

# Job retention schemes – the successes (and failures) of short-time work schemes

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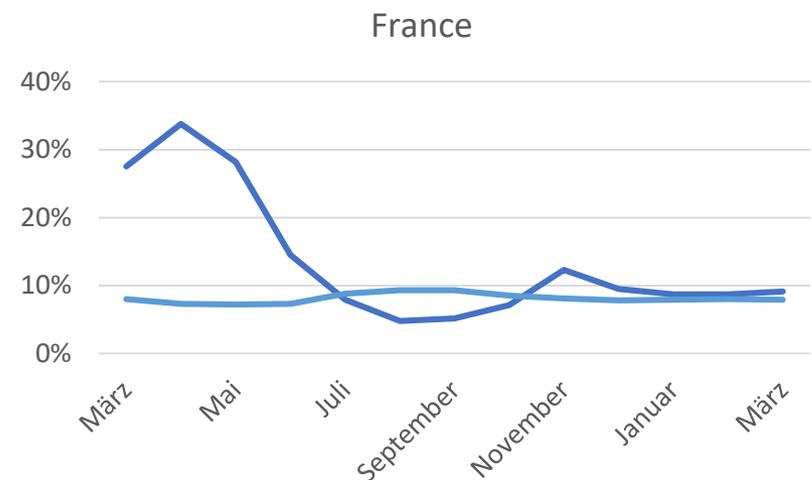
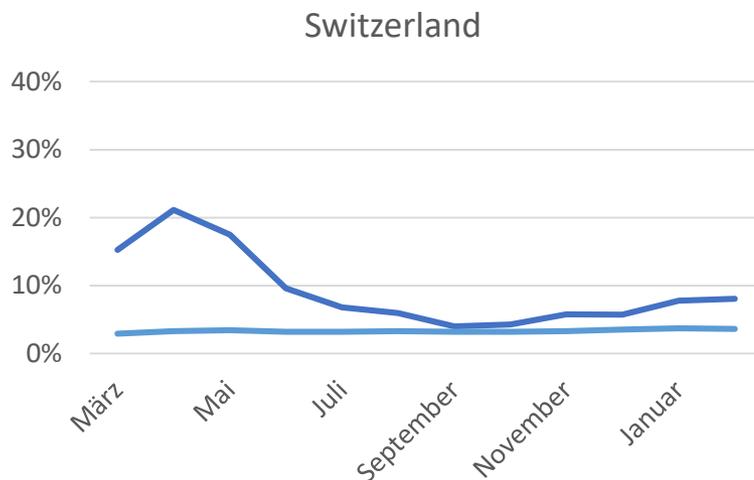
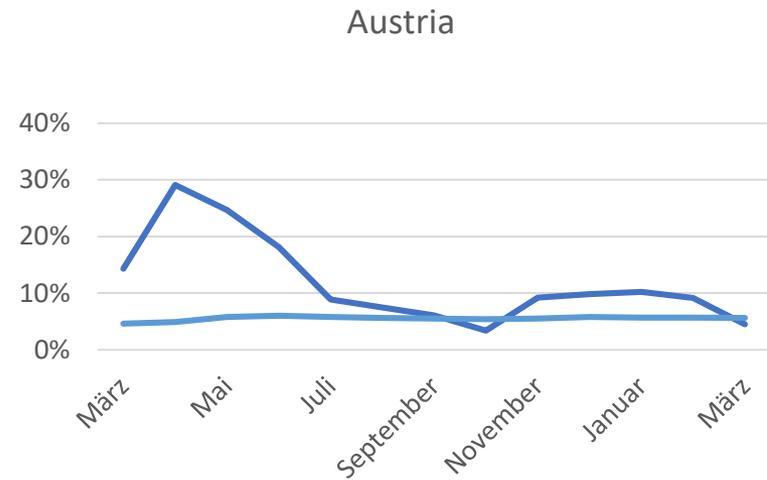
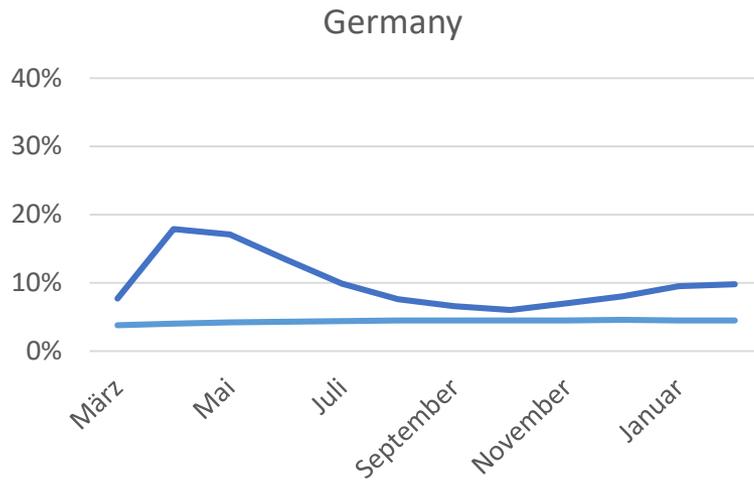
# The role of STW in the current crisis (I)

- Expansion of existing STW schemes, allowing for up to 100% working time reduction for some time
- Replacement of regular (contribution-based) schemes by exceptional and temporary, tax-funded STW schemes
- Creating new STW models from scratch in some countries, also outside OECD, typically designed as temporary wage subsidy schemes for firms
- Massive take-up in most OECD countries in Q2/2020 and broad sectoral STW use – but benefitting some groups of workers more than others

# Flattening the curve using short-time work, 2020

— Share of dependent employees participating in job retention scheme

— Unemployment rate



Source: Own figure, based on unemployment data from OECD.Stat (2021) and data on job retention from national statistics.

