Energy expenditures have surged, posing challenges for policymakers

Energy expenditures in OECD economies increased rapidly in 2022, raising the risk of widespread recessions among advanced economies.

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

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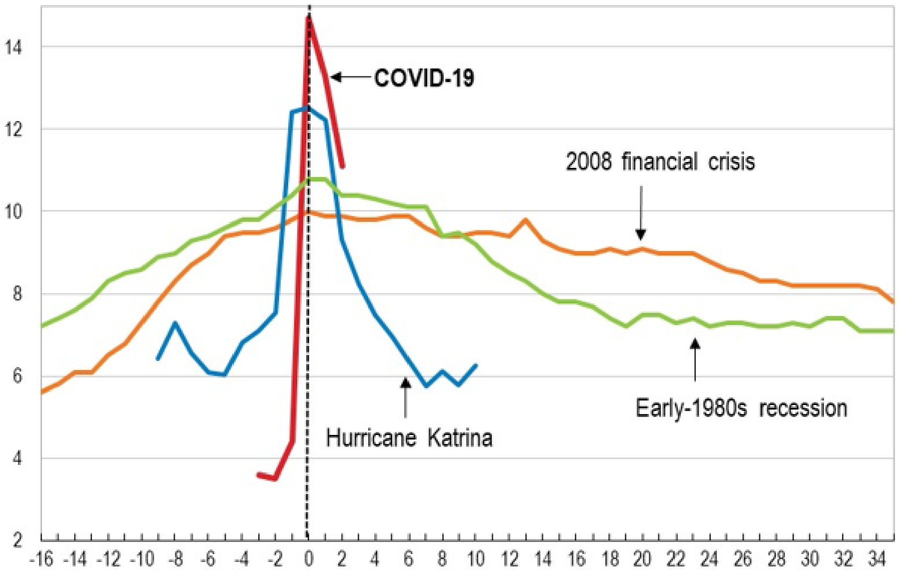
As COVID-19 hit the United States, non-essential businesses had to shut down and large numbers of workers lost their jobs. The unemployment rate went from a low point of 3.5% in early 2020 to a post-war record high of 14.7% in just two months. With the easing of confinement and the reopening of businesses, 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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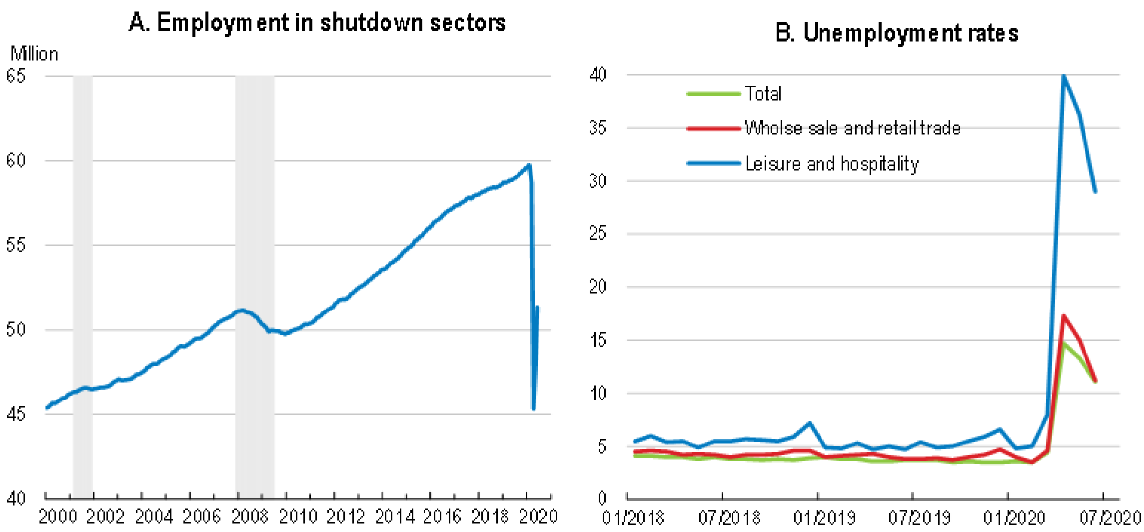
[1] A longer version of this note is available on www.oecd.org/economy/united-states-economic-snapshot/

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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Reviving Italy’s Growth

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In Curno, 50 km north east of Milan, is the headquarters of Brembo, the Italian company supplying brakes for Teslas and Ferraris as well as for mass market cars and motorcycles. Founded in 1961, its 255 employees generate over USD 3 billion of revenue from production facilities across 15 countries.

