



Job retention schemes during the COVID-19 lockdown and beyond

Updated 12 October 2020

Job retention (JR) schemes have been one of the main policy tools used by a number of OECD countries to contain the employment and social fallout of the COVID-19 crisis. By May 2020, JR schemes supported about 50 million jobs across the OECD, about ten times as many as during the global financial crisis of 2008-09. By reducing labour costs, JR schemes have prevented a surge in unemployment, while they have mitigated financial hardship and buttressed aggregate demand by supporting the incomes of workers on reduced working time. Looking forward, governments need to be vigilant to ensure that JR schemes are not downscaled too quickly, and allow viable jobs to be destroyed, or too slowly, and become an obstacle to the economic recovery. When the health and economic situation improves, JR support needs to be better targeted to jobs that are viable but at risk of being terminated and place a greater focus on supporting workers at risk of becoming unemployed rather than their jobs.



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. By May 2020, JR schemes supported about 50 million jobs across the OECD, about ten times as many as during the global financial crisis. JR schemes seek to preserve jobs at firms experiencing a temporary reduction in business activity by alleviating firms' labour costs while supporting the incomes of workers whose hours are reduced. They can take the form of short-time work (STW) schemes that directly subsidise hours not worked, such as the German *Kurzarbeit* or the French *Activité partielle*. They can also take the form of 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 (*Noodmaatregel Overbrugging Werkgelegenheid*, NOW) or the *JobKeeper* Payment in Australia. A crucial aspect of all JR schemes is that employees keep their contracts with the employer even if their work is suspended.

In the early stages of the COVID-19 crisis, the overriding concern for governments has been to help firms and workers deal with the sudden and unpredictable decline if not full shut-down in business activity resulting from the government-imposed restrictions to contain the spread of the COVID-19 virus. To maximise take up, many governments have modified existing JR schemes or introduced new ones. These schemes provide the necessary liquidity to firms to hold on to their workers, including their talent and experience, and allows them to ramp up operations quickly once economic activity recovers, without having to go through the process of hiring and training new workers. However, as countries move out of the strict confinement phase, policy makers have to strike the right balance between ensuring adequate support for jobs that are temporarily unviable and limiting the extent to which subsidies reach jobs that would be preserved anyway or that are unviable in the long term.

The objective of this Brief is to discuss the main features of JR schemes deployed by countries during the COVID-19 lockdown, and how they should be adjusted as restrictions to economic activities are gradually being withdrawn to continue to protect viable jobs without hindering the reallocation of employment towards expanding firms and sectors.

Key findings

During the early stage of the COVID-19 crisis, countries have acted decisively to save jobs by scaling up existing job retention schemes or introducing new ones. Across the OECD, they supported over 50 million jobs, ten times as many as during the global financial crisis of 2008-09. In most countries, these schemes allow firms to adjust working hours at zero costs, greatly reducing the number of jobs at risk of termination as a result of liquidity constraints and preventing a surge in unemployment. Moreover, JR schemes tend to provide stronger support than unemployment benefits to workers who are temporarily not working, mitigating financial hardship for many workers and supporting aggregate demand.

Going forward, job retention schemes need to adjust their focus to targeting jobs that are likely to be viable in the short- to medium-term and may also need to be differentiated between sectors whose activity remains legally curtailed and those where activity is resuming. Governments have a number of levers that they can use to adapt support as they start re-opening their economic sectors:

- *Gradually increase firms' contribution to the costs of hours not worked as the health and economic situation improves.* This strengthens incentives to use subsidies for jobs that are viable after the crisis and to increase working hours as soon as possible. In wage subsidy schemes, employer contributions may be set to ensure a minimum level of income.
- *Job retention support should be time-limited, but limits should not be set in stone.* Time-limits reduce the risk of supporting jobs 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 by lowering short-time benefits in countries where they are considerably more generous than unemployment benefits.* This can strengthen incentives for workers to resume normal working hours or look for another job, particularly among workers in jobs whose survival is uncertain.
- *Provide support for job search and career guidance.* The mobility of workers from subsidised to unsubsidised jobs can be promoted by encouraging 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, including by making telework more effective, 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.

1. Governments have invested massively in job retention schemes to stem job losses

In response to the COVID-19 crisis, most OECD countries took active measures to scale up existing short-time work (STW) schemes, introduce new ones or create temporary wage subsidies to preserve jobs and support incomes.

Most countries have used new or existing short-time work schemes to retain jobs

STW schemes provide subsidies to firms to cover all or part of the cost of hours not worked, protecting workers' income and mitigating costs for firms. Their main purpose is to provide support for firms facing a temporary decline in demand to retain jobs that have become unprofitable in the short-term but that are likely to remain viable in the medium-term. The design of STW schemes varies considerably across countries as countries take different approaches to ensure cost-effectiveness (Hijzen and Venn, 2011^[1]). See Box 1 for a description of STW schemes in selected OECD countries.

Box 1. Job retention schemes in the first months of the COVID-19 crisis in Germany, Italy, Japan and the United States

France

France allows firms to invoke the health crisis as “force majeure” to use its *Activité Partielle*. Firms can apply for the scheme retroactively for up to 30 days since the first reduction in hours. Applications are deemed accepted if they do not receive a response within 2 days (down from the usual 15 days). The maximum duration of the scheme has been extended from 6 to 12 months. All employees with a contract (whether permanent or not) are eligible and receive 70% of their gross wage from the employer. During the COVID-19 crisis, most employers do not bear any cost for hours not worked, as the state reimburses what they pay to employees up to a cap of 4.5 times the hourly minimum wage.



Germany

Germany simplified access to *Kurzarbeit*. Since March 2020, firms can request support if 10% of their workforce are affected by cuts in working hours, compared to 30% before. Employers initially continue to pay their employees any actual hours worked plus 60% of their net earnings losses because of reduced hours (67% for employees with children). The public employment service reimburses employers for these payments as well as for 100% of social-insurance contributions for the lost work hours (compared to a 50% reimbursement of social-insurance contributions during the global financial crisis of 2008-09). The subsidy is normally also available to workers on temporary contracts and apprentices and it was extended to agency workers at the start of the crisis. In April, the government increased the statutory replacement rates for lost earnings to 70% from the fourth month and 80% from the seventh month onwards (and respectively to 77% and 87% for employees with children). In addition, restrictions on taking another job while on STW have been lifted. Workers are allowed to cumulate additional earnings and STW benefits as long as total income does not exceed previous earnings. In some sectors, unions and employers agreed on higher replacement rates of up to 90%.

Italy

Italy greatly extended the reach of its STW scheme (*Cassa Integrazione Guadagni*) by allowing firms of any size and from all sectors to apply. Firms can simply declare that they have been negatively affected by the COVID-19 crisis without having to provide detailed evidence. They can apply within four months of the start of the reduction in activity and the benefits can be paid retroactively from the end of February 2020. Nevertheless, some of the intended new beneficiaries have experienced difficulties in accessing the scheme and receiving prompt support. Employers' participation in the cost of the scheme has been suspended, while benefit levels for workers remain unchanged. Benefits pay 80% of gross wages and they are capped at EUR 998 for wages up to EUR 2 159 and at EUR 1 199 for wages above that level. For a worker with an average wage this translates into an effective replacement rate of about 45% when hours are reduced to zero.

Japan

Japan expanded the coverage and eased the requirements for access to the Employment Adjustment Subsidy. Up until the crisis, access to the Employment Adjustment Subsidy required a 10% reduction in production for more than three months. This has been reduced to 5% over one month. Japan increased the subsidy rates for hours not worked to a maximum of 100% for SMEs and to 75% for larger firms. In May 2020 the government announced an increase in the maximum benefit by 80% for larger firms (from JPY 8 330 to JPY 15 000 a day per employee). The programme has been extended to cover non-regular workers who are not covered by employment insurance. The government further announced a new scheme to cover workers who have remained without support because their SME employers have not applied for the subsidy despite reducing hours. These workers will be able to apply to the new scheme directly and will have 80% of their usual earnings covered.

United States

In the United States, 26 states (accounting for about 70% of the population) operate Short-Time Compensation (STC) programmes. Through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Federal Government now funds 100% of STC payments in States with an existing programme and 50% in States that introduce a new one. Also, STC recipients qualify for the same weekly USD 600 increase in benefit payments that is being made to all unemployment benefit recipients for the a period of four months. However, the use of STC remains very limited for a variety of reasons (Figure 1), including administrative bottlenecks, lack of employer awareness, weak financial incentives for employers (employers are liable for their part of social-security contributions for hours not worked) and limits to the maximum reduction in working hours. To bypass such problems, the United States



introduced several limited wage subsidies schemes such as the Paycheck Protection Programme (PPP) and the Employee Retention Tax Credit (ERTC). PPP provides small businesses – irrespective of their sales – with loans to pay their employees during the COVID-19 crisis, which are forgiven if employment and compensation levels are maintained. ERTC is available for employers which have seen a decline in sales of over 50%. For firms with less than 100 employees, the scheme provides a refundable tax credit of 50% of the wages of all employees, whether or not they continue to work. In larger firms, the credit is only available for the wages of workers who do not work during the crisis. The maximum amount of the credit in total is set at a relatively low level of USD 10 000.

