Playbook for Labour Policies for Novel Shocks Such as COVID-19

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This article outlines a playbook for labour policies to deal with novel shocks such as COVID-19. The labour-related characteristics of such shocks are outlined, with special attention to whether and how they require labour market policy responses that are different from the conventional policies. Elements of a playbook for dealing with the crisis, as well as coming out of it, are outlined. They include having a first-responder policy team in place; acting quickly but flexibly; determining early the novel versus permanent nature of the shock; keeping people in their existing jobs; co-ordinating across other departments and jurisdictions; balancing active labour market policy versus passive income support; co-ordinating with other departments and jurisdictions; having information on lessons from previous shocks; anticipating conflicts; and planning for the recovery with an exit strategy. Although the playbook is illustrated with examples related to COVID-19, it applies to other novel shocks.

Keywords: COVID-19, labour policies, novel shocks, playbook

Introduction

Labour market policies are generally designed to deal with standard events such as unemployment, labour and skill shortages, workplace risks, discrimination, wage inequality, poverty, and worker representation in the workplace. This is the case with the wide range of policy initiatives that are available to governments. These include legislation in such areas as employment standards (e.g., minimum wages, hours of work and overtime, terminations) collective bargaining, health and safety, workers’ compensation, employment insurance, and human rights and discrimination. Policy initiatives also include areas such as training, apprenticeships, occupational licensing, immigration, temporary foreign workers, income support, and labour market information.

Such policies are under pressure to change in response to changing pressures on the demand side of the labour market (e.g., technological change, globalization, trade liberalization, recessions) and on the supply side of the labour market (e.g., female labour market participation, aging work force, transitions from school to work and from work to retirement, immigration and increased work force diversity). Such changing pressures are generally known, anticipated, and recurring, and the history of their effects are widely researched and understood reasonably well. In effect, they are amenable to evidence-based policy making, although political realities often make them subject to policy-based evidence making.

In contrast, novel one-off shocks generally involve uncharted terrain, often with few or no precedents to guide
policy making. The phrase novel that is generally placed before coronavirus highlights how this is truly uncharted terrain. Prior to COVID-19, other recent shocks include the earthquake and fire in Kobe Japan in 1995, Mad Cow Disease in the United Kingdom and Europe in 1996, the September 11 attacks on the World Trade Centre in 2001, the European floods of 2002, the SARS pandemic of 2003, the earthquake and tsunami in the Indian ocean in 2004, Hurricane Katrina and the floods in New Orleans in 2005, the Fukushima nuclear disaster in Japan in 2011, the Ebola crises of 2014–16, and Hurricane Matthew in Haiti in 2016.

Characteristics of Novel Shocks and Policy Responses

Novel shocks have characteristics that have important implications for the appropriate policy responses to such shocks. Since they are novel and one-off, they are not neatly addressed by the existing array of policy initiatives designed to deal with more regular events as outlined previously. There is generally not an array of evaluation studies designed to facilitate evidence-based policy making in the labour policy area, in part because it tends to play a secondary role relative to health and economic policy in dealing with novel shocks. Evidence on the use of labour policies in response to a number of novel international one-off shocks is discussed subsequently.

Policy makers are generally stuck trying to determine, with urgency, the extent to which they can use existing policies and programs with modifications (such as exemptions for eligibility and changes in the duration of an intervention) or to which novel responses are required. As well, care must be taken to ensure that any new policies that are put in place have a sunset clause to ensure that bureaucracies do not develop around the programs that make them permanent, unless the need continues.

To the extent that a shock such as COVID-19 is unanticipated, it is generally not expected that employers and employees should have fully prepared to face it. Under normal circumstances, employers can be expected to have practices in place to deal with adjustments from changing market forces. Examples of such practices include alternatives to their supply chains should they be disrupted; building up inventories in anticipation of a strike when a collective agreement expires; engaging in labour hoarding as part of an implicit contract to keep their experienced work force during a recession; and paying compensating wage premiums for risky work. Workers also may take certain precautions to protect themselves from the adjustment consequences of changing market forces. For example, they may acquire broad-based skills and engage in multi-skill training. They may engage in concession bargaining to preserve their jobs. The two-earner family may provide some insurance against the job loss of one member.

