IZA Institute of Labor Economics

Initiated by Deutsche Post Foundation

IZA COVID-19 Crisis Response Monitoring:

Switzerland

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May 21, 2020

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SWITZERLAND

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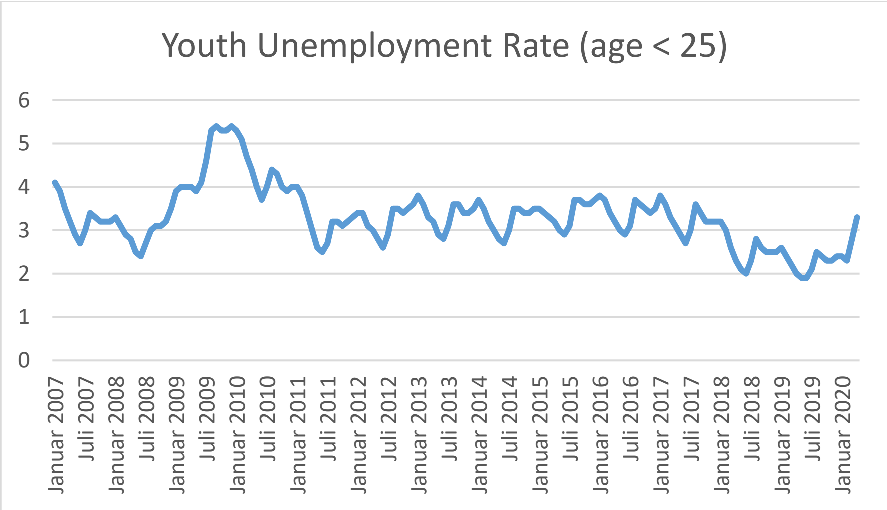
1. ***The current overall impact of COVID-19 on the labor market in terms of employment, unemployment, sectors, firms***: According to early information, who is affected the most? What do you see in terms of sectoral employment reactions, and regarding permanent, fixed-term or agency workers? Are current figures/estimates more or less in line with earlier forecasts or are there some unexpected/surprising deviations?

   According to the last official labour market statistics, the unemployment rate (registered unemployed) rose from 2.9%[1] by end of March to 3.3% by end of April, implying an increase of 43% compared to April last year [SECO 2020a]. Larger immediate increases have been prevented by the extensive use of the short-time work scheme (see below). However, I expect that unemployment will further increase by a substantial extent. The amount of job vacancies has plummeted substantively: within two weeks after the launch of the Covid emergency measures and lock-down (March 16th), the number of vacancies posted on job boards have decreased by 26% [Adecco Group Swiss Job Market Index/Stellenmarkt-Monitor University of Zurich]. Currently, the total number of posted vacancies (by firms and recruiters) is approximately at a level of 140K to 150K, whereas it has been at 210K in the middle of Q1-2020 [jobradar.ch]. This massive reduction in labour demand, combined with expectedly increasing unemployment durations, gives rise to the prediction that unemployment will continue to substantially increase over the next months.

   Relatively mostly affected by increased unemployment are young workers. The number of youth unemployed (< 25 years) by end of April rose by 61.3% as compared to a year ago [SECO 2020a]. The youth unemployment rate started rising to 3.3%[2], undoing the improvements over the last two years; it didn't reach yet the peak level of the Financial crisis (5.4%), but a further increase is to be expected. The impact of the Covid crisis on rising unemployment is broadly spread across industries and jobs. Massively affected is the gastronomy sector, over-proportionally affected are construction and the machine-, watch and metal industries. Areas within Switzerland that heavily rely on tourism tend to show larger increases in the local unemployment rates. Conversely, the unemployment shock affected both, women and men, as well as foreigners and Swiss, in about the same extent.

[1] These are the official figures for the rate of registered unemployment (i.e., in unemployment insurance), reported by the Swiss State Secretariat of Economic Affairs (SECO). The unemployment rate according to the ILO definition, based on the labour force survey, amounts to 4.5% for Q1-2020 (not yet affected by Covid) [BFS 2020a, Swiss Federal Statistical Office].

