

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

Günther Schmid*

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*) Professor of Political Economy at Free University Berlin (retired),
Emeritus Director at WZB Berlin Social Science Centre, IZA Fellow

www.guentherschmid.eu

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