

Intelligence MEMOS



From: Morley Gunderson

To: Canadian Policymakers

Date: September 9, 2020

Re: LABOUR POLICIES FOR NOVEL SHOCKS SUCH AS COVID-19

Novel and one-off shocks like COVID-19 generally involve uncharted terrain with little or no precedence or evaluation studies to guide policymaking. Policymakers must decide quickly the balance between using existing policies with modifications (such as exemptions for eligibility and changes in the duration) and possible new responses.

Being unanticipated, employers and employees are not generally expected to have taken appropriate precautions to adjust to the shock. Providing adjustment assistance is therefore unlikely to create moral hazard problems whereby the assistance inhibits the private parties from taking their own precautions to avoid and mitigate the risks.

In the case of pandemics, however, moral hazard problems can still prevail if the lack of adjustment assistance creates the perverse incentives whereby individuals conceal infection so as to continue working, leading to the externality of transmission to third parties. However, generous adjustment assistance can also reduce the monetary incentive to return to work and the economy's return to normal.

As I outline in a recent *Canadian Public Policy* [article](#), the playbook to deal with such novel, one-off, unanticipated shocks include:

- Having a *first-responder labour policy team potentially in place*, with the following elements:
 - ◊ A well-defined chain of command;
 - ◊ Updated contact information;
 - ◊ Procedures for both internal communication and external communication with the public;
 - ◊ Practice runs.
- *Acting quickly*, especially in the case of pandemics where delays can foster exponential contagion and delay the transmission of important information and adjustments of the healthcare system. Be flexible and recalibrate swiftly as new information is revealed.
- *Determining early the extent to which the shock is likely to be temporary or permanent*. If permanent, anticipate wage losses in the order of 20-30 percent as well as the health effects and “deaths of despair” resulting from drug overdoses, the opioid crises, drink-induced liver disease, suicide and domestic abuse. Even temporary shocks can leave a legacy of more permanent longer-lasting scarring effects and permanent reallocations.
- *Co-ordinating with other departments* (e.g., health, finance, social services) and jurisdictions (federal, provincial) given that most shocks will likely affect different areas. Division of responsibilities should be established well in advance, and relevant ministers represented on a “first-responder” committee. Co-ordinate with unions or employee representation groups where present.
- *Having background information readily available* on “lessons learned” from previous shocks to deal with such questions as:
 - ◊ Are the existing adjustment assistance programs (e.g., employment insurance, retraining) capable of dealing with the labour adjustment needs from such novel shocks, perhaps by making minor modifications with respect to eligibility and the magnitude and durations of benefits?
 - ◊ Does the assistance provided to employers to have them return to normal filter down to workers?
 - ◊ Is it sensible to have loans to employers that are forgivable if they do not lay off employees?
 - ◊ Is government support for short-time work as an alternative to layoffs a desirable way for employers to retain their workforce, or does it prop up weak firms?
 - ◊ Do government policies that encourage employers to retain their workforces inhibit employers from laying off workers and then re-employing only those that they prefer to keep?
 - ◊ Are wage subsidy programs sensible for companies to retain, or rehire, their workforce that would otherwise be laid off because of a crisis?
 - ◊ Are work-sharing programs sensible where employment insurance is provided to employees who agree to reduce their hours and share a job?
 - ◊ Can wage concession by unions achieve a similar objective of avoiding layoffs?
 - ◊ Have there been unintended consequences from previous policy initiatives?
- *Anticipating and preparing for conflicts and trade-offs* that may occur and having a strategy to deal with them. Such conflicts can include: safety versus protecting the economy and jobs; refusing unsafe work and requiring workplace accommodations; strikes or work-to-rule campaigns; professional versus service worker divides; intergenerational conflict; litigation over alleged negligence; accusations of discrimination; failure to post or enforce back-to-work protocols; and issues around paid and unpaid sick leave
- *Planning for a recovery with an exit strategy*:
 - ◊ For a labour market recovery that is likely to be very slow and lag the economic recovery;
 - ◊ With the possibility of a second shock, especially in the case of pandemics as the economy opens up;
 - ◊ With targeted and phased labour market re-opening;
 - ◊ Relaxing legislative and regulatory constraints that inhibit employment;
 - ◊ With local and timely labour market information.

Policymakers should also pay particular attention to vulnerable disadvantaged workers who lack individual or collective bargaining power, as their voice is often lost to the stronger voices of more powerful interest groups.

Although such shocks may be novel and unanticipated, having a playbook in place enables policymakers to respond quickly to mitigate harm.

Morley Gunderson is professor emeritus at the Centre for Industrial Relations and Human Resources at the University of Toronto where he was the inaugural holder of the CIBC Chair in Youth.

To send a comment or leave feedback, email us at blog@cdhowe.org.

The views expressed here are those of the author. The C.D. Howe Institute does not take corporate positions on policy matters.