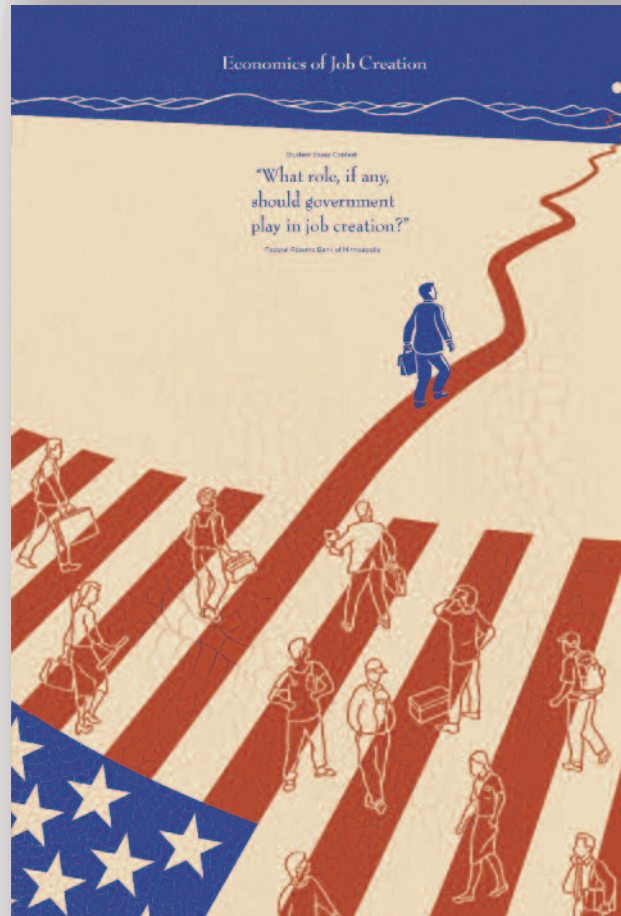


2010–2011 Student Essay Contest Job Creation



This spring the Minneapolis Fed held its 23rd Annual Student Essay Contest, which is open to high school juniors and seniors in the Ninth Federal Reserve District. The contest drew over 360 essays from schools throughout the district. Submissions were divided into two categories: standard and advanced economics classes. The essay selected as the best over both categories is published here. Other top essays can be found at minneapolisfed.org under the Student Resources section of the Community & Education tab.

Fifteen finalists in each division received a \$100 U.S. savings bond. First- and second-place winners from both divisions received additional savings bonds. A paid summer internship at the Minneapolis Fed was offered to the overall winner, Michael Hamilton of Saint Thomas Academy in Mendota Heights, Minn.¹

Essay Question

What role, if any, should government play in job creation?

High unemployment rates in the aftermath of one of the worst recessions in U.S. history have led to a great deal of discussion about government policies to create jobs. While decisions about employment policy are made in the political realm, the issue is fundamentally an economic one. In this year's essay contest, students were asked to use the tools of economic analysis to state their case either for or against government intervention into job creation and to consider the costs, benefits and consequences of job-creation policy.

Student Essay Contest Winner

Germany's *Kurzarbeit* Work Program: A Plan for Job Growth in the United States

Michael Hamilton

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Kevin Hassett, director of economic policy studies at the American Enterprise Institute, stated that “if we can slow job destruction even a little bit, then we will have set the stage for big increases in net job creation.” Strong policy is necessary to diminish the threat the recession holds over American workers, and after a \$787 billion economic stimulus, it may be time to look across the pond for a solution to combat rising unemployment. A sound economic policy to learn from has been implemented in Germany to minimize the effects of unemployment. The policy—called *kurzarbeit*, or short work—has allowed many German workers to remain employed, and a similar American strategy can be implemented, which will most likely have a dramatic effect on the pace and extent of national unemployment. Because of the high level of unemployment in the United States, it is necessary for the government to work with corporations by encouraging them to keep their current workers, while hiring new employees in order to maximize production. To establish the discussion of a resourceful American plan, it is important to first take a closer look at the situation in Germany.

German policymakers have discovered that it is effective to decrease unemployment rates by essentially decreasing the number of hours and wages of employees. Companies in Germany, along with those in numerous European countries, are encouraged to comprehensively reduce working hours as an alternative to actually laying off workers. This seemingly simple solution allows firms to reduce

hours and wages by 10 percent or more, and the government will pay the workers up to 60 percent of their reduced salary.¹ When companies see dropping sales and profits, production and demand for labor decrease, resulting in firing employees to reduce overall production costs. The labor market in Germany has remained relatively steady during the most recent economic downturn, regardless of the country's sharper decline in gross domestic product (GDP) than the U.S. decline.² The *kurzarbeit* program sustained the labor market during the economic slump, and official estimates state that about \$6 billion was spent in 2009 toward the policy, which is a relatively small amount compared with the cost of supporting the unemployed.³ Through the program, 400,000 jobs were saved in 2009, and without work-sharing, Germany might have lost an additional 1.5 million jobs, sending its national unemployment above 5 million.⁴

