Trade Union
Advisory Committee
to the OECD
Commission
syndicale consultative
auprès de l'OCDE

TUAC

Indicative unemployment forecasts and the importance of collective bargaining to restore the economy in the context of COVID-19

Paris, 15 May 2020

Executive summary

- The COVID-19 crisis represents an unprecedented threat to the global economy, and the length and impact of containment measures on employment are still hard to predict.

- Economists have traced in time the relation between (un)employment and GDP growth. Unsurprisingly, existing studies show that, during the 2008-2012 recession, countries with more flexible labour institutions witnessed a sudden rise in unemployment, while countries with strong labour institutions show fewer lay-offs, compensated by a decrease in productivity and hours worked.

- Spikes in unemployment will vary considerably across OECD countries, from an almost stable labour market in Germany to a steep rise in Spain. These projections are built on the employment response to GDP witnessed during the recession of 2008-2012. However, today's conditions are different: while the scale of the COVID-19 crisis dwarfs the previous recession and labour markets received a direct hit, structural conditions in several countries have changed, and governments have intervened more pro-actively in support of the real economy.

- Sectoral composition affects labour market outcomes. Lockdown measures during the COVID-19 pandemic mostly affect the hospitality industry, transport, retail, trade and certain manufacturing segments. As such, certain countries are structurally more exposed than others to changes in GDP and employment. Those with an important automotive compartment, such as Germany, or relevant tourist sector, such as Spain or Italy, will need to be particularly careful in avoiding massive layoffs in these sectors.

- Collective bargaining structures differ considerably across countries. The ability to guarantee social peace and a smooth recovery will depend to an important degree on wider acceptance of institutionalised dialogue mechanisms and the ability to build workers and management consensus on respective expectations

15, rue La Pérouse – 75016 Paris – France
Tél. (33) 01 55 37 37 37 – tuac@tuac.org

at a time of considerable threat to their economic and operational health and safety.

Table of contents

Forecasts on the economic impact of the COVID-19 crisis are *uncertain* in the sense that economist John Maynard Keynes attached to the word: a unique event that does not allow for a proper assessment of risk, in this case in terms of human health and economic impact. We do not know how long the emergency will last, as the finding of a vaccine against the SARS-CoV-2 virus is not yet on the horizon, and we cannot compare the draconian lockdown measures put simultaneously in place across the globe with anything prior in peace and wartime. While we can be certain that most countries will go into recession in 2020, its depth of consequences will largely depend upon the time that it will take our economies to restart their engines, the share of businesses that will endure the current idleness and the number of workers that will still hold a job.

The relation between GDP and employment

International institutions have been adjusting their economic projections on a monthly, even weekly basis. Therefore, any forecast at this point should be taken as indicative at best. The OECD will present its updated figures on employment towards May/June, when publishing the 2020 edition of the Economic Outlook, with one chapter dedicated to the COVID-19 crisis.

Meanwhile, the IMF presented its latest World Economic Outlook GDP projections for 2020. According to it, this year Europe will register a recession of -6.6% of GDP, North America -6%, advanced Asia -4.5%, while China and India will barely grow at 1% (IMF, 2020).

