospitality, health care & social assistance, and other services.

Source: Bureau of Labour Statistics.

The coronavirus crisis has been characterized as a "reallocation shock" (Barrero et al, 2020) because many workers providing in-person services will have to find work in other parts of the economy. Past sector-specific shocks show that such a reallocation can be difficult. After the China shock of early-2000s (Autor, 2016), which hit the manufacturing industry hard in the Midwest, it took 15 years to return to earlier levels of employment in this region.

The new Job-to-Job dataset of the Census Bureau shows that many manufacturing workers were able to move to other industries or to other parts of the country after the China shock, but low skilled and seniors faced greater difficulties (Azzopardi et al, 2020). The same dataset suggests many construction workers struggled to return to work after the 2008 burst of the housing bubble. This is worrying because the sectors presently locked down employ a large share of workers who will have difficulties moving to new industries, and these jobs are often entry points for workers joining or re-joining

the labour force. If previous patterns once again emerge, the sluggish reallocation of workers may prevent the United States from returning quickly to full employment.

Lessons from the past also suggest that a set of regulatory easing measures and support to dismissed workers could help. Regulations introduced in past decades at the state level – especially mandatory occupational licenses, non-compete contracts, and housing regulations ¬– hinder the fluidity of the worker-job matching process and slow down the reallocation of workers across industries (Hermansen, 2019). Easing these restrictions, for instance by eliminating these requirements when not clearly justified or through interstate reciprocity agreements, would quicken the return to full employment. Similarly, a reform of unemployment benefits from passive support to active policies favouring labour-market reintegration, reskilling and geographic mobility – would help the return to work of job seekers and avoid long spells of unemployment and their scarring effects. These policy options are detailed in the new OECD Economic Survey of the United States (OECD, 2020b).

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Germany's short-time work scheme: can its past success be replicated?

Category: COVID-19,Germany,Uncategorized
written by oecdecoscope | August 6, 2020
By Alexandra Effenberger, Michael Koelle and Andrew Barker, OECD Economics Department

Germany has avoided a large jump in unemployment in the early stages of the COVID-19 recession, just as it did during the global financial crisis (GFC). One important factor in this success is the well-established short-time work (STW) scheme (Kurzarbeit), whereby the government subsidises wage payments for employees whose hours are cut at companies in temporary

distress. Countries such as Austria, Switzerland and Italy have similar established schemes, while others such as the UK, Denmark and Latvia have just recently implemented job retention schemes. A number of questions are pertinent for countries looking to learn from the German experience: how many jobs have been saved by STW, what are the fiscal costs and how much does the scheme's success depend on the specific institutional settings in Germany?

In its current form the scheme functions as an automatic stabiliser, as companies are generally eligible to use STW if they face a major drop in activity for economic reasons or due to extraordinary events, provided the drop is temporary and unavoidable. The application process is fairly streamlined. After notifying the labour agency of the intent and demonstrating the need to use STW, firms are flexible in the actual take-up in terms of both workers and individual work-time reductions. Similar to previous economic crises such as the GFC, exceptional measures to extend the scheme during 2020 could be readily implemented including:

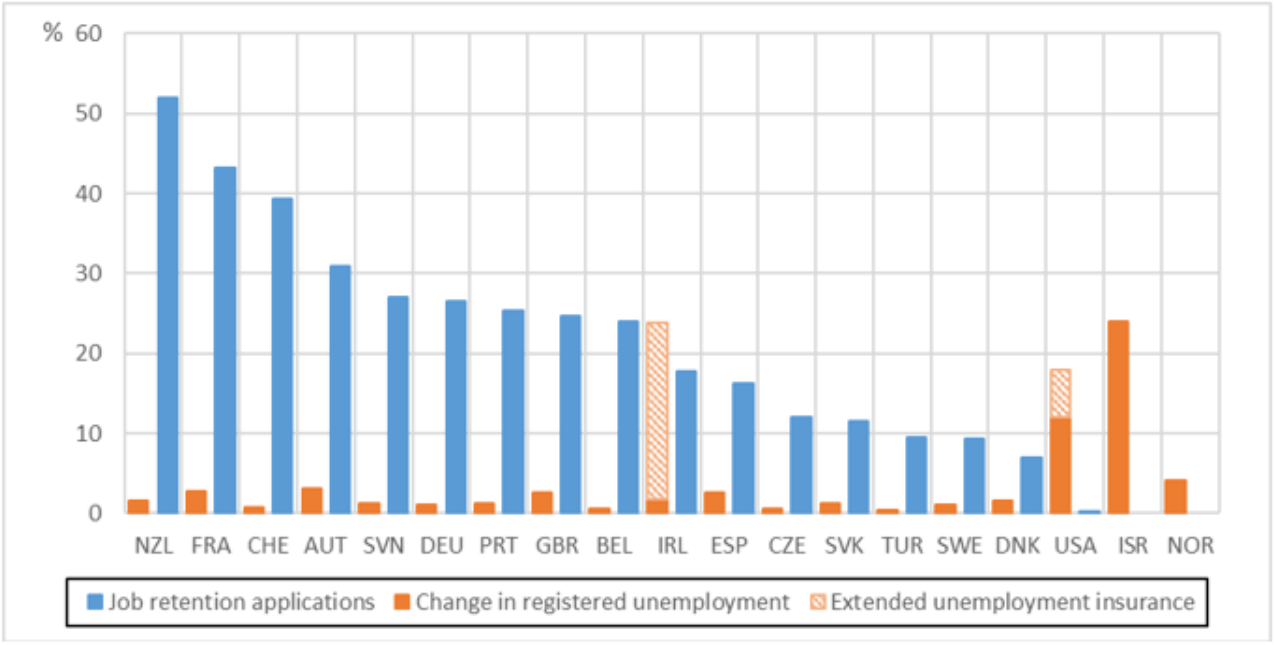
- The eligibility threshold for the share of workers affected by a lack of demand within a firm has been lowered from one-third to 10%, and temporary agency workers made eligible.
- The labour agency reimburses 100% of social security contributions for lost working hours (usually covered by the employer).
- To shield workers from large earnings losses, the replacement rate of lost net earnings is increased from 60% for childless workers and 67% for workers with children to 70% and 77% from the fourth month if they have reduced their working time by at least 50%. In the seventh month, payments are increased further to 80% and 87%.
- Restrictions on taking part-time jobs while on STW have been lifted. The additional earnings are not credited

