

# The Guardian

## US job losses have reached Great Depression levels. Did it have to be that way?

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In two, terrible, months the coronavirus pandemic has driven unemployment in the US to levels unseen since the 1930s Great Depression. Did it have to be this way?

Covid-19 has cost more than 33 million Americans their jobs in the last seven weeks – 10% of the entire US population. The official unemployment rate had shot up from 4.4% to 14.7% on Friday – a figure that probably wildly underestimates the true scale of job losses.

Across the Atlantic in Europe unemployment rates, while rising sharply, have yet to match the devastating rises experienced in the US. The UK is facing 9%-plus unemployment. In Germany the International Monetary Fund is predicting an unemployment rate of just 3.9% for 2020, up from 3.2% last year.

The stark differences can in part be explained by a German word: “*Kurzarbeit*.” And two – largely – opposing views on the best way to recover from this unprecedented lockdown and the tsunami of job losses that have followed.

Kurzarbeit – literally “short work” – allows businesses facing a temporary emergency to apply for government subsidies to keep paying workers’ salaries until the crisis passes.

“Keeping people connected to their employers is a good idea,” said Simon Johnson, professor of entrepreneurship at the MIT Sloan School of Management and a senior fellow at the Peterson Institute for International Economics. Retaining skilled workers and maintaining households in crisis, in principle, should allow people, companies and countries to bounce back faster once the crisis passes, he said.

Many European countries, including the UK, Italy and the Netherlands, have adapted versions of the model for the current crisis after witnessing Germany’s speedy recovery from the last recession. “The people who are closest to Germany actually seem to have got this, those that are further have struggled to understand it,” he said.

The US, instead, is largely relying on its unemployment insurance program to deal with the crisis. After much political infighting Congress agreed to boost state benefits by \$600 a week

until the summer. The money more than doubles the weekly maximum unemployment benefits in most states.

The philosophical split is not pure. Kurzarbeit's shadow can be seen in the US's \$669bn paycheck protection program (PPP). PPP was meant to help small businesses keep staff on the payroll during the crisis in return for forgivable loans. But that hastily assembled program has proved complicated to apply for and administer. Large sums initially went to big companies, including the LA Lakers basketball team and the Shake Shack burger chain. Many small businesses have complained they were squeezed out of the system or frightened off by the uncertainty over whether or not they will have to repay the money.

Nor has the US's unemployment program been without problems. Many state systems have collapsed under the weight of applications – a situation that has left hundreds of thousand, if not millions, of Americans facing uncertain futures.

### **'The whole thing was just so confusing'**

When the pandemic hit the US, Simon and Codi Bates were running three restaurants in the hip college town of Lawrence, Kansas. They closed everything in March and had to lay off 130 people. The timing was awful. Wedding season was just starting and the couple's Cider Gallery event space had to close its doors too.

The Bateses did initially look at PPP. "We have had two different bankers and a whole team of accountants telling us different things at different times. We get calls at eight o'clock at night on it," said Simon Bates. "The whole thing was just so confusing." Like many US businesses they decided they were better off letting staff go until the future was clearer.

Some of the people they laid off are now better off than they were when they were working. Bates has been slowly reopening his restaurants for takeout and has re-employed about a dozen people but at least one person who he asked to come back told him that he would rather wait it out on his supercharged unemployment benefits.

That may not be a bad idea for both of them. "Our business is a social business. Who knows how people's perspectives have been changed by this," said Bates. "Carry-out may be the way things are for the next year, two years? I just don't know." In the near future, he may only need a fraction of his old staffing numbers.

Other hard-hit industries like retail, hotels and entertainment may also face a long wait before business returns to normal – if indeed it ever does. Maybe it is better that the people in those industries make the shift to another one.

"The danger [with this approach] is that if people become unemployed for any length of time, they lose their skills and they lose their ability to get back into the labor force," said Johnson, adding that just such an experience contributed to the US's slow recovery from the last recession.

On the flip side, he added, the German model potentially ties people to jobs that may no longer exist.

That's certainly the position of Ryan Bourne, R Evan Scharf chair for the Public Understanding of Economics at Cato Institute, a libertarian thinktank. Although he questions whether we have enough data yet to say which approach – if either – will prove the more effective.

“I don't think, near term, that the unemployment numbers are the best metric to assess the success of these systems,” said Bourne. “Long term, the key here is how much is the economy going to change during this period of lockdown? I think subsidies to keep people on payrolls make most sense.

“If, on the other hand, the economy is permanently changed, people don't want to go back to restaurants, people don't want to go back to cinema, people buy different manufactured products, then, it might seem harsh, but you want the economy to adjust and businesses will fail,” he said.

Time will tell which system proves better able to deal with the biggest economic challenge of the decade.

If US unemployment continues to rise, there may be more pressure for the Trump administration to add some German to its economic lexicon. The Fox News host Tucker Carlson, a sometimes favorite of Donald Trump, has referenced [kurzarbeit](#) recently and the Trump administration is already discussing further bailouts.

As both Johnson and Bourne point out, philosophical arguments over the relative merits of economic approaches to tackling the biggest job crisis in living memory will be tempered by stronger forces – political decisions and the course of the virus.

But at some point, said Bourne, governments will have to face a big question. Does it make sense to keep “emergency measures in place indefinitely for a potential future that might never return”.