

How the coronavirus crisis is affecting the German labour market

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The German labour market has proven to be robust so far during the coronavirus crisis – thanks to the rapid and comprehensive financial aid packages provided by the federal and state governments. The short-time allowance scheme stands out as an effective labour market tool during times of crisis.

Short-time allowance: a protective shield for millions of workers

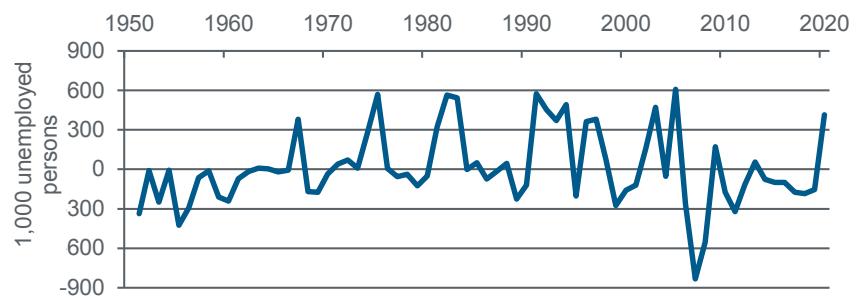
The far-reaching shutdown of the economy pushed the number of unemployed up sharply to 2.6 million in April, an increase of 415,000 on April 2019. But a historical comparison shows that sharper rises in unemployment rates have occurred in the wake of oil crises and the collapse of the GDR economy (Figure). This may be about to change in the months ahead. It is particularly the short-time allowance scheme that prevented a much greater number of workers from having to apply for unemployment benefits in April.

In March and April, companies reported short-time work for 10.1 million workers to the Federal Employment Agency – 25% of all salaried workers. More than half the short-time workers reported were in manufacturing (28%), retail (13%) and hospitality (10%). How many are or will be receiving short-time allowance will not be evident for some months, as some companies report short-time work as a mere precaution.

The short-time allowance and comprehensive economic assistance schemes are securing millions of jobs in Germany. This becomes clear in a comparison with the US, where some 34 million workers have applied for unemployment benefits since mid-March. At the end of April, the seasonally adjusted unemployment rate was 15.5%, the highest seasonally adjusted rate ever recorded in the US. And the numbers of

Thanks to short-time work, the rise in unemployment has so far been lower than in previous crises

Change in unemployment numbers in 1,000 persons, April to April



Source: Federal Employment Agency.

initial claims for unemployment insurance benefits being reported suggest that the rate will rise again significantly in May.

Short-time work has already been a successful employment stabiliser in the past. In May 2009, the scheme bolstered some 1.5 million jobs, the highest monthly rate during the financial crisis. However, the economic recovery must set in as quickly and comprehensively as possible, otherwise the short-time allowance will lose effectiveness.

Outlook is extremely uncertain

As long as the global crisis and social distancing rules continue hampering consumption, investment and production, only a partial recovery will be possible, in quick steps if everything goes well. With skills shortages growing, many employers want to keep their employees. However, lack of demand means many businesses will have to dismiss workers in the coming months. They are also hiring less. And despite extensive economic assistance, not all firms can be shielded from insolvency. How long this phase will last depends on the progression of the pandemic, the containment measures and global developments.

The economy and labour market are unlikely to fully recover in 2020. And a return to pre-coronavirus crisis levels by the end of 2021 is also still very uncertain. A two-pronged strategy therefore appears to be advisable. First, ways should be found as quickly as possible to relax social distancing rules as much as possible when it is medically safe to do so and encourage the more widespread adoption of contactless business models and workflows. After all, the short-time allowance scheme is only designed to temporarily bridge losses of employment and income. If the lockdown lasts too long, many workers on short-time arrangements will become unemployed. Second, work on developing a vaccine or treatment and producing it in sufficient quantities should be expedited. Cooperative competition that mobilises substantial resources appears to be the best strategy. The public and private sector should unite in a concerted approach to produce and procure what is necessary to fight the pandemic – at international level. After all, the cost of just one month of social distancing is enormous. In the long run, so much more is at stake for Germany and the world.