against short-time working benefits as long as the total income does not exceed the previous income.

The key benefit of STW is moderation of the increase in unemployment during a downturn, with immediate payoffs through avoiding the large wellbeing and scarring costs of unemployment for workers and medium-term gains from maintaining viable job matches. Countries with large STW or job retention schemes have seen substantial take-up of these schemes alongside much smaller increases in unemployment during the current crisis (Figure 1). STW is estimated to have saved in the order of up to half a million German jobs during the GFC when at its peak around 1.4 million workers were in STW (Hijzen and Martin, 2013[1]; Boeri and Brücker, 2011[2]). Based on the number of notifications the labour agency estimates that 6 million individuals were in short-time work in April 2020. The flipside is that by subsidising existing positions, STW can impede labour reallocation, reduce the probability that those without a secure job find work and slow job growth during the recovery (Cahuc, 2019[3]; Hijzen and Martin, 2013[1]).

Figure 1. Registered unemployment and applications to job retention schemes such as STW

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. 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.
Source: Schwellnus, Koelle and Stadler, 2020[4]

Will STW be an efficient instrument in the current crisis?

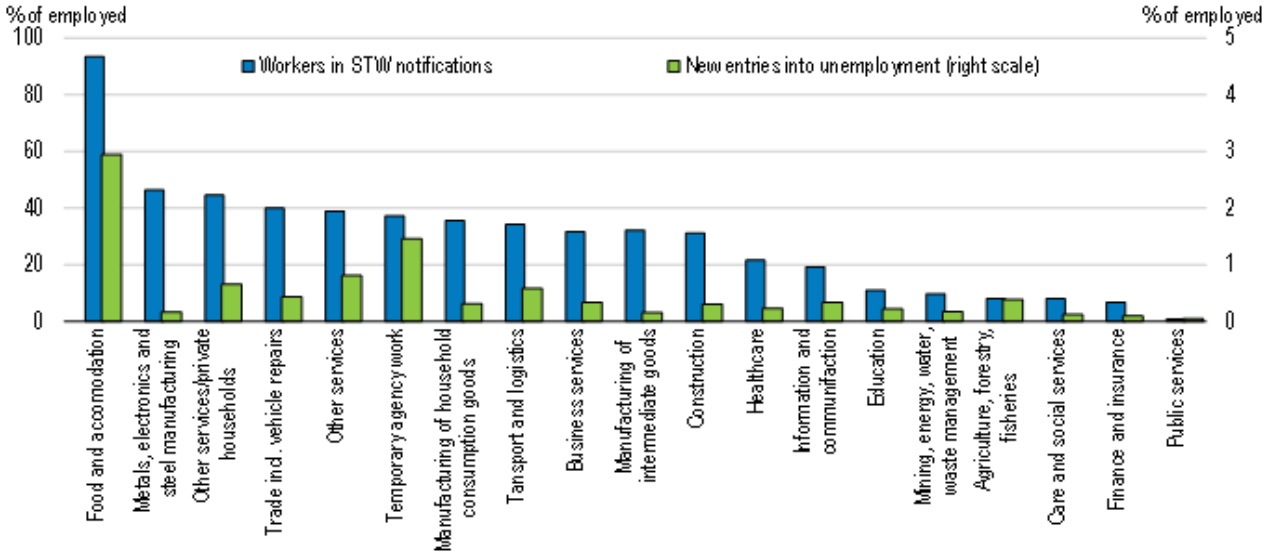
It remains unclear how well STW will perform in the current crisis, but it will be best-suited if there is a relatively rapid economic rebound without substantial changes to the sectoral composition of the economy (Schwellnus, Koelle and Stadler, 2020[4]). STW was well-suited to dealing with the downturn in Germany during the financial crisis as the sectoral composition of the economy changed little. No major industry grouping gained or lost more than 1 percentage point in its share of labour between 2008 and 2011, with manufacturing experiencing the biggest decline from 19% of hours worked to 18.2% (OECD, 2020[5])

