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By Martin Sandbu

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Money Matters

Post-pandemic economy

What is most interesting about last week's US jobs report are the questions it raises rather than the answers it gives.

The increase in employment, which grew by about 2.5m jobs in May, beat all expectations; most observers had thought millions more jobs would be lost after April's bloodbath.

In normal times, such a jump would have been an extraordinary improvement in the labour market. As it is, it merely makes things a little less awful, as the graph of unemployment over time (below) makes depressingly clear.

The May jump meant that on net, about one-ninth of the workers losing their jobs in April found work again the next month. That is better than nothing, but leaves eight-ninths on the dole. In fact more than eight-ninths, because there is something funny with the numbers. The Bureau of Labor Statistics itself has reported a misclassification error in the payroll survey, which means it paints a flattering (you read that right) picture of the situation.

The unprecedented situation of the coronavirus pandemic seems to have made many BLS survey interviewers mark a lot of respondents as absent for work "for other reasons" (normally reserved for temporary time off for things such as jury duty) who really should have been counted as unemployed. Correcting this would have put unemployment in May a whole 3 percentage points higher than the official 13.3 per cent number.

That would still have marked an improvement from April, when a corrected unemployment rate would have been 19.7 per cent instead of the reported 14.7 per cent. Still an improvement over the month, yes, but on numbers that are much closer to Great Depression-era levels of joblessness.

And the problems with the numbers do not end there. The response rate from households and businesses was much lower than usual, which means we should attach more uncertainty to payroll numbers during the worst of the pandemic than in normal times.

In addition, unusually large numbers of people left the labour force altogether — more than in other recessions — and some of these should reasonably be thought of as unemployed because of Covid-19. As Jason Furman and Wilson Powell explain, if the fall in the labour force followed the pattern of previous downturns, the measured unemployment rate would be as high as 17.7 per cent. (In April it would have been 20.5 per cent.)

They also find that even if all those reporting to be only temporarily unemployed got back to work, the unemployment rate would still be at recession levels above 7 per cent.

So notwithstanding these problems with exact measurements, there is no uncertainty about how awful the situation is. There is also no uncertainty that unemployment is much higher in the US and most other English-speaking countries than in most European countries including the UK. As a new report from the Institute for Government explains, the difference comes down to how European countries have largely chosen to subsidise companies to keep employees on their payroll while on furloughed leave; while the US and some other countries have opted to compensate the unemployed for the loss of incomes directly — and significantly more generously than before unemployment benefits were increased in response to the pandemic.

Which approach is better? It is clear that the US will keep having one of the rich world's highest unemployment rates for the rest of this year than most other countries, if we go by the OECD's forecasts. Against this, we should point out that quite a few unemployed workers in the US enjoy higher incomes on improved unemployment benefits than they did in poorly paid jobs; while workers in Europe will be taking home somewhat less under the furlough schemes than when they were working full time.

The crucial question is what happens next. US unemployment may be much higher now but that does not mean it could not also fall faster than in Europe as things improve. That will depend on how countries' respective policies are tweaked.

It is important to acknowledge the risk that European furlough schemes slow down people's return to work, especially where companies cannot viably return to previous levels of activity and can save money by keeping people furloughed. Several countries have extended the duration of their schemes, notably France which has announced it will last for two years. A lot will depend on governments' ability to adjust the furlough schemes over time, to encourage partial returns to work. The alternative is to pay for millions of zombie jobs.

In the US, too, there are risks. The current generosity of unemployment benefits is temporary but there is no doubt there will be political pressure to extend it. In any case politicians will face the unenviable trade-off between imposing new hardship on the many millions who will be unemployed for some time, and maintaining incentives for them to remain so because the jobs on offer pay so little.

In either case, the ultimate goal should be to get people back into employment, but not necessarily in the same job as before. The obstacles to that goal are different on the two sides of the Atlantic.

The European schemes have emphasised the importance not to sever the link between employers and their employees, and the productivity built up through that familiarity. That is indeed important — but not all that productivity can be restored given that many jobs will no longer be viable in an economy more alert to contagion risk.

Keeping people linked to zombie jobs is to keep them cut off from the jobs of the future.

The US, in contrast, faces the opposite danger: that not enough people are able to find their way back to their previous employers, and that too much human time and talent is wasted in replacing lost labour market connections — or worse, that the connections are never replaced. The Economist's Free Exchange column has noted that if previous employment recoveries were any guide, it could take the US until 2026 to return to the pre-pandemic unemployment rate.

Notoriously, it is those with the weakest link to the jobs market who are fired first in downturns and rehired last in an upswing. It is a bad omen that even the improvement in May's jobs numbers did not extend to black Americans or young workers, both of whose unemployment rates rose further. Federal Reserve chair Jay Powell on Wednesday expressed pessimism about how long it would get unemployment back down.

Behind both kinds of obstacles lies the bigger challenge: to engineer a recovery that actually creates enough of the new jobs that can thrive and be resilient in a post-pandemic economy. That requires not just finely balanced labour market policies but sustained high demand pressure and incentives for new investment. The magnitude of the policy action of the past few months proves that politicians have it in them to deliver this.

The timidity of policy action in the previous recovery, however, proves that they also have it in them to fail miserably.