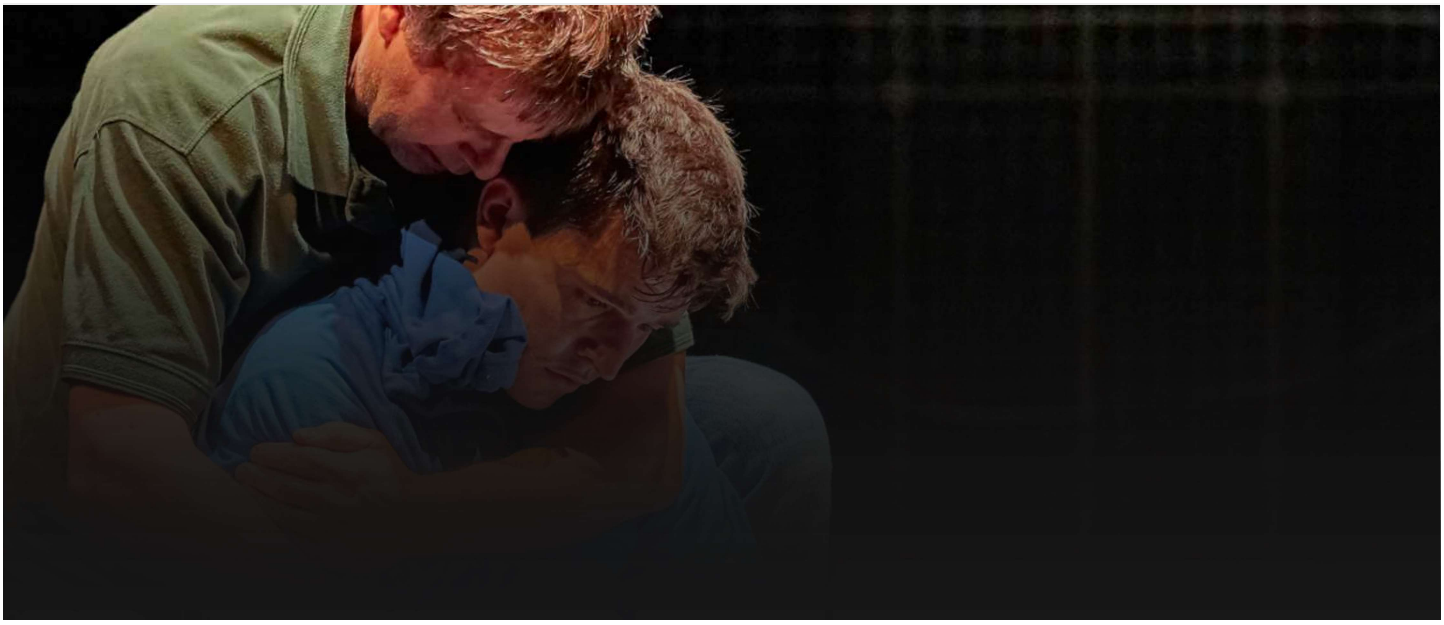

Alexander Hijzen Agnès Puymoyen Andrea Salvatori August 5th, 2020

It’s time to target job retention schemes to save jobs that will still be viable

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OECD countries have relied heavily on job retention schemes to contain the fallout of the COVID-19 crisis. These schemes slash the cost for employers of keeping workers idle, while protecting their income. By May 2020, the schemes supported about 50 million jobs across the OECD, about ten times as many as during the global financial crisis. This unprecedented take-up has prevented a surge in unemployment and contributed to support aggregate demand. But as countries withdraw restrictions to economic activity, write ***Alexander Hijzen, Agnes Puymoyen*** *and* ***Andrea Salvatori (OECD)****, JR schemes need to target jobs at risk that are viable in the medium term.*

Job retention (JR) schemes have been one of the main policy tools in many OECD countries to contain the employment and social fallout of the COVID 19 crisis (OECD, 2020); Scarpetta et al., 2020). They can take the form of short-time work (STW) schemes that directly subsidise hours not worked (Giupponi and Landais, 2020) – such as the German *Kurzarbeit* or the French *Activité partielle* – and wage subsidy (WS) schemes that subsidise hours worked but can also be used to top up the earnings of workers on reduced hours, such as the Dutch Emergency Bridging Measure (*Noodmatregel Overbrugging Werkgelegenheid*, NOW) or the Job Keeper Payment in Australia. In the UK, they are known as 'furlough'.

Governments have promoted different types of job retention schemes, achieving unprecedented levels of take-up

The majority of OECD countries had pre-existing STW programmes which they scaled up rapidly through a series of changes. These included simplifying procedures, removing the need for an economic justification or allowing any firm affected by the crisis to apply, extending eligibility to include workers on non-permanent contracts and reducing the cost to employers and increasing the benefits for workers.