Certainly, the current crisis hit the economy faster and more broadly, as many stores and services were required to shut

down completely. This is also visible from the concentration of STW notifications and movements into unemployment in those most affected sectors (Figure 2). However, in contrast to the GFC the decline in business activity has been determined by confinement and social distancing rather than pre-existing differences in firm performance, which is mirrored in the so far much greater reliance on STW rather than lay-offs (Weber and Gehrke, 2020[6]). This suggests that the risk of locking workers in unviable jobs through the use of STW might be less pronounced. Sectoral shifts might be avoided again if the lifting of confinement measures continues and consumers' demand picks up quickly. In addition, Germany entered the current crisis with very low unemployment and a high degree of labour shortages making firms reluctant to lay off valuable workers. Nevertheless, sectors such as tourism, hospitality and aviation might be subject to longer-term interruptions. A fall in demand during the downturn might accelerate structural changes in some industries, such as automotive manufacturing. As a result, reallocation of labour might become more crucial. In this case, relying on STW for an extensive period might be less efficient than implementing measures focusing more directly on job creation.

Figure 2. Degree of STW and unemployment varies across sectors

Cumulative share of employees within sector mentioned in notifications of STW in March and April 2020 & share of previously employed individuals entering unemployment



Note: New entries into unemployment measure the cumulative number between the cut-off dates of mid-March and mid-May in comparison to the previous year. In line with the calculations of the share of workers mentioned in STW notifications by the Bundesagentur für Arbeit, the number of entries into unemployment are also relative to the number of employees within each sector at the end of September 2019.
Source: Bundesagentur für Arbeit; own calculations.

Some current additional measures increase the efficiency of the scheme. For example, expansion of STW to allow part-time working in a second job is positive as it facilitates reallocation towards sectors with a temporarily higher labour demand. On the other hand, deadweight effects might increase with the full reimbursement of social-security contributions as it makes it less costly for firms to hold on to workers even if their job is not viable and they will be laid off eventually (Crimmann, Wießner and Bellmann, 2010[7]).

How much does it cost?

The fiscal costs from STW are generally low relative to the number of jobs saved. The costs to the labour agency of saving around half a million jobs during the GFC amounted to about EUR 4.6 billion in 2009 and EUR 3.1 billion in 2010 (Bundesagentur für Arbeit, 2011[8]). Based on the estimate of 6 million workers in STW in April 2020, labour agency budget estimates suggest costs could have been running at almost 2% of GDP recently, with the increase in unemployment payments

roughly a degree of magnitude smaller. By comparison, increases in unemployment benefits under expanded coverage were costing US governments around 5% of GDP in early May (including substantial increases in payment generosity) and the Israeli government just over 3% per cent of GDP in April.

The generosity of German STW payments is aligned with unemployment benefits, but may cost the government more upfront if it pays for reductions in hours for workers who would have been kept on anyway. Conversely, STW offers fiscal benefits because the government saves on the cost of helping those who become unemployed to find work. Compared with job-saving alternatives, STW schemes such as the German one have a lower cost per job (Cahuc, Kramarz and Nevoux, 2018[9]). By allowing for a partial hours adjustment, the fiscal cost per worker covered is lower than job retention schemes that subsidise workers who stop work altogether. They are also better targeted than wage subsidies.

Can Germany's successes with STW be readily replicated?

There are some institutional settings that favour working time adjustments in Germany and may limit applicability to other countries. Stringent rules about layoffs make STW more pertinent to firms. Germany, like some other countries with extensive STW programmes such as France and Italy, ranks in the top 10 OECD countries for protection of permanent workers against dismissal (OECD, 2020[10]). Protection includes notice periods, during which the regular salary would have to be paid, and in some cases severance payments. Total costs averaged across different tenures reach almost 22 weeks of salary, among the highest in the OECD (World Bank, 2020[11]).

Similarly, firing and re-hiring is more costly for firms that require specific qualifications such as technology-intensive production. At the time of the GFC, the turnover costs for

low-skilled workers were around EUR 7000 in Germany whereas they were almost five times that high for qualified workers (Bach and Spitznagel, 2009[12]). OECD research shows that technology- and skill-intensity is positively related to labour-hoarding tendencies during economic downturns (OECD, 2010[13]). In this context, the relative importance of technology- and skill-intensive manufacturing in Germany may help to explain the modest response of employment to the decline in output during crises.

In addition, internal flexibility measures such as working hour accounts and reductions in weekly hours or overtime play an important role in working time adjustments in Germany and help cushion the effects of cyclical downturns. Such internal flexibility measures are often covered through collective bargaining agreements or agreed between the social partners, which might not be easily transferred to other countries.

What's to be learned?

