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World of Labor
Evidence-based policy making

Hours vs employment in response to demand shocks

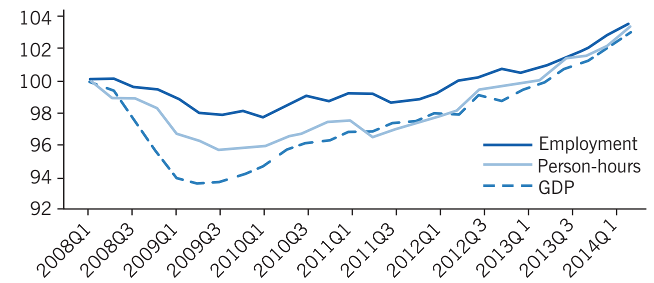
Evaluating the labor market effects of temporary aggregate demand shocks requires analyzing both employment and hours of work

Keywords: demand shocks, hours, employment, job retention

ELEVATOR PITCH

The responses of working hours and employment levels to temporary negative demand shocks like those caused by the Great Recession in 2007–2008 and the Covid-19 pandemic in 2020–2022 have shown that consideration of both is important. Workers' desired rises in working hours in times of recession also serve to modify the standard measure of unemployment. During Covid-19, both jobs and earnings were temporarily protected among workers forced into short-time work schemes, providing a useful comparison with the provision of improved unemployment insurance to unemployed workers at that time.

Change in employment, work hours, and GDP in the UK



Note: Full-time, part-time, and temporary workers, 2008Q1 = 100.

Source: Author's own compilation based on UK Labour Force Survey (LFS). Online at: https://discover.ukdataservice.ac.uk/series/?sn=2000026; and ONS data. Online at: https://www.ons.gov.uk/

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KEY FINDINGS

Pros

- Hours per worker drop sharply at the start of negative demand shocks in contrast to slower employment adjustment.
- Peak-to-trough falls in UK and US hours during the Great Recession were mainly due to transitions from full-time to part-time employment under the same employer.
- There are advantages in funding both job retention schemes and unemployment benefits during major recessions.

Cons

- Unemployment rates underestimate the full impact of negative demand shocks since they fail to account for desired rises in working hours.
- Job retention via short-time work schemes during recessions may reduce productive job reallocations.
- Omitting capital and capacity utilization adjustments to demand shocks may distort the measurements of hours and employment effects.

AUTHOR'S MAIN MESSAGE

Aggregate labor demand shocks temporarily increase or decrease the demand for goods and services. From a labor market perspective, the negative demand shock of the Great Recession necessitated speedy revisions of required hours and employment to counter costly productivity repercussions. The Great Recession led to significant growth in part-time and short-time jobs in the UK and the EU, which reduced hours below workers' preferences, acting as a form of underemployment and leading to revisions of traditional unemployment rates. Governments' main response to the negative demand shock of the Covid-19 pandemic was to protect jobs and (high proportions of) pre-Covid hourly earnings of employees who were forced to work shorter hours or experienced business lockdowns. Policymakers should note that short-time work schemes, alongside furlough and wage subsidy schemes, preserved worker–employer relationships and production post-pandemic, while significant increases in unemployment insurance helped the unemployed.

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