As the COVID-19 crisis took off, all countries took steps to ensure that the schemes could be rapidly and widely deployed to provide support for firms and workers to deal with the consequences of government-imposed restrictions on economic activity. Twenty-three OECD countries had a STW scheme in place before the crisis erupted (Table 1), while eight countries introduced new schemes in response to the crisis. All countries with pre-existing schemes rapidly adjusted them to cope with the COVID-19 crisis.¹ Countries' measures to expand *existing* STW schemes fall into three broad categories:

- *Simplifying access and extending coverage.* Twenty countries took measures to facilitate and expedite access to STW and boost take-up among the affected firms. Several countries where firms are required to provide an economic justification have reduced the thresholds to allow firms to claim STW (e.g. Japan, Korea, and Poland). In others, firms can invoke the health crisis as a “force majeure” by a simple declaration (e.g. Belgium, Czech Republic, France, Italy, and Spain). Germany and Norway lowered the minimum permissible reduction in working time to gain access to their STW schemes. Italy, where STW was limited to large firms and certain sectors, extended its scheme to all sectors and firms of all sizes. Countries also simplified and streamlined procedures, with widespread use of online applications and the possibility of making claims retroactively.
- *Extending coverage to non-permanent workers.* Nine countries extended eligibility beyond workers in standard forms of employment to include temporary, temporary-agency and even certain categories of self-employed workers. In principle, this should reduce the risk that STW schemes reinforce labour market duality (Hijzen and Venn, 2011^[11]). However, firms may have weak incentives to hold on to workers in non-standard forms of work during periods of STW, especially if the scheme imposes a direct cost on employers. This is of particular concern during the COVID-19 crisis since the sectors most affected tend to rely heavily on non-standard forms of work and highlights the importance of additional measures to support such workers in case they lose their jobs.
- *Raising generosity.* Several countries have increased the generosity of STW schemes by raising the replacement rates for workers and reducing the costs for firms. Fourteen countries increased the effective replacement rate for hours not worked. In several countries where employers were required to pay part of the wages or social-security contributions for the hours not worked these costs were reduced to zero (e.g. France, Germany, Italy). In about half of all countries, this cost was already zero before the crisis. Higher replacement rates and lower employer cost reflect the fact that in the early stage of the crisis countries gave more weight to the need to provide support for workers and businesses than to concerns for the possible disincentive effects of the measures adopted.

The *new* STW schemes that were introduced in response to the COVID-19 crisis have also been designed to be used easily and quickly by firms experiencing difficulties and generally cover non-standard workers

¹ In some countries, such as Denmark, these extensions build on a tripartite agreement between the government, trade unions and employers.



as well. In Denmark and the United Kingdom, for example, firms can submit their application online and claim support retroactively. While there is some variation across countries, the level of support for workers tends to be relatively high, ranging from 100% in Denmark to 75% in Latvia. In Greece, the support is a flat rate of 800 Euros, while in Iceland workers on reduced hours receive the standard rate for regular unemployment benefits. All new schemes, except the one in Iceland, 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 susceptible to abuse based on the misclassification of part-time workers. However, they are also 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 have introduced temporary wage subsidy schemes to promote job retention

A number of – mostly English-speaking – countries have introduced *ad-hoc* wage subsidies (WS) that can be used by firms for hours worked (like standard wage subsidies) as well as for hours not worked (like STW schemes). The subsidy is reserved for firms experiencing a significant decline in revenue. Unlike STW schemes, the size of the subsidy is typically independent of the decline in business activity (whether in the form of reduced sales or working hours. This increases the risk that support goes to jobs that do not need it (deadweight), but reduces the risk that support goes to jobs that are not viable in the long-term. Firms can typically use the subsidies to support jobs of non-standard workers or to re-hire recently laid off workers.

Australia and New Zealand introduced a lump-sum subsidy that effectively acts as a minimum salary for all employees. Qualifying employers must continue to pay as usual for hours worked or pay the level of the subsidy if this is higher. In Canada and Estonia, the subsidy is a fixed proportion of usual wages (75% and 70% respectively), regardless of the reduction in working time. In Ireland, the level of the subsidy varies with the employee's earnings, reaching a maximum of 85% of net normal earnings for the lowest incomes. In Poland, employers are required to pay at least 50% of usual wages for workers whose job has been temporarily suspended (more for smaller reductions in hours) and are partially reimbursed by the state. The Netherlands replaced its existing STW scheme with a temporary wage subsidy whereby employers must continue to pay employees 100% of their usual wage and receive a subsidy that is proportional to the reduction in sales (90%) and not the reduction in working hours as in traditional STW schemes.

There are various reasons why these countries have opted for temporary WS schemes. First, with the exception of the Netherlands, these countries had no or limited experience with STW schemes: Australia and Estonia never had a STW scheme; Canada, Ireland, Poland and New Zealand operated STW schemes during the global financial crisis, but they were not widely used. 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 are arguably a more flexible form of support for firms which can manage their hours freely without any reporting requirements. They also provide stronger incentives for firms to keep hours worked up and to increase them quickly when conditions improve. However, the schemes also provide incentives for firms that experience the minimum required reduction in sales to apply the subsidy to all workers, potentially wasting valuable resources.



Table 1. Countries have adjusted existing job retention schemes or adopted new ones

| | Pre-existing short-time work scheme | Increased access and coverage | Increased benefit generosity | Increased access for workers in non-standard jobs | New short-time work scheme | New wage subsidy scheme |
|-----------------|-------------------------------------|-------------------------------|------------------------------|---|----------------------------|-------------------------|
| Australia | | | | | | ● |
| Austria | ● | ● | ● | | | |
| Belgium | ● | ● | ● | | | |
| Canada | ● | | | | | ● |
| Chile* | ● | ● | ● | ● | | |
| Czech Republic | ● | ● | ● | | | |
| Denmark | ● | ● | | | ● | |
| Estonia | | | | | | ● |
| Finland | ● | ● | ● | ● | | |
| France | ● | ● | ● | ● | | |
| Germany | ● | ● | ● | ● | | |
| Greece | | | | | ● | |
| Hungary | | | | | ● | |
| Iceland | | | | | ● | |
| Ireland* | ● | | | | | ● |
| Italy | ● | ● | | ● | | |
| Japan | ● | ● | ● | ● | | |
| Korea | ● | ● | ● | | | |
| Latvia | | | | | ● | |
| Lithuania | | | | | ● | |
| Luxembourg | ● | ● | ● | | | |
| Netherlands* | ● | | | | | ● |
| New Zealand | | | | | | ● |
| Norway | ● | ● | ● | | | |
| Poland | | | | | | ● |
| Portugal | ● | ● | | ● | | |
| Slovak Republic | ● | ● | ● | | | |
| Slovenia | | | | | ● | |
| Spain | ● | ● | ● | ● | | |
| Sweden | ● | ● | ● | | | |
| Switzerland | ● | ● | | ● | | |
| Turkey | ● | ● | | ● | | |
| United Kingdom | | | | | ● | |
| United States | ● | ● | ● | | | |

Note: Ireland and the Netherlands: the existing STW scheme was replaced by a temporary wage subsidy scheme. Chile: Income support is financed out of the individual savings accounts for unemployment insurance of workers, unless there are no remaining funds.

The use of job retention schemes was unprecedented and widespread

Companies made massive use of job retention (JR) schemes to cut hours, or put their workers “on furlough”. About 60 million workers across the OECD have been included in the initial requests by companies for support by job retention schemes. In May 2020, companies’ requests for support from job retention schemes amounted to 66% of dependent employees in New Zealand, over 50% in France, over 40% in Italy and Switzerland, around 30% in Austria, Belgium, Germany and Portugal (Figure 1). The *actual use* of these schemes is considerably lower than the initial requests in some countries, corresponding to about 50 million across the OECD. This is still about ten times as much as during the

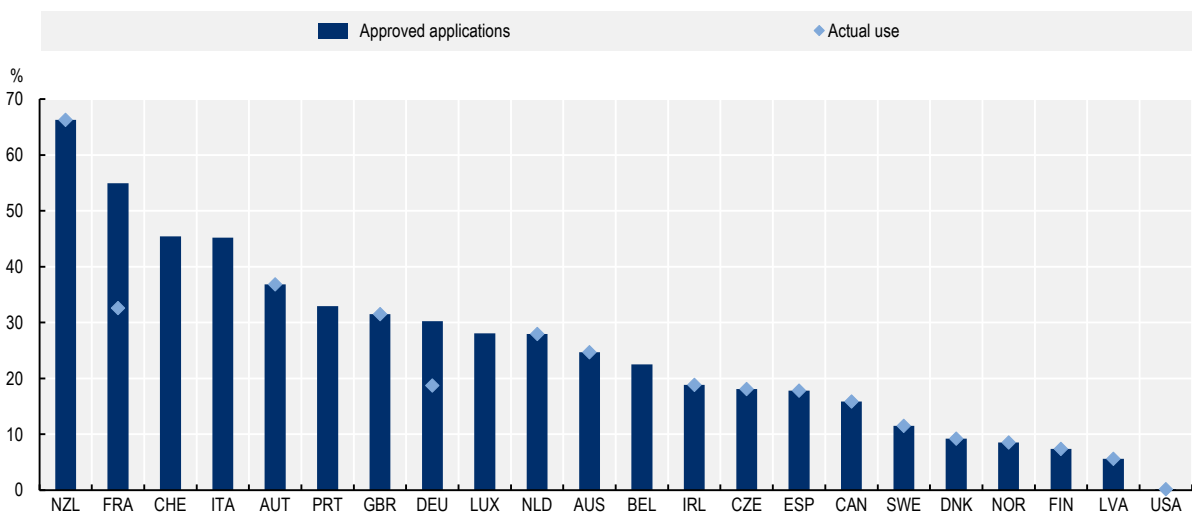


global financial crisis of 2008-09 (Hijzen and Venn, 2011^[1]). In Germany, for example, actual take-up was 19% in May 2020 compared with 4% at the peak during the global financial crisis, and in France actual take-up was 33% compared with just 1% during the global financial crisis (Figure 2).