In sum, the German experience shows that an established, flexible and quickly accessible STW scheme can help reduce the labour market effects of an economic crisis and save viable job matches when the downturn is short-lived, the sectoral composition of the economy is not affected, and costly firing and hiring by firms might slow the recovery. For the German case, it remains to be seen whether COVID-19 will trigger the need for substantial reallocation of labour, undermining the benefits of keeping employees in their current jobs. Moreover, any such scheme needs to be tailored to country-specific institutional settings and the eligibility for different types of workers and their share in the economy have to be carefully considered. For example, even when they are eligible for STW it might still be easier for firms to lay off workers on fixed-term contracts, which across European OECD countries on average constitute around 8% of all workers in sectors hit heavily by the COVID-19 crisis (OECD, 2020[14]). During the GFC,

take-up of STW in Germany was lower in firms with a higher share of fixed-term contracts (Boeri and Brücker, 2011[2]). Similarly, the self-employed cannot use STW and might need different support programmes. Many countries including Germany have established special funds for the self-employed. Finally, as STW is targeted at keeping incumbent workers in employment, it needs to be recognised that potential new hires such as young graduates and those currently unemployed do not benefit and may lose out if subsidised jobs hinder their own entry into the labour market. Rates of transition from unemployment to employment during April and May 2020 were the lowest ever recorded for those months, worse even than as unemployment approached its 2009 peak during the GFC (Bundesagentur für Arbeit, 2020[15]).

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

Category: COVID-19,Economic outlook,Labour markets,Uncategorized
written by oecdecoscope | August 6, 2020
by Cyrille Schwellnus, Michael Koelle, Balazs Stadler, OECD Economics Department

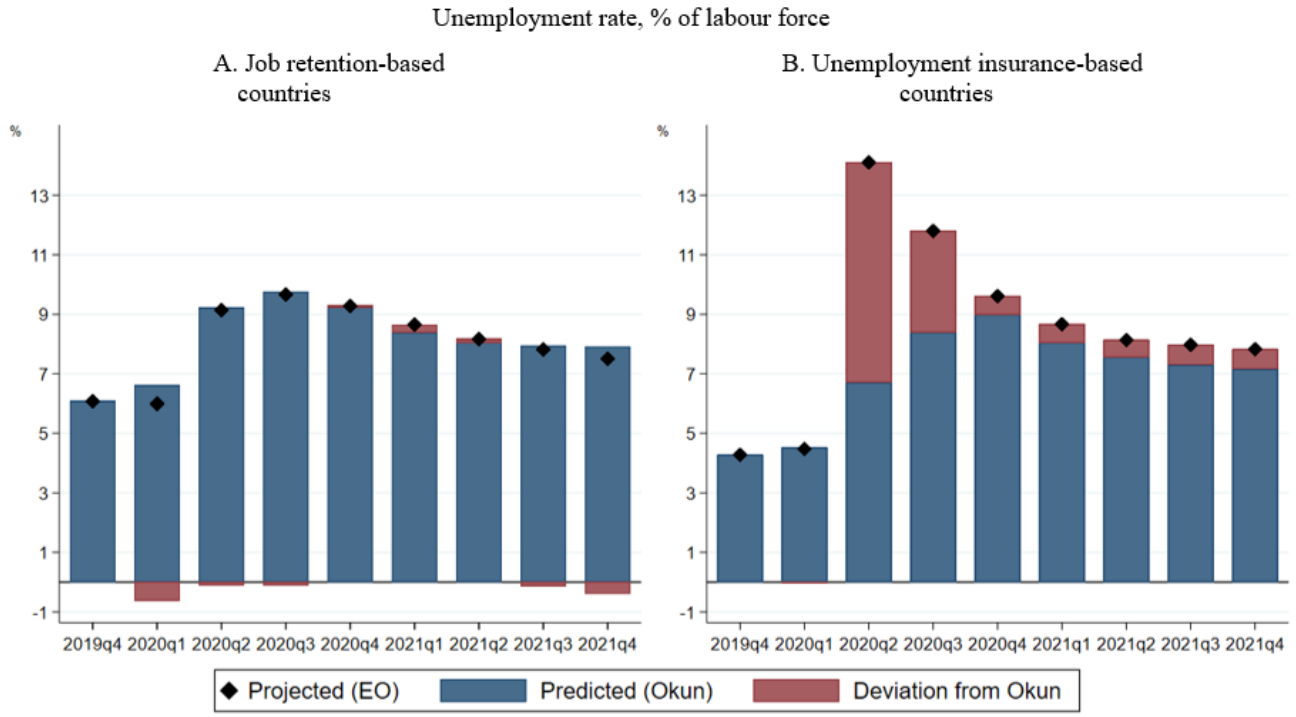
The spread of COVID-19 across countries and measures taken by governments to contain it – including shutdowns of many business and restrictions on travel and mobility – have led to employment losses that dwarf those experienced during the economic crisis of 2008-09 in terms of both speed and magnitude.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

