



# Covid-19 crisis, Ukraine war and fear of stagflation: Why we need a new supply policy

Enzo Weber

Inflation is currently at a record high and will continue to go up as a result of the war in Ukraine and sanctions imposed on Russia. Considering the shortages in the economic environment, there is a risk of stagflation that cannot be coped with by means of demand policy alone. To overcome the crisis, economic potential needs to be expanded. As regards the labour market, the scope and quality of the labour supply and its productivity are to be boosted.

In many countries, inflation has reached the highest level in a long time. In Germany, it has exceeded seven percent. What a difference as compared to the pre-pandemic times when Europe was sometimes on the brink of deflation. There are, of course, some special effects, such as the expired added tax reduction in Germany or unusually low prices – e.g. for fuel – in the reference year 2020. Given these factors, a certain counter-movement in price development in the past year was unavoidable. However, already before the war in Ukraine, it was becoming increasingly more apparent that, in the face of persistent global supply

Quelle:

<https://www.iab-forum.de/en/covid-19-crisis-ukraine-war-and-fear-of-stagflation-why-we-need-a-new-supply-policy/> | 1

bottlenecks, we have got to prepare ourselves for an extended period of high inflation.

Following the Russian invasion of Ukraine, energy prices shot up once again, and then also the prices of other raw materials and agricultural products. This results in a further increase in inflation. A [study by Marc Ingo Wolter and other researchers](#) conducted in early March reveals that, in the event of massive energy price increases, the inflation rate over the entire year 2022 can amount to seven percent in Germany.

## German economy often reaches its capacity limits

The past months showed that the economy is performing to the limit of what is possible under the current conditions and restrictions. These include not only the coronavirus-related restrictions but also the shortages of raw materials and intermediate goods coupled with the growing [labour force](#) scarcity. The latter affects the typical areas such as IT, engineering, crafts, nursing care, healthcare and education, as well as the crisis-stricken sectors, e.g., catering. The [IAB labour shortage index](#) is again above the pre-pandemic level.

Two trends suggest that this scarcity will get even worse: Firstly, the development of renewable energies will be further promoted as a result of the Ukraine war. The environmental transformation will require specialists, particularly in technical and manual occupations, and that all over the world. And these will be in short supply, as the current [analysis by Gerd Zika and other researchers](#) suggests. It shows that the personnel shortages in this area may already be slowing down the implementation of the targets and measures related to the building and climate policy specified in the Coalition Agreement of the German Federal Government. Secondly, the German labour market and many other, especially European, countries are now faced with a demographic decline due to the retirement of the baby boom generation, which should not be underestimated.

## Opting for an expansive demand policy to combat the crisis does not go far enough

Massive price increases and increasing bottlenecks – these consequences of the Covid-19 crisis and the war in Ukraine, unlike other recessions, cannot be coped with by means of a purely expansive demand policy. This is all the more true since the pandemic has triggered a transformative recession described by [Christian Hutter and Enzo Weber in a contribution to the \*Wirtschaftsdienst\*](#) back in 2020. This means not merely a temporary economic downturn similar to that during the global financial crisis of 2009 but a significant acceleration of the structural and technological change.

Quelle:

<https://www.iab-forum.de/en/covid-19-crisis-ukraine-war-and-fear-of-stagflation-why-we-need-a-new-supply-policy/> | 2

Fear of stagflation is going around – i.e., weak economic growth coupled with a high inflation rate, just like after the oil price shocks in the 1970s. We are no longer living in the 1970s, still, we need the right means in order to effectively address this challenge. It is time for a policy that expands our economic potential – both in terms of quantity and quality. A policy that draws on the critical points that can impede but also trigger the dynamics. It is time for supply policy.

## **We need a qualification push to increase labour productivity**

The specific transformative character of the coronavirus crisis changes the requirements for employees. The demographic decline leads to the fact that, in the future, growth will no longer be possible via a labour force increase, but on the basis of the ‘quality over quantity’ principle only.

Due to this, qualification will gain particular significance. Additional further training incentives for unemployed individuals, for instance, are needed here, as well as promotion of secondary education that financially secures the occupational re-orientation also of those in the middle of their professional life. In the course of transformation, it is particularly important when technically skilled workers head in the direction of careers in the development of renewable energies.