Across the OECD, job retention schemes supported over 50 million jobs, ten times as many as during the global financial crisis.

Figure 1. Applications for participation in job retention schemes have been massive in some countries

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 hours. United States: data refer to participation in short-time compensation schemes.

Source: National sources.

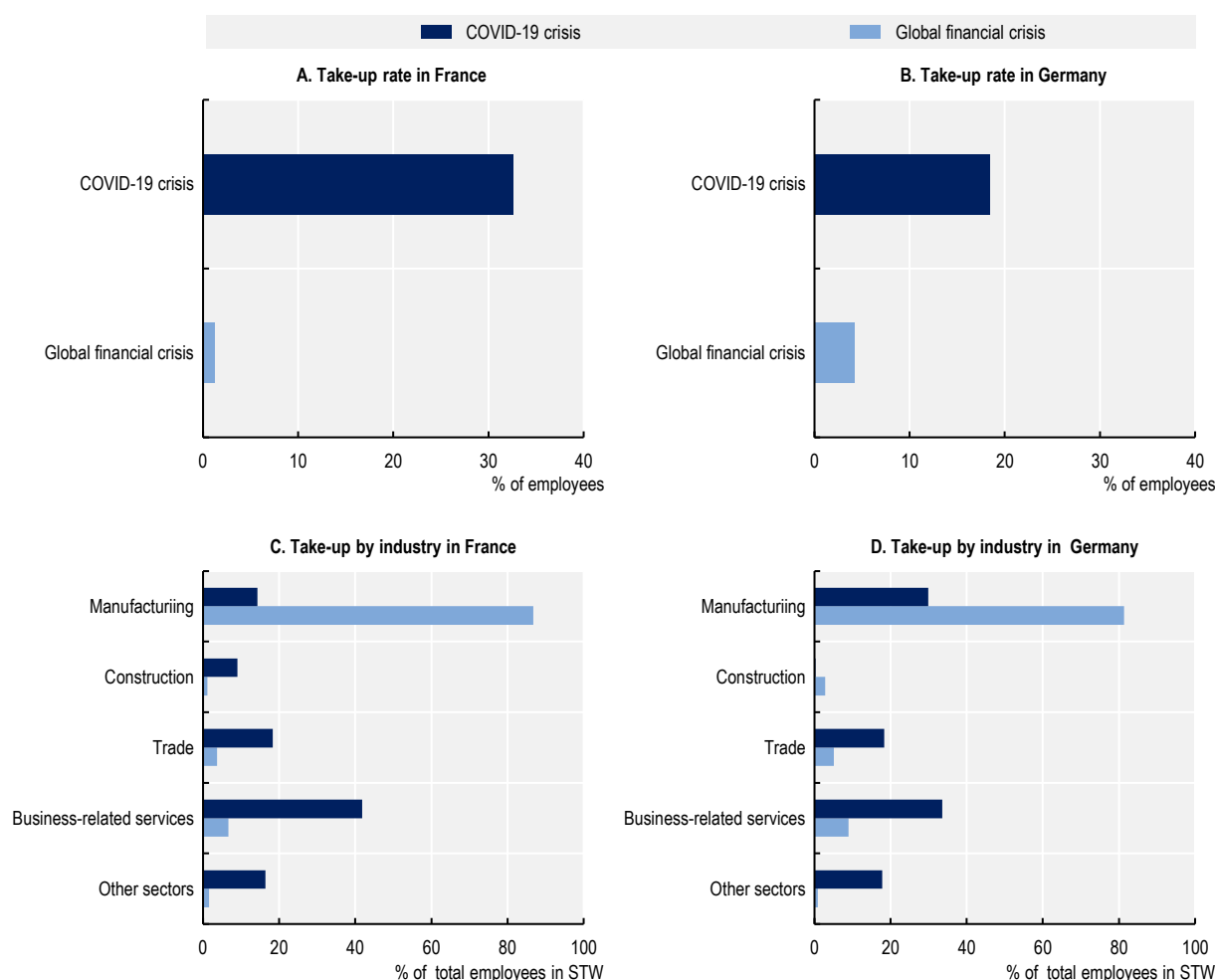
The use of JR schemes was widespread in all sectors and across all types of firms, as the government-imposed restrictions to business activity affected many firms across almost all sectors. (Figure 2). By contrast, during the global financial crisis 80% of the actual use of JR support in France and Germany was concentrated in manufacturing, even though manufacturing accounted for no more than 20% of employment at the time. This reflects the disproportionate impact of the global financial crisis on that sector as well as the greater incentives for labour hoarding in skill-intensive industries.

The use of job retention schemes during the COVID-19 crisis has been unprecedented. In Germany, take-up of short-time work was 19% in May 2020 compared with 4% at the peak of the global financial crisis and 33% in France compared with just 1% during the crisis.



Figure 2. Take-up in France and Germany during COVID-19 and the global financial crisis

Share of dependent employees



Note: Panel A and B: Take-up rates refer to actual use and are calculated as a percentage of dependent employees. Panel C and D: Take-up by industry refer to actual use and are calculated as a share of total employees in short-time work. Data refer to May 2020 and to the second quarter of 2009.

Source: Bundesagentur für Arbeit and for May 2020: IFO Institute, www.ifo.de/en/node/55800; DARES, quarterly data and for 2020: Enquête Activité et conditions d'emploi de la main d'œuvre – COVID, DARES, <https://dares.travail-emploi.gouv.fr/dares-etudes-et-statistiques/>.

The unprecedented use of JR schemes has helped contain the employment and social fallout of the COVID-19 crisis and avoid massive layoffs (OECD, 2020^[21]). Concerns over the potential negative effects of JR schemes, which arise in ordinary times, were initially of secondary importance. In particular, the risk of devoting public resources to support jobs that employers would have retained anyway was limited because restrictions in business activity during confinement heavily reduced sales and hence financial resources in many firms across almost all sectors. In ordinary times, JR schemes can also impede the reallocation of workers to more productive firms. But this risk was also limited during the lockdown period, given the hiring freeze and the pervasive impact of government-imposed restrictions and physical-distancing measures on all firms, independently of their pre-crisis performance.



2. Job retention schemes in the confinement phase of the COVID-19 crisis

This section provides more detailed insights on the way JR schemes operated during the early stage of the COVID-19 crisis, with a particular emphasis on their generosity for firms and workers and the extent to which they target firms with financial difficulties and workers with low earnings. JR schemes played a significant role in reducing labour costs and hence the number of jobs at risk of being terminated as a result of acute liquidity problems in firms. By preserving jobs, they helped to protect valuable firm-specific human capital that is contained in the job matches between employers and employees. By supporting the incomes of workers whose hours were temporarily reduced, they also prevented financial hardship and supported aggregate demand.

Job retention schemes helped to reduce labour costs and preserve jobs

STW schemes typically allow reducing working time at zero costs for firms, with potentially significant consequences for the number of jobs at risk of termination. WS schemes typically allow for larger reductions in labour costs than STW schemes, but this comes at a greater fiscal costs or weaker income protection for workers. Due to the greater targeting of STW subsidies to firms likely to experience financial difficulties, they are likely to be more effective in savings jobs than WS schemes.

Most job retention schemes allow working time to be reduced at zero costs for firms

During the early stage of the COVID-19 crisis, most countries set to zero the cost of contractual hours which are actually not worked, allowing firms to adjust labour costs in line with the decline in working time (Figure 3). This tends to hold in countries with STW schemes as well as those with WS schemes. However, in some countries, employers have continued to bear some of the cost of idle workers. In Denmark and the Netherlands, employers are required to contribute respectively 35% and 10% of regular labour costs to ensure no change in income for workers. The schemes in Estonia, Japan, Portugal and Poland do not fully protect worker's income, but still require employers to pay part of the income of workers on zero hours, i.e. who are temporarily not working. However, even in these countries JR schemes allowed for significant adjustments of labour costs during the crisis.

