

Unemployment in Europe and U.S. Better constrained in the corset of insurance logic or at the whim of a presidential system?

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What's coming?

- One corona world, two labor market worlds
- The issue of hidden unemployment
- The “European” answer: short-time-work
- Risk sharing balance of STW in Germany
- Policy Reactions to Covid-19 pandemic
- Effects of Covid-19 pandemic policies
- What can we learn from Covid-19?
- Questions for discussion

One corona world, two labor market worlds

Seasonally adjusted and harmonized figures (apart from last two rows)

| 2020 | U.S. | | | | EU 27 | | | | Germany | | | |
|----------|------|------|------|------|-------|------|--------|------|---------|------|---------|------|
| Months | 02 | 04 | 06 | 09 | 02 | 04 | 06 | 08 | 02 | 04 | 06 | 08 |
| U-Rate | 3.5 | 14.7 | 11.1 | 7.9 | 6.5 | 6.7 | 7.1 | 7.4 | 3.6 | 3.9 | 4.3 | 4.4 |
| “ Men | 3.6 | 13.5 | 10.6 | 7.4 | 6.2 | 6.5 | 6.9 | 7.1 | 3.9 | 4.1 | 4.3 | 4.4 |
| “ Wom | 3.4 | 16.2 | 11.7 | 7.7 | 6.9 | 6.9 | 7.4 | 7.6 | 3.3 | 3.9 | 4.3 | 4.5 |
| “ Youth | 7.7 | 27.4 | 20.7 | 14.9 | 14.8 | 15.4 | 17.3 | 17.6 | 5.8 | 5.7 | 5.9 | 5.8 |
| “ Long* | | 4.1 | | 19.0 | | | | | 29.8 | 27.7 | | 29.2 |
| E - Rate | 61.1 | | | 56.6 | | | 66.9** | | | | 75.8*** | |

Sources: U.S. Bureau of Labor Statistics; Eurostat Data Explorer; Federal Employment Agency; *) “Long”::US >27 weeks, GER>52 weeks ; **) [age 15-64] second quarters 2020 (down from 68.5% in 2019); ***) down from 77% fourth quarter 2019

The issue of hidden unemployment (hU)

$hU = nE$ (all temporarily not employed but wanting to work) - mU

U.S.

April:

32 million nE - 23.1 mU = 8.9 hU

September:

19 million nE - 12.1 mU = 7.9 hU

Pandemic related reasons:

- > family or transportation issues
- > fear of infection risk
- > school shut downs etc

Solutions:

- > more and better child support
- > school support via infection preventing measures plus
- > more home schooling etc.

Germany (EU)

April:

3.5 million nE - 2.6 mU = 0.9 hU

August:

3.7 million nE - 3.0 mU = 0.7 hU

Pandemic related reasons:

- > ditto USA
- > in August, about 200.000 less people in labour market policy measures

Solutions:

- > ditto USA
- > more 'active' labour market policies like training etc via more staff / capacities / corona adequate working conditions

Sources: Bureau of Labor Statistics; Koeze 2020; Federal Employment Agency; note, that the figures for Germany are based on registrations, not (as in USA) on surveys ; hU in this context is not covering the issue of involuntary part-time work

Proportion of workers in STW and similar schemes in selected EU – countries (as % of workers)

| | April//May 2020 (including applicants) | Realized STW (% insured workers) |
|----------------|---|---|
| France | 47.8 | |
| Austria | 31.6 | |
| Ireland | 30.8 | |
| Germany | 26.9 (10.1 million) realized 6 million in April* | 13.4 (17.8) (April) 12.1 (13.9) (June)** |
| EU-27 | ≈ 25.0 | |
| Spain | 24.1 | |
| United Kingdom | 23.5 | |
| Netherlands | 23.2 | |
| Sweden | 11.1 | |
| Denmark | 7.8 | |

Sources: Möller/Schulten (2020); Federal Employment Agency; *) 1.4 million at the height of recession 2009;
**) average working-time reduction 39%

Risk Sharing Balance of German „Short-Time-Work” Allowance

| | Advantages | Problematic |
|--------------------|---|--|
| Workers | <ul style="list-style-type: none"> - 60% to 90% net wage insurance - Maintaining job and qualification - Maintaining social network - Maintaining health insurance - Right to STW-allowance | <ul style="list-style-type: none"> - Low activation incentive - Low mobility incentive - Poverty risk for low wage worker - Covers only insured workers - No right to qualification |
| Employers | <ul style="list-style-type: none"> - Maintaining skilled/loyal work force (Opportunity costs up to 32,000 Euro) - High flexibility in form of: <ul style="list-style-type: none"> > speedy adj.; strategic waiting; reversible > task specific personal adjustment | <ul style="list-style-type: none"> - High remaining fix-costs (24%-46% depending on subsidies, 2009) - Low activation incentive - No right to instructions |
| Society (State) | <ul style="list-style-type: none"> - Reduced unemployment <ul style="list-style-type: none"> > equivalent to 2.4 million U in April 2020 - Maintaining purchasing power - Some flexibility in changing regulation and subsidies | <ul style="list-style-type: none"> - Disadvantaging 'outsiders' - Slowing down structural change - High costs requiring <ul style="list-style-type: none"> > higher contributions and/or > higher debts covering deficits of FEA |