To the extent that shocks like COVID-19 are unanticipated, however, it is not reasonable to expect the parties to have taken such precautions. The adjustment consequences are not a fault of their own and they should not be expected to pay the price of not having taken appropriate precautions. Just as principles of force majeure are invoked when unforeseeable circumstances prevent agents from fulfilling a legal contract, so can unanticipated shocks alter what the parties are expected to do to protect against such shocks. Importantly, unanticipated shocks are unlikely to create the moral hazard problem that can exist when providing adjustment assistance inhibits private parties from taking their own precautions to avoid and mitigate risks.

Moral hazard problems can still prevail, however, in the case of pandemics. If adjustment assistance is not forthcoming, perverse incentives may be created whereby individuals hide being infected in order to continue working, leading to the externality of more serious contagion to third parties. However, generous adjustment assistance can also reduce the monetary incentive to return to work and move the economy back to normal. The usual trade-off between providing income support and preserving work incentives can still prevail.

Clearly, the labour market policies to deal with novel shocks are different from those that prevail for dealing with normal adjustment consequences in labour markets. The purpose of this article is to set out a playbook for labour policies to deal with such novel shocks. The emphasis is only on labour policy, not on other likely more crucial policy areas such as health policy or economic policy in general, although they are obviously interrelated, and lessons learned can spill over to other policy areas.

The metaphor of a playbook is appropriate, since in sports such playbooks are designed to provide sets of alternative plans, both defensive and offensive, to have in place to deal with circumstances that are rapidly changing. The playbook should be based as much as possible on evidence from past experiences on what works and what does not work. It should be designed to provide a set of steps for immediate implementation to assist in decision-making at times when a dearth of relevant information and the stress of the situation can make decisions difficult. While it should set out a plan, it should not be cast in stone, but should provide alternative scenarios as well as room for adjustments.

Elements of a Playbook for Labour Policies to Deal with Novel Shocks

Have a First-Responder Policy Team in Place

The first element of the playbook is to have a first-responder labour policy team potentially in place. Since labour policies are under provincial jurisdiction, such a team would have to be in place for each jurisdiction or group of jurisdictions, but co-ordinated with other
 jurisprudence and the federal jurisdiction. Such coordination is discussed subsequently. The team should have expertise in the various elements of labour policy outlined in the Introduction, as well as connections to other policy areas such as health and finance that are generally a first priority for most shocks. This enables selecting the subset of the overall team that will be most appropriate to the particular nature of the shock. There should be a well-defined chain of command.

Full and updated contact information for team members should be available, along with backups and appropriate support staff. Procedures for both internal communication and external communication with the public should be well established in advance, again so that precious time is not wasted on logistics. Practice runs should be done occasionally to make sure the system works.

**Act Quickly but Flexibly**

Having a playbook and first-responder team in place in the face of novel shocks facilitates another important feature of adjusting to the shock — the ability of policy units to act quickly. This importance is obvious in the case of pandemics, where delays can foster the externality of exponential contagion and delay the transmission of important information. Early in the COVID-19 outbreak, Canada followed the advice of the WHO and did not close borders to air travel, whereas Australia ignored this advice and closed down quickly, with vastly better outcomes (Negin, Kapur, and Baxter 2020). Of course, Canada also has a U.S. border and had many returning Canadian nationals. As well, it is easy to indicate the correct decision ex post. If the health outcomes had turned out to be the same in both countries, the Canadian decision would have been deemed more appropriate, especially given the importance of international travel to the economy.

Acting quickly can also provide the health care system time to adjust, if that is necessary. While it is crucial to act quickly, it is also important to be flexible and capable of recalibrating in continuous time as new information is revealed. In the case of worldwide pandemics, that information can come from the experience of other countries, states, or provinces. Waiting for better evidence on the nature of a shock and its likely impact is also an action.

In the Canada–Australia comparison cited above, for example, Canada’s slow closing of international travel was based on following a WHO recommendation and the Canadian Health Ministry indicating that “research supports Canada’s decision to reject a coronavirus travel ban” (Grant 2020). Research was cited indicating that travel bans only delayed the outcomes of earlier contagions, with little or no impact on the ultimate outcomes. Perhaps this illustrates the adage that if you beat the data hard enough they will tell you what you want to hear. In any case, Canada changed course and recalibrated as new information was revealed.

**Determine Early the Novel versus Permanent Nature of the Shock**

It is important to determine early the extent to which a shock is likely to be novel, as opposed to permanent. If the shock is more permanent or has elements that are likely to be permanent associated with any restructuring, then workers who are permanently displaced from their jobs experience substantial wage losses associated with their loss of firm-specific human capital. Morissette, Qui, and Chan (2013) cite evidence from the literature for Canada that permanent job losses led to earnings losses of around 20 to 30 percent for those who found a job within a year, and around 20 percent after five years after their job loss. In both cases, the losses were higher for women than for men.