WS schemes tend to be more generous to employers than STW schemes when some business activity remains possible

When working time is not reduced to zero, WS schemes are more generous to employers than STW schemes (Panel B of Figure 3). While STW schemes relieve employers of the cost for hours not worked, they do not change the cost of hours worked. By contrast, WS schemes are designed to reduce the cost of hours worked as well. For example, in the case of a worker on the average wage experiencing a 30% reduction in hours worked, labour costs fall by the same proportion in most STW countries, but they decline by 70% in Australia and New Zealand and 100% in Canada. In the Netherlands, employers also receive a subsidy that they can use for hours worked, but in contrast to other countries with WS schemes, the size of the subsidy is proportional to the decrease in revenue, similar in spirit to STW schemes. In this sense, the Dutch scheme can be seen as a hybrid case.²

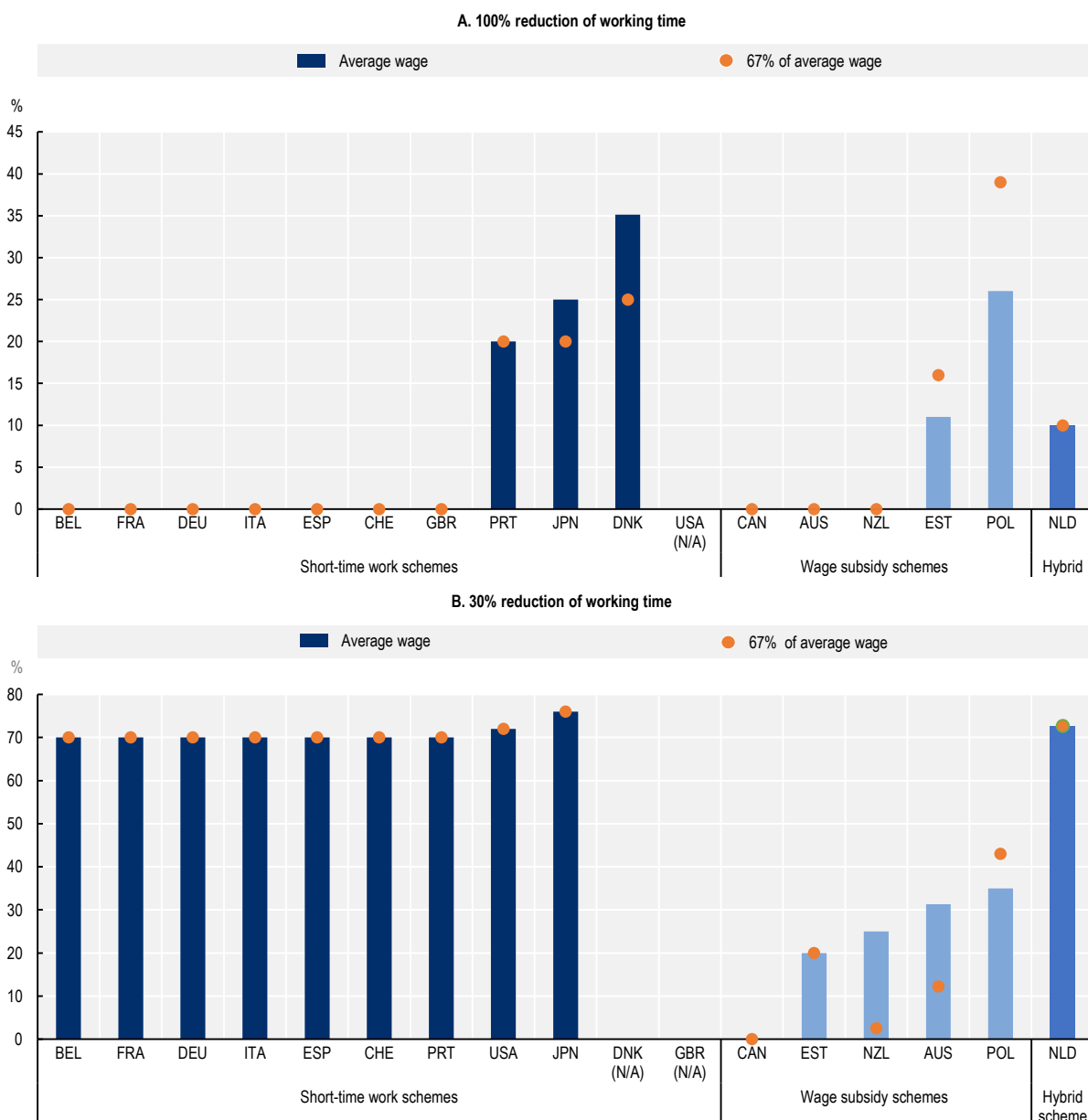
² The Slovak Republic also modified its existing STW schemes complementing it with a wage subsidy to firms experiencing a decline in activity whose amount varies with the magnitude of the reduction in sales.



In most countries, job retention schemes allow firms to reduce working hours at zero costs, preserving jobs and preventing a surge in unemployment.

Figure 3. JR schemes allow reducing working time at zero cost in most countries

Labour costs as percentage of usual full-time labour costs during the confinement phase of the COVID-19 crisis



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 subsidise 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 lump-sum 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 subsidy for larger firms.

Source: OECD calculations on based on national sources.



By alleviating labour costs for firms, JR schemes significantly reduced the number of jobs at risk of termination

Simulations based on firm-level data for 14 European countries suggest that JR schemes significantly reduced the number of jobs at risk of termination as a result of liquidity problems in firms during the COVID-19 crisis (see Box 2). By reducing labour costs, JR schemes prevented acute liquidity problems in many firms despite the sharp decline in sales. This helped ensure that workers were not laid off from their jobs or that firms did not go bankrupt. Moreover, the simulations suggest that STW schemes are likely to be more cost-effective than WS schemes. For a given fiscal cost, government support provided through STW schemes achieves a larger reduction in the number of jobs at risk of termination than that provided through WS schemes. The reason for this is that STW subsidies are proportional to the decline in business activity as measured by hours not worked and that firms with larger reductions in business activity are more likely to experience liquidity issues that prevent firms from paying wages to their workers, while the size of WS is independent of the decline in business activity (except in the Netherlands). Consequently, such schemes are more likely to support jobs that would have been preserved even in the absence of government support since firms with smaller reductions in business activity are less likely to experience acute liquidity problems.³

Job retention schemes helped to support the incomes of workers on reduced working hours

Workers on JR support typically are much better off than workers on full-time unemployment insurance benefits, even in the case of a complete stoppage. JR support tends to be more strongly targeted to low-wage workers, particularly in countries where spending on JR schemes is more limited. Consequently, JR not only helped to prevent job losses, but also prevented financial hardship and supported aggregate consumption by supporting the earnings of workers on reduced working time and particularly those with a low spending capacity.

Job retention schemes offer stronger support than unemployment benefits to workers who are temporarily not working

JR schemes ensure a higher level of support to furloughed workers (i.e. temporarily on zero hours) than unemployment benefits (UB) in most countries (Figure 4). The difference in earnings between STW and UB recipients is even larger for workers who continue to work part-time and receive full pay for hours worked. The relatively high replacement rates offered by JR schemes have likely made the schemes attractive to workers and have helped protect workers' living standards and support aggregate demand. The largest differences with UB can be found in countries with temporary JR schemes such as Denmark and the Netherlands, which offer full income protection to workers as well as countries with means-tested UB such as Australia, New Zealand. In other countries, often with pre-existing schemes for STW the difference between STW and UB tends to be smaller. For example, in Italy and Spain, the two systems provide similar levels of protection.

Job retention schemes provide strong income support to workers on reduced working hours, mitigating financial hardship for many workers and supporting aggregate demand. Income support provided through

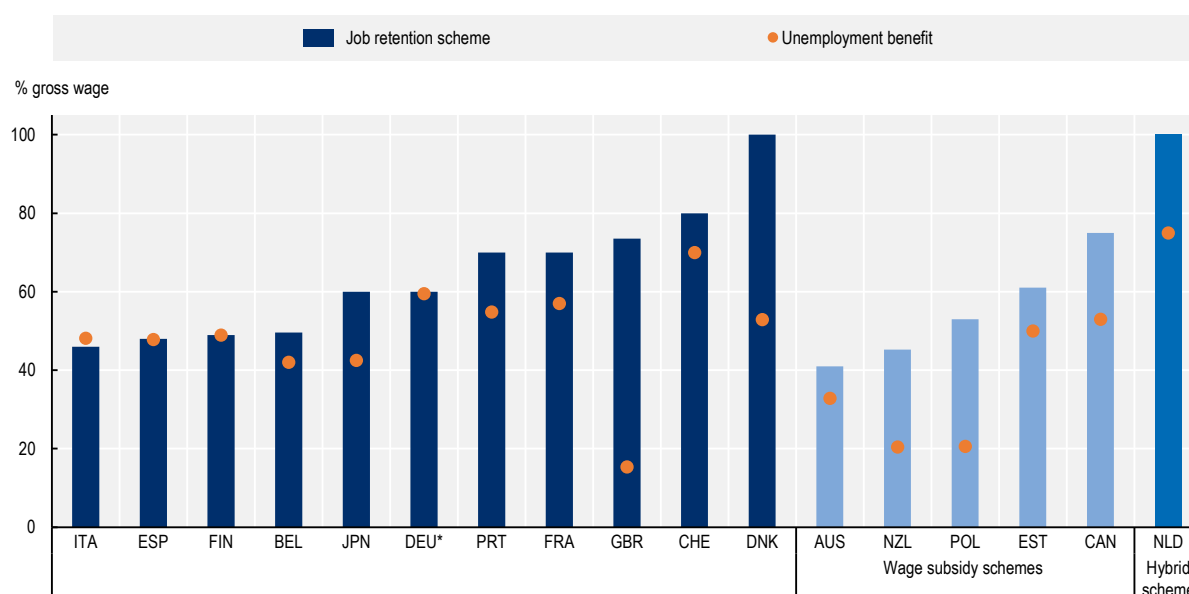
³ However, since STW schemes provide stronger support for firms with more serious liquidity problems, they also run a higher risk of supporting jobs that are less likely to survive in the longer term.



job retention schemes tends to be stronger than regular unemployment benefits.