Policy reactions to Covid-19 pandemic

| USA | Europe (EU 27) |
|--|---|
| <p>CARES-Act</p> <p>I Recovery Rebates</p> <ul style="list-style-type: none">> one time cash to low income families> up to 2,200 USD <p>II Unemployment Benefit Expansion</p> <ul style="list-style-type: none">> Pandemic Emergency Unemployment Compensation (PEUC) + 13 weeks> Pandemic Unemployment Assistance (UA) + 600\$/week, up to 9.600\$; ended July | <p>I MEMBER STATE RESPONSES</p> <ul style="list-style-type: none">> STW, furloughs (UK), part-time UB> some one time cash programs> some extensions of U-Benefits <p>II EU</p> <ul style="list-style-type: none">> Relaxing tight fiscal policy rules <p>III EU</p> <ul style="list-style-type: none">> Support to Mitigate unemployment risks in emergency (SURE): € 100 billion cheap EU-ensured credits <p>IV 'Next Generation EU'</p> <ul style="list-style-type: none">> € 750 billion (€390 grants; €360 loans) |

Effects of Covid-19 pandemic policies

| USA | Europe (EU 27) |
|--|--|
| <ul style="list-style-type: none">> States with higher U-benefits show milder declines and faster recoveries (Brookings)> Some mitigation of poverty (Columbia University)> Substantial decline of U but> Still high employment gap> Increasing long-term U> 'Shecession'> High youth U | <ul style="list-style-type: none">I quite diverse in size and impact<ul style="list-style-type: none">> Insurance logic deepens inequality in a pandemic situation> Low but steadily rising U> 'Shecession'> high youth U, particularly in south of EUII Early deficit spending ('Bazooka'), among others reduction of VATIII SURE operational Oct. 2020<ul style="list-style-type: none">> €87.4 billion approved for 16 EU-MS> 66% to Italy, Spain, Portugal, GreeceIV Operational with beginning 2021<ul style="list-style-type: none">> 'revolution': EU common debts (social bonds; 'Hamilton effect'?) |

What can we learn from Covid-19?

| USA from Europe or in general | Europe from USA or in general |
|--|--|
| <p>I Protection of vulnerable LM-groups</p> <p>Youth</p> <ul style="list-style-type: none">> Dual learning systems (e.g. apprenticeships)> Job or education guarantees <p>Women</p> <ul style="list-style-type: none">> Public day care <p>II Income security+economic stability</p> <ul style="list-style-type: none">> Strengthen entitlements re coverage and level of U-benefits + universal health care <p>III Fair Risk Sharing</p> <ul style="list-style-type: none">> Entitlement to STW or work sharing> <p>IV Sustainable Structural Change</p> <ul style="list-style-type: none">> Strengthen interstate cohesion policy | <p>I Protection of vulnerable LM-groups</p> <p>Youth</p> <ul style="list-style-type: none">> Start up incentives> <u>Enhance and extend “Youth Guarantee”</u> <p>Women</p> <ul style="list-style-type: none">> ditto; effective anti-discrimination <p>II Income security+economic stability</p> <ul style="list-style-type: none">> EU-capacities to stabilize economy> Extend income security for transition risks <p>III Fair Risk Sharing</p> <ul style="list-style-type: none">> Combine insurance with tax or credit financed redistribution <p>IV Sustainable Structural Change</p> <ul style="list-style-type: none">> ‘Activate’ UB into support of risk taking: training, mobility, job creation subsidies etc. |

Questions for Discussion

| Questions | Theses |
|---|--|
| Protecting people or protection jobs? | <ul style="list-style-type: none">> EU more than U.S. inclined to protect jobs; right to decent job has to be strengthened, esp. for vulnerables> Pandemic increases demand for extending UI towards a work-life or employment insurance |
| Making the labor market fit to workers or making people fit to the labor market? | <ul style="list-style-type: none">> EU's labor markets not yet well adjusted to needs/demands of workers, in particular for youth, elderly, caring or disabled people |
| Supporting investment or supporting consumption? | <ul style="list-style-type: none">> EU still underdeveloped in supporting <u>continuous</u> investments in education or training> Europe needs a "New Deal" in public/private job creation, in particular green + caring sectors, EU-infrastructure |