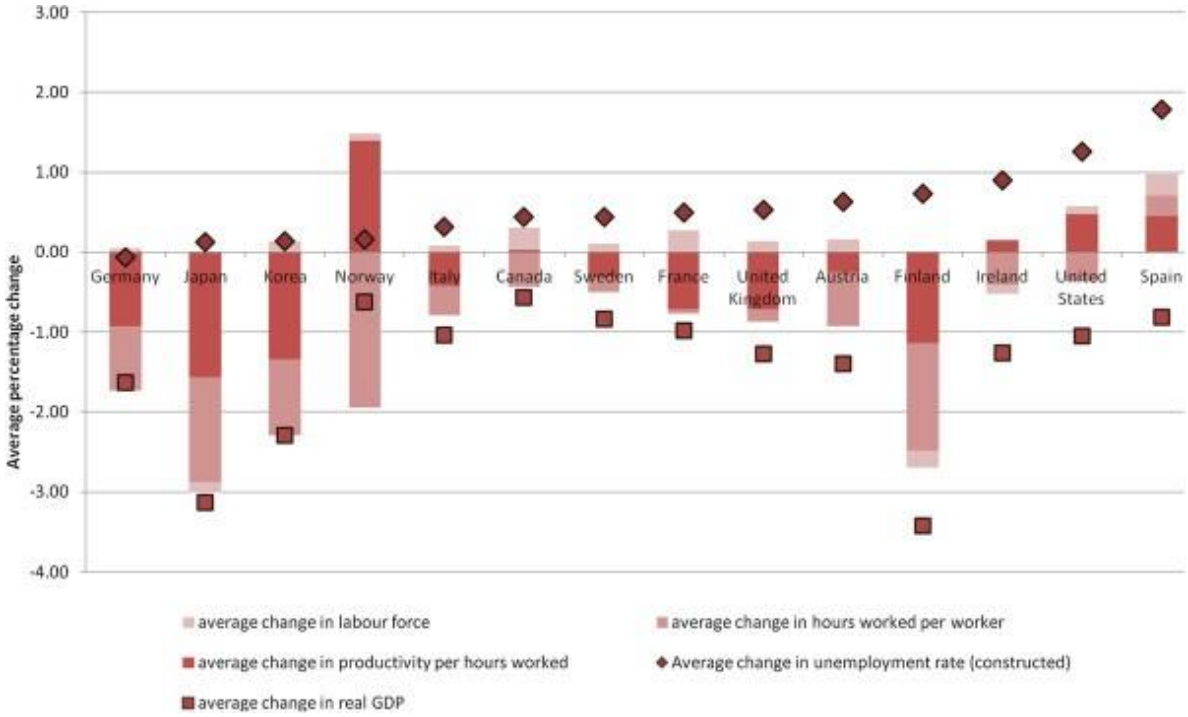
What will be the impact on labour? Economic scholars traced the relation between (un)employment and GDP growth, starting with Arthur Okun (1962). Okun found a linear relationship between output and unemployment, suggesting that a 3% increase in output correlated to a 1% decrease in unemployment. Several more studies have investigated "Okun's Law", some concluding that the employment elasticity to GDP is constant over time, while others found it to be shifting according to the period in consideration (Cazes et al., 2013).

Cazes et al. (2013) applied such an exercise to a range of OECD countries, to investigate the relation between unemployment and GDP between 1970-2010, as well as during the great recession of 2008-2012. Their findings corroborate the idea that Okun's coefficient changes according to country specificities and time periods, and noticed particular departures from long-term levels during crisis years: in some countries the coefficient rose dramatically, implying that unemployment increased considerably during the economic downturn. In other countries, such as Germany and the Netherlands, the coefficient actually decreased, implying that employment levels remained roughly stable despite the fall in output.

While all countries were hit by the 2008 recession, albeit at different degrees, why did some suffer a rapid surge in unemployment and others did not? The authors decomposed the change in unemployment in change of productivity per hour worked, of number of hours per worker, and a shift in the total number of employed workers. As expected, those countries that put in place stronger employment protection measures, better safeguarded employment levels. This includes countries with short-time employment schemes to contain lay-offs, such as Germany, Japan, Korea and Italy.

Countries with more flexible labour institutions at the time of the recession witnessed the highest rise in unemployment as GDP dropped. In the United States, Canada and Spain, unemployment grew rapidly, coupled with a spike in labour productivity as fewer workers produced similar levels of output as before (Figure 1).

Figure 1 – Average change in productivity, hours, and the labour force during the Great Recession



Source: Cazes et al. (2013)

How elastic will the relation between fall in GDP and unemployment be during the COVID-19 crisis? As in 2008, it will depend on several factors, and prominently: the length of the current recession, its depth, as well as the mix of existing labour policies and

extraordinary measures taken by governments to contrast it. Contrary to 2008, though, this crisis hit workers in a much more direct and violent fashion. According to the ILO (2020), 81% of the world's workforce is affected by containment measures against the spreading of the SARS-CoV-2 virus, and 38% are employed in sectors deemed at high-risk of output decline, with more than 25 million new unemployed expected by the end of the year. Still, governments were quicker than in 2008 to react to the sudden fall in output and employment, introducing or strengthening existing labour support schemes and benefits, in order to sustain a rising share of companies and workers. Whether current measures will be sufficient to protect employment remains to be seen. At this stage, it is impossible to predict the qualitative impact that this crisis will have on job quality, wages, precariousness and labour market divides, and more.