Figure 4. 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 subsidise 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.

Less generous JR schemes tend to be more strongly targeted to low wage workers

In some countries, JR schemes offer more support to workers on low earnings (Panel A of Figure 5). In five countries, the replacement rate for low-wage workers at 67% of average wage is at least 10 percentage points higher than that for average-wage workers. These differences are larger in countries with lower replacement rates at the average wage. This suggests that in countries which spend less on JR schemes, a stronger targeting at low-wage workers is necessary to prevent low-income families from running into financial difficulties. The targeting of JR support to low-wage workers is driven by the presence of caps on benefits in countries with STW (e.g. Italy, Spain, and United Kingdom). In the WS schemes of Australia and New Zealand, differences in effective replacement rates across wage levels stem from the fact that the subsidy is a lump-sum independent of usual earnings.⁴

⁴ In Australia, the *JobKeeper* subsidy provides a level of income to the very low-paid, which can be higher than what they normally get from work (40% of average wages).



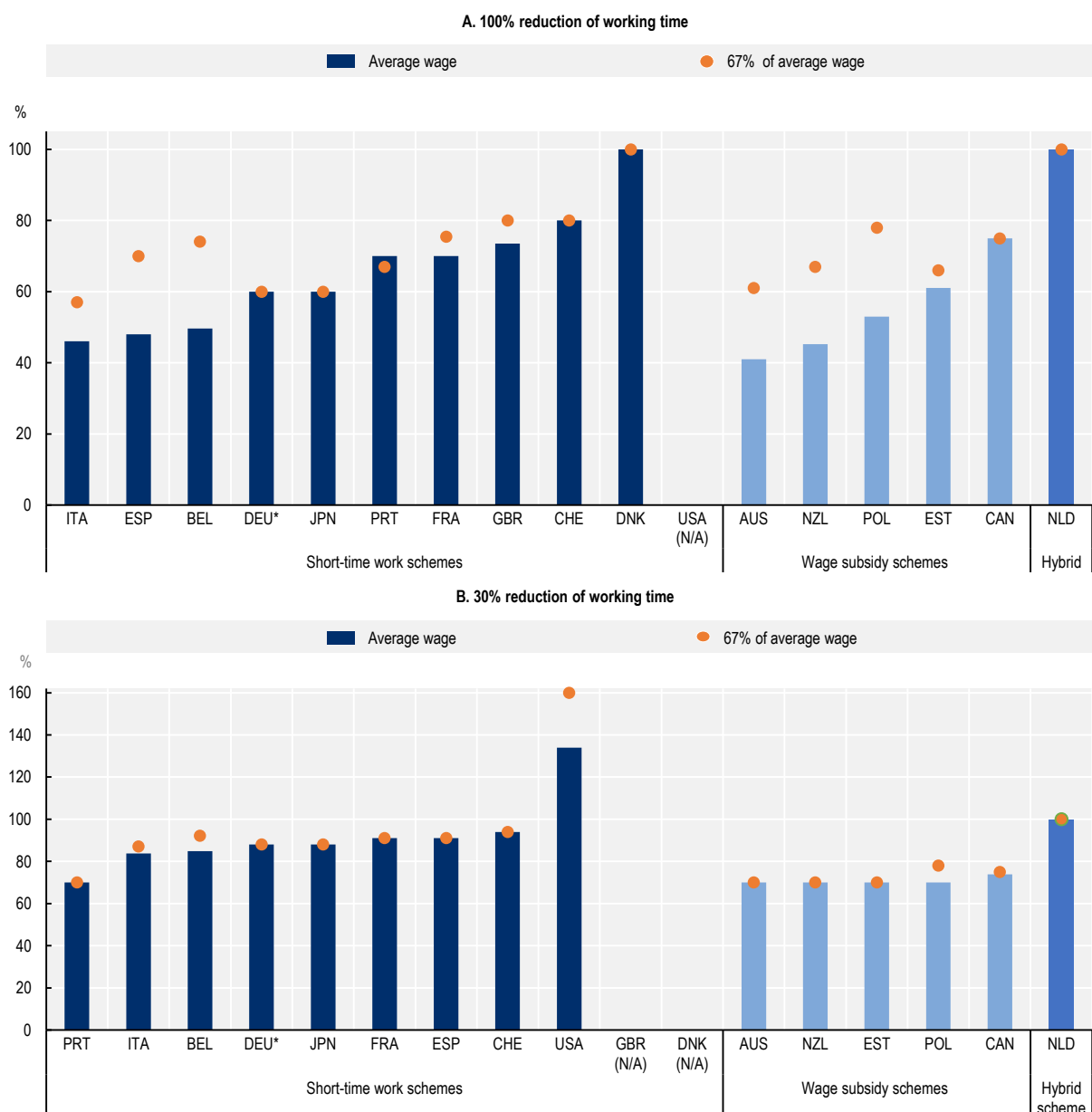
Generous income support, particularly for low-wage families, has prevented financial hardship and supported aggregate consumption during the confinement phase

Generous income support to workers on reduced working hours helps to support disposable income, preventing financial hardship in particular among low-income families. Moreover, by preserving employment, JR schemes also contribute to household welfare by strengthening job and income security. By supporting household incomes and reducing income volatility, JR schemes are likely to have played an important role in supporting aggregate consumption and alleviating the risk of the supply shock transforming itself in a demand crisis (Read et al., 2020^[3]). Finally, by helping to stagger jobless claims, they have relieved pressures on public employment and social services (and “flattened the unemployment curve”).



Figure 5. Gross replacement rates of job retention schemes tend to be higher for low-wage workers

Gross earnings as a percentage of previous earnings during the confinement phase of the COVID-19 crisis



N/A: Not applicable as the assumed reduction in working time does not fall in the permissible range of the programme.

*Germany: Net replacement rate for a worker with no child.

Note: Short-time work schemes only subsidise hours not worked, while wage subsidy schemes can also subsidise hours worked. Netherlands: the scheme pays a WS, which however is proportional to the decrease in revenue, similar in spirit to a STW scheme. Spain: For a worker with no child. Australia and New Zealand: subsidy consists of a lump-sum payment that is independent of the reduction in working time. United States: The reduction in working time is limited by federal law between 10% and 60%. Denmark and United Kingdom: only temporary layoffs, i.e. 100% reductions in working time, are allowed in the JR scheme.

Source: National sources.



Box 2. The effects STW and WS schemes on jobs at risk in liquidity-constrained firms*

This box summarises the results from a micro-simulation analysis conducted by the OECD to assess the potential effectiveness of STW and WS schemes on the number of jobs at risk of termination in liquidity constrained firms. The micro-simulations are based on stylised examples of STW and WS schemes, with the parameters of the schemes set so as to ensure fiscal neutrality. The simulations are based on comprehensive firm-level data (Orbis), covering approximately 1 million firms across 14 European countries with rich information on their financial situation at the onset of the COVID-19 crisis. The assumed decline in sales for firms is identical to the economic shocks in the single-hit and double-hit scenarios that were used to develop the OECD projections of June 2020 (OECD, 2020^[5]).

Policy scenarios of STW and WS with and without top-ups by firms

To allow disentangling the direct effect of the government subsidy on the share of jobs in firms with liquidity problems from the indirect effect that is due to the adjustment in worker earnings that may also be associated with programme participation, two sets of simulations are conducted: one that assumes firms fully top up subsidies to maintain worker earnings despite a reduction in working time (this serves to isolate the direct effect of government support) and one that assumes firms do not top up subsidies in the case of reduced working hours (workers get paid only for hours worked or the subsidy if earnings are too low). Top-ups by firms are encouraged in many countries with JR schemes but not usually a legal requirement (Denmark and the Netherlands being notable exceptions). The difference between the two sets of simulations gives the additional adjustment in worker earnings that is associated with programme participation.