The health risks associated with such permanent job losses are dramatic. Case and Deaton (2020), for example, document the “deaths of despair” and reduced life-expectancy that resulted from drug overdoses, the opioid crises, alcohol-induced liver disease, suicide, and spousal abuse associated with the permanent decline of jobs in the United States. Sullivan and von Wachter (2009) found that workers who had experienced a permanent job loss had a 10–15 percent increase in mortality rates as compared with other similar workers 20 years after their permanent job loss. Michaud, Crimmins, and Hurd (2016) also find substantial negative effects on health from permanent job loss, and they cite numerous other studies to that effect. In such circumstances, there may be a trade-off between “saving lives” and “saving livings,” where the latter can have feedback effects on saving lives. These long-run health consequences, however, are ones that resulted from the long-run, permanent loss of jobs and community, while the one-off shocks are likely to be temporary, although with some subsequent permanent effects.

Even if a shock is temporary, it may have a legacy of more permanent effects. There is ample evidence, for example, that persons who enter the labour market in a recession experience substantial and long-lasting lower earnings, highlighting the longer-run scarring effect of even temporary economic conditions (Johnson 2020; Oreopoulos, von Wachter, and Heisz 2012; Schwandt and von Wachter 2019).

Unfortunately, even if COVID-19 is temporary, it will likely lead to some permanent displacement. Barrero, Bloom, and Davis (2020) estimate that 42 percent of recent layoffs from COVID-19 in the United States will result in permanent job loss. They further emphasise that it is a reallocation shock, because they find that there are 3 new hires for every 10 layoffs caused by the pandemic. The need for reallocation of labour in response to a novel shock is also emphasized by Bender and Dalton (2020): “The coronavirus pandemic is forcing the fastest reallocation of labor since World War II, with companies and governments mobilizing an army of idled workers into new activities that are urgently needed.”
As indicated below, the appropriate labour market policy response is different depending upon whether the shock is novel or permanent, and even if it is novel, if it may have a legacy of permanent repercussions.

**Try to Preserve People in Their Existing Jobs**

If the shock is likely *short-term*, the expectation is that workers will return to their jobs once the shock is over. In fact, returning to the same job is generally regarded as important to preserve workers’ firm-specific human capital and networks, and hence to avoid the substantial wage loss that tends to occur when workers are permanently displaced from their jobs. The fact that Germany’s labour market emerged in good shape during and following the 2008–2009 financial crisis is generally attributed to their short-time work or *Kurzarbeit* policy that preserved their work force in the same jobs by reducing the work time of their incumbent workers rather than engaging in layoffs and plant closings (Crimmann, Wießner, and Bellmann 2012). This hastened the recovery as well, since the individuals were at work and ready when the recovery began.

Providing temporary income support through transfer programs such as employment insurance for those who have lost their jobs has several advantages. It can be done through a program such as employment insurance that already exists, through modifications such as easier eligibility, higher earnings replacement, and extended benefit periods. Although this does not keep people at their jobs, it enables them to sustain much of their income and to be available when their jobs hopefully return. If their jobs are not likely to return, then for persons who are liquidity-constrained—as is likely for many who have lost their jobs—such transfer payments may enable them to engage in longer job searches that can yield more productive and longer-lasting job matches (Belzil 2001). As well, the payments can foster maintaining consumption, which can be an important demand stimulus for coming out of an economic decline.

The concern is that the application process can slow getting needed support to recipients. Furthermore, governments covering lost wages can increase the incentive of firms to lay off workers, since their responsibilities to their workers are alleviated, and can reduce the incentive of workers to return to work or to reallocate to newly created jobs (Barrero et al. 2020). In the case of pandemics, for example, restaurants may have the green light to reopen on a partial basis, but this may be hampered if staff prefer the safety net of employment insurance, especially if there are commuting and other costs associated with returning to work. The safety net can also discourage reallocation of labour from declining sectors and regions to expanding ones, as reallocation needs arise even from temporary shocks, as discussed previously.

**Active Labour Market Policy versus Passive Income Support**

If a shock is likely to be more permanent or have longer-run legacy effects that require restructuring, then active labour market adjustment programs are more appropriate. This can be the case even if the shock is temporary, to the extent that the “new normal” may involve a structural adjustment that is more permanent. Some jobs may not return, or they may return in different forms. Retirement may be a viable alternative for many. It may be a matter of rebuilding rather than reopening.