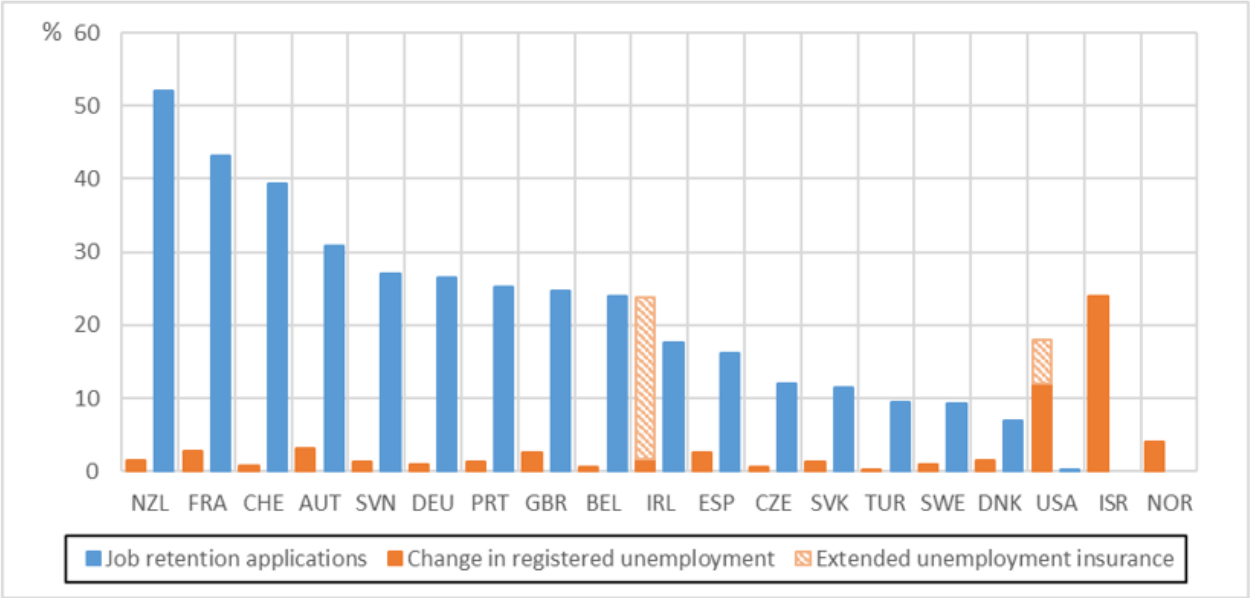


Note: The Okun predictions are based on the average response of unemployment to GDP growth over the period 2000Q1-2019Q4. Country groupings are based on the number of applications for participation in job retention schemes and OECD country experts' judgement.
Source: OECD (2020).

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.

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Corporate sector vulnerabilities during the

Covid-19 outbreak: assessment and policy responses

Category: COVID-19,finance,Uncategorized
written by oecdecoscope | August 6, 2020
by Lilas Demmou, OECD Economics Department, Guido Franco, OECD Economics Department, Sara Calligaris, OECD Directorate for Science, Technology & Innovation, and Dennis Dlugosch, OECD Economics Department

The health crisis caused by the COVID-19 outbreak has led public authorities to take unprecedented measures to contain the propagation of the virus. Administrative business shutdowns, quarantines and restrictions on mobility and social contacts have brought large parts of our economies almost to a standstill. Sales across many sectors have plummeted and are beginning to recover only slowly. Nevertheless, financial commitments with respect to suppliers, employees, lenders and investors remain, depleting liquidity buffers of firms.

The liquidity crisis may turn into a global corporate solvency crisis. With much less or no incoming revenues for an extended period of time and fewer options to deal with this shortfall, the long-term viability of firms has been impaired, and firm voluntary closure and bankruptcies may follow. In turn, a corporate solvency crisis could have serious long-term negative effects on our economies by dragging down employment, productivity, growth and well-being. Mindful of these risks, governments have adopted a range of emergency measures aimed at supporting firms' liquidity. Aside from monetary measures taken by central banks, fiscal interventions have included direct and indirect financing of the wage bill, tax deferrals, debt moratoria and extension of state loan guarantees.

An issue note published in the latest issue of the *OECD Economic Outlook* evaluates the risk of a widespread liquidity

crisis and discusses the pros and cons of different kinds of public support measures. Building on the methodology developed by Schivardi and Romano (2020) and on illustrative assumptions regarding the evolution of sales and costs during the epidemic, a simple accounting framework is used to calculate the percentage of firms that become illiquid month by month following the introduction of confinement measures. The key role of policies to avoid massive unnecessary bankruptcies is emphasised by comparing the share of firms that would turn illiquid under two scenarios: one where there is massive policy support for firms and one where there is no such support.

The risk of liquidity shortages is high for a large portion of healthy firms

The analysis relies on 2018 firm-level financial data, obtained from the latest vintage of the Orbis dataset (provided by Bureau Van Dijk), and covers a sample of almost one million firms located in 14 European countries, operating in both manufacturing and non-financial services sectors.

The economic shock from measures of physical distancing on firms' liquidity is modelled as a change in firms' operating cash flow, resulting from the decline in sales and from firms' limited ability to fully adjust their operating expenses. Next, the liquidity available to each firm is calculated as the sum of the liquidity buffer held at the beginning of each month and the shock-adjusted cash-flow.