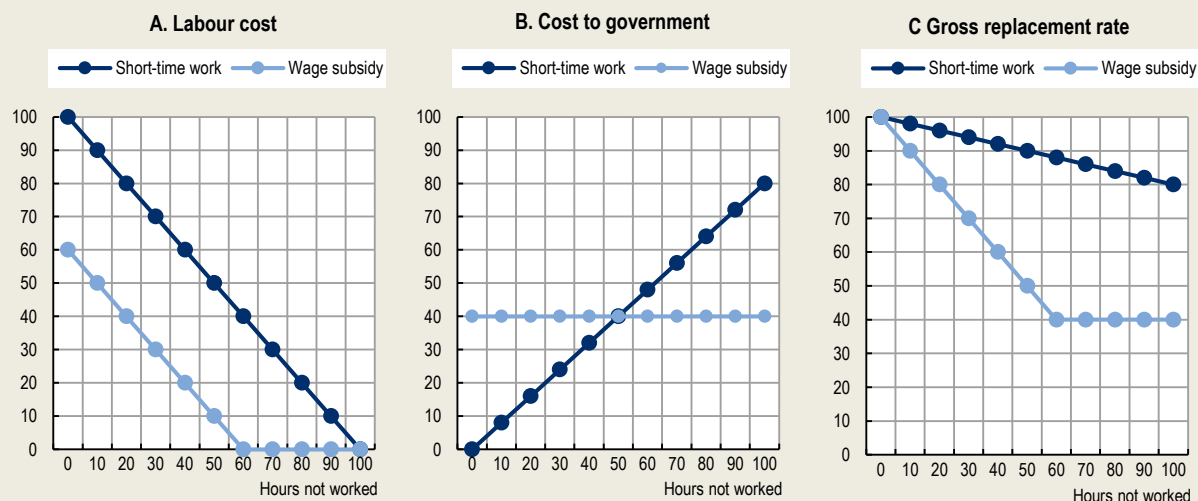
Under the stylised STW scheme, workers are compensated by the government at the constant rate of 80% of the usual wage for any hour not worked. In the absence of top-ups by firms for hours not worked, employers are assumed to bear the full costs of any hours worked, but none of the costs of hours not worked. Consequently, labour costs decline towards zero at the same rate as hours worked (Panel A of Figure 6), while the cost of the subsidy for the government increases and total earnings for workers decline (Panel B and C of Figure 6). With full top-ups, workers earnings are unaffected by the reduction in working time, while firms contribute 20% of the cost of hours not worked.

For the purposes of the example here, it is assumed that employers receive a subsidy equal to 40% of usual earnings, irrespective of the reduction working time (Panel B).¹ Note that the actual wage subsidy used in the simulations is somewhat different due to the need to ensure fiscal neutrality given the assumed impact of the crisis on firm sales. In the absence of top-ups, employers must pay the wage for hours actually worked or the subsidy, whichever is higher. As a result, the reduction in labour costs for firms is equal to the subsidy plus the usual cost of hours not worked (Panel A), while employees do not receive any compensation for hours not worked unless earnings for hours worked fall below the level of the subsidy. Workers' earnings, therefore, fall at the same rate as hours worked until they hit the subsidy floor at 40% of usual earnings (Panel C). With full tops, workers earnings are unaffected by the reduction in working time, while firms cover the costs of hours reductions beyond 60%.²



Figure 6. A stylised comparison of STW and WS schemes

% of normal labour costs/earnings by % reduction in working time in the absence of top-ups by firms



Modelling the effects of STW and WS on the liquidity position of firms

The effects of the different policy scenarios on potential job losses in liquidity-constrained firms are simulated by taking account of the financial situation of firms at the onset of the COVID-19 crisis and using different assumptions on the nature of the economic crisis. The simulations are based on comprehensive firm-level data (Orbis), covering approximately one million firms across 14 European countries with rich information on their financial situation at the onset of the COVID-19 crisis (or more precisely 2018, the most recent year for which data are available).

Changes in the liquidity position of firms are measured by focusing on the implied monthly changes in their operating cash-flow, due to the assumed decline in sales and the limited ability of firms to fully adjust their operating expenses. The liquidity available to each firm is calculated as the sum of the liquidity buffer held at the beginning of each month and the shock-adjusted cash-flow. Jobs are considered to be at risk in firms where liquidity has ran out. To be consistent with the policy responses in most countries, it is assumed that a debt and tax moratorium is in place. It is also assumed that labour costs adjust by 0.2 % in response to a 1% fall in revenue even in the absence of job retention support.

The assumed economic shocks are identical to those used to develop the OECD projections of June 2020 under two alternative scenarios for the duration of the shock. A “single-hit” scenario, which foresees a sharp drop in activity lasting two months, followed by a four-month progressive recovery and a return to pre-crisis activity levels from the seventh month after the start of the pandemic. A “double-hit” scenario, which overlaps with the “single-hit” scenario for the first seven months but then models a second outbreak from the eighth month onwards. The decline in sales is assumed to vary across sectors between 15 and 100%, but not across firms within sectors.

The simulated effects of STW and WS on the share of jobs at risk

- STW subsidies are more effective in addressing liquidity problems in firms than WS because the former are targeted towards firms with greater financial difficulties. According to the simulations based on the single-hit scenario, STW subsidies reduce the share of jobs at risk by 10 percentage points from 22%, while this is only 7 percentage points under WS (dark blue bars in Figure 7).

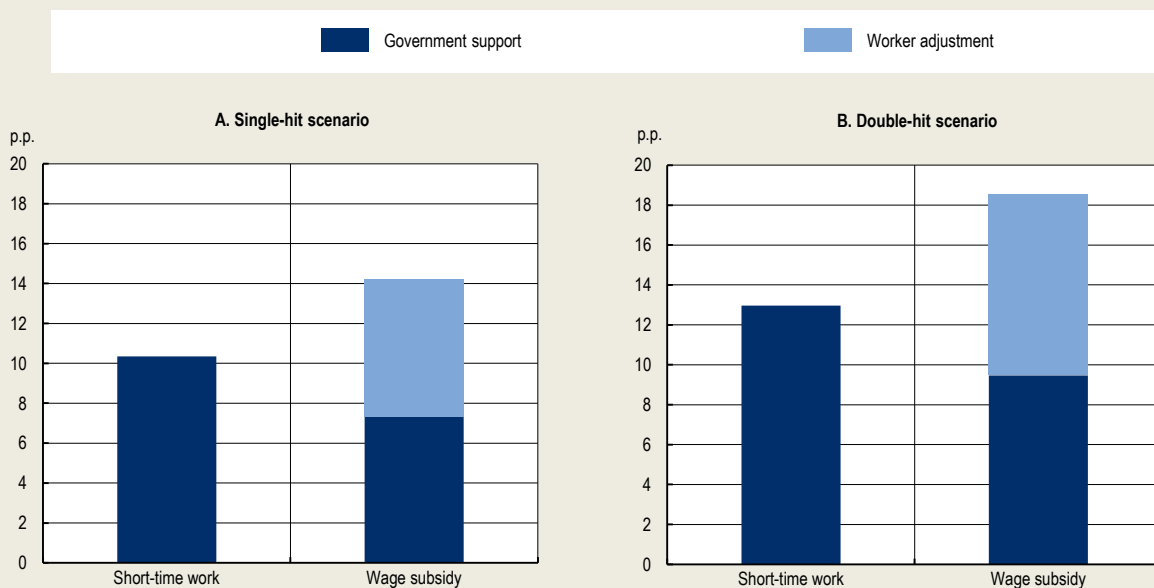


These estimates capture only the direct effect of the subsidy and do not take account of any adjustments in worker earnings that may also be associated with programme participation.

- WS schemes potentially allow for larger reductions in labour costs for firms at the cost of providing weaker income protection for workers on reduced working hours. Indeed, the reduction in the share of jobs at risk is considerably larger if it is assumed that firms do not pay top ups. In this case, the share of jobs at risk falls by an additional 7 percentage points (light blue bar in Figure 7). There is no additional worker adjustment under STW as the worker adjustment under STW is identical to the assumed adjustment in the absence of government support in the stylised example.

Figure 7. The simulated reduction in potential job losses firms due to STW and WS

The reduction in the share of jobs at risk in firms with liquidity shortages (percentage points)¹



¹Average effect across 14 European countries by the end of 2020.

Notes:

“Single-hit” scenario: sharp drop in activity lasting two months, followed by a four-month progressive recovery and a return to pre-crisis activity levels from the seventh month after the start of the pandemic.

“Double-hit” scenario: overlaps with the “single-hit” scenario for the first seven months but then models a second outbreak from the eighth month onwards.

Source: OECD calculations based on ORBIS.

1. This subsidy comes at a similar cost to the government as the STW scheme based on replacement rate of 80% for hour worked under the assumption that the decline in working time is uniformly distributed across firms. In this case, fiscal neutrality is achieved by ensuring that the surface under the cost curves for the government are identical under the two schemes.

2. The stylised comparison and the simulations below abstract from eligibility thresholds which tend to be common in both STW and WS schemes as well as the difference in labour costs for firms and gross wage for workers due to the presence of employer social security contributions. To allow simulating the effects of the stylised JR schemes, it is further assumed that reductions in sales translate one-to-one in reductions in working time, while employment remains constant.



* The analysis in this box builds on the analysis of government support measures on the incidence of illiquid firms in (OECD, 2020^[6]) *OECD Economic Outlook, Volume 2020 Issue 1*, <https://dx.doi.org/10.1787/0d1d1e2e-en> and was prepared in collaboration with Lilas Demmou, Guido Franco, Sara Calligaris and Dennis Dlugosch of the OECD's Economics Department.

3. Adapting job retention schemes to the post-confinement phase of the COVID-19 crisis

During the confinement phase, JR schemes were mainly designed to provide immediate support to firms and workers and avert an initial surge in unemployment. As countries relax restrictions to economic activities, the design of the schemes should be adapted to enhance their targeting to jobs that are likely to return viable. Indeed, the schemes can help firms that experience a temporary shock preserve valuable job-specific human capital with potentially positive effects on productivity in the medium term. However, if the schemes end up supporting jobs that are unlikely to recover, they run the risk of slowing the reallocation of employment towards high-performance firms and sectors, hindering aggregate productivity and the economic recovery. Improving the targeting of the JR schemes requires addressing three difficult policy challenges.