Active adjustment assistance programs tend to involve investment in education, training, labour mobility, job search, and labour market information (ILO 2020). The metaphor is a trampoline effect to enable those who lose their jobs to bounce back into the labour market, rather than a safety net of passive income maintenance that can discourage such an adjustment. Active adjustment assistance programs can have an efficiency rationale in that they facilitate the allocation of labour in the direction of basic market forces, from declining industries and regions to expanding ones. This can reduce unemployment and underemployment in declining regions and industries at the same time as reducing labour and skill shortages and production bottlenecks in expanding sectors and regions. It can also have an equity or distributional rationale by reducing wage inequality, since the supply outflow from declining sectors and regions should raise wages in those sectors and regions, while the supply influx into the expanding sectors and regions should reduce their wages.

In the current COVID-19 pandemic, one hears the phrase that “now is not the time to worry about incentives.” That can be the case when it is important to provide the income support necessary to tide people over the novel event and to sustain aggregate demand. But it is also important that the safety net not discourage people from returning to work as the economy comes out of the decline. The pros and cons of active versus passive adjustment assistance must be considered in any playbook for labour policies.

**Co-Ordinate with Other Departments and Jurisdictions**

Given that most unanticipated shocks will likely affect different functional departments of governments, it is important to have the communication and contact information for teams other than labour policy known and available, likely through an umbrella first-responder structure. Depending upon the nature of the shock, examples of first-responder teams in areas other than labour policy could include health, finance, transportation, defence, and social services. In each jurisdiction, the relevant minister could be represented on a “first-responder” cabinet committee or task force. In the labour area, co-ordination...
across the various provincial labour “first responders” could be facilitated by a subcommittee of the Forum of Labour Market Ministers, which was created in 1983 to share information and promote discussion and cooperation on dealing with common labour market issues.

In a country such as Canada, co-ordination across federal and provincial/territorial jurisdictions can be crucial, depending upon the nature of the shock. The division of responsibilities between the federal and provincial/territorial jurisdictions should be well established for dealing with novel unanticipated shocks.

**Have Background Information on Lessons from Previous Shocks**

While one-off shocks are not repeated on a regular basis, lessons can still be learned from previous shocks, even if they are of a different nature. Examples of questions that could be addressed by such information include the following: 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? Is the need to apply for such benefits a barrier? Does the assistance provided to employers to have them return to normal filter down to workers as a result of retaining or re-employing their work force? Is it sensible to have loans to employers that are forgivable if they do not lay off their employees? Is government support for short-term work as an alternative to layoffs a desirable way for employers to retain their work force, or does it prevent the restructuring of zombie firms that would not have survived Schumpeter’s “gale of creative destruction” without the assistance? Do government policies that encourage employers to retain their work forces inhibit employers from laying off workers and then re-employing only those that they prefer to keep? Are wage subsidy programs sensible (e.g., the current Canada Emergency Wage Subsidy), where the government subsidizes the wages paid by companies if they retain, or rehire, their work forces, which would otherwise be laid off because of a crisis? Is more direct support for workers who are laid off sensible, as in the current Canada Emergency Response Benefit? Are work-sharing programs sensible (e.g., the federal Work-Sharing Program as part of employment insurance), where employment insurance is provided to employees who agree to reduce their hours and share the same job? Can wage concession by unions achieve a similar objective of avoiding layoffs? Have there been unintended consequences from previous policy initiatives?

It is beyond the scope or intent of this analysis to answer these questions. The purpose here is simply to illustrate the sort of information that would be useful for a labour policy playbook to be able to access in the event of a crises. Some information is available on the role that labour policy played in past novel unanticipated shocks.

For example, Paklina (2003) reviews much of the literature and case studies of the policy response to one-off unanticipated shocks internationally. The responses tend to focus on the health and economic aspects related to providing relief to businesses and communities to compensate for losses, for clean-up and repairs, and for reconstruction and rebuilding infrastructure. Labour policy responses tended not to be prominent, and they generally used the existing adjustment programs, perhaps with modifications to expedite access, ease eligibility, and extend benefits.

For the terrorist attack on the World Trade Center in New York on 11 September 2001, the policy response also focused on compensating the victims and restoring the infrastructure to normal. There were no new direct government labour adjustment initiatives. Labour adjustments were to be dealt with largely through the normal programs, although modifications were often made in such areas as expediting access, easing eligibility, and extending benefits (Posner 2002; Thompson 2002; Virgo 2001). As well, preferences were given in government-sponsored job fairs to laid-off workers in hospitality, tourism, and the airline industry. One unintended consequence occurred because many city personnel worked considerable overtime hours after the attacks. Overtime pay is included in the calculation of the final earnings upon which their pension benefits are based. This boost in their pension wealth provided an incentive for many to retire, creating a concern that many experienced persons were lost just when their services were most needed (Thompson 2002).