Qualification can boost the potential for economic growth if labour productivity is increased due to it. Yet, the development of productivity has proved rather unsatisfactory in the past decades. To change this, the policy of further training must not only be reactively based on correcting the existing deficits. It shall rather be much more proactive than before and contribute to the personnel’s continued further learning. In doing so, further training shall be integrated into one system with the first acquired education as much as possible.

Short-time work that is still actively used potentially offers the possibilities of qualification; these, however, have seldom been used so far. To change this, we need a concept with flexible in terms of time – also virtual – further training formats, counselling offers and financial incentives. Given the active use of short-time work schemes in many countries, this issue is important also internationally.

Quelle:

<https://www.iab-forum.de/en/covid-19-crisis-ukraine-war-and-fear-of-stagflation-why-we-need-a-new-supply-policy/> | 3

## Dual vocational training shall become more attractive

The [dual vocational training](#) system needs a push, too. It has fallen behind over the years, which has been further aggravated by the difficulties during the Covid-19 pandemic. And yet, due to its combination of theory and practice, the dual vocational training system offers globally recognised advantages. Therefore, it shall be aspired to actively motivate young people to start training and to provide contacts with enterprises. This includes intensified vocational orientation and career guidance at schools, as well as an increased use of in-company entry qualifications. A low-threshold, also modular, entry into vocational training is important to reach those who still have no vocational qualification.

Vocational training with a low-threshold start must be possible; then again, in times of digital transformation, it must become more attractive for those performing better. A strong signal is required here to show that the occupational path is making fit for the digitalised future of working. In a guest contribution for *Wirtschaftswoche*, I have suggested introducing a training programme 4.0, especially for small and medium-sized enterprises: Support of digital equipment, didactic and technical instruction for training staff, as well as targeted counselling offers. As to the equipment and didactic concepts, vocational schools shall be involved in the programme, too.

## Such instruments as further training allowance or individual wage subsidies can counteract imminent permanent unemployment

Also in some groups of persons, whose situation has severely deteriorated due to the Covid-19 crisis, huge potential remains unused. For instance, there has been a significant increase in long-term unemployment, not only in Germany. And there is a risk of its consolidation, especially now that a strong upswing will most likely fail to come considering the longer Omicron wave and the consequences of the Ukraine war.

Once this consolidation – due to the devaluation of work experience or loss of motivation – actually takes place, both the job opportunities and the [labour force potential](#) will be diminished in the long run. Timely counter-measures are called for here. Additional effort in terms of qualification and strengthening the willingness by means of such incentives as further training allowance can help prevent the imminent consolidation, especially in times of massive structural change.

Quelle:

<https://www.iab-forum.de/en/covid-19-crisis-ukraine-war-and-fear-of-stagflation-why-we-need-a-new-supply-policy/> | 4

In order to quickly get the unemployed back into employment, individual wage subsidies shall additionally be used and temporarily extended if necessary. Persons with placement barriers have typically benefited from this so far. During the professional assessment of the risk situation, the individuals, whose unemployment is about to become permanent owing to lengthy crisis effects, shall also be considered in the future.

## **More attractive framework conditions for self-employment are necessary**

Self-employed individuals were under extreme pressure during the crisis, too. Their numbers, however, plummeted already long before the crisis. It is therefore important to improve the framework conditions for the self-employed in many ways. This can be achieved, for instance, by means of intensified and more flexible start-up support even out of unemployment, increased and simplified provision of venture capital, as well as the possibility of immediate offset of losses against past or future profits. In vocational training, an entrepreneurship component can additionally raise awareness of entrepreneurial action.

## **Tax law-related privilege in marginal employment is counter-productive**

During the Covid-19 pandemic, the biggest decline by far was observed in exclusively marginal employment (on which employees do not have to pay any social insurance contributions in Germany). There are lots of opportunities to restore employment here, since many people in marginal employment want to and can work more. Therefore, taxes and contributions shall be organised in such a way that employment subject to social security contributions becomes more attractive by comparison. This would increase the incentive for these employees to opt for longer working hours and to invest in their professional development – and thus positively affect their productivity. With its active favouring of small jobs, Germany is more or less alone internationally.