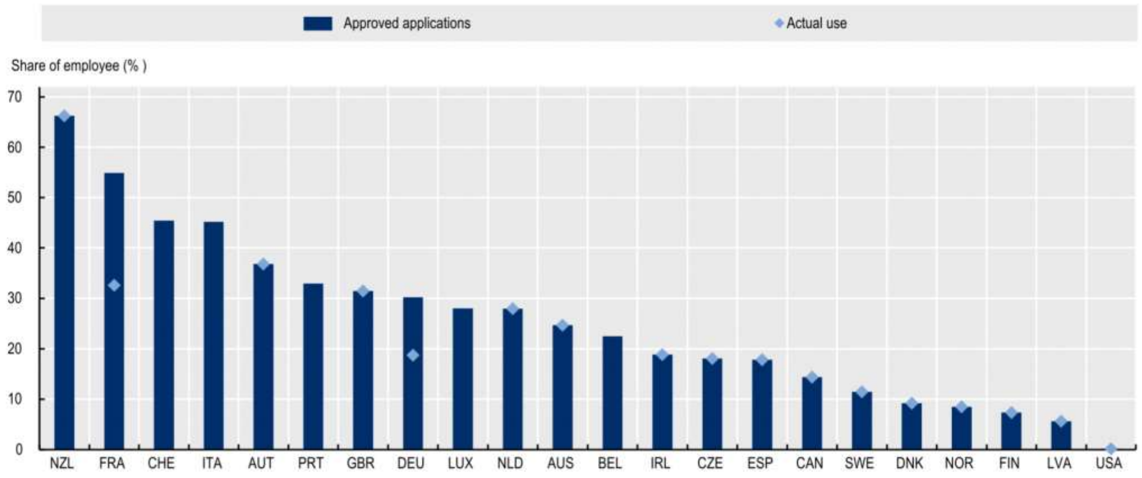
Jobs at risk … Stuart Laing and Joshua Jenkins in The Curious Incident of the Dog in the Night-Time, due to open at the Lowry in September 2020. Photo: The Lowry via a CC-BY-NC-SA 2.0 licence

Some countries introduced new temporary STW schemes (e.g. Denmark, Latvia, Slovenia, UK), most of which offer support only when hours are reduced to zero, i.e. in the case of temporary layoffs. Such schemes might be easier to implement quickly and less vulnerable to abuse based on the misclassification of part-time workers. However, they also are necessarily more rigid and exclude the possibility of sharing the costs of adjustment across the workforce through broad-based working time reductions (i.e. work-sharing).

Other countries introduced ad hoc wage subsidies that can be used by firms for hours worked (like standard wage subsidies) as well as for hours not worked (like STW schemes) (e.g. Australia, Canada, Estonia, Ireland, Netherlands, New Zealand). There are various reasons why these countries have opted for introducing temporary WS schemes. First, with the exception of the Netherlands, they had limited or no earlier experience with STW schemes. Second, firms in most of these countries typically face relatively low layoff costs and therefore might have weak incentives to participate in STW schemes that generally involve some procedural costs and, in some cases, an explicit financial contribution by firms. Finally, WS arguably give firms more flexibility in managing their hours and provide stronger incentives to keep hours worked up and to increase them quickly when conditions improve. However, since firms experiencing the minimum decline in revenue necessary to qualify can use these schemes even if they do not actually need to reduce hours, WS schemes are likely to be more wasteful than STW ones.

These measures have had unprecedented levels of take up (Figure 1). In May 2020, the schemes supported about 50 million across the OECD, ten times as much as during the global financial crisis (Hijzen and Venn, 2011). This has contributed to household welfare by strengthening job and income security and has supported aggregate consumption, reducing the risk of the supply shocks transforming itself in a demand crisis. In addition, by helping to stagger jobless claims, they have "flattened the unemployed curve" and relieved pressures on labour markets and employment services.

Figure 1. Applications for participation in job retention schemes has been massive in some countries. Figure shows share of dependent employees