In the US, the Federal Emergency Management Agency (FEMA) was created in 1979 to replace the patchwork of more than 100 agencies to deal with natural disasters that previously existed in the federal jurisdiction alone (FEMA n.d.). Labour policy responses to such crises were to be dealt with through the existing mechanism of the Workforce Investment Act (WIA) of 1998, which allows the federal Department of Labour to award national emergency grants to affected states and local areas to provide relief to businesses and communities to compensate for losses, for clean-up and repairs, and for reconstruction and rebuilding infrastructure. Labour policy responses were often made in such areas as expediting access, easing eligibility, and extending benefits (Posner 2002; Thompson 2002; Virgo 2001). As well, preferences were given in government-sponsored job fairs to laid-off workers in hospitality, tourism, and the airline industry. One unintended consequence occurred because many city personnel worked considerable overtime hours after the attacks. Overtime pay is included in the calculation of the final earnings upon which their pension benefits are based. This boost in their pension wealth provided an incentive for many to retire, creating a concern that many experienced persons were lost just when their services were most needed (Thompson 2002).

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economic recovery. There were second waves of infections associated with opening up early. Conventional practices such as distancing, masks, and handwashing were effective, although difficult to practice given poor sanitation and public health facilities, as well as difficulties in distancing during the war and returning from the war. Nevertheless, there are substantial differences, including differences with respect to labour market issues. The mortality rate was highest amongst young adults without pre-existing conditions, who would be considered prime labour market workers. The labour market was vastly different, dominated by agriculture as opposed to services, and with few labour policies in place. Labour policies were not a prominent issue, but not because they were dominated by health and economic issues or because conventional labour policies were used. Rather, they were largely not in existence. There was no trade-off decision between active adjustment assistance and passive income maintenance because neither was prominent.

**Anticipate Conflicts**

As part of a labour policy strategy for dealing with unanticipated, novel shocks, it is important to anticipate conflicts that may occur and to have a strategy to deal with them. One potential source of conflict that is especially relevant during a pandemic is the possible conflict between protecting health and protecting the economy—providing lives versus livings. The decision to shut down parts of the economy that are not essential services in order to protect lives can obviously lead to unemployment and lost livelihoods, as the current pandemic illustrates. The issue is further complicated by the fact that lost income fosters the decline in aggregate demand that feeds the economic decline. Importantly, the loss of jobs and income has its own health consequences, as outlined previously.

Conflict can also arise over subjecting workers to the risk associated with the shocks, especially the health risks in the case of pandemics. While most first-line responders in the health sector accept those risks as an occupational hazard, the negative consequences of their exposure can be eased by public praise for their efforts and by bonus payments. Workers in many retail stores who are exposed to risk when they provide essential services have also been rewarded with pay bonuses, temporary hourly pay increases, and enhanced store discounts.

Nevertheless, there will be situations where workers will exercise their legal right to refuse unsafe work, as well as requiring workplace accommodations under health and safety regulations. Conflict will inevitably arise over whether employers feel those rights are being abused, just as it can occur in normal times.

Where they exist, unions can be an important source of articulating the preferences and concerns of workers and of communicating that information to management. They can articulate health and safety concerns and make suggestions for improving health and safety, as well as the enforcement of health and safety regulations. Conflict can arise, however, since they may use their leverage to organize workers in essential services, given their enhanced importance in such times. This is a normal union strategy of taking advantage of particular circumstances, especially when management acts badly, for example, by hiding risks or pressuring individuals to take risks. The power of this union strategy is simply enhanced in situations where workers are essential to the operation of the organization.

Conflicts can also occur in the form of class divides, as well illustrated in Michael Lind (2020), *The New Class War*. He highlights how the class divide between urban, college-educated professional and managerial elites who “run” the economic and political system and blue-collar and low-wage service workers who make it run has been amplified by the current pandemic. So, when (we) the elite say that medical experts argue for keeping the system closed for health reasons, (we) they are implicitly saying, you the workers should remain unemployed so that we can remain healthy, especially because we can often work from home. In such circumstances it is understandable that public protests can erupt, especially over issues of opening the economy, as has occurred in the COVID-19 pandemic.

