

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

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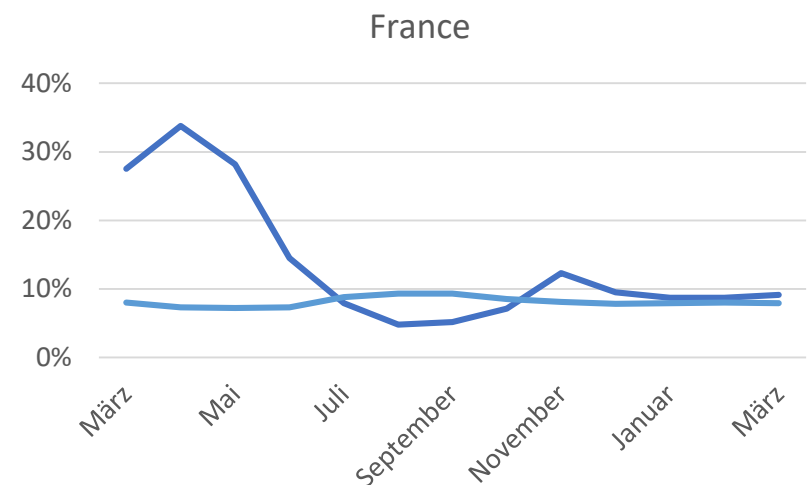
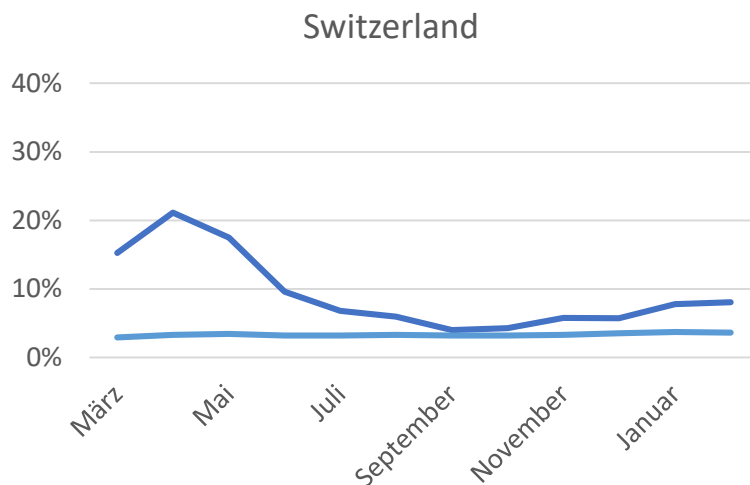
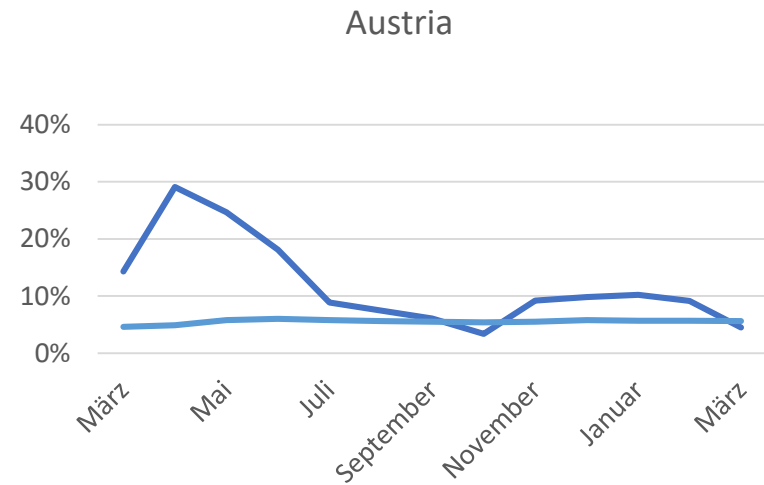
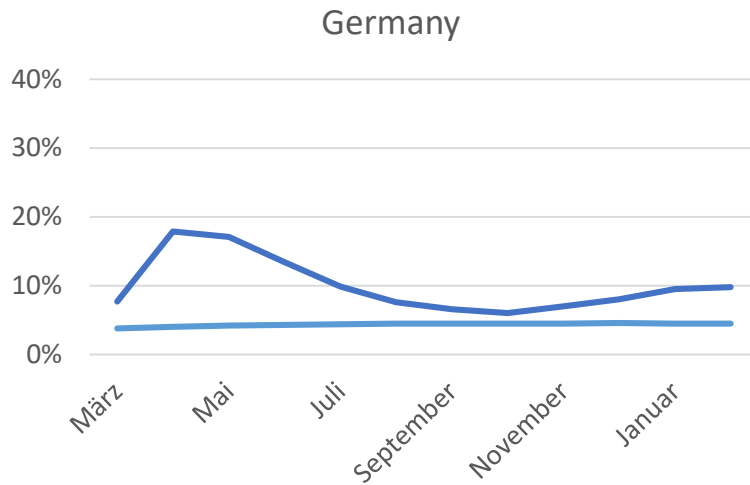
The role of STW in the current crisis (I)

- 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	More resilient, adaptable labour market setting, moving beyond structural weaknesses			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