[2] The youth unemployment rate by ILO definition is at 7.2% in Q1-2020 [BFS 2020a], before Covid. (EU: 15.3%)



By the end of April, about half of the total Swiss workforce (5.1 mio workers in Q1-2020, [BFS 2020a]) did rely on some support of one of the main (extended) social insurance/support schemes, i.e. unemployment insurance, short-time work scheme or the Income Compensation Act (EO, Erwerbsersatzordnung).

2. ***The general orientation and targeting of the measures adopted to tackle the labor market impact of COVID-19 (as listed in the OECD inventory)***: Is this summary appropriate? Have there been most recent changes or new initiatives? How do you assess the overall policy set adopted so far? Have certain aspects or target groups been neglected in the policy packages adopted?

   The OECD inventory appropriately documents the adopted economic measures. The fundamental measures are covered. There have been refinements within these measures recently but no essentially new initiative that is not yet mentioned (to my knowledge). Overall, the set of adopted policies is quite comprehensive and seems to serve well its initial purpose to shield the affected participants of the economy against the short-run impact of the Covid shock. Initially some target groups like the self-employed, particularly the ones indirectly affected by the shut-down measures, were neglected by the policies. However, this has been adjusted more recently, through allowing these groups as well access to loan and guarantee schemes and access to the Income Compensation scheme (EO) [BSV 2020a]. Important is as well the extension of the short-time work (STW) scheme to fixed-term contract employment and to employees in temp agencies by March 20. By the same date, the STW was opened as well to persons in an “employer-like status” (mostly partners in small limited liability companies), persons in apprenticeship and co-working spouses. [Bundesrat 2020a,b]

   A potential issue of the adopted policy set is its strong focus on providing loans and guarantees. These “Covid bridging loans” are supposed to be paid back, which may lead to debt issues for substantial numbers of SMEs. Practice shows that a large part of the CHF 40 billion of liquidity aid has been demanded by firms applying for bridging credits. However, so far only a smaller part of the credits approved by the banks have been finally taken up by the firms. It seems that (smaller) firms are reluctant to indebting themselves and currently mostly try to survive on their own resources, taking the credit only as a “last resort”. Thus, from a policy point of view it is questionable whether the loan and guarantee schemes will be sufficient to support the sustainability of some parts of the economy if the crisis turns out to harm firms over a longer time period. In the case of a longer crisis it may be advisable to extend the measures by possibly turning some loan schemes into cash grants and by adding some additional support for firms through fiscal policy.

More recently in May, some further complements have been added to the financial support measures. A support scheme for start-up firms has been established by May 7. Start-ups in liquidity problems can apply for government-backed loans of up to CHF 1 mio [SECO 2020b]. Furthermore, it has been decided that the Cantons are obliged to reimburse child care institutions for parental contributions they lost due to the Covid measures in the period from March 17 to June 17, 2020 [SECO 2020d].

3. ***Regarding policies providing immediate liquidity to small firms and freelancers***: How do you see the actual take-up of support by small firms and self-employed? To what extent do the measures in practice help mitigate the economic impact of COVID-19? How do you see the delivery and implementation by public agencies and other entities, taking into account the trade-off between quick delivery and deadweight losses or misallocation?

   As mentioned above, there is a substantial gap between the amount of credit support that firms and self-employed apply for and the amount they really claim. The mentioned reluctance to take up bridging loans could lead to some under-supply of liquidity and, relatedly, to some additional layoffs. The extent of this practical issue is currently hard to quantify.

   The delivery and implementation by public agencies and other entities (banks) is seen positively by firms and self-employed according to reports in the media. Both, applications for short-time work (through unemployment insurance agencies) and applications for bridging loans (through banks), were designed to be simple and fast. The banks usually reached the target of assessing a loan application within 24 hours. The public agencies were struggling with the huge amount of short-time work applications but still usually managed to digest them without substantial delay and back-log. As for the extended use of the support scheme provided by the Income Compensation Act (EO), it has been reported that some eligible self-employed ended up touching very small daily allowances due to outdated income information recorded at the social security agency. But as well for this scheme, no broader complaints have been raised.