Measures on distancing and mobility restrictions have heterogeneous effects on different sectors. Therefore, we assume the decline in activity to be different across sectors, but identical across countries; for a set of severely hit sectors, the decline in output ranges between 50% and 100% of sales, while it is conservatively set at 15% for the other non-financial sectors. In line with the projections published

in the Economic Outlook, we consider two alternative scenarios with respect to the dynamic of the recovery:

- A “single-hit” scenario, whereby a sharp drop in activity lasting two months is followed by a four-month progressive recovery, with a return to pre-crisis activity levels seven months after the start of the epidemic.
- A “double-hit” scenario, which overlaps with the single-hit scenario for the first seven months, but then assumes a second outbreak from the eight month onwards.

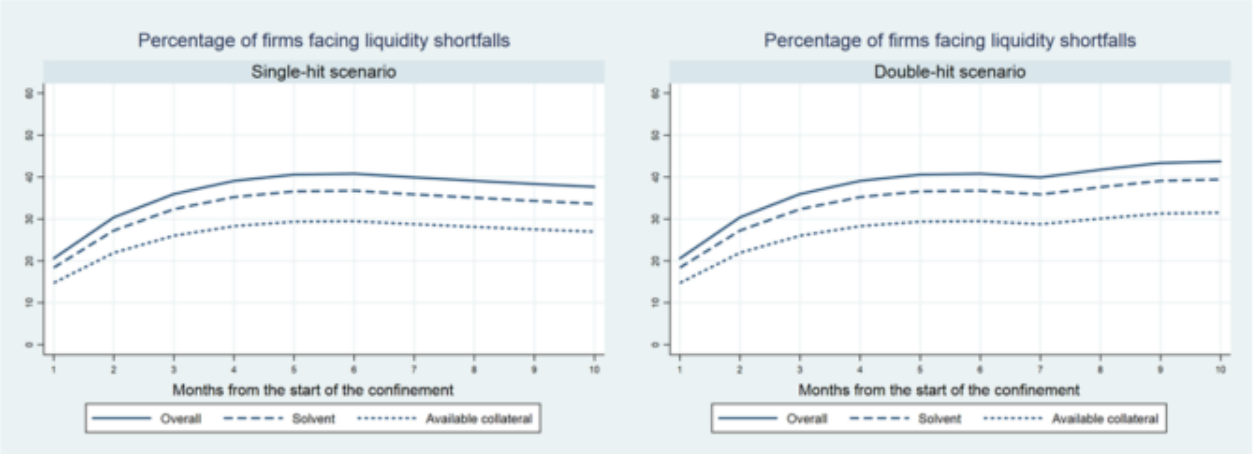
The solid lines in the left and right panels of Figure 1 report the main results of the exercise: in the absence of government intervention, 20% of firms in the sample would likely run out of liquidity after one month and 30% after two months. As the economy is expected to recover only slowly after the two months of collapse in activity, the percentage of firms facing liquidity shortfalls would reach 40% after six months, and starts to decline from the seventh month onwards, when the economy returns to the pre-crisis level of production (“single hit” scenario). In the case of a second episode of widespread confinement, this share would increase instead to 45% (“double-hit” scenario).

The analysis also shows that firms facing a high risk of experiencing liquidity shortages are mostly profitable and viable companies (Figure 1, dashed lines). At the same time, even though solvent, a sizeable share of these firms might face difficulties in accessing new bank financing to bridge a shortfall in liquidity, as they lack the collateral to tap into additional debt. (Figure 1, dotted lines).

The exercise is based on several assumptions, which calls for cautious interpretations. Even so, it underlines the merit of swift and decisive public intervention to safeguard companies and avoid potential bankruptcies of otherwise healthy companies. This intervention is crucial to avoid that the

temporary shock implied by the COVID-19 crisis permanently scars the corporate landscape, with serious consequences for the shape of the recovery and long-run growth prospects.

Figure 1: Liquidity shortfalls without government intervention



Note: The figure shows the percentage of firms facing liquidity shortfalls in the single-hit (left panel) and the double-hit (right panel) scenarios. In particular, it reports: the overall percentage of firms turning illiquid (solid line); the percentage of firms facing liquidity shortages but still potentially solvent, i.e., if the value of their assets is larger than the value of the liabilities (dashed line); the percentage of firms facing liquidity shortages but having collateral to pledge to obtain additional bank financing, i.e., if the value of their fixed assets is larger than the value of their non-current liabilities (dotted line).

Source: OECD calculations based on Orbis® data.