Preliminary unemployment projections for 2020

In order to assess the impact of the economic downturn on unemployment levels, we take the latest GDP forecast for 2020 by the IMF, and apply Okun's coefficient as calculated by Cazas et al. (2013), on the assumption that same labour markets will respond in a similar way today as they did a decade ago. The resulting variation in unemployment is summed to 2019 unemployment figures by the OECD, providing a rough estimate of unemployment for 2020 (Table 1).

Table 1 – Applying Okun's coefficient to latest GDP growth projections to measure ynemployment forecasts in selected OECD countries, % of total labour force

	Okun's coefficient (A)	***GDP growth, 2020 (B)***	***Variation in unemployment y-o-y, 2020/19 (C=A*B)***	***Unemployment, %, 2019 (D)***	***Unemployment forecast, %, 2020 (D+C)***	***Unemployment forecast, %, 2020, IMF (April 2020)***
Austria	-0.45	*-7*	*3.2*	4.5	***7.7***	***5.5***
Canada	-0.77	*-6.2*	*4.8*	5.7	***10.5***	***7.5***
Finland	-0.21	*-6*	*1.3*	6.7	***8.0***	***8.3***
France	-0.50	*-7.2*	*3.6*	8.5	***12.1***	***10.4***
Germany	0.04	*-7*	*-0.3*	3.2	***2.9***	***3.9***
Ireland	-0.71	*-6.8*	*4.8*	5	***9.8***	***12.1***
Italy	-0.31	*-9.1*	*2.8*	10	***12.8***	***12.7***
Japan	-0.04	*-5.2*	*0.2*	2.4	***2.6***	***3.0***
Korea	-0.06	*-1.2*	*0.1*	3.8	***3.9***	***4.5***
Norway	-0.25	*-6.3*	*1.6*	3.7	***5.3***	***13.0***
Spain	-2.21	*-8*	*17.7*	14.1	***31.8***	***20.8***
Sweden	-0.53	*-6.8*	*3.6*	6.8	***10.4***	***10.1***
United Kingdom	-0.42	*-6.5*	*2.7*	3.8	***6.5***	***4.8***
United States	-1.20	*-5.9*	*7.1*	3.7	***10.8***	***10.4***

Source: TUAC calculations based on Cadez et al. (2013), IMF (2020) and OECD Database, stats.oecd.org

The results show that while the fall in GDP is deep across all considered countries (with the only exception of Korea), the variation in unemployment is even wider, due to the size of the Okun's coefficient. In particular, the United States has a notably flexible labour market, and unemployment is expected to decrease at a higher rate than GDP. Even more prominent is the case of Spain, where each drop of 1% in GDP during the double dip recession of 2008-2012 accounted for a 2.2% increase in unemployment. This was

particularly due to the number of temporary workers who lost their jobs or were not renewed. If the elasticity of unemployment growth to a fall in GDP proves similar today, the unemployment rate would double respect to 2019, leaving almost one in three Spanish workers without a job.

On the contrary, countries like France, Italy, Germany and others, with extended short time work schemes, proved more resilient in sustaining employment levels, albeit at the cost of productivity. In fact, unemployment in Germany might remain roughly stable, further widening the gap within the euro area.