# Austria: Short-time work and sectoral differences

**Figure 2:** Short-time work and change in employment by industry, change in April 2020 with respect to the employment level of the previous year.



Source: Bock-Schappelwein et al. (2020); Arbeitsmarktservice, Dachverband der Sozialversicherungsträger, WIFO. Short-time work applications as of 03.05.2020. NB: Negative value indicates an increase in employment.

Source: Böheim & Leoni (2020). Covid-19 Crisis Response Monitoring: Country Report Austria (October 2020), Figure 2.

# The role of STW in the current crisis (II)

- Lower entry barriers, more generous replacement rates and employer subsidies
- Higher replacement rates for low wages in some cases, reflecting take-up in private services
- Coverage of non-standard workers, but gaps remain, in particular regarding solo self-employed workers

# Austria: Short-time work

- Early launch of a crisis-specific (more generous) STW scheme („**Corona-Kurzarbeit**“), extended and modified several times
- Reduction in working time: 30(10) - 80(90), 100 in specific cases (industries affected by lockdown)
- Max. duration: 15 months (until June 2021)
- Net replacement rate: 80-90%
- Ban on dismissals by firms using STW
- As reformed in October 2020 and effective as of November 2020, workers need to **accept training offered** by employers during STW period (until March 2021), partly subsidized (60% of costs) – no evidence available yet
- Despite this: A relatively strong increase in unemployment (and long-term unemployment)

# France: A large short-time work effort

- ***Activité Partielle***: Adaption of the regular system, with reduction of up to 1607 hrs per year and 100% net replacement at minimum wage, 84% up to 4.5 MW (more generous than regular system) + extended duration of 12 months + extension to different categories of workers not covered before + not all workers need to be affected to trigger STW
- Strong reliance (about 50% of all workers at peak) on this relative big STW system and significant expenditure on STW in 2020, avoiding dismissals that are costly to employers in France

# Short-time work and mobility

		<i>Return to pre-crisis employment</i>	
		<i>Likely</i>	<i>Unlikely</i>
<i>Labour hoarding via short-time work</i>	<i>Massive</i>	<i>Maintenance of existing jobs and skills (with some updating, maybe)</i>	<i>Redundancies after long STW and loss of specific (but obsolete) skills</i>
	<i>Minor</i>	<i>Transitional unemployment</i>	<i>Early unemployment or inactivity and skill mismatch</i>

# Next steps (I)

- How long is long enough? Difficult timing given uncertain duration of pandemic -> planned, but delayed phase out in line with economic recovery
- Lowering generosity of employer support – no excessive extension of maximum duration; increasing minimum hours actually worked
- Coping with (accelerating) structural change after long phase of STW

# Next steps (II)

- Notorious under-provision of training (incentives and take-up) in STW as link to current employer and job is maintained and reinforced -> stability-oriented rather than mobility-oriented
- The longer it lasts, the more problematic this gets when confronted with sectoral shifts, occupational change -> from internal to external flexibility
- Phasing out in time, with sufficient pressure on employers do decide on return/adaptation or loosening link to existing work force – combined with retraining / hiring support

# France: Recent changes to short-time work

- **Phasing-out:** Some costs (10%) re-allocated to employers during summer, but plans for more substantial phase-out (increasing employers' shares) were postponed
- **Special scheme of long-term STW** (introduced in summer 2020) until end of 2022 at working time reduction up to 40% for 24 months (in 36) at regular STW replacement rates
- **Increased subsidisation of training** during STW (at 100%, now at 70% since Sept 2020, until end of 2021) if based on agreement with local authorities and meeting certain criteria; about 1/6 of the funds have been used by fall 2020, covering about 226.000 employees that were trained

# Phases of the crisis and policy priorities

Phase	<i>Main priorities</i>			Timing
	Income support and job retention	Training (incentives)	Hiring incentives and job search assistance	
Entry	***	**	*	When containment measures get more stringent and vacancies decline
Tunnel	***	***	**	During containment at plateau level, limited labour market dynamism, uncertainty
Exit	**	***	***	When reopening, economic recovery
General concern	<b>More resilient, adaptable labour market setting, moving beyond structural weaknesses</b>			Never too early

# Five lessons for future crises

1. STW is very effective in avoiding unemployment and safeguarding human capital, therefore, it is desirable to have a standard scheme in place that can be activated and adapted during a crisis
2. STW should be accessible broadly during a situation of crisis, with increased generosity, but time-limited and preferably tax-supported during acute phases of recession
3. STW should also be available for non-standard workers and allow for a flexible adjustment of hours actually worked
4. The longer STW (and the crisis) lasts, the more problematic it gets, hence, there is a need for a timely phase-out, i.e. increased employer share in costs, and progressive training / mobility support
5. While ultimately based on political decisions, STW extensions should be tied to valid short-term economic indicators