   Given the reluctance of firms to claim the loans, the issue of misallocation should be rather minor. There is a certain risk of deadweight losses and abuse of the credit schemes - it is argued, however, that screening should be at a good level due to the fact that it is the 'home bank' of the firm which is in charge of assessing the loan application. Moreover, ex-post screenings (and penalties for abuse) are being implemented in the design of the loan schemes.

4. ***Regarding dependent workers***: How do you assess the effectiveness of unemployment insurance and short-time work in stabilizing income and jobs at the moment? To what extent do short-time work measures help reduce or postpone inflows into unemployment (and for whom)? Is this being complemented by sectoral or firm-level agreements? What is known about the support delivered to job seekers now? Has activation by ALMPs come to a halt?

   I assess the effectiveness notably of the short-time work (STW) scheme to avoid additional unemployment in the short run as being high. By 20 May, about 190,000 firms covering about 1.94 mio employees have applied for STW [SECO 2020c]. This corresponds to 37% of the Swiss work force. The broad and extended application of the scheme, its simplified administration and the elimination of barriers to getting STW (e.g., no waiting period for the employer anymore) helped avoid larger rates of increase in the unemployment rate. Also, there is currently no clear time limit on the eligibility and use of STW – thus the mitigating impact of the STW scheme on the unemployment rate could last longer than just a few months. Of course, it will be up to a political discussion in the parliament whether to finally approve all the financial means assigned by the government (currently suggested CHF 20.2 bio for the unemployment insurance fund, mostly dedicated to the STW scheme) – this will finally define the STW's limits in extent of use and time. So far, political support for STW has been broad.

However, firms on STW will have to assess and revise their prediction concerning their future business prospects. If they are not sufficiently positive, firms may still decide at that point to lay off parts of their work force. This could lead to an additional increase in unemployment in autumn – particularly if it turns out that the dip of the (international) crises is not just short and that it is possibly related to some structural change within the economy. In Switzerland, there is no systematic combination of STW with sectoral or firm-level agreements.

The support delivered to job seekers is marked by a shift of weights from active to passive labour market policy measures. To avoid larger peaks of benefit exhaustion, the Swiss unemployment insurance (UI) extended maximum entitlement to benefits for all types of job seekers by 120 additional daily allowances. This brings potential benefit duration for a prime-age individual up to 520 work days (about 2 years). On the other hand, the submission of proof of job search efforts is waived during the period of the Covid special regulations (job seekers are, however, still obliged to search for jobs). [Bundesrat 2020c]

Also, activation by ALMPs came to a halt and counseling by caseworkers is reduced to an administrative minimum by telephone. Thus, the active part of labour market policy is currently almost entirely inexistent.

5. To what extent are ***working conditions and work organization within firms*** changing at the moment, in particular in sectors where there is an increased or normal workload? How do working time / mobile working rules or care arrangements respond to that in practice?

   To respond to the increased workload demands due to the pandemic, the Swiss government relaxed the working condition rules (according to the labour law) for medical institutions, notably with respect to working- and resting times. Moreover, specific exceptions to extend the weekly maximum working hours beyond the usual legal level have been given to the meat industry and to the banks (to handle the bridging loans applications.) [SECO 2020e] These are of course all temporary exceptions. However, particularly employees in the medical sector complain that some employers expect too much flexibility with respect to work arrangements. Notably employees who were not involved in the treatment of the Covid pandemic and were not allowed to work during the infection peak (but weren't on STW either) criticize that some employers require them to compensate now the forgone working time by working over-time.

   There is no broader evidence yet for Switzerland on the question how working practice changed as a consequence of the Covid shock. A smaller survey (n=1500) run by [Deloitte] in April documents that 48% of the Swiss employees work now during the Covid period in home office arrangements; before the crisis only about 25% of the employees worked at least once a week at home. Of course, now during the Covid crisis period, the proportion of those among the home office workers who work 100% at home has increased substantively. The responses on whether individuals are more or less productive at home and on whether they believe to continue to partially work at home after the crisis are highly heterogenous. However, about 34% of the respondents indicated that they plan to regularly work from home after the crisis. All in all, it seems realistic to predict that the share of employees who work (partially) at home will remain on a higher level after the crisis than before.