This can be amplified by the intergenerational conflict that can arise if we spend our way out of the slump by expanding demand through deficit financing, as is occurring in the current pandemic. At least some of that burden will be passed to future generations, who are already burdened by the legacy of climate change and pension obligations, which keep our current costs low by shifting them to future generations.

**Plan for the Recovery: Have an Exit Strategy**

Although the discussion so far has related to having a playbook for dealing with the pandemic when it arrives, a final component of that playbook is to have a strategy for labour market policies to facilitate the opening up of the economy as it (hopefully) occurs. Elements of that exit strategy are outlined below.

**Recognize That Labour Market Recovery Will Likely Be Slow**

It is important to recognize that labour market recovery is likely to be very slow, because it will lag the economic recovery and the economic recovery will be slower than the abrupt decline from a novel shock. Furthermore, in the case of a pandemic, economic recovery will lag health recovery. All of these lags imply slow labour market recovery. Reasons for these lags are outlined below.

In the case of a pandemic, the public safety recovery will be slow to the extent that health measures are slowly and selectively relaxed as the contagion curve is flattened and starts to come down. The economic recovery will be slowed
further by the fact that many businesses have been closed, some may not reopen, start-up costs may be substantial, and many businesses may not adjust easily to any new normal. The labour market recovery will lag the economic recovery even further because many of the workers may no longer be available, they may have to engage in time-consuming job search, and they may not have the skills to match the jobs of any new normal. Any recovery may be a jobless recovery.

In the case of a pandemic such as COVID-19, labour market recovery is slowed by the fact that it is both a labour demand shock from the closing of the economy and shifts in consumer demand and a labour supply shock from the health requirements. On the supply side, the return to work will likely be slowed by new requirements with respect to such factors as social distancing, phasing, testing, sanitation practices, and the use of personal protective equipment, as well as by workers exercising their legal right to refuse unsafe work and requiring workplace accommodations. Such requirements are necessary to ensure that returning to work does not foster the contagion that led to the problem in the first place. There is also concern that workers may be desperate to take the first job available to restore their depleted savings, rather than waiting for a better and longer-lasting subsequent match. Their resulting low wages may reduce aggregate demand, further slowing the recovery.

Recognize the Possibility of a Second Shock
Especially in the case of pandemics, a playbook for labour policy must anticipate that the opening of the economy and the labour market can lead to a renewal of the contagion. Contagion is all about externalities, and when the price system does not price negative externalities, they are bound to proliferate. When young people return to a crowded bar after sheltering-in-place requirements are lifted, they pay for their drinks and they may not be at risk given their ability to survive an infection, but they do not pay for the risk they impose on others whom they may infect and who may not survive an infection. Similar externalities can be generated by the opening of nursery schools and schools in general. Young children may be at very little risk, since they do not generally develop serious infections. But since they are also asymptomatic, they can be darling little invisible assassins when they hug older persons at risk.

Even if the second health and economic shocks are not as pronounced, they can be more disruptive. Businesses may be reluctant to reopen, and those that do open may have exhausted their resources, especially if they have incurred start-up costs in opening up. Individuals may also have incurred start-up costs in the form of childcare or alternative commuting arrangements, and they may be at their limit in terms of resources for surviving another downturn.

Target and Phase Labour Market Reopening
A playbook for labour market policy when the economy is coming out of a shock should involve information on the labour content of the different dimensions of the economy in order to facilitate a more targeted policy towards opening. In the case of COVID-19, for example, the risk of dying conditional upon becoming infected is 0.06 for persons over the age of 65 compared with 0.001 for persons between 20 and 49 (Acemoglu et al. 2020, 16). This 60 times difference would suggest that, other things equal, it would be sensible to target the opening of the economy towards sectors that employ younger persons and away from ones that employ older persons (Acemoglu et al. 2020; Oswald 2020). Input-output analysis could connect the age of workers to various sectors.

Targeting also can be directed towards workers and workplaces where precautions are easy to impose and where opening up the economy is more important, as in supply chains that can otherwise create bottlenecks in production. Physical distancing already prevails in many work sites, when floor space is shared with robots or capital equipment, and workers communicate with modern technology rather than engaging in face-to-face contact. Working from home can be continued for many. Construction sites are often outdoors, which can reduce the likelihood of contagion. Many roads and buildings are largely vacant, so disruption is minimal, and they involve infrastructure that can foster future productivity.