## **Labour migration to Germany must become more attractive and less bureaucratic**

The most powerful lever for labour force potential is migration. To keep it constant, an annual migration surplus of some 400,000 people would be required in Germany even in case of growing labour participation. Since the countries of origin relevant in the past decade,

Quelle:

<https://www.iab-forum.de/en/covid-19-crisis-ukraine-war-and-fear-of-stagflation-why-we-need-a-new-supply-policy/> | 5

especially those in the east of the European Union, have an even stronger demographic ageing than Germany, third countries must play a more significant role in an open immigration policy. This includes extended possibilities in the immigration-related legislation exactly as stipulated by the Coalition Agreement. Transparency, simplified procedures and concrete support already in the countries of origin are also crucial. Particular importance is attached to the recognition of qualifications, as argued by Herbert Brücker and other researchers in an [IAB-Kurzbericht](#) published in 2021.

## **Migration policy must always be integration policy as well**

Enhanced integration also offers huge potential. A lot of migrants working in our country perform under their abilities and therefore fail to achieve the level of productivity their competences would actually allow. And approximately ten percent of people from foreign countries living in Germany move away every year.

Even though this is quite normal for a cosmopolitan state, a large migration surplus can hardly be achieved in the medium term with such a high departure rate. In other words, migration policy must always be integration policy as well. It encompasses extensive support in acknowledging competences and degrees, as well as targeted qualification for an extra-occupational acquisition of missing components. Last but not least, it is also about language classes, full-time childcare offers or the right of residence after vocational training.

## **Conclusion**

Qualification and training, long-time unemployment, self-employed individuals, marginal employment (mini jobs), migration and integration – these are the fields where the economic potential on the labour market can be expanded. What matters here is a higher work volume coupled with increased labour productivity. This, in turn, would offer more room for higher wage agreements, yet without causing a wage-price spiral. This kind of supply policy is essential to overcome the long-lasting crisis. In addition to this, the war in Ukraine calls for direct economic aids (in a [separate contribution for IAB-Forum](#), I discuss the effective instruments for various economic challenges resulting from the war).

Quelle:

<https://www.iab-forum.de/en/covid-19-crisis-ukraine-war-and-fear-of-stagflation-why-we-need-a-new-supply-policy/> | 6

## Literature

Brücker, Herbert; Glitz, Albrecht; Lerche, Adrian; Romiti, Agnese (2021): [Integration von Migrantinnen und Migranten in Deutschland: Anerkennung ausländischer Berufsabschlüsse hat positive Arbeitsmarkteffekte](#). IAB-Kurzbericht no. 2 (abstract available in German).

Hutter, Christian; Weber, Enzo (2020): [Corona-Krise: die transformative Rezession](#). Wirtschaftsdienst, 100, no. 6, pages 429–431 (abstract available in English).

Weber, Enzo (2021): [Es gibt keinen Weg zurück in die Zeit vor Corona](#). Wirtschaftswoche, 04.06.2021 (only available in German).

Weber, Enzo (2022): [Wirtschaftshilfen zu Zeiten des Ukraine-Kriegs: Maßgeschneiderte Instrumente für multiple Herausforderungen](#). IAB-Forum, 08.04.2022 (available only in German).

Wolter, Marc Ingo; Helmrich, Robert; Maier, Tobias; Weber, Enzo; Zika, Gerd; Großmann, Anett; Dreuw, Peter (2022): [Zeitenwende: Russischer Angriff auf die Ukraine. Herausforderungen für den Arbeitsmarkt und die Wirtschaft – eine Sortierung](#). GWS Kurzmittteilung | Qube-Essay 2/2022 (only available in German).

Zika, Gerd; Tobias Maier, Anke Mönnig, Christian Schneemann, Stefanie Steeg, Enzo Weber, Marc Ingo Wolter, Jonas Krinitz (2022): [Die Folgen der neuen Klima- und Wohnungsbaupolitik des Koalitionsvertrags auf Wirtschaft und Arbeitsmarkt](#). IAB-Forschungsbericht no. 3. (abstract available in English).

doi: [10.48720/IAB.FOO.20220419.01](https://doi.org/10.48720/IAB.FOO.20220419.01)