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Translating Kurzarbeit

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The global recession of 2008-09 affected many advanced economies in similar ways, but several commentators have noted striking differences in labor market dynamics between the United States and Germany. These two large, open economies are comparable in many ways and were affected by similar macroeconomic shocks at the same time (Cooley, Ravikumar, and Rupert, 2012).

The table summarizes four macroeconomic indicators for the United States and Germany between the peak and trough of the U.S. recession (2007:Q4–2009:Q2). While Germany's real gross domestic product (GDP) dropped about 1 percent more than U.S. GDP, Germany's unemployment rate actually fell a bit. In contrast, the U.S. unemployment rate increased by a staggering 4.5 percentage points over the same period. And although the labor force participation rate remained essentially unchanged in both countries, the U.S. employment-to-population ratio fell markedly while Germany's ratio increased by 1.24 percent. In addition to the impact of the recession, one notable difference between the two countries is pre-recession GDP per capita grew significantly faster in the United States than in Germany; as in other countries with similar trends, the United States also experienced a larger output drop (Martin, 2013).

Many economists argue that German labor market reforms implemented in the 2000s clearly paid off during the global recession, particularly the combination of less-generous unemployment benefits, wage moderation, and incentives to hoard labor. A long-established work program called *Kurzarbeit* (literally "short work") is credited with helping to smooth Germany's labor market adjustment much better than in previous recessions by allowing firms to reduce employee hours. This essay provides an overview of Kurzarbeit and compares it with similar legislation introduced in the United States.

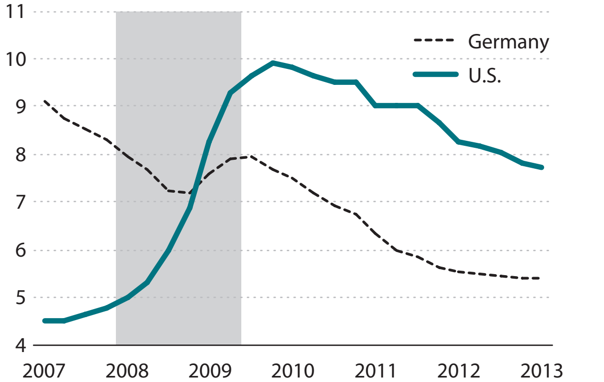
Under Kurzarbeit, the German government compensates between 60 percent and 67 percent of an employee's forgone net wages if the employer needs to cut wage costs and working hours during a downturn. In the meantime, the employee's contributions toward pensions and health care plans are met by the Federal Employment Agency.[1] Not unlike the U.S. extension of unemployment benefits during the recent recession, Kurzarbeit was extended from 6 months to 24 months while simultaneously simplifying the application process.

Macroeconomic Indicators: Germany and the United States

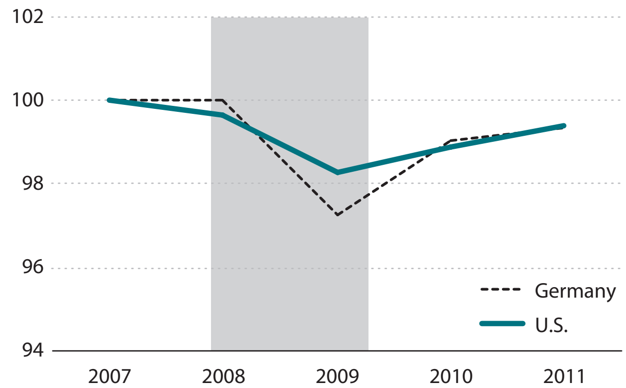
	United States			Germany		
Indicator	**2007:Q4**	**2009:Q2**	**Change* (%)**	**2007:Q4**	**2009:Q2**	**Change* (%)**
Real GDP (billions of 2005 currency)	$13,326	$12,701	–4.69	€601	€568	–5.6
Unemployment rate (%)	4.8	9.3	4.5	8.3	7.9	–0.4
Employment-to-population ratio† (%)	48.4	45.8	–2.6	48.7	49.3	0.6
Labor force participation rate† (%)	50.8	50.5	–0.4	52.9	53.2	0.3

NOTE: *Changes for the unemployment rate, employment-to-population ratio, and labor force participation rate are expressed as percentage-point changes. Changes for real GDP are expressed as the percentage change. †The employment-to-population ratio and labor force participation rate are calculated using resident populations for comparison across countries.