Public policies to reduce liquidity shortages and curb bankruptcy risk

Countries have already introduced a wide range of measures to help firms to cope with the disruptions associated with COVID-19. We used our accounting model also to illustrate the expected impact of stylised policy interventions in three areas:

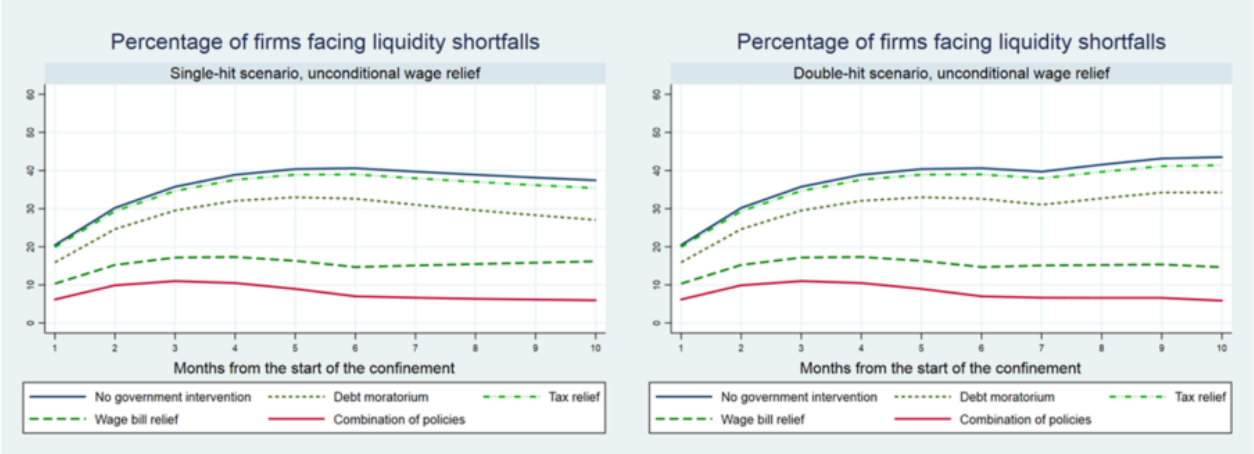
- *Deferral of taxes.* To support business during the epidemic, several countries have introduced tax deferrals. We model the tax deferral as the moratorium of the (hypothetical) monthly tax payments.
- *Financial support for debt repayment.* A large number of countries have also established legislative frameworks that temporarily allow firms to postpone their debt payments or alternatively, that offer State guarantees

to facilitate access to short-term debt facilities. The potential impact of such policies is modelled as a moratorium on short-term debt.

- *Temporary support to wage payments.* A critical response to avoid widespread liquidity shortfalls consists of relaxing firms' financial commitments vis-à-vis their employees. Schemes such as a shortening of working time, wage subsidies, temporary lay-offs and sick leave have been introduced across countries, though in different combinations. All these measures reduce the wage bill firms have to pay. The labour support is modelled as an unconditional reduction of the wage bill by 80% in all sectors.

Figure 2 illustrates the extent to which each measure curbs the risk of a liquidity crisis compared to the no-policy intervention situation. Tax deferral has the lowest impact on firms' liquidity positions, followed by debt moratorium policies. Subsidies to the wage bill seem to be the most powerful measure (yet potentially costly), in line with the fact that wages and salaries are often the most important component of operating expenses. Adding up the three different measures, public intervention after two months, for instance, would decrease the number of firms running out of liquidity from 30% to 10%.

Figure 2: The impact of policies



Note: The figure shows the percentage of firms facing liquidity shortfalls: in absence of policy intervention (blue solid line); in case of deferral of tax (green dash-dotted line); in case of a moratorium on short-term debt (green dotted line); in case of temporary support to wage payments, assuming an unconditional reduction of the wage bill by 80% in all sectors (green dashed line); a combination of all the previous measures (red solid line).

Source: OECD calculations based on Orbis® data.

Challenges in the design of policies

Public intervention on such a massive scale raises several challenges related to the design of policies. In particular:

- Country-specific dimensions. Country-specific institutional settings may shape the extent and the efficiency of the policy response. Given the importance of labour market policies highlighted in the note, it is likely that countries with already well-developed labour market support schemes are able to provide a quick response with less distortive effects.
- Conditionality. In some countries, loans forbearance and wage subsidies are conditioned on the actual reduction in payroll, with the requirement to be used to cover fixed costs only or to rehire fired employees after the crisis. The design of transfers and subsidized loans to corporations should ensure that firms preserve jobs when possible and do not divert resources towards exclusively private interests (e.g., to boost CEO compensation or dividend payments).
- Short-term versus medium-term policy answer. Given the need of an urgent policy response during the so-called

"phase one" of the crisis, policy has often not been particularly targeted in the short term. Going forward, short-term, cross-cutting policies might need to be better refined to ensure that public support does not contribute to resources misallocation. Moreover, policies will also need to account for the heterogeneous impact of the shock, as firms will not be on the same foot to face the crisis other than for liquidity reasons when the activity will slightly recover in the medium-term (see also Gopinath, 2020).

- New normal. The extent to which the COVID-19 crisis will disrupt the economies is still uncertain. In European countries a large set of policies, in particular in the labour market, is tailored on the principle to protect the pre-crisis allocation of resources. In other countries, like in the U.S., the adjustment largely hinges on payroll reduction via layoffs. Their relative efficiency during the recovery and beyond may be related to whether economies will structurally change coming out of the COVID-19 crisis.