The first question is how to adapt the schemes to deal with the economic aftermath of the health crisis. The main challenge is to target JR schemes more towards those jobs at risk of being terminated, but that are viable in the longer term. Indeed, it is inevitable that for some firms will not be able to recover fully or quickly from the shock and will have to resort to permanent layoffs. Jobs that have become unviable should be allowed to end and affected workers should be supported by unemployment benefits, in combination with active labour market policies to facilitate transitions towards new and viable jobs. However, discriminating between viable and unviable jobs is inherently difficult given the uncertainty facing firms and workers. As discussed in further detail below, countries can use a number of levers to enhance the targeting of the benefits towards jobs more likely to survive and provide support to workers in jobs that remain at risk. Some countries have already announced changes to the schemes in these directions – see Box 2.

The second question is when to phase out or adapt JR measures that offer generous support with few safeguards against their possible negative effects. This is a difficult question given that uncertainty remains high and the risk of second wave of the epidemic is still looming. 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. In general, governments have been clear that support will remain available for as long as restrictions remain in place, but less so about their plans for extending or phasing out job retention measures beyond this initial period or the criteria that would be used to make such decisions. This creates uncertainty for firms and workers about the availability of support and increases the risk that decisions are determined by political rather than economic considerations. Making use of a clear time-table and objective criteria for making adjustments can help reduce uncertainty.

The third question is to whom any adjustments should apply, and particularly, whether the adaptation of JR schemes should be differentiated across sectors. While in some sectors, economic activity may pick up quickly (e.g. manufacturing), others will continue to face legally imposed restrictions or longer-lasting changes in demand for their products and services (e.g. tourism). Sectors whose activity remains legally curtailed may require continued JR support in the de-confinement phase. In sectors where business can resume, JR schemes could be adjusted to avoid the risk that they support jobs that have become



permanently unviable. France is currently the only country that applies more favourable conditions to sectors that remain subject to government-imposed restrictions. More specifically, since June 2020, employers in “open” sectors are required to contribute 10% of the usual cost of hours not worked or, equivalently, 15% of the gross benefit received by workers, with a further tightening foreseen in November (see Box 4).

The remainder of this section focuses on the first question of how to adapt JR schemes to the economic aftermath of the health crisis. It first discusses a number of options to enhance the targeting of the JR support towards jobs that are more likely to survive and then how a gradual shift from protecting jobs to supporting workers in jobs at risk of termination could be achieved.

Target JR support to jobs at risk of termination in firms experiencing temporary difficulties

Governments can reduce the risk of supporting jobs that are unviable even in the medium term by requiring employers to cover part of the cost of hours not worked and limiting the maximum duration of JR support. Requiring firms to contribute to the cost of hours not worked also provides stronger incentives for resuming regular work schedules and leaving JR support. To the extent that a faster return of business activity is socially desirable, for example because it entails significant positive demand externalities, there may be an argument for complementing STW schemes with a work resumption subsidy (discussed below). A greater emphasis on enforcing the proper use of STW support is further needed to prevent firms from claiming support for hours worked (e.g. teleworking, continued claims after the resumption of work).

Enhance the targeting of JR support by requiring firms to contribute to the costs of reduced working hours

Governments could require firms participating in STW schemes to cover part of the cost of hours not worked. This would reduce the attractiveness of STW for firms in general, but would strengthen incentives to use the scheme to support jobs that are more likely to re-start after the crisis and resume regular work schedules as soon as possible. To avoid reinforcing the financial difficulties of firms, employers’ participation could take the form of a delayed payment or (zero-interest) loan.⁵ Since 1 June 2020, in France, firms are required to pay 15% of the benefit workers receive for hours not worked. Beginning in July 2020, the United Kingdom has gradually increased the cost to employers for keeping workers on furlough.

By design, wage subsidies schemes tend to reduce the cost of hours worked to employers and relieve them entirely of any cost for hours not worked. To ensure that employers bear some of the cost of hours not worked – at least for large reductions in working hours – countries could require them to pay a fraction of a workers’ usual wage regardless of hours worked with the subsidy set to cover only part of that pay. For example, New Zealand encourages – but does not legally require – employers to pay 80% of usual earnings, while the subsidy amounts to roughly 30% of average earnings. Employers complying with this recommendation will pay more than 50% of usual earnings when hours are reduced by more than 50%, hence bearing some of the cost of hours not worked. The wage subsidy scheme operated in the Netherlands mimics STW schemes that require firms to share some of the cost of hours not worked. While workers continue to receive 100% of their earnings, employers receive a varying subsidy, which is at most 90% of the wage. This may induce some employers to request support only for workers whose jobs are viable in the longer term.

⁵ This would be similar to experience-rating employer social-security contributions, i.e. making future contributions dependent on firms’ use of short-time work subsidies during the crisis, but would be simpler to implement.



The duration of JR support should be time-limited to reduce the risk of supporting unviable jobs, but limits should not be set in stone

Limits to the duration of STW and WS help reduce the risk of supporting firms and jobs that are no longer viable even in the longer term. Indeed, evidence from Switzerland during the global financial crisis of 2008-09 indicates firms tended to leave STW as soon as it became economically viable to do so, while those firms which did use the scheme up to the maximum duration tended to layoff some workers eventually (Kopp and Siegenthaler, 2019^[6]). Maximum limits signal that support is temporary and reduce the risk of supporting permanently unviable jobs.

While limits to the duration of support have a role to play they should not be set in stone and may need to adjust according to the health and economic situation. If the economic crisis lasts longer and affects a larger share of firms than initially expected, extending schemes might be essential to prevent a sudden surge in unemployment and to preserve jobs that might become viable as the general economic climate improves. Some countries have recently announced extensions to the maximum duration of support (e.g. Germany, the Netherlands, United Kingdom). In other countries, where the maximum duration of job retention support is relatively long, it may be appropriate to shorten the maximum duration of job retention subsidies for new applications. Semi-automatic rules could be used to strengthen the timeliness, predictability and economic justification of any such adjustments as is the case of for regular unemployment benefits in some countries (e.g. Canada, United States).

Consider strengthening incentives of firms for resuming regular work schedules

Reductions in working time through STW schemes do not generate revenues for firms and may entail some costs. Firms therefore have strong incentives to increase hours as soon as it becomes profitable to do so. However, it might be more socially desirable to subsidise firms to increase hours even when this is not yet profitable than to subsidise them to remain idle. The resumption of yet-unprofitable activity might contribute to stimulate the economy through increased product demand from business-to-business linkages or consumption by workers. WS schemes already provide strong incentives to firms to start production earlier because firms can use the subsidies to reduce the cost of hours worked. To provide the same incentives, STW schemes could be complemented with a temporary wage subsidy for workers resuming normal hours. The downside of the subsidy is that it would also provide support for firms that would increase working hours anyway, generating some potential waste of resources. While the benefits arising from the stimulus aspect of the subsidy are more likely to outweigh the costs in the context of a severe and prolonged economic slowdown, these measures are likely to require a significant amount of public resources. Spain has recently reintroduced the payment of social security contributions for hours not worked in firms using its STW scheme, but in an attempt to encourage the resumption of working hours, lower rates are applied to firms with some active workers than to firms with no activity. The United Kingdom has introduced a *Job Retention Bonus* of GBP 1 000 that employers will be able to claim from February 2021 for each employee brought back from furlough under the *Coronavirus Job Retention Scheme*.

Tackle abuse by firms

Concerns about potential abuse may become more important as firms could be tempted to continue claiming short-time work subsidies for hours not worked even after workers have returned to work and resumed their normal working hours. These concerns add to pre-existing ones about companies that require employees to continue to work from home while also claiming short-time work subsidies for these working hours. Such abuses increase the fiscal costs of short-time work. To tackle abuse, governments can make greater use of labour inspectors to verify whether actual working practices are consistent with claims for JR support. Rather than conducting random checks, it may be possible to conduct more targeted site visits. Statistical profiling tools could be used to identify firm types that are more likely to



make incorrect or false claims. Integrated administrative systems could be developed to identify suspicious cases that link the claiming history of firms with information on business activity (in terms of sales or working hours) from tax or social-security records. Designated hotlines or notification procedures could be set up to solicit anonymous complaints by workers or their representatives. Such complaints are more likely when benefits are relatively limited and workers have strong incentives to resume normal working hours.

Since wage subsidy schemes are explicitly designed to reduce the costs for firms of hours worked, abuse comes in a different form. The main concern is that firms may over-report the decline in sales that is applied to determine eligibility (e.g. backdating or postponing bills).

Box 3. Should dividend payments be banned in firms receiving public support?

A widely discussed issue in many countries is whether firms that benefit from job retention support should be allowed to engage in dividend payments and other forms of profit sharing in the same year (Müller and Schulten, 2020^[7]). A number of countries have introduced bans. For example, Spain requires companies that make use of JR support during the current crisis (ERTE) to reimburse the full amount of the subsidy if they pay any dividends. The Netherlands has recently introduced a ban on dividend payments, share buybacks and bonuses for executives in firms benefitting from wage subsidies in the same year.