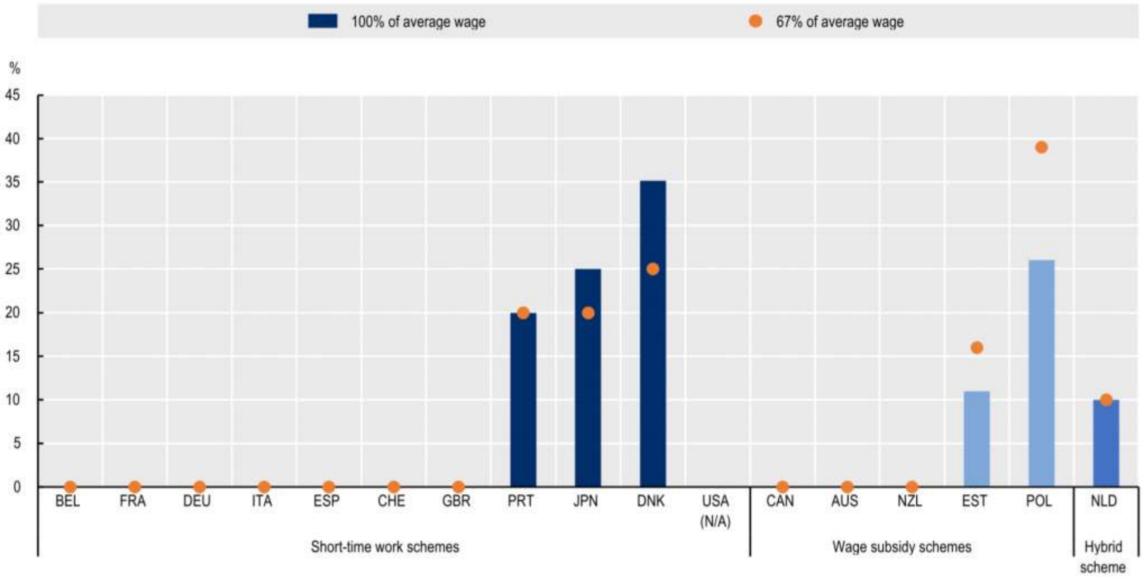
Note: Take-up rates are calculated as a percentage of dependent employees in 2019 Q4. Data refer to end May except for Luxembourg and Switzerland (end April). Australia, Canada, Ireland, the Netherlands and New Zealand operate wage subsidy schemes, which are not conditional on the reduction in working. United States: data refer to participation in short-time compensation schemes.
Source: National sources.

Job retention schemes slash the cost of keeping workers idle while protecting workers' incomes

In most countries, these schemes have set to zero the cost of keeping workers idle enabling firms to keep jobs for which they might not have been able to pay wages otherwise (Figure 2). Even in countries were employers have continued to bear some of the cost of idle workers (e.g. Denmark, the Netherlands, Estonia, Japan, Portugal, and Poland), JR schemes generally entail substantial reductions in costs for employers.

Figure 2. JR schemes allow reducing working time at zero cost in most countries

Labour costs as percentage of normal labour costs during the confinement phase of the COVID-19 crisis for a 100% reduction of working time



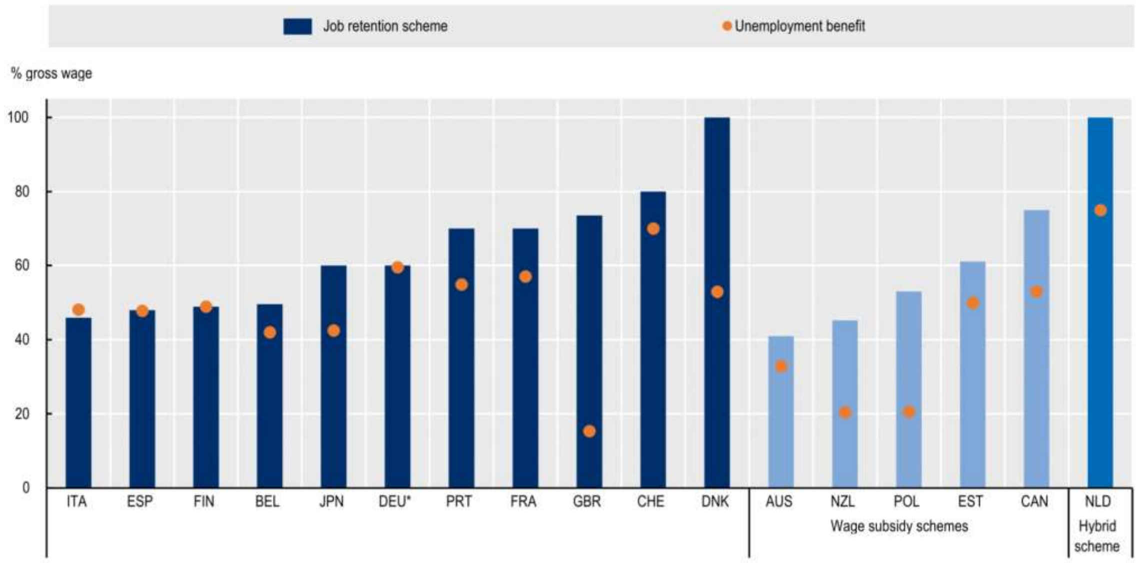
(N/A: Not applicable as the assumed reduction in working time does not fall in the permissible range of the programme.)
Note: Short-time work schemes only subsidise hours not worked, while wage subsidy schemes can also subsidies hours worked. Netherlands: the scheme pays a WS, which is proportional to the decrease in revenue, similar in spirit to a STW scheme. Australia and New Zealand: subsidy consists of a lumpsum payment that is independent of the reduction in working time. Denmark and the United Kingdom: schemes only allow for temporary layoffs (100%

reductions in working time). United States: the reduction in working time is limited by federal law between 10% and 60%. Japan: the reduction in labour cost is computed using the 2/3 minimum subsidy for larger firms.
Source: OECD calculations on based on national sources.