SOURCE: Bureau of Economic Analysis, Statistisches Bundesamt, and Haver Analytics.



NOTE: The shaded area denotes the recent recession as determined by the National Bureau of Economic Research.
SOURCE: Bureau of Economic Analysis, Statistical Office of the European Communities (Eurostat), and Haver Analytics.



SOURCE: OECD.

It is clear why such programs may be desirable from the worker's point of view during a recession, but what are the advantages for firms? Under the Kurzarbeit framework, firms can temporarily adjust the number of working hours for their existing workers (at the so-called intensive margin) instead of permanently changing the size of the workforce (at the so-called extensive margin). If firms face uncertainty regarding the nature of their difficulties (e.g., whether they are temporary or permanent), adjustments at the intensive margin allow them to retain skilled and experienced workers instead of facing the cost of immediate dismissals and the potential for additional future costs of hiring and training new personnel if demand increases and they decide to expand operations back to previous levels.

The charts provide some evidence of the effect of such a program at the aggregate level. While average annual hours per worker dropped by 1.72 percent in the United States between 2007 and 2009, it fell more markedly—by 2.74 percent—in Germany. Moreover, Germany experienced barely noticeable employment losses compared with the massive layoffs in the United States. Between the recession's peak and trough, the U.S. employment-to-population ratio decreased by 2.6 percentage points (from 48.4 to 45.8 percent) while it increased by 0.6 percentage points in Germany (from 48.7 to 49.3 percent).

If this labor market feature works well in Germany, can it be adopted in other countries as well? One version of a short-time work program—called work-sharing—already exists in the United States with the goal of limiting job losses during difficult economic times. Twenty-three states currently offer the program, which is now under the umbrella of the Layoff Prevention Act of 2011.[2] Five of these states and the District of Columbia authorized work-sharing programs in 2009, when unemployment spiked.[3] Although it is too early to provide sound evidence on the effect of these programs in the United States, several disparities with respect to the German labor market suggest such a program would have different effects in the two countries.

With more research and given the limits of conventional fiscal and monetary policies in addressing the consequences of jobless recoveries, a U.S. version of Kurzarbeit may provide another option in the policymaker's toolkit.

The German program has a long history. Kurzarbeit is widespread, well known, and accepted by both firms and workers; as such, it receives strong government support and funding. More important to our comparison are the differences in philosophy, design, and employment protection legislation between the two countries that arguably make it less costly for U.S. firms to lay off workers and easier for U.S. workers to find jobs after layoffs. These differences may result in disparate outcomes when the short-time work programs are implemented.

The current understanding of the employment effects of short-time work programs is rather limited: Macroeconomic analyses suggest some evidence of the net aggregate impact, but more evidence from firm-level studies is needed to provide an accurate evaluation. Still, with more research and given the limits of conventional fiscal and monetary policies in addressing the consequences of jobless recoveries (Bullard, 2013), a U.S. version of Kurzarbeit may provide another option in the policymaker's toolkit. ■

Notes

[1] For a detailed analysis of the cost of the program, see Crimmann, Wiessner, and Bellmann (2010).

[2] Although short-time compensation programs were permanently authorized as part of the Unemployment Compensation Amendments of 1992, they received federal guidance only after passage of the Middle Class Tax Relief and Job Creation Act of 2012. In addition to extending federal unemployment assistance through the end of 2012, the act included provisions designed to expand work-sharing as an option within the federal-state unemployment insurance system to provide employers an alternative to layoffs during a business slowdown.

[3] Different versions of short-term work exist in 25 of the 33 Organisation for Economic Co-operation and Development (OECD) countries. There is some evidence that countries where such programs were used extensively experienced smaller increases in unemployment during the global recession; see Hijzen and Venn (2011).

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