The expected higher level of work at home arrangements and, relatedly, more flexible work organization in general will boost the political discussion about the appropriate regulation of such arrangements, I think. Many related questions ae barely discussed so far. For instance, who pays for equipment and office space at home? How can appropriate supervision be implemented without invading the individual privacy sphere? Should employers contribute more to childcare costs if employees work at home more often? How can the employee's private life be protected against the inherent risk of being absorbed by 'permanent availability for work' at home? Etc.

6. How do you assess the situation of ***new labor market entrants*** this year, in particular with school or university graduates? Are there policy innovations and initiatives to cope with this particular situation regarding hiring, provision of apprenticeships etc.?

   The challenge to find a job or an apprenticeship after school or university is and will clearly be bigger than under normal conditions. The uncertainty among firms has led large amounts of hiring processes to be temporarily suspended, with no clear expectation when (and if) they will be relaunched. This difficult situation particularly affects new labour market entrants who are not yet much experienced in job search and who often have a less clearly defined profile than older job seekers. These challenges are reflected in the above-mentioned rising youth unemployment rate. The issue of less defined profiles among young job seekers is aggravated by the fact that some (parts of) final exams will not be held. In vocational education (apprenticeship plus part-time school), where the majority of new labour market entrants is enrolled, only the practical exams will be held where possible but not the theoretical ones. Whether high school (Gymnasium) final exams are held or not is heterogenous, as it is decided regionally (by Canton). In both cases the partially missing exam outcomes will potentially weaken the signal and profiling information about new labour market (or university) entrants, which may affect the hiring chances and the choice options negatively. How severe this issue will be depends crucially on the firms' reactions in adjusting their hiring procedures to the current situation.

   A positive sign of stability in the apprenticeship market is that traditionally the majority of all offered apprenticeship positions are already filled by March/April. This has been the case as well for the current hiring round, 66% of all the positions have been filled already [Nahtstellenbarometer gfs.bern].

   So far, I have not seen any specific policy innovations to cope with the additional challenges of young labour market entrants and unemployed. It is well conceivable that this may change if the youth unemployment rate continues to substantially rise in the coming months and if larger numbers of apprenticeship offers are withdrawn.

7. Do you see ***further remarkable developments*** and issues, maybe unexpected policy innovations, changes in employment, new trends? Can you already identify ***(changes in) medium-term or long-term trends on the labor market*** that are due to the crisis (e.g. accelerated structural change)? How will the general functioning of the labor market in your country be affected in the long run?

   It is too early to identify clear trends of (structural) changes in employment so far. I expect that the extensive use of the STW scheme in Switzerland will slow down the speed of change caused by this crisis. STW provides the firms more time to assess their situation and business perspectives and to wait to decide on potential changes in the composition of their workforce.

   There are some, currently rather anecdotal, signs indicating possible (accelerated) structural changes. The transportation sector as well as tourism operators expect lower client flows for several years to come. It is thus probable that these industries will reduce hiring and employment for a longer time. In the case of tourism this will affect many short-term contracts and seasonal positions at a first stage and then possibly more 'structural' positions in a second stage. Given the rising awareness of the importance and valuation of health-related occupations, I would expect that the already ongoing discussion about shortages in this area will become more salient now. The political will to promote and invest in health-related occupations should increase.

Furthermore, I would expect that the currently massive increase in use of online tools and services will have a sustainable impact on the labour market. Switzerland and its workforce are comparably well equipped with internet and computing infrastructure and related skills. This supports my expectation that this unintended 'online experiment' which we are running currently will indeed move the use of online services to a permanently higher level. This would have positive impacts on labour demand in jobs related to online services, including logistics. It opens the door as well to new innovations through creating new online services. I also think it will accelerate the digital transition in how we search for and match jobs. Groups of employees and ages that were not yet that familiar with operating all the exchanges on the labour market digitally were now suddenly included in this transition wave. I think quite many of such immediate transitions of the functioning of the labour market towards online operations will remain in use after the crisis. Notably because many operators – firms, recruiters, public employment services – are now driven into (additionally) investing in new online processes and platform solutions.

8. Can the ***current policy stance*** (reduced economic activity, combined with public income support) be sustained, and for how long? What do you see as necessary and ***useful next steps***, in particular to revive economic activity (soon)? How do you see the ***current and future fiscal viability*** of the crisis relief measures?