Bans on dividend payments and other profit-sharing instruments address a number of possible concerns. They send a clear message that job retention subsidies should be used to support jobs and not any other causes. They avoid that job retention subsidies end up benefitting shareholders or executive managers who do not require public support. They also reduce moral hazard effects, i.e. excessive risk-taking by investors or managers based on the expectation that the state will cover any major losses (to preserve jobs or prevent contagion effects).

Bans on dividend payments, however, also have potential limitations. They may discourage some firms from claiming job retention support, reinforcing job losses. Indeed, firms that are profitable over the year may still experience acute liquidity problems as a result of sharp but short-lived reductions in sales with potentially significant effects on layoffs. Bans also do not guarantee that public support is exclusively used for job retention or other causes that are considered worthy of public support. The reason for this is that they do not address the fact that profits can be higher as a result of public support.

Whether dividend payments and other forms of profit sharing in firms receiving JR support should be allowed or not is therefore not an easy question. It is worth noting that having bans in place does not necessarily prevent firms from paying dividends. They can still do so but they will typically have to reimburse the subsidy.

Gradually shift the emphasis back from protecting jobs to supporting workers in jobs at risk

While the main aim of JR schemes is to preserve jobs, they will not be successful in all cases as some jobs may have become permanently unviable. Some workers in subsidised jobs may therefore have limited career prospects and remain at risk of losing their job eventually. This suggests a shift may be required from protecting jobs to supporting workers in jobs at risk of termination. This may involve rebalancing between STW and UB, making public employment services available to persons in subsidised jobs and encouraging training for workers on reduced working hours.



Align STW and unemployment benefits more closely in countries where the gap is large

In most countries, short-time benefits for hours not worked exceeded regular unemployment benefits during the confinement phase (Figure 4). The difference in terms of total incomes can be even larger for workers who combine full pay for hours worked with short-time work benefits for hours not worked. This clearly increases the attractiveness of short-time work in comparison to (full) unemployment and the willingness of workers, including those not directly at risk of being laid off, to accept a reduction in working hours as part of a STW scheme. As concerns about the cost effectiveness of support become more important, there may be a case for reducing the gap between short-time work benefits and regular unemployment benefits, notably in countries with particularly generous STW benefits. Alternatively, STW benefits could be allowed to decline over the spell. Since in most countries the level of support for the unemployed tends to decline over the spell already, this would at least prevent the gap between the two from increasing.

These changes would help contain the overall cost of STW schemes, and might improve the targeting of short-time work schemes to jobs at risk of being destroyed. Lower subsidies might also increase incentives for workers to resume normal working hours or actively look for another job altogether. Even with a smaller difference when compared to unemployment benefits, STW is likely to remain attractive because it preserves the employment contract and the non-wage benefits linked to it (fringe benefits, social security, including access to health insurance in some countries). France has already announced that from November 2020, the gross replacement rate for workers will decline from 70% to 60% – see Box 4.

Promote the mobility of workers from subsidised to unsubsidised jobs.

The mobility of workers from subsidised to unsubsidised jobs can be promoted by requiring or encouraging workers on short-time work to register with the public employment services and benefit from their support (e.g. job-search assistance, career guidance and training) (OECD, forthcoming^[8]). OECD analysis shows that early interventions – including those before job displacement takes place – can be very effective in promoting smooth job transitions (OECD, 2018^[8]). However, only a few countries require workers on short-time work to register with the public employment services and to engage in active job search. Countries may not see this as a priority since many of the workers on reduced working hours are expected to stay with their current firm even after the programme ends. There may even be a risk that imposing mandatory job-search requirements might push some workers whose job is at risk only temporarily into lower quality employment. Job-search requirements have traditionally been more common in countries where short-time work subsidies are paid directly to workers since this establishes a contact point between workers and the providers of employment services (Hijzen and Venn, 2011^[1]). Irrespective of whether payments are made to the worker or to the firm, countries could encourage workers to register with the public employment services on a voluntary basis to allow them to benefit from their services and support their career progression (in their current firm or a different one).

Promote training while on reduced working hours

Participation in training while on reduced working hours can help workers improve the viability of their current job or improve the prospect of finding a new job. Several countries encourage training during short-time work by providing financial incentives to firms or workers (e.g. France, Germany). In few countries participation in training is a requirement for receiving short-time work subsidies (e.g. Hungary, Netherlands). In the Netherlands, employers applying for JR support have to declare that they actively encourage training since June 2020, while the government has taken additional measures to make on-line training and development courses freely available. The main challenge is to organise training in such a way that it can be combined with part-time work and irregular work schedules. This 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 (OECD, forthcoming^[10]). In the present context, training courses that promote the return to work may be particularly valuable, including by providing the digital skills that are needed for teleworking, as would training courses to promote the mobility of workers to jobs in expanding firms and industries (e.g. online services).

Box 4. Recent developments in selected OECD countries (based on the information available end September 2020)

France

Since 1 June 2020, France has reintroduced a cost to employers for using its *Activité Partielle* scheme in sectors where economic activity is gradually resuming. While workers still get 70% of their usual gross wage for hours not worked, firms now pay 15% of this amount. Hence, the cost to a firm of a worker on zero hours has increased from null to 10% of the usual full-time labour cost. *Activité Partielle* will become less generous towards both firms and workers from November 2020. Workers will see a decline in the gross replacement rate for hours not worked from 70% to 60%, and firms will be required to pay for 40% of this (bringing the cost to a firm of a worker on zero hours to 24% of usual full-time labour cost). Sectors that continue to be subject to restrictions (e.g. tourism, catering or culture) remain exempt until the end of December 2020.

From 1 July 2020, firms facing longer-term difficulties can also apply for *Activité Partielle de Longue Durée (APLD)*, which will run into 2022. The scheme allows for a maximum reduction in hours of 40% and ensures that workers get 70% of their usual gross wage for hours not worked. Employers have to pay 15% of the benefit for workers. Claims can only be made if there is an agreement between workers and employers and the agreement may explicitly prohibit any lay-offs.

Greece

Greece introduced a new temporary STW scheme (*Syn-ergasia*) effective from 15 June 2020 to 15 October 2020. The scheme is available for employers who have experienced at least a 20% loss in revenue during the month(s) prior to participation. Under the scheme, employers are allowed to reduce working hours by up to 50% for one or more of their employees. Workers receive a compensation of 60% of net wages for hours not worked by the government. Employer social security contributions are also covered by the government during the first six weeks of the scheme. Only full-time dependent employees are eligible.

Netherlands

The Netherlands initially extended its temporary Emergency Bridging Measure from 6 July 2020 to 1 October 2020 and subsequently to 1 July 2021, while making a number of adjustments. Since July 2020, firms that have used support under the scheme are no longer allowed to pay dividends or bonuses in the same year. The rules for dismissal during programme participation have been slightly relaxed (economic dismissals trigger a reduction in the subsidy of 100% of worker earnings instead of 150% previously; collective dismissals of 20 workers or more have to consult the trade union). Firms are obliged to encourage their worker to engage in training. From October, the reimbursement to employers will be lowered gradually from 90% until October 2020 to 60% in the three months to July 2021. From January 2021, the threshold for eligibility will be increased from a reduction of 20% of sales to one of 30%. From April 2021, the maximum subsidy per worker will be halved and be similar to the level of unemployment benefits.



United Kingdom

The United Kingdom extended its *Coronavirus Job Retention Scheme* from 30 June 2020 to 31 October 2020 for ongoing claims (no new claims will be accepted) and provided a time-table for its phase out. From 1 July, furloughed workers can go back to work part time. From 1 August, employers will be required to cover part of the cost hours not worked, with the required contribution of firms increasing in steps until the phase out of the scheme (employer social contributions for hours not worked in August, plus an additional 10% of normal earnings in September and again in October). Workers continue to receive at least 80% of wages. In addition, the Government has introduced a *Job Retention Bonus* of GBP 1 000 that employers will be able to claim from February 2021 for each employee brought back from furlough under the Coronavirus Job Retention Scheme.

The government recently announced the new *Job Support Scheme* which will operate between November 2020 and April 2021. The scheme allows for a maximum reduction of working time of 70%. Workers receive 67% of their usual earnings for hours not worked. Employers are be required to pay half of the cost of hours not worked with the other half paid by the government.

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Acknowledgements

This paper was prepared as a background document for Chapter 1 of the *OECD Employment Outlook 2020* “COVID-19: From a health to a jobs crisis”. The authors would like to thank Andrea Bassanini, Stephane Carcillo, Orsetta Causa, Emmanuele Ciani, Andrea Garnero, Masato Hayashikawa, Sebastian Königs, Herwig Immervoll, Ulrik Knudsen, Mark Pearson, Stefano Scarpetta and Cyrille Schwellnus for their comments and suggestions. The authors are particularly grateful to Lilas Demmou, Guido Franco, Sara Calligaris and Dennis Dlugosch of the OECD’s Economics Department for their contribution to the box on the effects of job retention schemes on jobs at risk in liquidity-constrained firms. The authors would like to thank Natalie Corry for excellent editorial assistance. The views in this paper are those of the authors and cannot be attributed to the OECD or its member countries. Any remaining errors are sole responsibility of the authors.

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