While many European countries responded to the economic crisis by decreasing worker hours, employers in the United States reacted almost completely with layoffs.⁵ Taking into account net unemployment, short-work policies would reduce the number of layoffs by 10 percent, basically having the same effect as creating 200,000 jobs every month.⁶ Deutsche Bank Research economists in Germany stated that “short-time work is effective in addressing a temporary drop in demand triggered by external effects” because it raises net job creation, while stimulating the economic recovery through a stabilization of the workers' ability to spend.⁷ This plan helps sustain jobs until, with the help of expansionary fiscal policy, there is a recovery in aggregate demand, which is brought about sooner because work-sharing supports consumer

spending in the markets by directly increasing consumer purchasing power, as well as by sustaining the amount of exports in the economy.⁸ A short-work program also protects the nation from additional increases in unemployment in the case of a “double dip” recession and acts as a stabilizer for current and future jobs.⁹

Although U.S. GDP has recovered from the recession better than GDP in most countries, fewer workers are producing the nation’s goods and services.¹⁰ Instead of a controversial economic stimulus, costing hundreds of billions of dollars, a short-work policy would be a fraction of the cost; the United States is capable of fully adopting such a program for \$10.6 billion.¹¹ Industries of all sizes and variations are able to implement this policy, allowing it to be a subsidy for all businesses, not specifically corporations in technology, green products and so on, so it truly focuses on securing jobs instead of promoting one good over another. An American worker making an original \$600 weekly would receive \$60 from the government after a 20 percent reduction in hours, instead of \$300 weekly in unemployment benefits. This would allow the worker to make \$540, more than on unemployment alone, making the worker less likely to remain unemployed long term.¹² Although there are still costs to the government, it would be paying individuals to work shorter hours instead of unemployment benefits, which effectively pay people for not working at all.¹³ The program would raise the nation from the deep job slump, while stimulating demand and encouraging job growth.

Numerous states currently encourage short-work programs; however, they are underutilized and have not been pursued aggressively enough to make a significant difference in unemployment. Implementing this policy in America would require a broad federal program, with extensive publicity and support, as well as possible tax incentives to encourage employers to take part.¹⁴ These government actions would ultimately affect the market by promoting an increase in individual market supplies and eventually the macro aggregate supply. Any additional funds needed to finance such a program could come either from individual state programs or through the existing unemployment insurance system. Subsidies provided by the government must be aimed at firms whose demand is

temporarily depressed, and participating firms should be required to prove economic need, to reduce wasted funds.¹⁵

Along with additional programs to create and stabilize job creation, a program similar to Germany’s *kurzarbeit* could prove to be an efficient method to lower unemployment and increase economic security; it would help minimize the moral hazard problem inherent in traditional unemployment programs. By collectively focusing on short-work policies with reformation of unemployment benefits and increases in exports, the government can significantly reduce the threat of the mounting unemployment rate. The nation’s destruction of jobs “must be slowed before job creation can be the headline story.”¹⁶ **R**

Endnotes

¹ Hassett, Kevin. "U.S. Should Try Germany's Unemployment Medicine." Editorial. Bloomberg.com. Bloomberg, 8 Nov. 2009. Web 8 March 2011.

² Baker, Dean, and Kevin Hassett. "Work-Sharing Could Work for Us." *Los Angeles Times*, 5 April 2010. SIRS Issues Researcher. Web 8 March 2011.

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⁵ Schor, Juliet. "Exit Ramp to Sustainability." Plenitude the Blog, 9 Aug. 2010. Web 8 March 2011.

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⁷ Damme, Lauren. "Short-Time Work May Be Too Short-Term for U.S." Editorial. NewAmerica.net. New America Foundation, 20 Nov. 2009. Web 8 March 2011.

⁸ Brzeski, Carsten. "What Is ... Kurzarbeit?" Editorial. ing.com. ING, 29 Nov. 2009. Web 8 March 2011.

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¹² Damme, Lauren.

¹³ Lillis, Mike. "Economist Push for Federal Job-Sharing Program." Editorial. WashingtonIndependent.com. *Washington Independent*, 24 Feb. 2010. Web 8 March 2011.

¹⁴ Izzo, Phil. "Short-Time Work Plans Saved Jobs." Editorial. WSJ.com. *Wall Street Journal*, 24 Jan. 2011. Web 8 Mar. 2011.

¹⁵ Widner, Jakob. "Kurzarbeit: An Alternative to Lay-Offs." Editorial. InternationalLawOffice.com. International Law Office, 27 May 2009. Web 8 March 2011.

¹⁶ Hassett, Kevin.