April 30, 2020

Building the future of work together

Covid-19 is setting alarmingly low records in labour market trends

By Robin Lechtenfeld

Tag: *#covid-19 #labourmarket #futureofwork*

It has been more than a decade since the global financial and economic crisis disrupted economies and labour markets around the world and led to a surge in the number of unemployed workers. Since then, global and regional unemployment rates had returned to pre-crisis levels. This trend, among others, is now being disrupted by a new crisis that is likely to prove more damaging than the one 10 years earlier. The global economic crisis initiated by the covid-19 pandemic is very different in character to the financial crisis of 2009. While the latter was created by the actions of market participants and exposed underlying weaknesses in our financial systems, the current crisis is a health crisis which is significantly impacting both supply and demand in the real economy - not least due to the necessary containment measures (e.g. lockdowns) implemented by governments around the globe.

In 2019, the global **unemployment** rate stood at just below 5%. The OECD unemployment rate dropped from above 8% in 2010 to 5% in 2019 (cf. WEC Global Labour Market Fact Sheet). Just before the pandemic, the US rate reached its lowest level in 50 years. As the outbreak of the virus has grown into a full-scale pandemic, so this trend is being significantly upset. As economies are hit by vast disruptions of global supply chains, demand for labour is plunging in many sectors. This development is further exacerbated by the shock to consumption. As governments around the world initiate lockdowns for undetermined lengths of time in an attempt to flatten the curve of new infections, a large share of private consumption is being erased.

The OECD estimates the direct initial shock of confinement measures on private consumer spending to be around one-third in advanced economies. This can create a vicious circle, as lower demand leads to lower revenues for firms, which leads to higher unemployment and, in turn, again to lower demand. While governments take action to curb the growth in unemployment (e.g. through firm subsidies, short-time working schemes), the fact that economic activity is essentially in hibernation will result in unemployment rates rising significantly. In the US, 17 million people

registered for unemployment benefits in March alone, a gigantic and unprecedented surge. The ILO expects the second quarter of 2020 to see a 7% loss of working hours globally, which is equivalent to 195 million full-time jobs. Their previous estimate of 25 million additional unemployed in 2020 (in the worst case scenario) is already outdated and actual figures will likely be significantly higher.

Alternative working arrangements have been on the rise in recent years, with the segment of online platform work having experienced significant growth up until the pandemic. While there is no clear cut figure on the actual share of "gig workers" in the labour force (estimates range from 0.5% to 2.5% depending on definition and research methodology), it is clear that the number of self-employed platform workers has grown considerably and rapidly. The Online Labour Index, which tracks activity on the largest English-speaking online labour platforms, shows that activity grew by 50% between 2016 and 2020, reaching its highest level in February of this year. Since then however, activity has plunged. As firms struggle for liquidity, so demand for independent contractors falls.

The current situation is especially disruptive for self-employed workers, who often lack the same access to **social protection** as employees. With economic activity forced to a halt, these individuals, which are typically already exposed to greater financial risk than dependent employees, are in dire need of support through government aid packages. A number of countries are delivering this support to these especially vulnerable workers, although measures differ in terms of accessibility and speed of aid distribution. During crises, the role of the state typically expands, with many competences remaining in place indefinitely. It may very well be the case that social protection systems will be more supportive of self-employed workers even after the coming global recession is over.

In the EU in 2018, there were nearly 13 million "EU-28 movers" of working age (EU citizens residing in an EU country other than their country of citizenship). This figure had been growing at an annual rate of around 5% in the preceeding years. The ILO estimates that in 2017 there were 164 million migrant workers globally. **International labour mobility** is key to many economies but may now also be disrupted for some time. Governments will slowly loosen confinement measures at various stages to restart their economies, but uncertainty and unease among workers may nevertheless result in reduced international labour flows, even after borders are reopened.

In OECD countries, **income inequality** within countries stands at its highest level in over a century. The current pandemic and containment measures are likely to exacerbate this trend further. Low-skilled, low-paid workers are disproportionally represented in the most heavily affected sectors of economies. Furthermore, while teleworking is a valuable option for many workers during lockdowns, people in the lowest percentiles of the income distribution work in jobs that cannot be performed from home.

To overcome this crisis, interest rate cuts and government bond purchases alone will not work. Targeted support measures are needed. Governments are advised to provide adequate support to fill social protection coverage gaps, especially for vulnerable workers.

Flexible working arrangements (e.g. short-time working schemes) are useful tools that have proven their value in the past in terms of curbing unemployment and restarting the economy quickly. Access to benefits, funds and financial support packages for firms and workers regardless of their employment relationship are critical. The private employment services industry can also play a valuable allocative role, by facilitating movement of workers from "closed" industries to sectors with high demand for labour, such as the health-care industry.

Robin Lechtenfeld
Labour market intelligence officer, World Employment Confederation
@RLechtenfeld