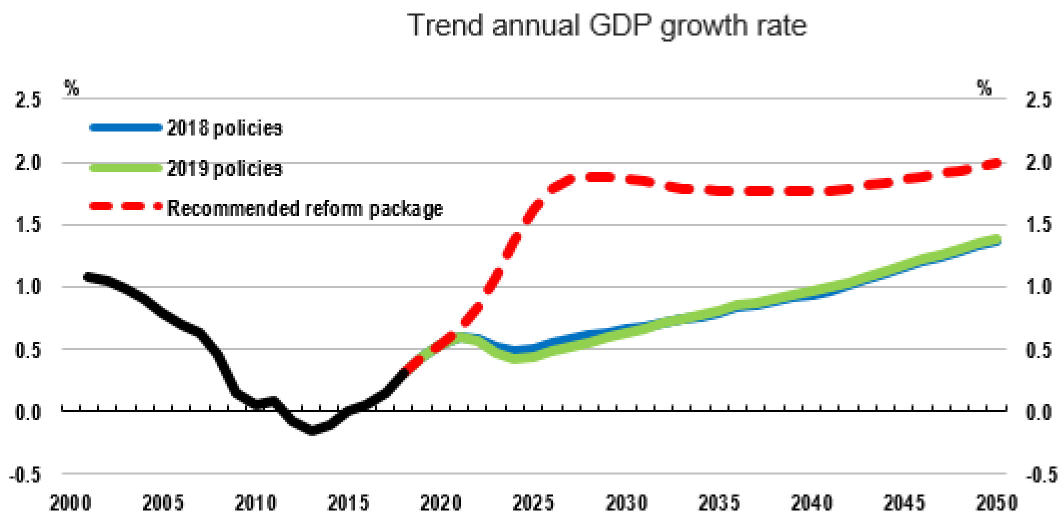
1500 km away, in Sicily’s south-east, Gaetana Jacono runs the Valle dell’Acate winery. She is bringing to six generations of wine making tradition new production technologies and distribution approaches that are developing exports to large new markets.

Enterprises like Brembo and Valle dell'Acate have helped Italy in recent years gradually recover from its extended recession. These are mostly medium sized enterprises that are highly productive and have grown activity and created jobs though investment and exports, supported by government policies such as the Industry 4.0 programme or labour market and education reforms.

But Italy's recovery stalled in late 2018, before Italy could reverse the deep losses in incomes and well-being suffered during the extended recession. Overall, income per capita today is near its level in 2000, and economy-wide productivity has been stagnant. This lack of progress has seen poverty rates rise, especially among the young and families. The OECD's latest projections are for GDP to contract by 0.2% in 2019 and to expand by 0.5% in 2020.

What will it take to restart and extend Italy's recovery?

A clear multi-year reform programme to boost employment and productivity, while reducing steadily public debt, would lift average annual growth rates and improve inclusiveness. This is among the key policy insights of the OECD's 2019 Economic Survey of Italy, launched on 1 April 2019 by the OECD Secretary General and Italy's Minister of Finance. Compared current polices, this reform programme would raise growth rates by about 1.5 percentage points by 2030, expand employment and reduce inequalities.



Source: OECD (2019), *Economic Survey of Italy*, OECD Publishing, Paris

Increasing productivity growth is key. Boosting productivity will require enhancing competition in markets that are still protected, such as professional services and local public services; raising innovation and business dynamics, including through strengthening targeted incentives connected to the Industry 4.0 plan; removing incentives for SMEs to stay small and obstacles hampering their growth; and completing the reform of insolvency regime.

Among the reforms proposed in the *Survey*, those concerning the efficiency of public administration and justice system would have the largest impact on GDP growth by strengthening the rule of law, thus supporting investment and productivity growth. The expansion of active labour market programmes and reducing social security contributions would also generate large benefits by boosting employment and social inclusion.

Reducing the public debt ratio by steadily raising the primary budget surplus to above 2% is essential to address the risk to the broader economy of the high public debt ratio. Lower interest rates have reduced interest payments on the public debt to a record low of 3.5% of GDP in 2018, which is however near what Italy spends on education.

Italy can raise the primary budget surplus by incorporating in the annual budget through and effective spending reviews that help rationalise current spending by reducing waste and reallocating resources towards more effective programmes. Closing the early retirement scheme introduced in 2019 would free resources to boost employment and opportunities for young people in addition to improving inter-generational equity. Implementing this programme would help Italy's successful enterprises develop and new enterprises to follow their path, generating opportunities for Italians across the country. A future blog will discuss how this reform programme can address the large disparities between the regions such as those around Brembo's headquarters and those around Valle dell'Acate.

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