Notes:
1. The detailed analysis in the Economic Outlook includes also a "prolonged confinement" scenario, which is agnostic on the length of the confinement and avoids modelling the recovery.
2. The issue note published in the Economic Outlook also provides the outcome of an alternative labour support, whose generosity is conditional on the sectoral size of the shock. This option, while of course being less costly from a fiscal perspective, is found to reduce less the risk of a liquidity crisis.

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Alberto Alesina – a global talent who never forgot Italy

Category: Uncategorized
written by oecdecoscope | August 6, 2020
by Vincenzo Galasso, Andrea Goldstein and Giuseppe Nicoletti

A professor in the United States since 1987, first at Carnegie Mellon for less than a year and then at Harvard, where he had obtained his doctorate just two years earlier, Alberto Alesina was first of all a world-renowned economist whose writings have collected more than 120,000 quotes (google scholar). But he also maintained close professional and intellectual ties with Italy and with Italian economists.

The list of Alesina’s Italian co-authors is very long. Of his 142 articles published in academic journals since the first – which he published before graduating in *Economia pubblica* in 1980 – more than half are the result of collaboration with other Italian economists, including many doctoral students,

such as Silvia Ardagna, Eliana La Ferrara, Enrico Spolaore and Francesco Trebbi. All of them are Bocconi alumni, as were other co-authors – for example Carlo Favero, Paola Giuliano, Vittorio Grilli, Andrea Ichino, Roberto Perotti and Paolo Pinotti – not forgetting of course Francesco Giavazzi and Guido Tabellini who have been teaching in Bocconi for years. Alesina returned regularly to the alma mater, being since 1993 a fellow of IGIER (Innocenzo Gasparini Institute for Economic Research), the centre established in 1990 to contain the "brain drain" and bring to Italy economists from all over the world. During the seminars held in Bocconi it was common to listen to his comments, witty, funny and always constructive – especially towards PhD students and young colleagues.

Overall, 42 Italian economists have published with Alesina in 40 years, most of them spent overseas. His latest book, *Austerity: When It Works and When It Doesn't*, winner of the prestigious Hayek Book Prize from the Manhattan Institute just a week ago, is also the result of collaboration with Favero and Giavazzi. With the latter, Alesina has written 137 editorials in *Corriere della Sera* since 2011, spanning a variety of themes, always with a strong penchant for provocation, but always with a constructive spirit – "in the interest of the citizens", as his last contribution, which appeared on May 10th, was titled.

As Silvia Ardagna and Eliana La Ferrara have recalled on il Sole24Ore, his intellectual curiosity pushed him on many different frontlines, from macro-economics to inequality, social capital and culture. But his main field remained political economics: the study of the economic and political motivations that underlie the behaviour of decision-makers (ministers, governments, parliaments, central banks) and their public policy choices. A new strand of economic science that he and other scholars had helped to create. When the Swedish Academy decides that it is time to award the Nobel Prize in Economics to political economics scholars, it will be very

strange not to see his name among the winners.

His interest in Italian affairs was reflected in many of his scientific works dealing with general economic issues, but of great relevance to Italy: from public debt to austerity policies, from bureaucracy to the impact of family ties on the functioning of the labour market and gender gaps. During the meetings of the NBER (National Bureau of Economic Research) Political Economy group in Boston, he liked to point out that it was no coincidence that so many political economists were Italian. Researchers love to study what doesn't work, and in Italy the relationship between politics and economics has not been smoothly functioning.

Alesina transferred his ideas into the public debate through his editorials (often with Francesco Giavazzi) and his books. Editorials sometimes lashing, never trivial, that generally requested a change of direction to Italian politics often accused of too timid an approach when it comes to economic reforms. To a country historically reluctant to fully accept the rules of the market, he never stopped reminding, in both scientific research and newspaper columns, the importance of healthy competition among firms for promoting investment and growth. He advocated the need for more competition as well for a simplification in public administration and regulation, especially in traditionally protected sectors of the Italian economy, such as public services and liberal professions, where the productivity gap vis-à-vis other countries bears on Italian relative performance. Competition always invoked by those who try to understand the root causes of the Italian evil and often disregarded by Italian policy-makers, as in the case of Law 99 of 2009 that requires the government to propose every year to Parliament measures aimed at promoting it. A provision first complied with six years after its approval and then immediately forgotten, Alesina and Giavazzi wrote on July 10, 2017.

Europe and the Euro were also enticing topics for Alesina, who

in 2010, together with Giavazzi, had edited a NBER volume for the ten years of the common currency. In quiet times, they argued, the benefits (and costs) of the euro are important. But during a crisis, the benefits appear magnified. Words that still sound very current today.

Alberto Alesina's biography is an example of how it is often sterile to talk about brain drain and brain gain, when in fact the circulation of talents can enrich nations and make sense of globalization.

* This is the English translation of "Alesina, l'economista di Harvard che non perse mai di vista l'Italia", *Il Sole 24 Ore*, 26 May 2020.