A checklist of rules can be required for workplaces to reopen, and they can differ by sector just as they differ between construction sites and restaurants. Labour standards inspectors can be reallocated from their normal tasks of enforcing labour standards to inspecting worksites for violations of regulations with respect to preventing a resurgence of the pandemic.

The phased relaxing of pandemic rules, starting with low-risk sectors, provides information on the risk of a resurgence of the crisis, enabling mid-course corrections and buying time for health care and other systems to prepare.

Relax Constraints That Inhibit Employment
A playbook for labour policy to deal with one-off unanticipated negative shocks that affect the labour market should have the information available that enables relaxing constraints that inhibit employment. Such constraints likely have legitimate purposes during normal times, but during non-normal times, they may merit re-evaluation, especially if the circumstances are severe. Consideration could be given to suspending the policies until normal times return.

Termination policies (e.g., advance notice and severance pay policies) can provide important protection to incumbent workers in the event of a layoff, but they become quasi-fixed costs that are anticipated by employers in the hiring decision. As such, they can deter the hiring
of new employees as the economy recovers, especially if there is a fear of recurrence of the shock, as is the case with COVID-19. Rather than hiring and risk the expected termination costs, employers may work their incumbent work force long hours or increase their use of limited-term contracts or temp-help agencies. This can continue for a long time until the uncertainty is resolved. This further bifurcates the work force into protected (and perhaps overworked) “insiders” and unprotected and vulnerable “outsiders” (Addison and Teixeira 2003, 2005; Blanchard and Wolfers 2000).

Minimum wage legislation can also deter new hiring, especially of younger workers. As indicated previously, sectors that disproportionately employ younger workers may be targeted towards reopening, because they are at lower health risk in a pandemic such as COVID-19. Such sectors are also more likely to be affected by minimum wage legislation. In such circumstances, consideration could be given to temporarily suspending minimum wage legislation or to instituting lower youth minima.

Other less-known wage fixing policies could be suspended temporarily where they exist. “Fair-wage” policies require the payment of prevailing community wages on government contracts, where fair wages are often interpreted as union wage rates. Restrictive tendering policies on government contracts limit bidding to a small number of preapproved bidders, raising the risk of cartel-type behaviour. Wage extension by juridical decree involves taking wages that are agreed upon by bargaining between an employer association and a representative union and extending those by legislative fiat throughout a sector.

Occupational licensing restrictions can also inhibit the opening up of the labour market, especially if the requirement creates bottlenecks that inhibit the employment of other workers. In Canada, where licensing requirements are set by self-governing bodies on a provincial basis, they can deter mobility to “hot spots” of any shock. There is legitimate debate over whether licensing requirements protect the public from poor-quality service or protect incumbent licensed practitioners from competition. In times of crisis from negative shocks, and where service that is of possibly lower quality may be preferred to no service, resolution of the debate may tilt towards relaxing at least some of the licensing constraints. This can apply during the crisis, when additional services may be required, as well as coming out of the crisis, when employment expansion may be inhibited by licensing requirements (Gomez, Gunderson, and Zhang 2020).

Temporary foreign workers can be an important source of labour to reduce bottlenecks in production and to do work that Canadians are unwilling to do. However, in times of high unemployment due to a novel shock, domestic workers may be more available to fill those jobs.

There is legitimate debate around the pros and cons of these legislative initiatives in the “best of times.” During the “worst of times,” as in negative shocks, consideration could be given to temporarily relaxing some of these constraints to the extent that more emphasis is merited on expanding employment when coming out of the shock. If there is concern that temporary suspension of these policies could become permanent, sunset clauses could be attached to any temporary suspension.

**Provide Local and Timely Labour Market Information**

Labour market information is always important in fostering the reallocation of labour from declining sectors and regions to expanding ones. In a time of crisis, as from negative shocks such as COVID-19, that role becomes even more important, especially to provide information that is localized (given the variance in the nature of the shock) as well as timely (given that events are changing rapidly in real time).

Such real-time, high-frequency, and localized information is being developed in response to the COVID-19 pandemic (Bloomberg Business Week 2020). Interestingly, many of these measures were copied from China, where they are used because the official statistics are considered inaccurate.

A large project directed by Raj Chetty (2020) at Harvard is being done to collect such current and disaggregated data (termed Big Data, given the large number of observations), mainly from private sector sources (Opportunity Insights n.d.) For the labour market, they include unemployment insurance claims, payroll data, and job postings. For the state of the economy, they include restaurant, hotel, and travel bookings, mortgage applications, public transit usage, electricity usage, credit card spending, and steel production. Most of that information is used to forecast the effects of such policies as state reopenings, stimulus spending, and online schooling outcomes. The models generally provide causal estimates based on procedures such as regression discontinuity and event methodologies. The term “nowcast” rather than “forecast” is used, since it is based largely on current rather than past data, and generally used to predict short-run outcomes. While such data and models are used mainly to predict general economic outcomes, they have implications for labour adjustments.

