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# MAKING PROGRESSIVE POLITICS WORK

A HANDBOOK OF IDEAS



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STICHTING



## **AVOIDING A PROLONGED PERIOD OF JOBLESS GROWTH**

Paul de Beer

Before the onset of the economic crisis, a shortage of workers was expected to be the main problem of future labour markets. Many scholars emphasised the long-term consequences of demographic change, in particular ageing and the transition from a growing to a shrinking labour force. On the one hand, these analyses seemed to offer a favourable prospect for workers, since an excess labour demand was expected to strengthen the bargaining position of workers. Moreover, it would considerably improve the prospects of the long-term unemployed and other job-seekers. On the other hand, possible adverse societal consequences such as a lack of qualified workers and the tilting of the balance between the active labour force and the dependent retired population were seen as threatening growth and the sustainability of the welfare state. Moreover, the position of the low-skilled might not improve if there was a qualitative mismatch between labour supply and demand. Thus, increasing the labour supply was seen as the overarching priority, *inter alia* by raising the retirement age, and by improving the qualifications of the low-skilled through extended education and training.

However, as the financial and economic crisis set in and unemployment rates reached record highs, the consequences of an ageing and shrinking population were replaced by growing worries about the current lack of jobs. The effects of the crisis on labour demand exceed the effects of demographic change on labour supply by far. Recent concerns have risen that the shortage of labour demand may not dwindle as the economy recovers, as we may be facing a prolonged period of jobless growth. Various experts suggest that rapid technological progress will result in a massive substitution of human labour by robots and computers. This analysis has reawakened old debates about shorter working hours, in order to share the available work among more people, or the provision of a guaranteed unconditional basic income to all citizens.

### **1. High unemployment is the main problem of the next few years**

These contradictory analyses of labour market developments are both one-sided, since they focus only either on the supply or on the demand side. In the long run, supply and demand can be expected to adjust to each other. There is no reason to expect that the trends of supply and demand will diverge indefinitely and that the lack of jobs or workers will keep on growing. However, the labour market is far from a perfect market which quickly tends to equilibrium. In the short and medium term, it is often characterised by serious imbalances, resulting in a high unemployment rate or a high vacancy rate. There is no doubt that in the foreseeable future – say, in the next five years or so – high unemployment will be the main problem.

### **2. Waiting for the recovery to create jobs is not enough**

It is rather worrying that hardly any new measures to fight unemployment have been introduced since the onset of the economic crisis. As the financial and economic crisis turned into a fiscal crisis, most EU governments shifted their focus from expansionary to austerity policies. They hope that employment will pick up automatically as the economy recovers. Although this may be true, it is a risky strategy. First, a modest GDP growth rate of 1.5 (as expected for the EU in 2014) to 2 per cent (in 2015) will hardly create additional jobs, since labour productivity is likely to rise by almost the same percentage. This is not due to the massive introduction of robots, but simply to the fact that labour productivity has lagged behind during the crisis as a consequence of labour hoarding. As a consequence, the number of jobs will only start growing substantially in a few years time as economic growth continues. Secondly,

unemployed people who have stayed out of work for a prolonged period of time may not succeed in finding a job once employment starts to increase. This may cause a so-called hysteresis effect, whereby a high unemployment rate continues over time even if labour demand rises again. As a consequence, the number of unfilled vacancies may rise while the unemployment rate stays at a very high level.

### **3. Shift priority from fiscal consolidation to employment**

It is therefore both in the interest of the vast number of currently unemployed and in the interest of sustaining economic growth that government policies tackle the short term unemployment problem instead of waiting for an automatic fall of unemployment as the economic recovery accelerates. As long as governments – and the EU – prioritise reducing public deficits over boosting employment, it will be difficult to devise measures that will contribute to reducing unemployment in the short run. Nevertheless, several measures might be considered for which no or only little extra government funding is needed.

### **4. Develop worksharing**

One option is to stimulate temporary worksharing schemes. If a company faces redundancies, a temporary reduction of working time to prevent forced layoffs might reduce the number of unemployment benefit claims. Hence, the government could support worksharing, for example by tax deductions, without increasing the budget deficit.

### **5. Shift the tax burden on jobs and incomes**

A second option is to shift taxation from labour to polluting activities or to the use of fossil fuels, which would boost employment and at the same time support sustainable economic development. Thirdly, a more progressive payroll or income tax may enhance employment opportunities for the low skilled, as it would shift the balance of taxation from low paid to high paid jobs. Moreover, it would help in narrowing the steadily increasing income gap between the rich and the poor.

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