On the workers' side, JR schemes have ensured a higher level of support to workers than unemployment benefits (UB) in most countries (Figure 3). In Denmark and the Netherlands workers' incomes are fully protected, while in the other countries workers with average wages received between just under half (Italy) and 80% (Switzerland) of their usual gross wages. A number of countries offered more support to low-pay workers, either through lump-sum wage subsides (e.g. Australia, New Zealand) or by imposing caps on benefits in short-time work schemes (e.g. Italy, Spain, UK) – see OECD (2020) for more details.

Figure 3. Replacement rates in job retention schemes tend to be higher than in unemployment benefit systems

% of gross wage (at the average wage for a 100% reduction in working time) during the confinement phase of the COVID-19 crisis



*Germany: Net replacement rates for single worker without children.
Note: Short-time work schemes only subsidise hours not worked, while wage subsidy schemes can also subsidies hours worked. Unemployment benefit rates refer to the situation two months of unemployment not including social assistance or housing benefits. Netherlands: the scheme pays a WS, which is proportional to the decrease in revenue, similar in spirit to a STW scheme.
Source: OECD calculations based on the OECD tax-benefit model and national sources.

Going forward, job retention schemes must be targeted more at viable jobs

As countries relax restrictions on economic activities and uncertainty about the evolution of the epidemic remains high, they have to decide when and how to adapt out the existing versions of the JR schemes, which offer generous support with few safeguards against their possible negative effects. The answer to this question is a difficult balancing act. On the one hand, restricting access to JR schemes too soon risks allowing the destruction of jobs that could still be viable and induce a surge in layoffs. On the other hand, extending easy-access JR schemes increases the chances of preserving unviable jobs, wasting valuable resources and slowing the necessary reallocation of employment towards expanding firms and sectors. Rather than supporting unviable jobs, these should be allowed to end and affected workers be supported by unemployment benefits, in combination with active labour market policies to facilitate transitions towards new and viable jobs.

The optimal timing of the changes likely differs across sectors. Those whose activity remains legally curtailed may continue to require the type of support currently offered by JR schemes well into the de-confinement phase. In sectors where business can resume, JR schemes should be adjusted to avoid the risk that they support jobs that have become permanently unviable. Governments can use a number of levers to enhance the targeting of the benefits towards jobs more likely to survive:

• **Require firms to contribute to the costs of hours not worked**. This strengthens incentives to use subsidies for jobs that are likely to restart after the crisis and to increase working hours as soon as possible (Cahuc, Kramarz and Nevoux, 2018). For example, in the UK the cost for employers is set to increase gradually up to 20% in October. France is the only country that has differentiated its STW scheme across sectors, introducing a contribution by employers of 15% towards the cost of the benefit only in sectors that are not under restrictions anymore.

- **Job retention support should be time-limited, but limits should not be set in stone**. Time-limits reduce the risk that jobs are supported that are no longer viable even in the longer term. However, time-limits should not be set in stone as they may need to adjust according to the health and economic situation.
- **Align short-time work and unemployment benefits more closely in countries where the gap is large**. This can strengthen incentives for workers to resume normal working hours or look for another job and improve the targeting of STW to jobs at risk of being destroyed. France has announced that the replacement rate for workers will decrease from 70% to 60% in October 2020.
- **Provide support for job search and career guidance**. The mobility of workers from subsidised to unsubsidised jobs can be promoted by allowing or requiring workers on JR schemes to register with the public employment services and benefit from their support (e.g. job-search assistance, career guidance and training).
- **Promote training while on reduced working hours.** Training can help workers improve the viability of their current job or improve the prospect of finding a new one. Combining training with part-time or irregular work schedules is easier when training courses are targeted at individuals rather than groups, delivered in a flexible manner through online teaching tools and their duration is relatively short. The Netherlands have recently mandated that firms using the JR scheme must encourage workers to engage in training.

Reference

OECD (2020), Job retention schemes during the COVID-19 lockdown and beyond, OECD, Paris.

This post represents the views of the authors and not those of the COVID-19 blog, nor LSE.

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