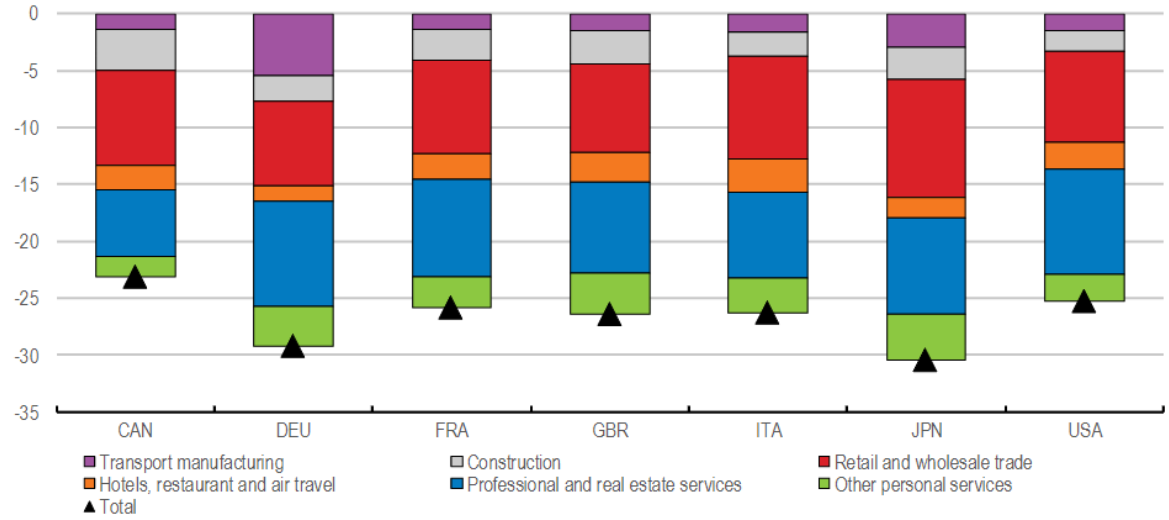
Sectoral considerations

The projections made on the basis of the unemployment response to the recession of 2008-12 do not take into account the structural differences in OECD countries today, nor the different nature of the financial crisis and the COVID-19 recession. For example, according to the IMF, unemployment in Spain will not increase beyond 20.8% in 2020, whereas it would be almost 31.8% if the labour market remains as exposed to economic downturns as it was in the early 2010s. This is partly because the country strengthened its export orientation since the global financial crisis, increasing particularly exports in manufactured goods (automotive), food and agriculture products (de Lucio et al., 2017), and the government reacted more quickly in supporting workers in short time employment. More exporting companies are expected to survive the COVID-19 crisis, as long as foreign demand recovers and public support insulates businesses and workers from the direct impact of the lockdown. Still, the latter poses a huge threat for tourism and hospitality activities, which account for roughly 10% of the country's GDP.

Indeed, according to the ILO (2020a), workers facing the highest risk of losing their job belong to accommodation and food services; real estate, business and administration; manufacturing; and wholesale and retail trade. Immediately following, jobs at medium-high risk are in transport; arts and entertainment. Countries like the United States are bound to register higher unemployment rates than the historical elasticity of (un)employment to GDP would suggest: 20.5 million jobs were lost in April, 7.6 million in leisure and hospitality sectors only. The COVID-19 pandemic hit the US labour market in an unprecedented fashion, which will put under great test its historical ability to quickly recover jobs when the business cycle recovers.

The OECD decomposed the impact of current lockdown measures on GDP in G7 economies. While the current impact fluctuates between 20%-30% of GDP across countries, it affects sectors differently. The impact on transport manufacturing is felt strongly in Germany, considering its automotive industry, but also Japan. Retail and wholesale trade, as well as professional and real estate services have the largest drop share across all countries. Hotels, restaurants and air travel significantly impact countries like Italy, France, the UK (Figure 2).

Figure 2 - The potential initial impact of partial or complete shutdowns on activity in the G7 economies, % of GDP



Note: The sectoral data are on an ISIC rev. 4 basis in all countries. The sectors included are manufacturing of transport equipment (ISIC V29-30), construction (VF), wholesale and retail trade (VG), air transport (V51), accommodation and food services (VI), real estate services excluding imputed rent (VL-V68A), professional service activities (VM), arts, entertainment and recreation (VR), and other service activities (VS). The latter two are grouped together as other personal services in the figure. Real estate services excluding imputed rent are assumed to be 40% of total real estate services in countries in which separate data are not available. Full shutdowns are assumed in transport manufacturing and other personal services; declines of one-half are assumed for output in construction and professional service activities; and declines of three-quarters are assumed in all the other output categories directly affected by shutdowns. The calculations are based on an assumption of an economy-wide shutdown, rather than a shutdown confined to particular regions only.