For example, variations across states in reopening policies had little effect on employment in services, since most of that spending was coming from high-income persons who did not substantially alter their consumption given their perceptions of the risks. Stimulus spending targeted towards individuals did have a positive effect on consumption and hence employment, but most of that occurred towards durables and online purchases that would be a substitute for services, implying that many workers would have to change jobs. For the increase in online learning and homeschooling, children from higher
income families increased their usage relative to lower income families (Frenette, Frank, and Deng 2020), and this could foster increases in longer-run inequality if not offset by other policies targeted more towards lower-income families, such as unemployment insurance.

Information on best—and worst—practices of firms as the labour market opens up can also be provided. This is especially the case when labour markets are opened up in a phased and selective fashion so that mid-course corrections can be made. If the shock involves contagion issues, information can be provided on the relative effectiveness of continuing various practices to minimize contagion when coming out of the shock. These include the usual sanitation practices; wearing masks; working from home; staggering the return to work; shift work to spread employees over the fixed workspace; minimizing interactive teams and business travel; accommodating special conditions for older workers who are most at risk; gearing sick leave policies to discourage potentially contagious persons from returning to work; and minimizing the use of temp-help and part-time workers who may work for multiple employers, since they can be importers of contagion. Information on the relative effectiveness of the different procedures may be important, since the costs and benefits of the different procedures can differ across workplaces.

Lessons can also be learned from other areas, such as the effectiveness of school mitigation measures when schools are reopened. Such mitigation measures include sanitation procedures, staggered breaks and lunch breaks, staggered starting and closing times, restrictions on common areas, and the use of smaller teams.

**Prepare for Conflict**

Any playbook for labour market policies for coming out of a negative shock must anticipate an increase in conflict that will likely arise as the solidarity of “we are all in this together” dissipates and latent conflicts that were pent up during the crises will emerge. This will further be fostered by the emergence of “ambulance chasers” who have a vested interest in fostering conflict.

Such potential conflicts include litigation over alleged negligence in protecting against risk; accusations of discrimination in the ordering of recalls, including conflicts with seniority; exercising rights to refuse unsafe work and to require workplace accommodations; grievances from violations of collective agreements; failure to post or enforce back-to-work protocols such as requirements for physical distancing, wearing of personal protective equipment, and testing and tracing; and issues around paid and unpaid sick leave.

Conflict resolution theory highlights that conflict is exacerbated by uncertainty, constrained resources, ambiguity of roles and responsibilities, and new issues over which we have little experience. These are all issues that arise from coming out of negative shocks such as COVID-19 and entering any “new normal.” Any playbook for labour policies in such circumstances should have conflict resolution procedures in place such as mediation, arbitration, ombudspersons, union and non-union grievance procedures, and conflict coaching.

**Attention to Vulnerable Disadvantaged Workers**

Any playbook for labour market planning to come out of a shock and into a recovery must pay attention to vulnerable disadvantaged workers. This is the case because of the longer-run trend towards greater inequality as well as the shorter-run effect of the fact that such workers are disproportionately impacted by negative shocks, as is the case with COVID-19 (Koebel and Pohler 2020; Lemieux et al. 2020; MacDonald 2020; Statistics Canada 2020). Such individuals disproportionately work in low-wage hospitality and personal and retail service sectors that have been closed because they involve personal interactions that can foster contagion. They are less likely to be able to work from home (Deng, Morissette, and Messacar 2020; Gallacher and Hossain 2020). If their employment has been maintained or their hours increased, it is often because they work in sectors such as health or long-term or other care that expose them to risk (Koebel and Pohler 2020). This is compounded by their further exposure to risk from long commutes in public transportation. They also tend to lack individual or collective bargaining power, so their voice is often lost in the stronger voices of more powerful interest groups.

**Concluding Observations**

If governments have a labour market policy playbook in place to deal with novel shocks, they can react quickly, with insight into the principles most relevant to mitigating harm to the labour market, and with an understanding of the unintended consequences of their response options. Such shocks may be novel, and therefore tempting to resolve through ad hoc measures, but they are also recurring in different forms, and their damage can be lasting.

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