In Switzerland the economy is reopened essentially in two steps: a first one by May 11, including the retail shopping sector and most restaurants and cafés, and a second one by June 8, where a large part of the touristic infrastructure (and cinemas) may be reopened. These steps are of course contingent on the positive evolution of the infection stats and on all the entities providing and implementing satisfactory security concepts.

Switzerland is in a comparably good position to sustain financial support of the participants of the economy for a relatively long time. The state has passed a decade of steady debt reduction, and the current debt rate is lower than in most other European countries. However, the projected additional spending of 40 to 60 bio CHF for financial support via loan guarantees and the social insurance system will essentially undo the whole debt reduction achieved over about the last decade. Moreover, projections by KOF-ETH [2020a] predict that the state will face a reduction of tax income at all levels (confederation, cantons, municipalities) of more than CHF 5.5 bio this year. Next year this reduction will expectedly more than double, due to the current measure of deferred invoicing of taxes. For the social insurances it is predicted that they will earn about CHF 1 bio less in contributions this year. KOF-ETH expects that the rate of registered unemployment further increases to 4.7% by the end of 2020 and will remain relatively high with an average rate of 4.3% (6.0% by ILO definition) for 2021. In a historic comparison, these are high unemployment rates for Switzerland, higher as well than in the Financial crisis 2009/10.

To sustain the financial stability notably of the social insurance system, further political decisions on additional support will be required soon. Most of the emergency ordinances introduced by the Swiss government will run out by end of August latest; and they require ex-post approval by the parliament. The KOF-ETH projection quantifies the additional financial needs of the unemployment insurance and the STW scheme to about CHF 20 bio (75% going into STW). SECO [2020c] estimates that the unemployment insurance fund will accumulate debts of about CHF 16 bio by end of 2020, predominantly because of the STW scheme. On May 20, the government proposed to spend another CHF 14.2 bio on the UI fund; bringing the extraordinary injections into the UI fund to CHF 20.2 bio in total. Both expenses, the earlier emergency ordinance (by March 20) featuring CHF 6 bio and the mentioned additional proposal of CHF 14.2 bio, require approval by the parliament in June. If these extraordinary injections are not approved, then the UI contributions that employers and employees pay on the wage bill will have to be increased. By end of May, the government terminates the extensions of the STW scheme to persons in an "employer-like status", in apprenticeship and to co-working spouses – roughly in line with the mentioned relief of Covid lock-down restrictions in May. The other extensions to the STW scheme, mentioned in point 2., remain in effect for the moment.

In addition to the financial challenges for UI and STW, the Income Compensation Act (EO) scheme will require additional funding as well in the medium run. Which amounts of the loan and guarantee schemes will be claimed, defaulted or possibly turned into cash grants is hard to predict. However, to support the survival and avoid larger debt problems for small SMEs and self-employed, it may be necessary as one next step to indeed turn loan guarantees into cash grants for such targeted groups of small businesses in need (subject to a sustainable business plan).

Possible next steps to reanimate the economic activity and the labour market would be to relaunch and readjust the active labour market policies (ALMPs). 'Corona-proof' versions of active job seeker support need to be developed and implemented. The ALMP programs should be adjusted and more focused to support skill acquisition and job finding in areas that are still relatively highly demanded, with good expectations after the crisis.

In a slightly longer run, as soon as patterns of possible structural changes become visible, it may be advisable to set up targeted investment programs in further education and start-up subsidies. The goal could be to support occupational switches towards sectors that develop favourably after the crisis and to support job creation in such areas. I would advise rather against using tax reductions (e.g., VAT) for heavily affected industries like gastronomy and tourism. This would in tendency only support structural problems (of over-supply) in these industries, and it is moreover an inefficient measure which cannot be targeted. If additional support is required in these areas, then specific investments in useful touristic infrastructure and in promising start-ups would be more advisable. More generally, beyond the short-run survival support, it seems more promising to invest in targeted programs that specifically support some risk groups - like young unemployed or employers and employees in structurally weak industries - in their skill acquisition and transition towards more 'future-proof' jobs and business models.

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