Source: OECD (2020)

The relevance of labour institutions in protecting employment and the economy from the crisis

As highlighted at the beginning of this note, effective labour institutions played a crucial role in defining employment resilience during the financial recession of 2008 and onwards. Among such institutions, trade unions are a crucial actor for securing employment and job quality, particularly during acute economic downfalls. The OECD found that "*co-ordinated collective bargaining systems are associated with higher employment, lower unemployment, a better integration of vulnerable groups and less wage inequality than fully decentralised systems*" (2019).

OECD governments will be tested again throughout the present crisis. It is crucial for business operators, as well as policymakers, to assess all potential stress factors. Operational risks associated to an extensive reliance on a non-unionised workforce should be kept into great consideration, as a potential source of social conflict and disruption to the smooth recovery of production activities in the post-crisis phase.

Never have governments attempted to restart entire and so different segments of the economy at the same time, following periods of global lock-down. For such an operation to succeed, all social partners must co-operate towards the common goal in a coordinated and complementary fashion. However, the progressive erosion of labour representation and compression of wage levels and job quality -a trend that started long before the current crisis-, carries a strong risk of undermining the intended economic recovery. Extreme uncertainty heightens potential for labour-management disputes in a post-Covid-19 labour market. The low degree of unionisation and/or collective bargaining

coverage combined with the potential for unknown spin-up costs creates extreme operational challenges. In acknowledging the crucial role of social dialogue in the process of business restructuring amid the COVID-19 crisis, the ILO (2020b) has published a guide on good restructuring policies for employers and workers.

OECD countries' resilience to the employment crisis will in large part reflect the strength of their respective labour market institutions, and respective level of social dialogue institutionalised mechanisms. Disruptions arising out of firm-level disagreement are more likely to occur in more fragmented and disorganised bargaining systems, which tend to be tied to lower job quality in the first place, increasing the risk of workers' dissatisfaction even outside crisis times. In this perspective, the heavier the trade union density and the wider the coverage of collective bargaining, the greater the capacity to avoid single and multiple disruptions at the firm level.

On that, recent OECD Employment Outlooks and ad hoc report have aimed classification of OECD countries bargaining systems, including 1) predominant level where collective bargaining takes place and 2) number of workers not covered by collective agreements. The following table suggest that the level of resilience will differ greatly as the lockdown and the gradual deconfinement are implemented.

Table 2 – OECD countries and collective bargaining arrangements

	Prevailing level	**System of negotiation**	**Co-ordination**	**TU density (in the private sector)**	**Employer organisation density**	**CB coverage**	**Lockdown Period (As of 13 April 2020)**
Australia	Company /Sectoral	Decentralised	No	10-20%	..	50-60%	Partial
Austria	Sectoral	Organised decentralised	High	20-30%	90% or more	90% or more	Partial
Belgium	Sectoral /National	Centralised	High	50-60%	80-90%	90% or more	19-Apr
Canada	Company	Decentralised	No	10-20%	..	20-30%	Undeclared
Chile	Company	Decentralised	No	10-20%	..	10-20%	
Colombia	Company	Decentralised	No	< 5%	..	5-10%	
Costa Rica	Company	Decentralised	No	< 5%	..	5-10%	
Czech Rep.	Company	Decentralised	No	10-20%	60-70%	40-50%	30-Apr
Denmark	Sectoral	Organised decentralised	High	60-70%	60-70%	80-90%	Partial
Estonia	Company	Decentralised	No	< 5%	20-30%	10-20%	Partial
Finland	Sectoral	Organised decentralised	High	50-60%	60-70%	80-90%	Undeclared
France	Sectoral	Centralised	Low	5-10%	70-80%	90% or more	11-May
Germany	Sectoral	Organised decentralised	High	10-20%	60-70%	50-60%	19-Apr
Greece	Company /Sectoral	Decentralised	No	10-20%	50-60%	40-50%	Partial
Hungary	Company	Decentralised	No	5-10%	60-70%	20-30%	Undeclared
Iceland	Sectoral	Centralised	Low	80-90%	..	80-90%	Voluntary
Ireland	Company	Decentralised	No	20-30%	60-70%	40-50%	Undeclared
Israel	Company /Sectoral	Decentralised	No	10-20%	40-50%	20-30%	Undeclared
Italy	Sectoral	Centralised	Low	20-30%	60-70%	80-90%	04-May
Japan	Company	Decentralised	High	10-20%	..	10-20%	Undeclared
Korea	Company	Decentralised	No	5-10%	10-20%	10-20%	Undeclared
Latvia	Company	Decentralised	No	5-10%	30-40%	10-20%	Partial
Lithuania	Company	Decentralised	No	5-10%	..	5-10%	Undeclared
Luxembourg	Company /Sectoral	Decentralised	No	20-30%	80-90%	50-60%	Voluntary
Mexico	Company	Decentralised	No	5-10%	..	10-20%	Undeclared

Netherlands	Sectoral	Organised decentralised	High	10-20%	80-90%	80-90%	28-Apr
New Zealand	Company	Decentralised	No	10-20%	..	10-20%	Undeclared
Norway	Sectoral	Organised decentralised	High	30-40%	70-80%	60-70%	Undeclared
Poland	Company	Decentralised	No	5-10%	20-30%	10-20%	Partial
Portugal	Sectoral	Centralised	Low	10-20%	60-70%	60-70%	Undeclared
Slovak Rep.	Company /Sectoral	Decentralised	No	10-20%	30-40%	20-30%	Partial
Slovenia	Sectoral	Centralised	Low	10-20%	50-60%	60-70%	
Spain	Sectoral	Organised decentralised	Low	10-20%	70-80%	70-80%	26-Apr
Sweden	Sectoral	Organised decentralised	High	60-70%	80-90%	90% or more	No lockdown
Switzerland	Sectoral	Organised decentralised	High	10-20%		40-50%	19-Apr
Turkey	Company	Decentralised	No	< 5%	..	5-10%	Undeclared
United Kingdom	Company	Decentralised	No	10-20%	30-40%	20-30%	14-May
United States	Company	Decentralised	No	5-10%	..	10-20%	Undeclared

Source: OECD (2019) & TUAC as of 14 April 2020.

Final observations

The projections in this note are built on the employment response to GDP witnessed during the recession of 2008-2012. Back then and similarly to the present, most OECD governments intervened by introducing or strengthening short time work schemes. However, the scale of the crisis today dwarfs the previous recession, when the number of employees participating in such schemes increased on average by 2% of all employees in Belgium, Germany, Italy, Japan and Luxembourg (OECD, 2011). In just the one month of March 2020 , 470,000 German companies filed a request to the German Federal Ministry for Labour and Social Affairs to access short time work, compared to a monthly average of 1,300 in 2019. By the end of April 2020, 30% and 40% of workers in Italy and France, respectively, were already under short time work schemes (national sources).

Governments are compelled to sustain unprecedented fiscal expenditure, which is already leading to widening fiscal deficits up to two-digit percentage points of GDP. Many state officials have declared that they will do whatever it takes in order to protect the economy, as long as necessary. However, as in the 2008 recession, there is a concrete risk of an austerity backlash as soon as the COVID-19 pandemic passes its peak. This would mean repeating the same mistake of 2009, when the premature removal of public support to the economy shortened aggregate demand, throwing our economies in a chronic condition of debt deflation. It also hampered the recovery in employment and depressed wages.

This time around, a decisive change in policy sentiment is required, not only at national but also international level. Only together we will be able to overcome the crisis. If governments prove successful in protecting workers throughout the recession, employment could prove more resilient than was the case in 2008.

References

Cazes, S., Verick, S. & Al Hussami, F. (2013), *Why did unemployment respond so differently to the global financial crisis across countries? Insights from Okun's Law*. IZA J Labor Policy 2, 10 (2013). https://doi.org/10.1186/2193-9004-2-10

De Lucio, J., R. Mínguez, A. Minondo and F. Requena (2017), "Is Spain experiencing an Export Miracle?", *Funcas SEFO Vol. 7, No. 4*, https://www.sefofuncas.com/pdf/05_Lucio%20et%20al.pdf

ILO (2020a), *ILO Monitor: COVID-19 and the world of work. Second edition. Updated estimates and analysis*, 7 April 2020, https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/briefingnote/wcms_740877.pdf

ILO (2020b), *Restructuring for recovery and resilience in response to the COVID-19 crisis*, ENTERPRISES Department, https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_742725.pdf

IMF (2020), *World Economic Outlook: Chapter 1. The Great Lockdown*, April 2020, https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020

Keynes, J.M. (1937), "The General Theory of Employment", in *The Collected Writings of John Maynard Keynes. Vol. 14,* Macmillan, Cambridge University Press for the Royal Economic Society, 1973.

OECD (2020), *Evaluating the initial impact of COVID-19 containment measures on economic activity*, 14 April 2020, https://read.oecd-ilibrary.org/view/?ref=126_126496-evgsi2gmqj&title=Evaluating_the_initial_impact_of_COVID-19_containment_measures_on_economic_activity

OECD (2019), *Negotiating Our Way Up: Collective Bargaining in a Changing World of Work*, OECD Publishing, Paris, https://doi.org/10.1787/1fd2da34-en

OECD (2011), *OECD Economic Outlook, Volume 2011 Issue 1*, OECD Publishing, Paris, https://doi.org/10.1787/eco_outlook-v2011-1-en

TUAC (2020), *Covid19 crisis: Mapping out trade union and social partners' responses*, https://tuac.org/news/covid19-crisis-mapping-out-trade-union-and-social-partners-responses/

Prévisions de chômage indicatives et importance de la négociation collective pour restaurer l'économie dans le contexte de COVID-19

Paris, 15 mai 2020
(traduction française du résumé)

- La crise du COVID-19 représente une menace sans précédent pour l'économie mondiale, et la durée et l'impact des mesures de limitation sur l'emploi sont encore difficiles à prévoir.

- Les économistes ont retracé dans le temps la relation entre l'emploi et la croissance du PIB. Sans surprise, les études existantes montrent que, pendant la récession de 2008-2012, les pays dotés d'institutions du travail plus flexibles ont connu une augmentation soudaine du chômage, tandis que les pays dotés d'institutions du travail solides affichent moins de licenciements, compensés par une baisse de la productivité et des heures travaillées.

- Les pics de chômage varieront considérablement d'un pays de l'OCDE à l'autre, d'un marché du travail presque stable en Allemagne à une forte augmentation en Espagne. Ces projections s'appuient sur la réponse de l'emploi au PIB observée pendant la récession de 2008-2012. Cependant, les conditions d'aujourd'hui sont différentes: alors que l'ampleur de la crise du COVID-19 éclipse la précédente récession et que les marchés du travail ont été directement touchés, les conditions structurelles dans plusieurs pays ont changé et les gouvernements sont intervenus de manière plus interventioniste pour soutenir l'économie réelle.

- La composition sectorielle affecte les résultats sur le marché du travail. Les mesures de confinement pendant la pandémie de COVID-19 affectent principalement l'industrie hôtelière, le transport, la vente au détail, le commerce et certains segments de la production industrielle. À ce titre, certains pays sont structurellement plus exposés que d'autres aux variations du PIB et de l'emploi. Ceux qui ont un important secteur automobile, comme l'Allemagne, ou touristique, comme l'Espagne ou l'Italie, devront y apporter une attention particulière pour éviter les licenciements massifs dans ces secteurs.

- Les structures de négociation collective varient considérablement d'un pays à l'autre. La capacité à garantir la paix sociale et une reprise en douceur dépendra dans une large mesure de l'acceptation plus large des mécanismes de dialogue institutionnalisés et de la capacité au consensus entre les salariés et leurs employeurs sur les attentes respectives à un moment où la santé et la sécurité économique et opérationnelle sont mis en péril.